



**2014**

# **Annual Activity Report**

**DG Environment**



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# INTRODUCTION

## The DG in brief

DG Environment has approximately 500 staff members. It is organised in six directorates which are, in turn, divided into thematic units. It shares a resources directorate of around 90 people with DG Climate Action.

The activities of DG Environment are framed by the Treaties on the European Union and on the Functioning of the European Union<sup>1</sup>. They established that the EU environmental policy shall aim at a high level of protection; to preserve, protect and improve the quality of the environment; protect human health; promote prudent and rational utilisation of natural resources; and promote measures at international level to address regional or global environmental problems.

DG Environment deals mainly with policy development and implementation where its work is guided by multiannual Environment Action Programmes. In doing so, the DG relies on many sources of environmental data, in particular from Eurostat, the European Environment Agency (EEA), the Commission's Joint Research Centre (JRC) and broad-based public consultations.

Where necessary, the DG initiates proposals for adoption by the Commission and consideration by the Council and the European Parliament following input from various stakeholders and a rigorous impact assessment. Upon their conclusion, the DG works with Member States to ensure that the legislation is transposed and applied across the EU effectively; promoting compliance and preventing infringements is a priority. Where feasible, the DG uses voluntary instruments to reach EU environmental objectives.

The Treaties enable the EU to participate in international environmental agreements together with Member States and give the Commission a strong coordinating and representation responsibility. DG Environment represents the EU at a wide-range of environmental meetings in international fora such as the United Nations and in other multilateral environmental agreements.

DG Environment is, in collaboration with DG Climate Action, also responsible for the LIFE programme, with a budget of approximately € 400 million a year for sub-programmes for Environment and Climate Action. LIFE environment (€ 300 million) finances projects that primarily contribute to environmental protection, resource efficiency, nature and biodiversity conservation, as well as governance and information in these priority areas within the EU. As of 2014, management of LIFE is gradually being delegated from DG Environment to an executive agency<sup>2</sup>. While LIFE funding focuses on projects set up to catalyse broader actions, contribute to policy development and support its implementation, DG Environment also provides input to other Commission services so that environmental considerations are mainstreamed into other EU spending instruments such as EMFF, ERDF, EAFRD<sup>3</sup> and Horizon 2020, which provide most of the EU funds necessary for the protection of the environment.

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<sup>1</sup> Articles 3 and 17 of the Treaty on the European Union and Articles 11, 49, 191-193, 208 and 209 of the Treaty on the Functioning of the European Union

<sup>2</sup> Executive Agency for Small and Medium Enterprises (EASME)

<sup>3</sup> European Maritime and Fisheries Fund (EMFF), European Regional Development Fund (ERDF), European Agricultural Fund for Rural Development (EAFRD)

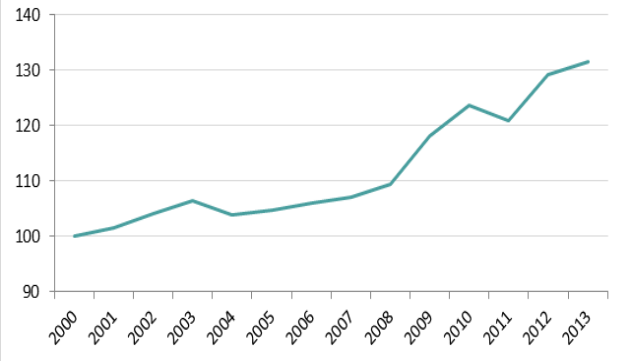
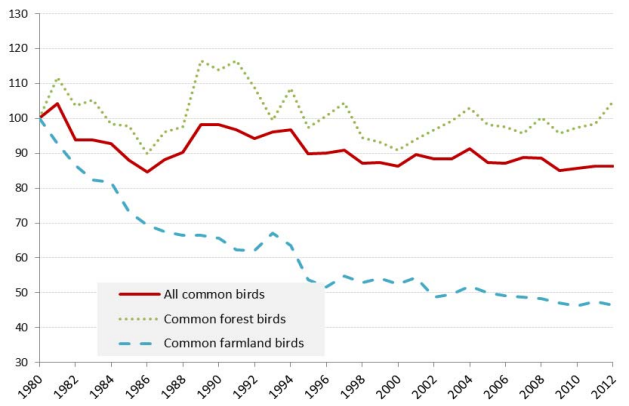
## EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG Environment to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

### Key Performance Indicators

The following key performance indicators help measure progress towards the achievement of DG Environment's objectives while recognising that external factors often outside the DG's control also play a role:

- Resource productivity, as a proxy for greening the economy, sustainable competitiveness and reducing environmental impacts of resource use.
- Common birds population, as a proxy for wide-ranging pressures on ecosystems and the services they provide for the quality of life.
- Exposure of urban population to air pollution and the quality of EU waters, both of which are important for public health and the environment.
- Residual error rate to reflect the degree of legality and regularity compliance.

Result/Impact indicator	Trend	Target	Latest known results as per Annual Activity Report
<p>KPI1: Resource productivity, measured as GDP (Gross Domestic Product) over DMC (Domestic Material Consumption)</p> <p>(index 100 = 1.3 €/kg)</p>	☺	Steady increase indicating decoupling of economic growth from resource use	 <p>Index: 2000 = 100</p>
<p>KPI2: Common birds population</p>	☺	Reverse or halt the decline	 <p>index: 1980=100</p>

KPI 3: Percentage of urban population resident in areas in which daily PM10 concentration exceeds daily limit value	☺	0% by 2020	
KPI 4: Percentage of surface water bodies in good ecological status or with good ecological potential	☺	100% by 2015 unless exemption applies	<p>43% in 2009</p> <p>More recent information will be available when Member States report in 2016</p>
KPI 5: Residual error rate (RER)	☺	Below 2%	<p>2012: 1.6%</p> <p>2013: 1.7%</p> <p>2014: 0.6%*</p>

\*In 2014, a change in the calculation methodology was effected to take into account recovery orders issued in 2014. Had previous years' methodology been used the RER would have been 1.45%.

## Policy highlights of the year

Significant progress has been made to provide the EU with a modern framework to better protect the environment, manage natural resources, stimulate green growth and speed up the transition to a circular economy with its potential to contribute to economic recovery, competitiveness and job creation. Environmental policies are already creating economic opportunities and thereby contributing to the Europe 2020 Strategy, aimed at making the EU into a smart, sustainable and inclusive economy by 2020. The environment industry sector has been one of the few economic sectors to have flourished in terms of revenues, trade and jobs since the 2008 financial crisis<sup>4</sup>. And the most recent Euro-barometer<sup>5</sup> shows that, despite the economic crisis, Europeans' concern about the environment has not diminished. In an overwhelming consensus, 95% of the 28.000 citizens interviewed said that protecting the environment is important to them personally, and many think more can be done.

However, the potential of instruments and policies in place depends on their effective implementation which has yet to fully materialise. The environmental challenges that Europe faces today are considerable. European natural capital is being degraded by activities such as agriculture, fisheries, transport, industry, tourism and urban sprawl. And global pressures on the environment have grown at an unprecedented rate since the 1990s, driven not least by economic and population growth, and changing consumption patterns<sup>6</sup>.

<sup>4</sup> European Environment Agency, *The European environment - state and outlook 2015*, "Executive summary" available at <http://www.eea.europa.eu/soer-2015/synthesis/report/0c-executivesummary>

<sup>5</sup> See "Attitudes of European citizens towards the environment" (Eurobarometer Ref. 416) at [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_416\\_en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_416_en.pdf)

<sup>6</sup> European Environment Agency, *Op.Cit.*

## Protecting Natural Capital

Efforts on biodiversity continue to be guided by the EU 2020 Biodiversity Strategy<sup>7</sup> and delivery of the international commitments under the Convention on Biological Diversity - Strategic Plan for Biodiversity 2011-2020.

Further progress was achieved in establishing and effectively managing the EU Natura 2000 network and highly biodiverse protected areas, which now covers more than 1 million km<sup>2</sup> of EU land and sea areas. Mapping and assessment of the state of ecosystems and the services they provide has significantly advanced across the Union and, with the help of the LIFE programme, the Natural Capital Financing Facility was established with the European Investment Bank, to provide new funding opportunities for protecting natural capital.

A new system to address the most serious risks from alien species was put in place, rules were adopted on access to genetic resources and a public consultation was conducted to address the rise in illegal wildlife trafficking. The first overview of the state of our seas showed that the quality improvements needed could be achieved at lower cost with better co-operation between Member States. Strengthening dialogue with business on biodiversity and preparing for the Mid-Term Review of the EU Biodiversity Strategy in 2015 and the evaluation of nature legislation thereafter were also high on the agenda.

## Green Growth

The Commission identified pressure on resources and environmental concerns as a key long-term trend affecting growth. The recommendations of the European Resource Efficiency Platform, which concluded its work in 2014, provide an important contribution to the future policy development in this field.

DG Environment worked with Member States to enhance the use of economic instruments to achieve environment policy objectives. In the context of the European Semester process, it advocated the greening of tax systems, boosting eco-innovations, phasing out environmentally harmful subsidies and removing other obstacles to green growth.

The Commission adopted a package of initiatives<sup>8</sup> to turn Europe into a more circular economy, including a waste legislative proposal aiming at increasing recycling and preventing the loss of valuable materials. The package also reflected the results of a fitness check on legislation covering a number of waste streams, reduced administrative burden and simplified reporting obligations for the Member States. Furthermore, a target to reduce marine litter by 2020 was proposed which will guide Member States' efforts under the Marine Strategy Framework Directive.

In its Work Programme for 2015<sup>9</sup>, the new Commission subsequently decided to withdraw the proposal amending related waste legislation in favour of a more comprehensive approach for the creation of a circular economy and to contribute to green growth, to be presented in 2015.

Initiatives were also launched to improve the information available on more sustainable buildings and to promote green jobs and resource efficiency in SMEs. Work on methods to estimate environmental footprint continued and EMAS (Eco-Management and Audit Scheme)

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<sup>7</sup> COM(2011)244 final

<sup>8</sup> COM(2014)398, COM(2014)397, SWD(2014)209, SWD(2014)206

<sup>9</sup> COM(2014) 910 final

Awards were given to EMAS-registered organisations with outstanding results in improving their environmental performance. Recognising the importance of environmental excellence in the urban environment, the Green Capital Award for 2016 went to Ljubljana, the capital of Slovenia.

### **Air, Water & Chemicals**

Discussions continued with the co-legislators on a package of measures to improve air quality<sup>10</sup>. To support Member States efforts, best available techniques to reduce emissions for a number of industrial sectors were established. Implementing chemical legislation continued with the REACH regulation moving from registration of chemicals to evaluating the risks they present. Work also focused on defining the criteria for endocrine disrupting chemicals, with a public consultation being launched to secure the widest possible input.

A public consultation was launched to see if EU-wide standards would promote greater re-use of water in certain applications. It will help in deciding if there is a need for further action at EU level to improve the supply of high quality drinking water in the EU and responds to the European Citizens Initiative (ECI) 'Right2Water'<sup>11</sup>. Recommendations were also adopted to strengthen the environmental integrity of extraction of unconventional hydrocarbons, such as shale gas, using high volume hydraulic fracturing in the EU.

### **International**

Throughout 2014 the EU participated in the preparatory negotiations for the adoption of the Sustainable Development Goals as part of the UN post 2015 agenda. Building on the achievements of the Rio+20 Conference of 2012, the aim is to find an international approach to the dual challenge of fighting global poverty and striving for sustainable development. Preparations were also put in place to facilitate the EU ratification of a new international convention on mercury and steps were taken to implement the Nagoya Protocol by improving access to and sharing the benefits of genetic resources. Accession by the EU to the CITES Convention on international trade in endangered species is also underway and will be completed in early 2015.

Respecting the Lisbon Treaty obligations to represent the EU in international negotiations and achieving full EU membership status in relevant environmental organisations and bodies remained a challenge, as demonstrated by challenges presented in the UN Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services.

### **Integration, Financing**

The new LIFE<sup>12</sup> sub-programme for environment, with a budget of approximately €300 million a year, funds projects which offer new avenues to solving environmental problems and the first call for proposals was launched in 2014. For the last programming year of LIFE+<sup>13</sup>, 225 projects on a range of environmental topics and from across the 28 Member States were awarded funding in 2014. Together with the new LIFE programme 2014-2020 with its increased focus on specific policy needs, these projects will make a vital contribution to and serve as catalysts for the preservation, conservation and enhancement of Europe's natural capital, and contribute to achieving the goals of the Europe 2020 Strategy through investment in a low carbon and resource efficient economy. For the first time, LIFE project funding will also serve as a guarantee

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<sup>10</sup> COM(2013) 918, COM(2013)919, COM(2013)920, COM(2013)917

<sup>11</sup> <http://ec.europa.eu/citizens-initiative/public/initiatives/finalised/details/2012/000003>

<sup>12</sup> Regulation (EU) No 1293/2013 on the establishment of a Programme for the Environment and Climate Action (LIFE)

<sup>13</sup> Regulation (EC) No 614/2007 concerning the Financial Instrument for the Environment (LIFE+)

for credit based project funding provided by the European Investment Bank (EIB) for innovative and demonstrative projects promoting natural capital.

As in previous years, DG Environment worked together with other Commission services to ensure that environmental considerations are an integral part of their policies. Crucial in this respect was the input into the assessment of national programmes implementing the new Multiannual Financial Framework, in particular on agricultural, fisheries, cohesion and research funding instruments, to maximise their environmental potential. The formal establishment of tracking of biodiversity-related expenditure also contributed to this mainstreaming.

### **DG Environment's objectives and indicators**

The sections below assess progress achieved in relation to the DG's objectives and describe in more detail the key activities of the past year. It should be noted that measurable changes in environmental impacts as a result of regulatory or other action at EU level take some time to become apparent and also depend on the speed of implementation at national, regional and local level as well as other factors outside the Commission's control.

### **Key conclusions on resource management and internal control effectiveness**

DG Environment conducts its operations in compliance with the applicable laws and regulations, with high professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, that support the achievement of policy and operational objectives. The Director-General has put in place the organisational structure and processes necessary to ensure that policy objectives are achieved with due regard to the principles of sound financial management, the internal control standards and the risks associated with the environment in which the DG operates.

DG Environment has set up internal control processes that aim to ensure the adequate management of the risks relating to the legality and regularity of transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. The central objective is to ensure that the final amount at risk related to payments authorised does not exceed the materiality threshold of 2%. DG Environment confirms that in 2014 this objective is met and that no reservation is necessary.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

### **Information to the Commissioner**

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Vella responsible for Environment, Maritime Affairs and Fisheries on 25 March 2015.



# 1. POLICY ACHIEVEMENTS

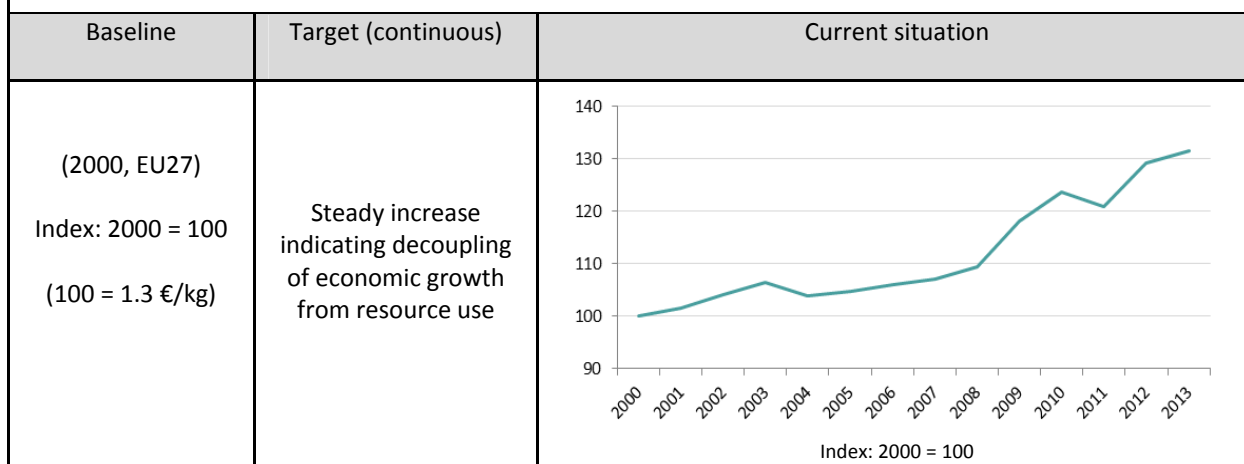
## 1.1 Achievement of general and specific objectives

### 1.1.1 Policy area Environment : general objective

<b>General objective<sup>14</sup>:</b> to contribute to securing the Union's long term prosperity within ecological limits, based on a smart, sustainable and inclusive economy, improved quality of life and wellbeing of citizens and a healthy environment	<input checked="" type="checkbox"/> Spending programme (LIFE) <input checked="" type="checkbox"/> Non-spending
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**Impact indicator 1:** Resource productivity, measured as GDP (Gross Domestic Product) over DMC (Domestic Material Consumption) → proxy for greening the economy, sustainable competitiveness and reducing environmental impacts of resource use.

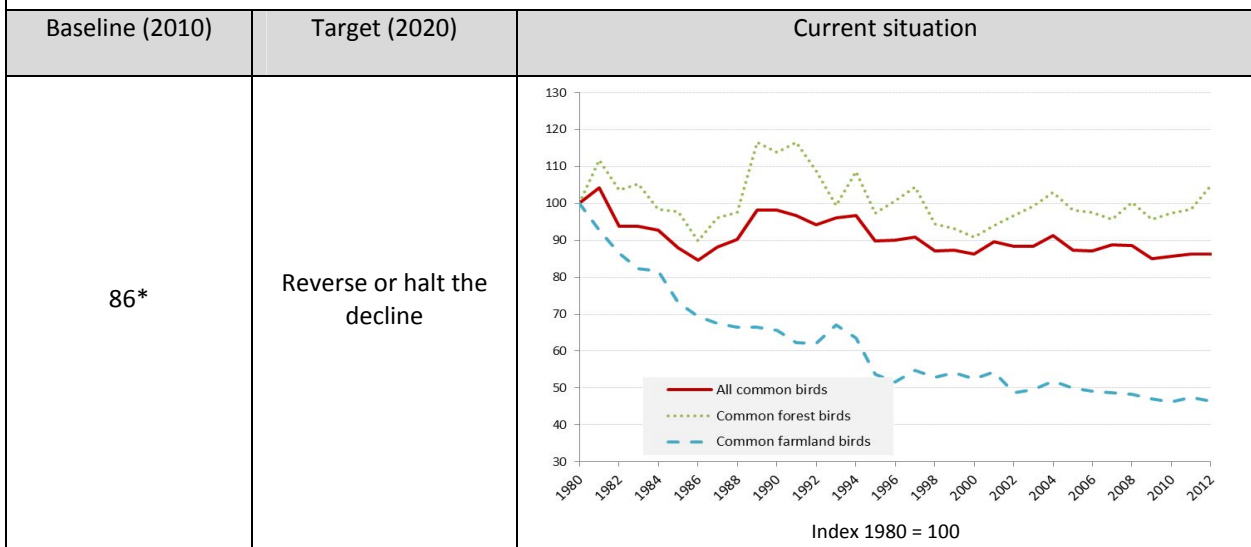
Source: Eurostat 2014; target based on COM (2001)264 "European Union Strategy for Sustainable Development" , COM(2010) 2020 "Europe 2020, A strategy for smart, sustainable and inclusive growth", COM (2011)571 and SEC(2011) 2168 "Roadmap to a Resource Efficient Europe".



<sup>14</sup> Reflecting the goal of the Europe 2020 Strategy and the 7<sup>th</sup> EAP; specific objectives reflect priority objectives set in the 7<sup>th</sup> EAP.

**Impact indicator 2:** Common birds population, index 1998=100 → proxy for the state of biodiversity and the integrity of ecosystems; reflects wide-ranging pressures coming e.g., from agriculture, fisheries, energy and transport sectors

Source : European Bird Census Council, 2014 update; includes data for 25 Member States (see <http://www.ebcc.info/indicators2014.html>); headline target for biodiversity based on COM(2011) 244 "Our life insurance, our natural capital: an EU biodiversity strategy to 2020"



\* Note: baseline change (compared to the DG Management Plan) reflects improved methodology and better country coverage; EU data covers 25 Member States.

Over recent decades, the European Union has put in place a broad range of environmental legislation; as a result, the protection afforded to Europe's most threatened species and habitats has improved, air and water pollution has been significantly reduced, chemicals legislation has been updated and the use of many toxic or hazardous substances has been restricted. However, many challenges remain and they must be tackled comprehensively, and in a structured way.

The Seventh Environment Action Programme<sup>15</sup> (7th EAP), which entered into force in 2014, will guide environment policy until 2020, protecting citizens and the environment and contributing to the objectives of the Europe 2020 strategy, especially through its focus on resource efficiency.

Including resource efficiency in Europe 2020<sup>16</sup> made the environment an essential part of the economic co-ordination process with Member States, and the efforts at greening the European Semester have contributed to decoupling growth from resource use, as shown by the evolution of the resource productivity indicator. Pressure on resources, environmental concerns and the potential of green growth, resource efficiency and the circular economy are considered in the context of the mid-term review of Europe 2020, which began in 2014.

The LIFE programme has a long track record of pioneering effective approaches for building a resource efficient Europe. LIFE has generated a vast portfolio of know-how in resource efficiency methods for a diverse range of beneficiaries<sup>17</sup>.

<sup>15</sup> DECISION No 1386/2013/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 November 2013 on a General Union Environment Action Programme to 2020 'Living well, within the limits of our, OJ L 354, p. 171 ss.

<sup>16</sup> EUROPE 2020 A strategy for smart, sustainable and inclusive growth, COM(2010)2020

<sup>17</sup> A presentation of relevant projects can be found in *LIFE and resource efficiency: Decoupling growth from resource use*, 2011; and focusing on specific issues: *LIFE's Blueprint for water resources*, 2012, and *LIFE and Soil protection*, 2014 (see <http://ec.europa.eu/environment/life/publications/lifepublications/lifefocus/env.htm>)

## Conclusion

Resource productivity has increased by more than 30% compared to 2000, corresponding to annual average growth of 2.1%. Most of the actions announced in the Resource Efficiency Flagship and Roadmap in 2011 have been launched, but their full impacts are yet to unfold<sup>18</sup>. However, the overall objective of decoupling economic growth from resource use and its environmental impacts is not likely to be fully achieved unless efforts are stepped up.

As an important next step in the resource efficiency agenda, the Commission has identified the need to facilitate the shift to a more circular economy. Together with efficiency improvements in the use of resources, such a model should contribute to a substantial growth of resource productivity in the EU. The previous Commission presented a case for a 30% increase by 2030<sup>19</sup>, which would have a positive impact on job creation and growth of GDP, whilst reducing environmental impacts.

Member States have committed to halt the loss of biodiversity and the degradation of ecosystem services by 2020, a commitment that is reflected in the EU Biodiversity Strategy to 2020<sup>20</sup>. The strategy includes the goal of achieving a significant improvement in the status of birds, which is a proxy indicator for biodiversity and the integrity of ecosystems. Though the indicator shows some improvement, this remains an enormous challenge that can only be achieved through the combined efforts of all stakeholders and all levels of public administrations.

### 1.1.2 ABB 07 02 Environmental policy at Union and international level: Specific objective 1

**General objective:** to contribute to securing the Union's long term prosperity within ecological limits, based on a smart, sustainable and inclusive economy, improved quality of life and wellbeing of citizens and a healthy environment

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<sup>18</sup> SWD(2014) 206, Progress Report on the Roadmap to a Resource Efficient Europe

<sup>19</sup> SWD(2014) 211, Analysis of an EU target for Resource Productivity"

<sup>20</sup> COM(2011)244, Communication from the Commission "Our life insurance, our natural capital: an EU biodiversity strategy to 2020"

<b>Specific objective 1</b> <sup>21</sup> : to protect, conserve and enhance biodiversity, the Union's natural capital		<input checked="" type="checkbox"/> Spending programme (LIFE) <input checked="" type="checkbox"/> Non-spending									
<b>Indicator 1:</b> Conservation status of species and habitats of European importance (percentage in conservation categories) Source: Report on the state of nature in the EU; target based on COM (2011)244 'Our life insurance, our natural capital: an EU biodiversity strategy to 2020', Directive 2009/147/EC on the conservation of wild birds and Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora											
Baseline (2001-2006, EU 25)	Target (2020)	Current situation									
Habitats: favourable (17%), unfavourable – inadequate (28%), unfavourable – bad (37%), unknown (18%) Species: favourable (17%), unfavourable – inadequate (30%), unfavourable – bad (22%), unknown (31%)	Improve conservation status	<table border="1"> <caption>Conservation Status Data (Estimated from Chart)</caption> <thead> <tr> <th>Category</th> <th>Baseline</th> <th>Current situation</th> </tr> </thead> <tbody> <tr> <td>Habitats</td> <td>favourable: 17%, unfavourable-inadequate: 28%, unfavourable-bad: 37%, unknown: 18%</td> <td>favourable: 15%, unfavourable-inadequate: 45%, unfavourable-bad: 25%, unknown: 15%</td> </tr> <tr> <td>Species</td> <td>favourable: 17%, unfavourable-inadequate: 30%, unfavourable-bad: 22%, unknown: 31%</td> <td>favourable: 25%, unfavourable-inadequate: 40%, unfavourable-bad: 15%, unknown: 20%</td> </tr> </tbody> </table>	Category	Baseline	Current situation	Habitats	favourable: 17%, unfavourable-inadequate: 28%, unfavourable-bad: 37%, unknown: 18%	favourable: 15%, unfavourable-inadequate: 45%, unfavourable-bad: 25%, unknown: 15%	Species	favourable: 17%, unfavourable-inadequate: 30%, unfavourable-bad: 22%, unknown: 31%	favourable: 25%, unfavourable-inadequate: 40%, unfavourable-bad: 15%, unknown: 20%
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<b>Indicator 2*:</b> Mean annual urban land take as a percentage of 2000 artificial land <sup>22</sup> Source: Land Take, European Environment Agency 2013; target based on COM (2011)571 'Roadmap to a Resource Efficient Europe'; COM (2011) 244 'Our life insurance, our natural capital: an EU biodiversity strategy to 2020'		
Baseline (2000-2006, EU28)	Target (2050)	Current situation
The average value of EU-28 is 0.51% (data for Greece are not available) with a very wide range from 2.8 % in Spain or 2.3 % in Cyprus to 0.1% in Romania or Malta	No net land take	2012 data to be reported in 2015

\* Changed with respect to the DG Management Plan to strengthen the link between the indicator and the target of no net land take; baseline date corrected accordingly

<sup>21</sup> This and subsequent specific objectives refer to the same ABB activity and general objective

<sup>22</sup> More information at See more: <http://www.eea.europa.eu/data-and-maps/indicators/land-take-2/assessment-2>

**Indicator 3:** Percentage of the surface area of marine waters (marine regions and sub-regions) conserved through spatial protection measures<sup>23</sup> (networks of marine protected sites in the context of Habitat, Birds and Marine Strategy Framework Directives)

Source: EU draft budget 2014 – Working document of the Services of the Commission Part I – Programme Statements of operational expenditure; target based on Aichi Target 11 under the Convention on Biological Diversity (CBD) to cover at least 10% of all waters

Baseline	Target (2020)	Current situation
5.9% in 2012 (including 4% through Natura 2000)	- in the 0-12nm zone: 20% - in Exclusive Economic Zone: 10%	5.9% in 2012 (including 4% through Natura 2000) Updated figures to monitor progress should become available in end 2016

In 2014, inter- institutional negotiations concluded leading to the adoption of the EU Invasive Alien Species Regulation<sup>24</sup>. The Regulation equips Europe with an effective system to prevent the introduction and spread of species that can cause significant adverse impacts on the environment, the economy, and human health, focusing on the most serious threats; it is a major step in implementing the EU Biodiversity Strategy to 2020.

Legislation was also adopted to implement an international agreement on access to genetic resources and the fair and equitable sharing of benefits arising from their utilisation<sup>25</sup> (the so-called Nagoya Protocol), along with a decision which entitles the EU to ratify the Protocol<sup>26</sup>.

The Commission launched two consultations seeking views on a future EU initiative on no net loss of biodiversity and ecosystems services, as required by the Biodiversity Strategy, and on combating wildlife trafficking; the latter comes in response to a recent global surge in poaching and illegal wildlife trade, which is taking an increasing toll on biodiversity.

Land take by urban and other artificial land development is the most noticeable land use change in the EU over the last two decades, due to its speed and the irreversibility of its impacts. More than 900 km<sup>2</sup> of agriculture or natural land were converted every year in the EU between 2000 and 2006 for urbanisation and infrastructure. The concept of treating land as a resource which should be used more prudently is therefore being developed. This was supported by a stakeholder conference and steps were taken to prepare a public consultation.

Work with stakeholders resulted in successful collaborative initiatives including an EU Platform on co-existence between people and large carnivores, where farmers, conservationists, hunters, landowners and scientists can exchange ideas and best practices on sharing the same land with large carnivores. Mapping and Assessment of Ecosystems and the Services they provide across the Union also advanced, including the organisation of a high level conference reporting on progress made on the matter. The 1<sup>st</sup> Annual Conference of the Business and Biodiversity

<sup>23</sup> As required by Article 13.5 of Marine Strategy Framework Directive

<sup>24</sup> Regulation (EU) n° 1143/2014 of the European Parliament and of the Council of 22 October 2014 on the prevention and management of the introduction and spread of invasive alien species. OJ 2014 L 317 p 35-55

<sup>25</sup> Regulation (EU) No 511/2014 of the European Parliament and of the Council on compliance measures for users from the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization in the Union, OJ 2014 L 150, p. 59–71

<sup>26</sup> Council Decision of 14 April 2014 on the conclusion, on behalf of the European Union, of the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization to the Convention on Biological Diversity, OJ 2014 L 150, p. 231–233

Platform also took place; it provided an EU level forum for sustained and strategic dialogue about the links between business and biodiversity.

A high priority was given to further strengthening the implementation of the EU Birds and Habitats Directives (the EU nature legislation), e.g. through the development of various guidance documents, the organisation of specific seminars on the management of the sites and through pursuing the necessary enforcement activities. Lists of Natura 2000 sites in various biogeographical regions were updated and the network now consists of over 27.000 sites, covering over 1 million km<sup>2</sup> of EU and marine area. The first Natura 2000 Awards, which recognize excellence in Natura 2000 site management, also showcased the value of the network of protected sites for local communities and economies, and the wide range of work carried out across the Natura 2000 network. Preparations are also under way for the fitness check of the Birds and Habitats Directives.

In 2014, 92 new LIFE+ Nature and Biodiversity projects out of 342 proposals were funded and 286 proposals were submitted in response to the first call under the new LIFE programme. By definition, Nature projects contribute to the implementation of the Birds and Habitats Directives and the Natura 2000 network and have been particularly successful in improving the conservation status of flagship species like the Iberian lynx, the bear, and the wolf<sup>27</sup> as well as big raptors and vultures by improving their habitats and thus the overall value of the related ecosystems for other species<sup>28</sup> and economic activities (like sustainable ecotourism with, e.g., a growth rate of 30% in a period of financial crisis in Spain<sup>29</sup>). Nature and Biodiversity projects have also contributed considerably to policy development, in particular in the preparation of the Regulation on Invasive Alien Species (IAS), and at the same time improved and applied IAS control and eradication methods in an area totalling 316 000 ha.<sup>30</sup>

The Commission's report on the first phase of implementation of the Marine Strategy Framework Directive (MSFD)<sup>31</sup>, together with the EEA's "Marine messages"<sup>32</sup>, offered the first overview of the state of EU seas. While it shows that the marine environment requires urgent efforts to reach the good status intended by the directive by 2020, it also demonstrates that this could be achieved more easily and cheaply if Member States reinforced their cooperation. The new directive on Maritime Spatial Planning<sup>33</sup> should help Member States develop plans to better coordinate various activities that take place at sea, ensuring they are as efficient and sustainable as possible.

## Conclusion

*Progress in maintaining biodiversity and ecosystem resilience has been mixed so far and the conservation status of EU species and habitats remains challenged. Whereas substantial progress was achieved in implementing the EU Nature legislation and the various actions under the EU Biodiversity Strategy, a lot remains to be done in order to achieve the various Biodiversity*

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<sup>27</sup> LIFE and human coexistence with large carnivores, 2013 (all the LIFE publications mentioned are available at <http://ec.europa.eu/environment/life/publications/lifepublications/lifefocus/>).

<sup>28</sup> See, for example, the publications *LIFE and invertebrate conservation*, 2012; *LIFE and freshwater fish*, 2015

<sup>29</sup> LIFE11 IN/ES/000683, LIFE+ Infonatur; for the sustainability of LIFE projects, also see the brochures *Long-term impact and sustainability of LIFE nature*, 2014, and *LIFE creating green jobs and skills*, 2013.

<sup>30</sup> Brochure *LIFE and Invasive Alien Species*, 2014, p. 11

<sup>31</sup> COM(2014)97

<sup>32</sup> European Environment Agency (EEA), *Marine Messages*, 2014

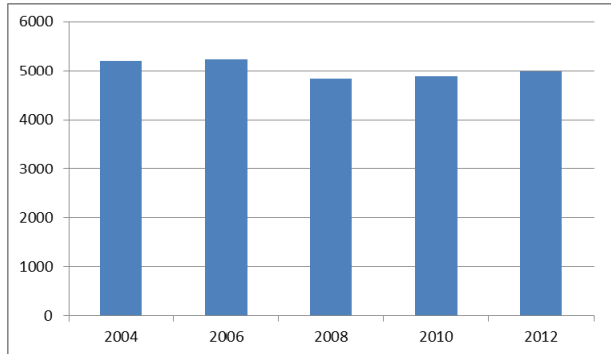
<sup>33</sup> Directive 2014/89/EU of the European Parliament and of the Council establishing a framework for maritime spatial planning, OJ 2014 L 257, p. 135–145

*Targets. The Mid-Term Review of the Strategy foreseen in 2015 will further assess progress achieved and remaining gaps.*

*Artificial land is growing faster than the European population and achieving “no-net land take” by 2050 would be a major transformation and requires further action. The inventory of marine protected areas (MPAs) revealed that in 2012 only 5.9% of European seas are designated as MPAs. This falls short of the 10% Aichi target. However, some regions are already meeting the target and with further efforts under the Habitats, Birds and Marine Strategy Framework Directive, the 10% should be met by 2020 at the latest. Progress on reaching good environmental status for marine waters will depend on the ambition level of the programmes of measures that Member States are required to establish by 2015.*

### 1.1.3 ABB 07 02: Specific objective 2

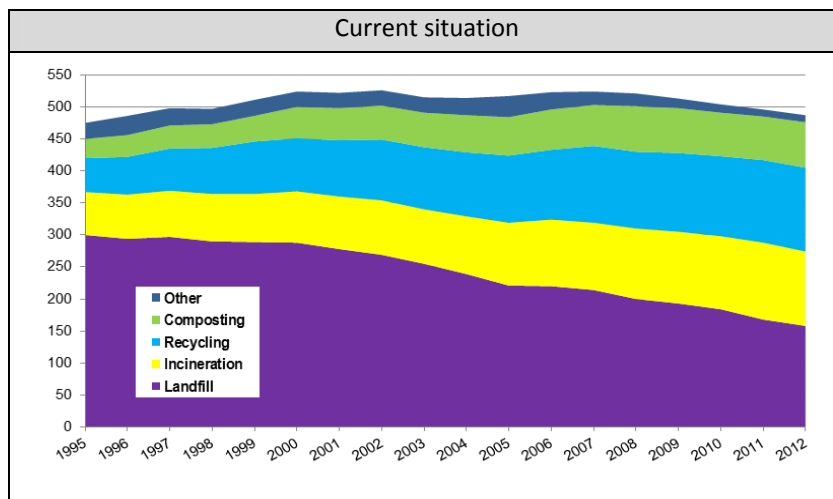
**Specific objective 2:** To turn the EU into a resource-efficient, green and competitive economy  Spending programme (LIFE)  
 Non-spending

<b>Indicator 1:</b> Total waste generated (kg/person)		
Source: Eurostat, 2015; target based on COM (2011)571 'Roadmap to a Resource Efficient Europe'		
Baseline* (2004, EU 28)	Target (continuous)	Current situation (EU 28)
5198 kg/person	Reduce	

\*Note: Slight change to baseline data (2004) due to statistical updates

<b>Indicator 2:</b> Municipal waste generation (kg/person) and treatment (%): movement up through the waste hierarchy		
Source: Eurostat, 2014; targets based on Directive 2008/98/EC (Waste Framework Directive) and COM (2011)571 'Roadmap to a Resource Efficient Europe' [check graph in IP]		
Baseline* (2002, EU 27)	Milestone (2020)	Target (continuous)
Generation: 527 kg/person Recycling & composting: 28% Incineration: 16% Landfilling: 51%	Recycling: 50%	Reduce generation Increase recycling & composting Reduce landfilling (towards virtual elimination)

\*Note: Slight change to baseline data (2002) due to statistical updates



## Circular economy and waste

Turning waste into a resource is a key building block of the resource efficient, green economy. EU waste policies have been an important driver to improve waste management practices contributing to reducing negative impacts on environment and EU import-dependency. However, waste generation remains significant and only part of the total waste is recovered.

The Commission adopted a circular economy package in 2014, to further decouple economic growth from resource use and bring about a greener and more efficient economy. It defined an enabling framework based on action in the areas of design and innovation, finance and investment, business and consumers, waste policy, and resource efficiency target setting. The set of initiatives included proposals<sup>34</sup> for higher recycling targets by 2030, as well as a marine litter target and a voluntary target on food waste, to drive the transition to a more circular economy and boost recycling in Member States.

As part of the package, the Commission reviewed progress on the Roadmap to a Resource Efficient Europe<sup>35</sup> and conducted an ex-post evaluation of five waste stream directives<sup>36</sup> which lead, *inter alia*, to a proposal to ease administrative and reporting obligations in some waste stream Directives. Another important initiative to reduce the use of lightweight plastic bags in Europe was successfully negotiated and agreed by the EU legislators.

A final component of the package was a communication to reduce the environmental impacts of new and renovated buildings<sup>37</sup> by increasing resource efficiency and improving the information available on the environmental performance of buildings, given their substantial impact on the environment.

In its Work Programme for 2015, the new Commission subsequently decided to withdraw the proposal amending related waste legislation in favour of a more comprehensive approach for the creation of a circular economy and to contribute to green growth, to be presented in 2015.

<sup>34</sup> COM(2014)397, COM(2014)398

<sup>35</sup> SWD(2014)206

<sup>36</sup> SWD(2014)209

<sup>37</sup> COM(2014)445



Communications on green jobs<sup>38</sup> and SMEs<sup>39</sup> (led by DG Employment, Social Affairs and Inclusion and DG Enterprise respectively) were adopted as part of the package. The Green Employment initiative aims at defining strategic framework conditions to allow labour market and skills policies to play an active role in supporting employment and job creation in the green economy. The Green Action Plan (GAP) for SMEs proposes to exploit the business opportunities that the transition to a green economy offers.

Two stakeholder consultations were launched on waste, one on exemptions from the substance restrictions in electrical and electronic equipment<sup>40</sup> and another on the renewal of exemptions to the EU Directive 2000/53/EC on end-life-vehicles<sup>41</sup>.

### **EMAS, Ecolabel and Eco-innovation**

Work on measuring environmental footprints continued. About 300 industries/industry associations (covering about 75% of the European market for 27 product groups) and more than 2000 stakeholders around the world are now involved in this effort. The correct implementation of Environmental Footprint methods may increase competitiveness of European industries, improve management of supply chains in terms of materials and energy, generate cost reductions, and make products sold on the European market greener.

During 2014, the Commission adopted EU Ecolabel criteria for different categories of products. EMAS Awards focused on "Eco-innovation improving environmental performance", given its potential to move the European Union towards a truly sustainable and circular economy. Twenty nine organisations from fourteen European countries received nominations for the EMAS Award ceremony and six organisations were awarded for excellence in environmental management. The evaluations and fitness checks of the EMAS and Ecolabel Regulations also commenced, to identify ways in which these instruments can further contribute to resource efficiency goals.

The Environmental Technology Verification (ETV) pilot programme continued to attract the attention of companies seeking verification of the performance of their new environmental technologies, and the number of verification bodies offering ETV services across the EU increased from seven to thirteen.

### *Conclusion*

*Waste generation has slightly decreased during this last decade, partly due to the evolution of economic activity and partly as a result of prevention policies. At the same time, landfilling of municipal waste continues to decrease and recycling to slightly increase. Nevertheless, the changes are relatively slow and the current pace is not sufficient to move towards a circular economy. EU-wide, significant efforts are needed to apply the waste hierarchy to meet this objective, starting with the full implementation of EU waste legislation across the Union. EMAS, Ecolabel, eco-innovation and the development of environmental footprint methodologies will also contribute.*

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<sup>38</sup> COM(2014)446

<sup>39</sup> COM(2014)440

<sup>40</sup> Directive 2011/65/EU, OJ 2011 L 174, p. 88–110

<sup>41</sup> OJ 2010 L 269, p. 34–43

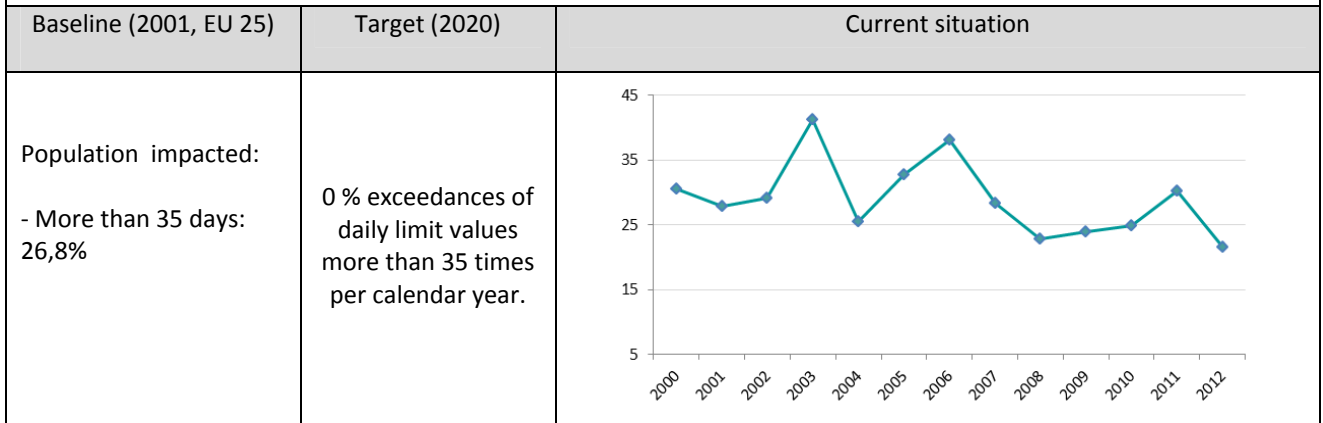
### 1.1.4 ABB 07 02: Specific objective 3

**Specific objective 3:** to safeguard the Union's citizens from environment-related pressures and risks to health and wellbeing

Spending programme (LIFE)  Non-spending

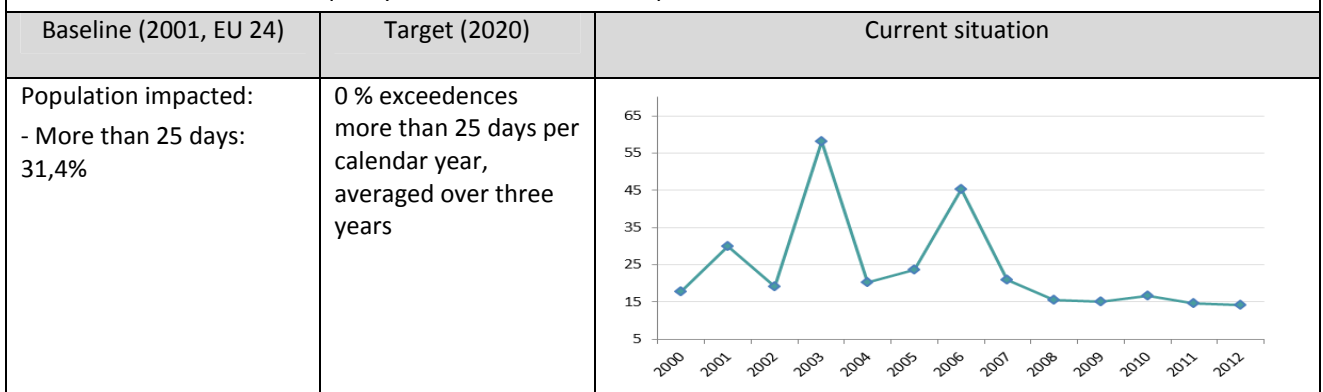
**Indicator 1:** Exposure to air pollution: Percentage of urban population resident in areas in which daily PM10 concentration exceeds the limit value (50 µg/m<sup>3</sup> 24 hour average) over the period of a calendar year.

Source: European Environment Agency, 2014 (data for GR and MT not included); target based on Directive 2008/50/EC on ambient air quality and cleaner air for Europe



**Indicator 2:** Exposure to air pollution: Percentage of urban population resident in areas in which ozone concentrations exceed the target value (120 µg O<sub>3</sub>/m<sup>3</sup> as daily maximum of 8 hour mean)

Source: European Environment Agency, 2014 (data for GR, MT and CY not included); target based on Directive 2008/50/EC on ambient air quality and cleaner air for Europe



**Indicator 3:** Percentage of surface water bodies in good ecological status or with good ecological potential (as defined by the Water Framework Directive)

Source: Commission report on the Implementation of the Water Framework Directive - River Basin Management Plans (RBMP) - COM(2012) 670; countries that have not reported RBMP, or not reported exemptions or have high unknown status, are not included; target based on Directive 2000/60/EC "Water Framework Directive"

Note: Good Ecological Status also requires respecting the environmental flow necessary for ecosystems to be healthy. It expresses both qualitative and quantitative aspects of water status in surface water bodies. Therefore, this indicator is also relevant to specific objectives 1 and 2 above on preserving natural capital and the efficient use of resources.

Baseline (2009, EU 21)	Target (2015)	Current situation*
43%	100% of water bodies to which justified exemptions do not apply	43% (for 21 MS which reported their RBMP)

\* More recent information will be available when Member States report on their updated RBMP, reporting due in March 2016.

**Indicator 4:** Nitrate concentrations in ground- and surface waters: percentage of sampling points with concentration greater than 50 mg nitrate/ L

Source: Report on implementation of Council Directive 91/676/EEC concerning the protection of waters against pollution caused by nitrates from agricultural sources based on Member State reports for the period 2008-2011, COM (2013) 683; target based on Directive 91/676/EEC on the protection of waters against pollution caused by nitrates from agricultural sources.

Note: Lower concentration of nitrates in surface waters are normal, because of a dilution factor compared to groundwater. However surface water hotspots with high concentrations can occur and even if the nitrate concentration is below 50 mg/L, surface waters can be polluted because of eutrophication - eutrophication was not chosen as an indicator for issues of simplicity and comparability.

Baseline (2004-2007, EU 27)	Target*	Current situation*
<p>Ground waters: 15%</p> <p>Surface waters: 3%</p>	<p>Reduction of nitrate concentrations in waters; no sampling points above 50 mg nitrates per L</p>	<p>Ground waters: 14,4% (2008-2011)</p> <p>Surface waters: 2,4 % (2008-2011)</p> <p>*Compliance with the threshold of 50 mg/l nitrates does not imply necessarily compliance with the Water Framework Directive, for which 'good status' of water bodies must be achieved (only 43% of the River Basin Management Plans reported by 21 MS have reached the status). In many river basins, the nutrient conditions consistent with good status require nitrate concentrations much lower than 50 mg/l.</p>

(Next report 2012-2015 due in 2016)

**Indicator 5:** Environmentally harmful chemicals by toxicity class (from most to least dangerous) as a percentage of total production (mln t/y)<sup>42</sup>

Source: Eurostat, 2014; target based on the review of the EU Sustainable Development Strategy - European Council conclusions of June 2006 and Regulation (EC) No 1907/2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency

Baseline (2002, EU 27)	Target	Current situation
<p>Total production: 330 mln t of which:</p> <p>All toxic chemicals: 62%</p> <p>CMR<sup>43</sup>: 11%</p> <p>Chronic toxic: 2%</p> <p>Very toxic: 12%</p> <p>Toxic: 22%</p> <p>Harmful: 15%</p>	<p>A shift away from the two most dangerous classes of toxic chemicals towards less harmful chemicals</p>	

<sup>42</sup> Includes chemicals covered by biocides and REACH legislation

<sup>43</sup> CMR - carcinogenic, mutagenic and reprotoxic

**Indicator 6:** Exposure to noise: Percentage of population in urban areas exposed to more than 55 dB Lden and 50 dB Lnight

Source: European Environment Agency – EIONET; target based on Directive 2002/49/EC relating to the assessment and management of environmental noise and WHO guidelines

Baseline (2007, EU 27)	Target	Current situation
65%	Reduce	Data are incomplete, but it can be estimated that 125 million people are affected by noise levels greater than 55 decibels (dB) from road traffic alone.

## Air Quality and Industrial emissions

EU air policy has stimulated innovation in pollution abatement and improved the environmental performance of key economic sectors. It has also reduced the health impacts from particulate matter by around 20% between 2000 and 2010. However, EU air quality standards and targets are still breached in many regions and cities, and public health suffers accordingly, with costs to health care and the economy, and further steps are necessary.

The Clean Air Package<sup>44</sup>, adopted in 2013, is designed to further reduce emissions to air by 2030, through the proposals for a revised National Emission Ceilings Directive and a Medium Combustion Plants Directive.

Through 2014 the Commission worked with the co-legislators in inter inter-institutional discussions on the package. To further support Member states in their efforts to reduce emissions, two new BATs (Best Available Techniques) were established in 2014 under the IPPC Directive<sup>45</sup>, for the refining of mineral oil and gas and for the production of pulp, paper and board<sup>46</sup>. Work to evaluate and refit the regulation dealing with the register of emissions from industrial facilities (the E-PRTR Regulation<sup>47</sup>) has also started.

## Water Quality

EU water policy has successfully contributed to water protection over the past three decades, as exemplified by the high quality of drinking and bathing waters<sup>48</sup>. To increase water availability while fostering green economic growth, a public consultation was launched on water reuse, an alternative water supply option which could help reduce the pressure that the growing demand for water is putting on the environment and create new growth opportunities. The Water Blueprint<sup>49</sup> had identified the lack of common EU environmental/health standards as the key obstacle to a wider reliance on water reuse.

Bilateral work also continued with Members States on the implementation of the Water Framework Directive, which needs to be stepped up to attain good quality status for water bodies not covered by exemptions.

<sup>44</sup> COM(2013) 918, COM(2013)919, COM(2013)920, COM(2013)917

<sup>45</sup> Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (integrated pollution prevention and control)

<sup>46</sup> Commission Implementing Decisions 2014/687/EU and 2014/738/EU (notified under documents C(2014) 6750 and C(2014) 7155 respectively).

<sup>47</sup> Regulation (EC) No 166/2006 concerning the establishment of a European Pollutant Release and Transfer Register, OJ L 33, 4.2.2006, p. 1–17

<sup>48</sup> For the impact of LIFE projects with regard to the improvement of water quality see the brochure *LIFE's blueprint for water resources*, 2012 (<http://ec.europa.eu/environment/life/publications/lifepublications/lifefocus/>).

<sup>49</sup> COM(2012)673

In 2014, the "Synthesis Report on the Quality of Drinking Water in the EU", based on the Member States' reports for the period 2008-2010<sup>50</sup>, showed high overall compliance levels while identifying also some areas for improvement. Compliance rates were generally over 90%, but there were problems in some Member States, in particular for small water supplies in rural areas. In response to the European Citizens Initiative (ECI) 'Right2Water', the Commission launched a public consultation on EU drinking water policy, to examine if there is a need for further action to improve the supply of high quality drinking water. As a result of the public consultation, the Commission now started an evaluation (REFIT) of the Drinking Water Directive.

Tools for the implementation of the Priority Substances Directive<sup>51</sup> including guidance on analytical methods and biota monitoring were adopted and the Groundwater Directive<sup>52</sup> was updated to better protect EU aquifers.

## Chemicals

Considerable effort was dedicated to ensuring that EU chemical legislation, with its cornerstone REACH Regulation<sup>53</sup>, continues to deliver results. More than 10,000 substances are currently registered under REACH and work continues with an increased focus on the evaluation of the registered substances. The REACH candidate list of substances of very high concern (SVHC) continued to grow and a number of highly dangerous substances were restricted in their uses. The Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants was updated to include new pollutants and adapt it to technical and legislative progress<sup>54</sup>.

The implementation of the Biocides Regulation<sup>55</sup> resulted in the authorization of an important number of biocidal products and the approval of new substances for use in biocidal products.

The Commission launched an on-line consultation to help define criteria for endocrine disruptors; input is sought from stakeholders and the public on various options for the criteria and for their implementation.

## Shale gas

A Commission Recommendation<sup>56</sup> was adopted to ensure that proper environmental and climate safeguards are in place for "fracking" – the high-volume hydraulic fracturing technique used notably in shale gas operations. The Recommendation should help all Member States wishing to use this practice address health and environmental risks and improve transparency for citizens.

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<sup>50</sup> COM(2014) 363

<sup>51</sup> Directive 2008/105/EC of the European Parliament and of the Council on environmental quality standards in the field of water policy, OJ L 348, 2008, p. 84–97

<sup>52</sup> Directive 2006/118/EC of the European Parliament and of the Council on the protection of groundwater against pollution and deterioration, OJ L 372, 2006, p. 19–31

<sup>53</sup> Regulation (EC) No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), OJ L 396, 2006, p.1-854

<sup>54</sup> COM(2014)306 As required by Article 8 (4) of Regulation No 850/2004 on persistent organic pollutants.

<sup>55</sup> Regulation (EU) No 528/2012 concerning the making available on the market and use of biocidal products, OJ L 167, 2012, p. 1–123 (responsibility for this regulation has been transferred to DG SANTE effective 1/1/2015).

<sup>56</sup> 2014/70/EU: Commission Recommendation on minimum principles for the exploration and production of hydrocarbons (such as shale gas) using high-volume hydraulic fracturing, OJ 2014 L 39, p.

## Noise

On noise, an evaluation of the Directive has started with a focus on regulatory fitness and including an assessment of the need for further action at Union level.

### Conclusion

*EU policies continued to improve the quality of the environment although progress has been uneven across Member States. The review of EU air policy concluded that full compliance with current standards is achievable by 2020, through a combination of implementation of existing EU source controls and reinforced action at Member State level. However, because current standards are substantially above the guideline values established by the World Health Organization (WHO), the Clean Air Package was adopted in 2013 to address the major remaining health impact and bring European air quality much closer to the WHO values.*

*EU waters still face significant challenges due to pollution, overexploitation and alterations of water bodies. Water policy indicators point to a continuous but slow improvement of water status which can only be maintained and enhanced by thorough implementation of the existing policy/legal framework and filling possible gaps such as on water re-use. Nitrate concentrations have decreased slightly in line with the objectives of preventing and reducing nitrate pollution from agricultural sources. More recent data is expected to be available next year, nevertheless designation of nitrate vulnerable zones and the implementation of effective action programmes to reduce pollution from nitrates in some Member States remain a challenge. Chemicals policy is steadily delivering results but more efforts are needed in particular for REACH to deliver more and more efficiently. No marked reduction in the use of toxic substances can yet be seen.*

*Exposure to noise continues to be a major environmental health issue with a significant percentage of the European population exposed to harmful levels of noise.*

### 1.1.5 ABB 07 02: Specific objective 4

**Specific objective 4:** To create and maintain the enabling framework for environmental policy based on smart implementation, a strong knowledge and evidence base, investment, and improved environmental integration and policy coherence.  Spending programme (LIFE)  Non-spending

**Indicator 1:** Effectiveness of application of EU environment legislation: Number of open infringement cases<sup>57</sup> of EU environmental law by policy area

Source: DG Environment

Baseline (2013)	Target	Current situation
Infringements: 353 - Non-communication cases: 94 - Non-conformity cases: 68 - Bad application cases: 191	Effective and uniform implementation of EU environmental legislation as reflected into the decrease in the number of open infringement cases	Infringements: 334 - Non-communication cases: 86 - Non-conformity cases: 50 - Bad application cases: 198

<sup>57</sup> This means the Commission sent an official letter of formal notice to the Member State

<p><b>Indicator 2:</b> Environmental taxation: share of environmental taxes* (energy, transport, pollution/resources) in total tax revenue (%)</p> <p>Source: Taxation trends in the European Union 2014, ESTAT and TAXUD; target based on COM (2011)571 'Roadmap to a Resource Efficient Europe'</p>		
Baseline (2010, EU27)	Target	Current situation
<p>Environmental taxation: 6.2% covering:</p> <p>energy: 4.7%</p> <p>transport: 1.3%</p> <p>pollution/resources: 0.2 %</p>	<p>Increase</p>	

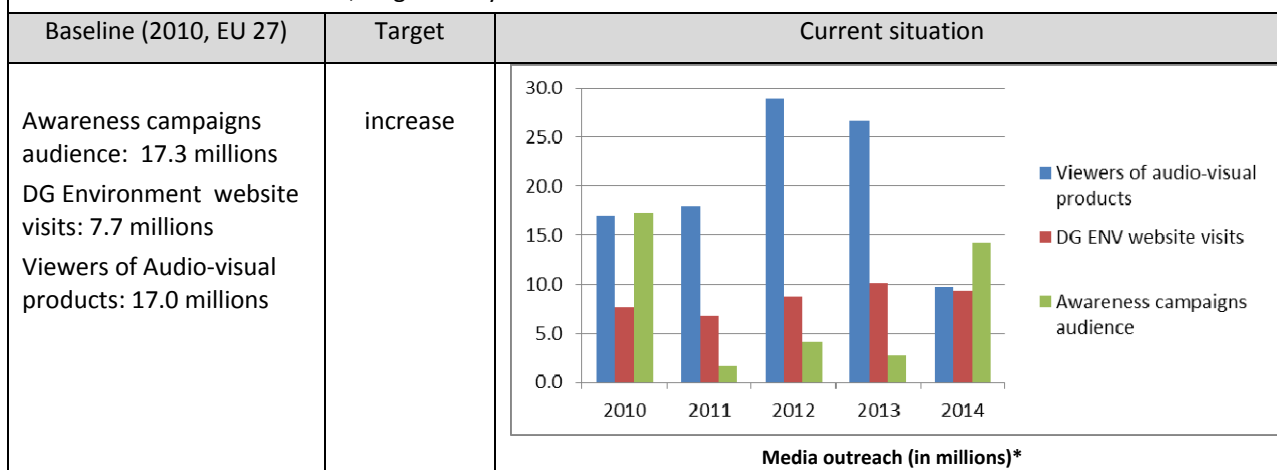
<p><b>Indicator 3:</b> Fish catches from stocks outside safe biological limits: managed by the EU in the North-East Atlantic<sup>58</sup> (% of total catches per year)</p> <p>Source: International Council for the Exploration of the Sea, 2012; target based on COM (2011)244 'Our life insurance, our natural capital: an EU biodiversity strategy to 2020'</p> <p>Note: Fisheries within DG MARE portfolio. DG Environment provides input on policy matters.</p>		
Baseline (2008)	Target (2015)	Current situation*
<p>Total: 10.8%</p> <p>Pelagic (e.g. herring): 7.4%</p> <p>Benthic(e.g. prawns.): 11%</p> <p>Demersal (e.g. cod): 49.6%</p> <p>Industrial (e.g. Sand eel): 0%</p>	<p>0% of catches outside safe biological limits in all areas in which EU fishing fleets operate</p>	

\* No update available; a new indicator is under development

<sup>58</sup> It is considered that a stock is within safe biological limits if its current biomass is above the Maximum Sustainable Yield (MSY) level advocated by the Common Fisheries Policy and Marine Strategy Framework Directive (MSFD), which ensures a high probability that the stock will be able to replenish itself.

**Indicator 4:** Media outreach: Audience reached by awareness campaigns<sup>59</sup>, DG Environment website visits, viewers of audio-visual products

Source: DG Environment 2014; target set by DG Environment



**Indicator 5: Structural funds interventions**

Source: DG REGIO, 2014

	Baseline	Target	Latest known results
Additional waste recycling capacity**	Not applicable (NA)	**	NA**
Additional population served by improved water supply*	NA	15 million 2007-2015 (cumulative)	4,2 million (2007-2013 cumulative)
Additional population served by improved wastewater treatment*	NA	19,7 million 2007-2015 (cumulative)	6,3 million (2007-2013 cumulative)
Total surface area of rehabilitated land**	NA	**	NA**
Surface area of habitats supported to attain a better conservation status**	NA	**	NA**

\* Targets result from 2007-2013 Operational Programmes (OPs); data comes from Member States' Annual Implementation Reports 2013.

\*\* Specific to 2014-2020 framework only; information concerning targets for 2014-2020 will be added after approval of OPs

**Indicator 6:** % of EAFRD payments related to environment and climate

Source: DG AGRI, 2013, target based on Regulation (EU) 1305/2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)

Note: EAFRD within DG AGRI portfolio. DG Environment provides input on policy matters.

Baseline (2012, EU 27)	Target	Current situation
45 %	Maintain the percentage	49,4% (for year 2013- not cumulative)

The 7th EAP sets out a framework to support the achievement of its thematic objectives through better implementation of EU environment law, state of the art science, securing the necessary investments in support of environment policy, and improving the way that environmental concerns and requirements are reflected in other policies.

<sup>59</sup> Internet, social media, other media; viral videos, events.



## Implementation

Throughout the year, DG Environment promoted the timely and correct transposition and implementation of environmental law, including meetings with Member States, handling complaints and conducting investigations. The Commission also presented the third Aarhus Convention Implementation Report<sup>60</sup>, describing the legislative, regulatory and other measures by which the European Union implements the Aarhus Convention. In parallel, DG Environment intensified its work on inspections at national and EU level and to improve access to justice in environmental matters.

Ongoing implementation of INSPIRE contributed to more effective and efficient management of environmental information, including progressive modernisation of environmental reporting, in line with the e-government priority of the Digital Single Market.

## Awareness and knowledge

Awareness raising campaigns and events were carried out on a number of issues. The "Generation Awake!" campaign<sup>61</sup>, aiming at helping Europeans to make more sustainable consumption choices, focused on waste in 2014 and won a Gold Dolphin at the prestigious Cannes Corporate Media & TV Awards, in the category "Environmental issues and concerns". The 2014 Green Week - the EU's largest annual environmental conference – was dedicated to the theme "Circular economy – saving resources, creating jobs". Seventeen companies were nominated for the 2014 European Business Awards for the Environment, a prize awarded to eco-innovation companies that successfully combine innovation, competitiveness and outstanding environmental performance; the five winners included large corporations as well as SMEs.

The Eco-innovation fora held in Hannover and in Lyon attracted participants from private companies, public administrations, NGOs, academia and media, and discussed waste and employment opportunities arising from the transition to a circular economy with a range of experts and practitioners.

The most recent Euro-barometer<sup>62</sup> survey demonstrates the success of these and similar initiatives; three years on from the previous survey, the Euro-barometer shows that, despite the economic crisis, Europeans' concern about the environment has not diminished. In an overwhelming consensus, 95% of the 28000 interviewed citizens said that protecting the environment is important to them personally, and many think more can be done.

## Investment and integration

In 2014, the European Commission approved funding for 225 new projects for the last programming year under the current LIFE+ programme<sup>63</sup>. The projects selected were submitted by beneficiaries from all 28 Member States and cover actions in the fields of nature conservation, climate change, environmental policy and information and communication on environmental issues across the EU. Overall, they represent a total investment of €589.3 million, of which the EU will provide €282.6 million. These projects will make a vital contribution to the

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<sup>60</sup> C(2014)2506

<sup>61</sup> <https://www.facebook.com/GenerationAwake>

<sup>62</sup> See "Attitudes of European citizens towards the environment" (Eurobarometer Ref. 416) at [http://ec.europa.eu/public\\_opinion/archives/ebs/ebs\\_416\\_en.pdf](http://ec.europa.eu/public_opinion/archives/ebs/ebs_416_en.pdf)

<sup>63</sup> Regulation (EC) No 614/2007 of the European Parliament and of the Council concerning the Financial Instrument for the Environment (LIFE+), OJ 2007 L 149, p. 1–17

preservation, conservation and enhancement of Europe's natural capital, and contribute to sustainable growth through investment in a low carbon and resource efficient economy.

Despite the significance of the LIFE+ Nature projects, some Natura 2000 sites are not being effectively managed or protected, largely as a result of lack of capacity<sup>64</sup>. The new LIFE programme addresses this difficulty through new "integrated projects" specifically aimed at long term capacity building, which will integrate other EC and national funds in a larger programme approach. The first call for integrated projects was launched in 2014 and also covered integrated projects for the implementation of River Basin, Air Quality and Waste Management Plans on a large scale.

The inclusion of the Information and Communication component under LIFE+ provided one of the largest contributions to increasing the European added value of the programme<sup>65</sup>. LIFE+ is also helping to direct increasing levels of funding towards projects that capture eco-innovation, for example through improved management approaches and methods.

Under the new LIFE Regulation<sup>66</sup>, the first multiannual work-programme<sup>67</sup> covering the 2014-2017 explains the selection methodology for operating grants for non-governmental organisations and action grants and, as required by the Regulation and responding to previous programme evaluations, the sub-programme for environment defines project topics in order to improve the focus on specific policy needs.

To overcome the shortcomings of LIFE+ regarding indicators, on the basis of the LIFE multiannual work-programme for 2014-2017 and taking into account many years of experience with LIFE projects, 15 key indicator sets as well as the related parameters and impact units were defined for measuring the environmental, climate change, societal and economic impacts of projects on project level in an aggregated manner. These indicators will be tested in 2015 on ongoing LIFE+ projects and are foreseen to be applied to all LIFE projects as of the 2014 Call. The data thus obtained will serve as the basis for the Mid-term Report on the LIFE Programme in 2017.

The first call for proposals under the new LIFE funding programme was also launched. Besides the traditional pilot, demonstration, best practice and information projects, the call under the sub-programme for environment also covered the new integrated, technical assistance, capacity building and preparatory projects. A separate call for operating funds for NGO's was launched by EASME, which is also fully in charge of the call for capacity building projects. As a result, 28 NGOs successfully applied to the European Commission for LIFE operational grants totalling around €9 million.

For the first time, LIFE project funding will also be provided through innovative financial instruments. The LIFE Environment sub-programme contributes to the pilot Natural Capital Financing Facility (NCF), which covers both the promotion of natural biodiversity and climate change adaptation. LIFE funding serves as a guarantee for the support facility and credit based

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<sup>64</sup> Mid-Term Evaluation of the LIFE+ Regulation, Final Report, p.54 (available at <http://ec.europa.eu/environment/life/publications/lifepublications/evaluation/>)

<sup>65</sup> *Ibidem*, p.77 – see also in the LIFE mid-term review, page 97ss., a number of best practices in this area in Slovenia, Denmark, Sweden, Poland and Spain

<sup>66</sup> Regulation (EU) No 1293/2013 of the European Parliament and of the Council on the establishment of a Programme for the Environment and Climate Action (LIFE) and repealing Regulation (EC) No 614/2007, OJ 2013 L 347, p. 185–208

<sup>67</sup> Commission implementing decision on the adoption of the LIFE multiannual work programme for 2014-17, 2014 OJL 116, p.1

project funding provided by the European Investment Bank (EIB) for innovative and demonstrative projects promoting natural capital.

The externalisation of part of the management of LIFE to EASME continued during 2014 whereby EASME will assume responsibility for all delegated tasks by spring of 2015. Under the sub-programme for environment, integrated, technical assistance, and preparatory projects as well as the NCFE will continue to be managed by DG ENV.

Exchange of best practices and capacity building was promoted through projects under the co-delegated part of the European Maritime and Fisheries Fund (EMFF) on environment and a call for proposals was launched in August 2014.

The newly amended Environmental Impact Assessment Directive<sup>68</sup> entered into force, simplifying the rules for assessing the potential effects of projects on the environment. It will offer better protection for the environment while reducing administrative burden, in line with the European Commission's drive for smarter regulation. It will also enhance regulatory certainty where public and private investments are concerned.

Integrating environmental considerations into other policy areas is key to ensuring a comprehensive approach to achieving policy objectives. Over the last years much work has been done to promote this approach, notably through the EU Semester Process. Shifting the taxation burden onto environmentally harmful activities and away from labour is a key component of the integration approach. Environmental taxation was included in Country Specific Recommendations for 13 Member States<sup>69</sup>, three of which also referred to the need to phase out environmentally harmful subsidies.

Integrating environmental considerations also manifests itself through the percentage of EU structural funds (mainly those related to the cohesion and agricultural policies) dedicated to environmentally beneficial projects and activities. Integration and mainstreaming of eco-innovation and circular economy policies into EU funding programmes (Horizon 2020, ESIF<sup>70</sup>, COSME<sup>71</sup>) is another important aspect.

## Conclusion

*There has been a substantial decrease in the number of open infringements since 2008 (481 open cases) due to efforts from the Commission Services to help Member States with implementation and increased engagement with them during the pre-infringement phase. In the last years however the rate of decrease has reduced due to external factors that DG Environment cannot control, in particular the number of complaints. Apart from not being able to reflect the importance and complexity of the pending cases, the number of infringements is only one parameter that needs to be considered in the broader context of other developments in the environment, as reflected in the other indicators throughout this report.*

*The interest in DG Environment's website remains rather stable and confirms the Eurobarometer findings that Europeans are interested in the environment, while the decline in campaign*

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<sup>68</sup> Directive 2014/52/EU of the European Parliament and of the Council amending Directive 2011/92/EU on the assessment of the effects of certain public and private projects on the environment, OJ 2014 L 124, p. 1–18

<sup>69</sup> [http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)

<sup>70</sup> EU Structural and Investment Funds

<sup>71</sup> EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises

audience and viewers of audio-visual products is a direct result of lower investment as the Generation Awake campaign was phasing out and less audio-visual products were made.

Broader implementation of environmental taxes could limit or reduce many environmental pressures, but there has been no shift from labour to environmental taxes. The latter's share of total taxes has slightly shrunk (2012 data), while labour taxes still represent around 50% of total taxation. This trend could reverse if the Member States follow the EU Semester recommendations. The Commission's role is however limited in this field, as taxation remains within the competence of Member States and EU fiscal legislation requires unanimity.

With regards to investment, the structural funds indicators provide examples of how these funds can support specific environmental goals. For the EAFRD, the share dedicated to the environment has increased in 2013 in comparison to 2012, mainly because Member States have made some progress in the implementation of agri-environment projects, which represented half of the EAFRD expenditure spent on climate and environment.

### 1.1.6 ABB 07 02: Specific objective 5

<b>Specific objective 5:</b> to enhance the sustainability of the Union's cities	<input checked="" type="checkbox"/> Spending programme (LIFE)
	<input checked="" type="checkbox"/> Non-spending

<b>Indicator 1:</b> Percentage of eligible cities (of 100,000 or more inhabitants) applying for the European Green Capital Award (EGCA)		
Source: DG Environment 2014, EU28, Norway, Switzerland and Liechtenstein; target set by DG Environment		
Baseline (2013)	Target	Current situation
12 cities applied for EGCA 2016, i.e., 2.2% of eligible cities	Increased number of cities applying for EGCA each year	12 cities applied for EGCA 2017

Twelve cities applied to become the European Green Capital of 2016. The award was won by Ljubljana, the capital of Slovenia, in recognition of its efforts to raise environmental awareness amongst its citizens, its sustainability strategy 'Vision 2025', the implementation of a range of urban green measures over the past decade and its impressive transportation network.

#### Conclusion

The interest of cities to improve their urban environment and to apply for the EGCA has constantly grown. Based on that success, the Green Leaf Award has been created to also allow cities with less than 100.000 inhabitants to share good practices and get recognition for their commitment to better environmental outcomes. The first award is expected to be made in 2015.

### 1.1.7 ABB 07 02: Specific objective 6

<b>Specific objective 6:</b> to increase the Union's effectiveness in addressing international environmental challenges.	<input checked="" type="checkbox"/> Spending programme (LIFE) <input checked="" type="checkbox"/> Non-spending
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<p><b>Indicator 1:</b> Level of progress towards a "greener", resource efficient global economy as <i>inter alia</i> reflected by clear policy commitments at the multilateral level</p> <p>Source: DG Environment 2014; target based on the outcome of the UN RIO+20 conference</p>		
Baseline (2013)	Target	Current situation
Following the Rio+20 outcome document <i>The Future We Want</i> (June 2012), the UN agreed a roadmap towards a post-2015 development agenda that brings together the poverty eradication and sustainable development objectives. A set of Sustainable Development Goals is being elaborated and the High Level Political Forum (HLPF) on sustainable development had its inaugural session.	Successful development of Sustainable Development Goals, part of the overall post-2015 development framework, resulting in a shift towards a more resource efficient economy.	A clear path towards an agreement on a post 2015 framework for poverty eradication and sustainable development has been set out and the main inputs (goals & targets and means of implementation) for the framework have been agreed. The EU has set out its views on the priority themes and is preparing views on the means of implementation. The HLPF had two sessions and is slated to get a central role in the monitoring of post 2015 implementation.

<p><b>Indicator 2:</b> EU participation in Multilateral Environmental Agreements: Number of MEAs the EU is a signatory or a party to</p> <p>Source: DG Environment 2014</p>		
Baseline (2013)	Target	Current situation
EU signatory or party to 48 MEAs On-going accession to CITES (Trade in Wildlife)	The EU joins Conventions to which it is not yet a party (e.g. CITES and Bucharest Convention) and ratifies newly agreed Conventions and Protocols (e.g. Nagoya Protocol, Minamata Convention on Mercury)	The EU ratified the Nagoya Protocol on access to genetic resources and the fair and equitable sharing of benefits arising from their utilisation to the Convention on Biological Diversity in 2014. The CITES accession process is underway and will be completed in early 2015. Preparations to enable ratification of the Minamata Convention on reducing emissions of mercury are underway.

<b>Indicator 3:</b> Progress along pre-accession path for candidate countries and potential candidates (implementation of the Stabilisation and Association Agreements) Source: DG Environment 2014		
Baseline (2012)	Target	Current situation
<p>Enlargement countries are making gradual progress towards transposition and implementation of the EU <i>acquis</i>. However, institutions are generally weak, technical capacity is limited, finance is insufficient and stakeholder involvement is limited. New impetus for enlargement came with decisions of the European Council to open negotiations with Montenegro and Serbia and to negotiate a Stabilisation and Association Agreement with Kosovo. To complement support at national level, the Environment and Climate Regional Accession Network (ECRAN) will assist countries in moving closer to the implementation of EU policy<sup>72</sup>.</p>	<p>Alignment with EU environment legislation by candidate and potential candidate countries</p>	<p>The screening of the EU environment <i>acquis</i> took place with Serbia. While certain progress has been made to align (particularly on transposition), no information and/or plans for implementation were provided. Serbia has been requested to provide this information by March 2015. Montenegro continued to work on the comprehensive national strategy and action plan, which would demonstrate how it is going to align with the EU <i>acquis</i>. Albania was granted candidate status in June 2014 as recognition for its reform efforts. The negotiations for a Stabilisation and Association Agreement with Kosovo were finalised.</p>

<b>Indicator 4:</b> Degree of convergence of European Neighbourhood (EN) countries with EU environment policy and standards Source: DG Environment 2014		
Baseline (2012)	Target	Current situation
<p>Eastern Neighbours: New Association Agreements include challenging commitments to converge with major EU environmental directives. Southern Neighbours: a new generation of EN Policy Action Plans are being negotiated in which the Commission is pushing for implementation of international agreements (in particular the Barcelona Convention) in addition to the <i>acquis</i>. At regional level, the Eastern Partnership (EaP) is tackling environment as a priority area. Under the Union for the Mediterranean a number of capacity building measures are being supported that use the European model as the example to follow.</p>	<p>Progress towards the adoption of EU standards and norms for environmental protection by countries neighbouring the EU and other partner countries.</p>	<p>In May 2015, The EU co-chaired the Union for the Mediterranean Ministerial Conference on Environment and Climate Change held in Athens. The Ministerial Declaration, the first in the Euro-Mediterranean context in almost a decade, establishes a robust political base for further work and progress in the adoption of EU standards. 2014 marked the entry into force of the Association Agreements with Moldova, Georgia and Ukraine which contain a very ambitious environmental chapters requiring approximation with a significant portion of the EU environmental <i>acquis</i>.</p>

<sup>72</sup> ECRAN is financed from a regional IPA (Instrument for Pre-Accession Assistance) programme sub-delegated to DG environment

**Indicator 5:** Number of significant timber exporting countries with which the EU has signed agreements to prevent illegal logging (Voluntary Partnership Agreements) → as a means of reducing trade in timber products related to illegal logging to negligible levels<sup>73</sup>

Source: DG Environment 2014

Baseline (2012)	Target	Current situation
VPAs ratified to date: 5 VPAs negotiations concluded but pending ratification : 1 VPAs under negotiation: 9 Significant timber exporting countries (globally): 20	Increased number of ratified VPAs	VPAs ratified to date: 6 VPAs negotiations concluded but pending ratification : VPAs under negotiation: 9 Significant timber exporting countries (globally): 20

Eradicating poverty and ensuring that prosperity and well-being are sustainable are two of the most pressing challenges facing the world.

The first session of the UN Environment Assembly (UNEA), concluded by agreeing to encourage international action on major environmental issues, demonstrating that countries around the world are facing shared global challenges and are resolved to step up joint action to tackle them together, and echoing the EU's long standing call for a strong global voice on environmental issues.

Further to the 2012 Rio+20 Conference for a transition to a global green economy and the 2013 Commission Communication 'A Decent Life for All'<sup>74</sup>, the Commission adopted a proposal for the EU position in international negotiations on Sustainable Development Goals (SDGs)<sup>75</sup> and has actively contributed to the preparatory negotiations for their adoption in 2015.

The SDGs intend to reinforce the international community's commitment to eradicating poverty and supporting sustainable development, challenges that affect the lives of current and future generations. The Commission's Communication describes key principles and proposes priority areas and potential targets for the years following 2015, as a step towards establishing a limited number of Sustainable Development Goals.

The Commission also participated in the UN High Level Political Forum to contribute toward developing an ambitious post 2015 agenda, and the Joint Council of Ministers of the African, Caribbean and Pacific (ACP) and EU countries agreed on a joint declaration for a global development agenda for the time after 2015, showing that views on a post-2015 agenda are converging and reflecting our partnership in tackling global issues.

The EU contributed to the successful outcome of COP12 of the UN Convention on Biological Diversity, and in particular the agreement reached on dedicated targets for the mobilisation of resources in support of biodiversity by 2020. This reaffirms the political commitment made at COP11 in Hyderabad, by adopting the target to double international biodiversity-related resource flows to developing countries by 2015, and establishes a new domestic resource mobilisation target, in support of the implementation of the Global Strategic Plan for Biodiversity. The EU is fully delivering on these commitments.

<sup>73</sup> Among others, stimulated by the entry into force of the EU Timber Regulation (Regulation (EU) No 995/2010 laying down the obligations of operators who place timber and timber products on the market)

<sup>74</sup> COM(2013)92, Communication "A decent life for all: Ending poverty and giving the world a sustainable future"

<sup>75</sup> COM(2014)335, "Communication "A decent Life for all: from vision to collective action"

The EU also contributed to the successful conclusion of the first Conference of the Parties of the Nagoya Protocol on Access and Benefit-sharing – a landmark treaty that entered into force on 12 October 2014.

The EU contributed as well to tackling illegal logging and associated trade on the global scale through the implementation of the EU Timber Regulation<sup>76</sup>, and on the basis of a Commission proposal the Council decided on the conclusion of the Voluntary Partnership Agreement between the European Union and the Republic of Indonesia on forest law enforcement, governance and trade in timber products to the European Union<sup>77</sup>. This has sent a clear message about the EU engagement to prevent further forest degradation and deforestation in the EU and beyond its borders.

### *Conclusion*

*The EU supports an ambitious global sustainable development agenda through the UN's post 2015 process and by supporting higher levels of environmental protection in countries outside the EU, including through the conclusion of bilateral agreements. It reinforces global environmental governance by supporting UNEP's role as the authoritative voice on environment at global level and by becoming party to, and supporting the work of Multilateral Environmental Agreements. Taken together, the EU gradually increases its effectiveness in addressing international environmental challenges.*

*Respecting the Lisbon Treaty obligations to represent the EU in international negotiations and achieving full EU membership status in relevant environmental organisations and bodies remained a challenge.*

## **1.2 Example of EU-added value and results/impacts of projects or programme financed**

### **A) Nature & Biodiversity projects**

In many countries LIFE projects function as a capacity building tool. The project "INDEMARES" enabled Spain to gain the necessary knowledge and experience to increase by 39 the number of Special Protected Areas for birds and by 10 the number of Sites of Community interest. This raised the percentage of protected sites of Spain's maritime territory from less than 1% to 8% (altogether more than 1.7 million ha) and is a show case for other Member States in the process of declaring such sites. New technologies for surveillance and monitoring of maritime habitats were developed, which led to the creation of spin-off companies producing these technologies and applying them in other EU countries. This would have been impossible without the EU dimension and the close monitoring and regular exchange of views that the LIFE projects require. In contrast to a purely national effort, the project facilitated the integration of actors from different Member States, and the close accompaniment by the Commission services ensured that Union policy remained at the centre of attention. The synergies with policies such as growth and job creation and maintenance are evident in this type of project, which pave the way for innovative companies and help find win-win solutions in sectors closely related with habitat and species protection, like fisheries and tourism.

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<sup>76</sup> Regulation (EU) No 995/2010 laying down the obligations of operators who place timber and timber products on the market

<sup>77</sup> Council Decision 2014/284/EU on the conclusion of the Voluntary Partnership Agreement between the European Union and the Republic of Indonesia



The "Aquatic Warbler and Biomass" project promotes the protection of the Aquatic Warbler for which the regular application of conservation methods in its habitat is crucial. The project introduced a sustainable system for cutting biomass which can subsequently be sold and thus provide funding for conservation measures on Aquatic Warbler sites. The project served therefore to demonstrate that conservation management of this type of habitat can also be economically viable; project partners will be willing to use the devised measures needed for the conservation of the Aquatic Warbler also after the project finishes.

### **B) Environmental project**

The project "European Week for Waste Reduction" implemented several ideas in relation to waste prevention and reduction, developing communication tools and creating a network of public authorities in four Member States (France, Belgium, Spain and Portugal). The project activities included a European Waste Reduction Award which should be an incentive for further innovative ideas. A project such as LIFE European Week for Waste Reduction would not have materialised without LIFE, since it is the only instrument that gives a framework for demonstrative transnational projects in the environmental field for public authorities. The project had an impact on the ground, harmonising approaches in the regions involved and increasing the acceptance and implementation of EU Waste legislation, which is also vital for the sustainable economic development of the Union.

### **C) Information project**

The currently on-going project "Activa Red Natura 2000/Connecting People with Biodiversity" raises awareness regarding Natura 2000 and its advantages for nature enthusiasts, farmers, hunters, and tourism. The project launched the first "Natura 2000 Day" in just one country, and was able to inspire Natura 2000 Day celebrations in 18 more Member States in 2014. Sharing these celebrations increased awareness of EU action and engagement across Member States.

## **1.3 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities**

According to the Financial Regulation<sup>78</sup> (Art. 30), the principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and for the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

DG Environment is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following three initiatives show how these principles are implemented in our DG.

### **Example 1 - Externalisation**

In 2013 the Commission externalised research and funding programmes to Executive Agencies<sup>79</sup>. As of 1 May 2014, a part of DG ENV's programme, LIFE, was delegated to the Executive Agency for Small and Medium-sized Enterprises (EASME). The part of the programme that is delegated to the agency concerns the implementation of action and operating grants under the new legal base. DG Environment will continue to manage the legacy projects from the previous legal bases

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<sup>78</sup> Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union, OJ L 298, 2012, p. 1–96

<sup>79</sup> Commission Decision C(2013)9414

until their completion. It will also, for the moment, manage the new integrated, technical assistance and preparatory projects foreseen under the new LIFE Regulation. A decision on whether to delegate these to EASME will be taken after a 2017 mid-term review.

This allows the Commission to focus on its policy-making role while EASME can focus on programme management and in doing so can also identify synergies between LIFE, Horizon 2020 and the other programmes that it manages, to identify efficiency gains and simplification opportunities.

### **Example 2 – Reduction of Support Staff**

To make the best use of available resources and in order to cope with the staff reductions, the DG reduced the support staff of the directors by one post and redeployed them to other functions. As a consequence hereof, financial and new regular HR reports were further improved to help managers assess financial resources, staffing and mobility needs and the matching of staffing to priorities. These dashboards have been recognised by management as valuable monitoring working tools.

### **Example 3: Financial Instruments**

The objective of using financial instruments is to support revenue-generating or cost-saving projects which promote the conservation, restoration, management and enhancement of natural capital for biodiversity and adaptation benefits, including ecosystem-based solutions to challenges related to land, soil, forestry, agriculture, water and waste. Efficiency derives from the development of an instrument to target a major policy challenge that can be replicated across the EU, ensuring broad geographical coverage. In particular, efficiency derives from 1) the establishment of a pipeline of replicable, bankable natural capital projects, 2) the demonstration to private investors of the attractiveness of natural capital projects for the longer term, in order to develop a sustainable flow of private capital towards those projects and achieve scale, and 3) the leverage of funding from private investors for this pipeline of projects through the use of EU funds.

A delegation agreement was signed with the European Investment Bank (EIB) on 18 December 2014 for the management of a financial instrument - the Natural Capital Financing Facility (NCF). The estimated leverage of the NCF is between 2 and 4-fold thus aiming at achieving greater efficiency of EU funds in reaching biodiversity and climate change adaptation objectives. During the operational phase to follow, the efficiency could further increase, especially if other investors join the facility and if more investments are made through intermediaries and funds.

## 2. MANAGEMENT OF RESOURCES

This section reports on the control results and other relevant elements that support management's assurance on the achievement of the internal control objectives. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

### 2.1 Management of human and financial resources by DG Environment

This section reports on and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. Annex 5 outlines the main risks, together with the control processes aimed at mitigating them and the indicators used to measure the performance of the control systems.

#### FINANCIAL OVERVIEW

The budget of DG Environment is mainly implemented through direct centralised management. The 2014 commitment and payment appropriations amount to EUR 392.4 million and EUR 330.0 million respectively. The table below gives an overview of the budget implementation at 31/12/2014:

*Financial overview DG Environment:*

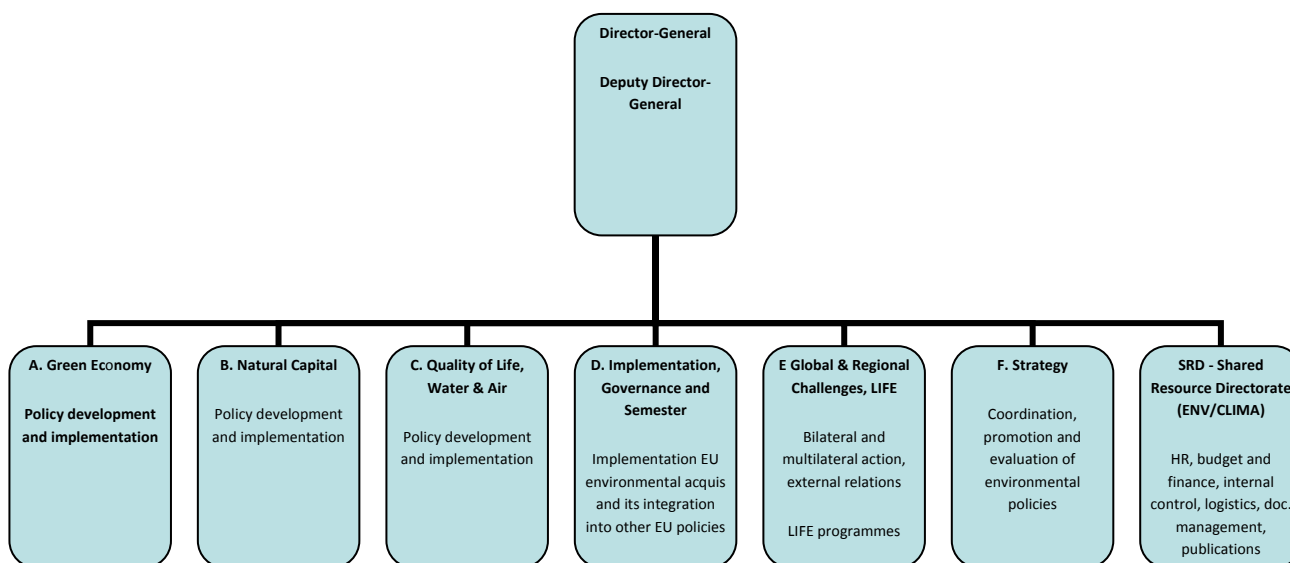
Expenditure € M	Commitment Appropriations 2014	Committed 31/12/2014	Payment Appropriations 2014	Payments authorised in 2014
Administrative expenditure (budget line 07010211)	3.6	3.6	4.4	3.4
LIFE+, LIFE completion, LIFE NGO + other (0702-01, -02, -03, -51)	110.5	107.7	225.3	225.2
LIFE support expenditure (07010401)	14.8	14.5	29.3	15.3
Contributions EEA (070206)	43.2	41.8	43.2	41.8
Contributions ECHA (07020501, 07020502)	8.2	7.8	8.2	7.8
Multilateral Env. Agreements (070204)	3.5	3.1	3.1	3.1
Preparatory Actions & Pilot Projects (07027702-24)	1.8	1.7	6.2	5.9
Co-delegations CIP/EIP + Maritime (020251, 110661)	4.0	3.8	5.5	5.0
Cross-subdelegation CLIMA (340202, 340251)	5.0	5.0	0.0	6.5
Cross-subdelegation DEVCO (21025106)	14.0	14.0	3.9	3.9
Cross-subdelegation ELARG/IPA (22010401,220251)	0.1	0.1	0.8	0.7
Cross-subdelegation ENTR (SMEs) (02030202)	0.0	0.0	0.1	0.1
Sub-Total (before amounts delegated to Agency):	<b>208.7</b>	<b>203.1</b>	<b>330.0</b>	<b>318.7</b>
Delegated to Agency EASME (070201, 070202, 070203)	183.7	183.7	0.0	0.0
<b>TOTAL</b>	<b>392.4</b>	<b>386.8</b>	<b>330.0</b>	<b>318.7</b>

The consumption of commitment and payment appropriations is very satisfactory with implementation rates of 98.6% and 96.6% respectively at year end.

## OPERATIONAL STRUCTURE AND FINANCIAL CIRCUITS

At year-end 2014, DG Environment had 588 staff members including external personnel<sup>80</sup>. The DG is structured around six Directorates, which receive various administrative and financial support services from the Shared Resources Directorate:

High-level organisation chart DG Environment:



As shown in the table below, the major part of the budget (LIFE action grants) is implemented by the DG through a fully decentralised financial circuit. The operating grants to NGOs and the remaining operational budget are implemented through partly decentralised circuits involving the finance Unit of the Shared Resources Directorate (SRD2) and the operational units.

Overview of financial circuits for payments authorised in 2014:

Financial circuit	Expenditure	EUR million
Decentralised	LIFE action grants (€190.4 m) and "LIFE support expenditure" (€15.3 m)	205.7
Partly decentralised	LIFE operating grants to NGOs (€8.6 m, incl. €3.3 m paid under Clima cross sub delegation); Procurement contracts (€28.9 m); Contributions to EEA, ECHA, MEA (€52.7 m); Preparatory actions and pilot projects (€5.9 m); Co- and cross delegations from other DGs (€13.1 m)	109.2
Centralised	Administrative expenditure budget line 07010211 (not including co-delegation to PMO)	3.4
Sub-delegations given to other DGs	Co and cross sub-delegations to DIGIT, EMPL, OP	0.4
<b>Total</b>		<b>318.7</b>

## MANAGEMENT PARTNERS: AGENCIES AND CROSS SUB-DELEGATIONS

– *European Environment Agency (EEA) in Copenhagen:* Regulatory agency as per Article 185 of the Financial Regulation. It provides information and data on key policy areas. It has its own Financial Regulation, is the subject to a specific discharge procedure, and issues its own Annual Activity Report. DG Environment represents the Commission on the EEA Management Board and

<sup>80</sup> Including SRD staff, of which 75% is "attributed" to DG Environment and 25% to DG CLIMA.

is consulted on certain key documents (such as the annual work programme) in accordance with standard arrangements for regulatory agencies and the Regulation establishing the EEA<sup>81</sup>. The Management Board has forty members, including two Commission representatives (ENV, RTD)<sup>82</sup> and one observer (CLIMA). There are annual meetings between DG Environment and the EEA at senior level to ensure coordination of activities. Information on planned calls for tender is exchanged on an annual basis to prevent duplication of actions. In 2014, DG Environment paid EUR 41.8 million in subsidies to the EEA. This amount is fixed by the Budgetary Authority.

– *European Chemicals Agency (ECHA) in Helsinki*: Regulatory agency as per Article 185 of the Financial Regulation. It is the driving force among regulatory authorities in implementing the EU's chemicals legislation for the benefit of human health and the environment as well as for innovation and competitiveness. ECHA helps companies to comply with the legislation, advances the safe use of chemicals, provides information on chemicals and addresses chemicals of concern. In 2014, DG Environment paid EUR 7.8 million in subsidies to the ECHA for registration of biocides and PIC.

– *European Agency for Small and Medium-sized Enterprises in Brussels (EASME)*: In 2013 the Commission delegated or "externalised" research and funding programmes to Executive Agencies<sup>83</sup>. As of 1 May 2014, the process for delegation to EASME of DG ENV's LIFE programme started. The Commission maintains political responsibility for the projects being externalised, while the financial responsibility (operational and financial implementation) is transferred to the Agency. DG Environment will continue to manage the legacy projects from the previous LIFE legal bases until their completion. It will also, for the moment, manage the new integrated, technical assistance and preparatory projects foreseen under the new LIFE Regulation that came into force on 1.1.14. A decision on whether to delegate these to EASME will be taken after a 2017 mid-term review.

In order to ensure close cooperation between the DG and EASME in the transition phase of the LIFE programmes, a memorandum of understanding was signed by both parties. Prior to the signature of the memorandum, the DG carried out an assessment of systems and procedures for internal control and risk management in the Agency, which confirmed their adequacy. Transition to the new arrangements is in progress and proceeding well.

DG Environment supervises the work externalised through regular reporting and ad hoc contacts with the Agency. DG Environment also plays a direct role such as the definition of the annual work programme of the agency, in collaboration with other parent DGs or in the evaluation of some projects. Furthermore, DG Environment and the Agency have established permanent organisation links; the DG participates in the Agency's Steering Committee meetings and Task-Force-Meetings at unit level are held regularly. Furthermore the Agency produces and disseminates quarterly reports as foreseen in the Memorandum of Understanding.

– *Cross sub-delegations*: DG Environment is managing a number of actions under cross sub-delegation agreements with DG DEVCO (ENRTP - Environment and Sustainable Management of Natural Resources including Energy) for EUR 14.0 million, DG CLIMA for EUR 5.0 million, and DG ELARG (IPA - Instrument for Pre-Accession Assistance) for EUR 0.1 million. Reporting on the implementation of these sub-delegations is included in the Annual Activity Reports of the delegating Directorates Generals based on input from DG Environment.

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<sup>81</sup> Council Regulation (EEC) No 1210/90

<sup>82</sup> JRC and ESTAT are substitutes

<sup>83</sup> Commission Decision C(2013)9414

## CONTROL STRATEGY SUPPORTING MANAGEMENT'S ASSESSMENT

The Standing Instructions provide that assessment by management should cover the DG's significant budget areas. Considering that 95% of the payments authorised in 2014 relate to ABB activity 0702, Development and implementation of Union environmental policy and legislation, and 0701, support and management expenditure (see table below), the assessment and the cost benefit analysis concentrate on those expenditures. The control strategies for grants and procurement under ABB activity 0702 are further explained in the Internal Control Templates in Annex 5.

Payments under other ABB activities authorised in 2014 concern co-delegations and cross-subdelegations. Most of this expenditure is implemented through subsidies and grants. The control strategy is the same as for grants made under ABB activity 0702.

*Overview of payments authorised in 2014 per budget line/ABB:*

Expenditure	Grants	Procurement	Total Payments made on 2014	%
Administrative expenditure (07010211)		3.4	3.4	1%
LIFE+, LIFE completion, LIFE NGO + other (0702-01, -02, -03, -51)	196.3	28.9	225.2	71%
LIFE support expenditure (07010401)	0.0	15.3	15.3	5%
Contributions EEA (070206)	41.8	0.0	41.8	13%
Contributions ECHA (07020501, 07020502)	7.8	0.0	7.8	3%
Multilateral Environmental Agreements (070204)	0.0	3.1	3.1	0%
Preparatory Actions & Pilot Projects (07027702-24)	2.0	3.9	5.9	2%
Co-delegations CIP/EIP + Maritime (020251, 110661)	2.6	2.3	5.1	2%
Cross-subdelegation CLIMA (340202, 340251)	3.3	3.3	6.6	2%
Cross-subdelegation DEVCO (21025106)	3.6	0.3	3.9	1%
Cross-subdelegation ELARG/IPA (22010401,220251)	0.1	0.6	0.7	0
Cross-subdelegation ENTR (SMEs) (02030202)	0.1	0.0	0.1	0%
Credits managed by EASME (070201, 070202, 070203)	0.0	0.0	0.0	0%
<b>TOTAL</b>	<b>257.6</b>	<b>61.1</b>	<b>318.7</b>	<b>100%</b>

\* Contributions defined by the Budgetary Authority

### Control effectiveness as regards legality and regularity

Internal control processes of the financial circuits

DG Environment has set up internal control processes aimed at ensuring adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. The control objective is to ensure that the final amount at risk related to payments authorised in 2014 does not exceed 2%.

Specific on-site monitoring of LIFE projects

Concerning the on-site monitoring of LIFE projects, the current monitoring system of time-sheets was launched in 2010 as part of the 2009 reservation action plan. This was due to the fact that incorrect time-sheets were the main source of errors for the LIFE grants. Most on-site visits are performed by external contractors, but a staff member from DG Environment participates in at least one visit during the lifetime of the project. The monitoring visits serve many purposes, one of which is to verify a small sample of timesheets. In order to monitor the overall improvement of

time-sheet recording over time, the results of each visit are systematically recorded in a monitoring database and analysed. For AAR assurance purposes, the results of the analytical review performed by DG Environment at the beginning of 2015 have been compared with the results of the analytical review made in the previous years. For 2014, an analysis made on LIFE Environment files – which is the programme with the higher rate of errors in time-sheets – showed that 63% of the files had time sheets in good order (59% in 2013), 31% needed some improvement (35% in 2013) and 6% were not compliant with EC rules (6% in 2013). There is therefore continuing and substantial improvement.

It should be noted that time-sheet errors detected in monitoring visits would not always have resulted in recommended recoveries during ex-post audits. Nevertheless, considering the large number of projects checked (367 in 2014, 379 in 2013), it gives a reliable indication of the quality of time-recording. Therefore, the declining rate of errors in time-sheets detected by the monitoring team confirms the stable error rate calculated below, and could be a precursor of a declining error rate in subsequent years.

#### **METHOD FOR ESTIMATING THE AMOUNT AT RISK AND THE RESIDUAL ERROR RATE (RER)**

DG Environment's estimation of the amount at risk is mainly based on ex-post audits performed in 2014 (Monetary-Unit Sampling). However, as noted above to obtain additional assurance, the results of ex-post audits have been complemented with an analytical review of on-site monitoring visits of LIFE projects performed in 2013-2014.

The ex-post audit team sampled 29 of the 133 LIFE grants for which final payment was made throughout 2013. 29 grants were audited, which represents audit coverage of about 1/4 of the number of projects closed in 2013 and 47 % of the total value of those grants. The sample is based on a random selection through the MUS methodology. The 2014 detected error rate of 1.45% is therefore a reliable estimate.

Since 2011, the audits are selected on a random basis (MUS), which allows for a comparison over the years as the selection process is consistent since this period. [There is a steady decline in the detected error rate over this period, from 4.88% in 2011, to 2.27% in 2012, 2.32 % in 2013 and 1.45% in 2014.

In addition, given that audits have been selected on a consistent basis since 2011, it is possible to make a first analysis of the causes of errors on the 80 files selected for audit in the years 2011 to 2013. The main cause of errors was inadequate recording of staff costs, which represents 43.41% of all errors. However, in audits conducted in 2011 it constituted 60% of errors, which confirms the improvement of the situation due actions taken since 2011 to give better information to beneficiaries about time sheets and strengthen monitoring of use of time sheets.

In 2015, the ex-post audit team will base their audit sample on the same MUS methodology which will allow the comparison over the years 2011-2015. The improvement in the timesheets noted above is expected to be reflected in the results of the 2015 audits.

#### **ESTIMATION OF THE DETECTED ERROR RATE (DER) AND RESIDUAL ERROR RATE (RER) ON LIFE GRANTS**

In line with the AAR Standing Instructions, the detected error rate (DER) and the residual error rate (RER) have been calculated as follows:

Calculation step	Result	Explanation
A. Detected ex-post error rate LIFE grants	1.45%	Recommended recovery orders (RROs) of EUR 0.63 million as a percentage of the final payments of EUR 43.4 million that constitute the audited sample (out of an auditable population of EUR 93.6 million).
B. Apply DER of 1.45% to total auditable population of EUR 93.6 million	€ 1.36m	Estimate of amount unduly paid in the auditable population.
C. Deduct Recovery Orders (ROs)	€ 0.84m	Recovery orders issued in 2014 related to audits in previous years, which reduce the amount unduly paid in 2014.
D. Net result	€ 0.52m	Net amount unduly paid.
E. Residual error rate (RER)	<b>0.6%</b>	Net result of EUR 0.52 million divided by the auditable

Based on the results above, the residual error rate (**RER**) is **0.6%** which is under the materiality level of 2%. Therefore no reservation is necessary.

#### ESTIMATION OF THE AMOUNT AT RISK FOR ABB ACTIVITY 0702

1. Amount at risk LIFE grants	€ 2.0m	DER of 1.45% multiplied by the total LIFE grant payments authorised in 2014 of EUR 196.27 million minus ROs issued in 2014 of EUR 0.84 million.
2. Add amount at risk related to other payments under ABB Activity 0702	€0.03m	<p>(a) Procurement: LIFE "other expenditure" (EUR 28.9 million), contributions to MEA (EUR 3.1 million) and preparatory actions and pilot projects (EUR 3.9 million). The risk of payment-related errors is considered insignificant (see notes below).</p> <p>(b) Subsidies: Subsidies to EEA (41.8 million) and ECHA (7.8 million). These are low risk transactions and the error rate is estimated to zero.</p> <p>(c) Preparatory actions and pilot projects paid through grants (EUR 2.0 million). The amount at risk has been calculated using the same error rate as for LIFE grants (1.45%).</p> <p>Total Amount at risk: EUR 2.0 million * 1.45 % = EUR 0.05 million.</p>
3. Deduct subsequent events	€0.06m	Events (ROs) that have taken place after the closure of the reporting year as at 31/12/2014, which are entered into the accounting system before signature of the AAR as at 31/03/2015.
4. Final amount at risk for ABB Activity 0702	<b>€1.97m</b>	The final amount at risk for ABB Activity 0702 is EUR 1.97 million, being 0.7% of the total payments of EUR 283.7 million under ABB Activity 0702.



Notes to the calculation table:

1. The amount at risk for LIFE grants is € 2.0 million (DER of 1,45% multiplied by the total LIFE grant payments authorised in 2014 of €196.27 million minus ROs issued in 2014 of € 0.84 million).
2. The risk of payment-related errors for LIFE procurement (€28.9 million) and preparatory actions and pilot projects related to procurement (EUR 3.9 million) is considered immaterial for the following reasons : the risk of errors related to the selection and award process is deemed to be low in the light of the existing control system, in particular the results of the ENVAC advisory committee, and the risk on the payments is also considered very low as there was no rejection of technical reports in 2014, only some redrafting was sometimes required. These arguments are supported by:
  - a. Positive results and comments from the European Court of Auditors' assessment
  - b. A limited number of exceptions registered (only 2)
  - c. None of the procurement procedures has been cancelled or required the issuing of a corrigendum
  - d. All commitments have been set in place within the deadlines, error-free.
3. The risk of contributions to EEA (€41.8 million) is limited to the payments made by the Commission as approved by the budgetary authority and the error rate is estimated to zero.
4. The risk of contributions to ECHA (€7.8 million) is limited to the payments made by the Commission as approved by the budgetary authority and the error rate is estimated to zero.
5. The risk of payment-related errors for preparatory actions and pilot projects paid through grants of €0.03 million is calculated by applying the detected error rate for LIFE grants of 1,45% to the amount actually paid of €2.0 million.
6. The €0.06 million deduction from the amount at risk relates to subsequent events: ROs issued after the closure of the reporting year as at 31 December 2014 but entered into the accounting system before the signature of the AAR as at 31 March 2015.

Based on the above, the final amount at risk in relation to payments authorised in 2014 under ABB activity 0702 is € 1.97 million, which gives an error rate for **ABB Activity 0702 of 0.7%**.

#### KEY CONTROL INDICATORS

The assessment by management is based on the results of key controls performed in 2014, notably ex-ante controls, on-site monitoring of LIFE projects and ex-post audits. The table below shows the most relevant quantitative control indicators for 2014 compared to 2013:

*Key control indicators for 2014 and 2013:*

1. Input indicators (resources devoted)	2014	2013
Ex-ante financial initiation procurement (FTE)	4.5	4.5
Ex-ante financial verification procurement (FTE)	2	2
Ex-post control internal staff (FTE)	4	4
Ex-post control outsourced (amount of the contract, EUR)	258,045	99,000
Ex-ante financial initiation LIFE grants (FTE)	6.1	6.1
Ex-ante financial initiation other grants (FTE)	3	3
Ex-ante financial verification LIFE grants (FTE)	0.4	0.4
Ex-ante financial verification other grants (FTE)	1	1
SIAC (FTE)	3	3
2. Output indicators (controls during project implementation)	2014	2013
LIFE grants ex-ante: rejected/corrected/suspended transactions compared to total numbers of transactions	9.9%	8.5%
Other (incl. Procurement): rejected/corrected/suspended transactions compared to total numbers of transactions	6.5%	9.8%
Procurement: number of procurement files reviewed by ENVAC	21	27
Procurement: number of negative opinions by ENVAC	0	1
Number of exceptions registered (ICS 8)	2	3
LIFE grants: number of ex-post audit reports issued (MUS + Risk-based)	44	40
3. Results of ex-post controls	2014	2013
Ex-post "detected error rate" (on MUS audits)	2.36%	2.3 %
Recovery orders issued / Recommended recovery (1-year time lag <sup>84</sup> )	<i>On 2013 audits: 77%</i>	<i>On 2012 audits: 20%</i>
4. Payment delays	2014	2013
Number of payments exceeding legal deadlines	163/1463=11.1%	178/1421=12.5%

#### Remarks:

– *Ex-ante controls (procurement):* The available control resources remained stable in 2014. The number of rejected/adjusted commitments following the ex-ante verification decreased compared to 2013 and still remains inferior to 10% which is the acceptable target. The assessments performed by the Environment Advisory Committee (ENVAC) are highly important. Although the number of files decreased by nearly 22%, this is from a level that had almost doubled in 2013 compared to 2012. The ENVAC 2014 assessed amount was significantly higher from 2013, amounting to nearly 28% of all procurement. There was no negative opinion in 2014, however, a number of procurement files were adjusted based on ENVAC's recommendations, while proper evaluation and controls contributed to other material adjustments for a number of files concerning both procurement and administrative budget expenditure (conferences, etc).

<sup>84</sup> This indicator shows the value of recovery orders actually issued compared to recommended recovery. Because the issuance of recovery orders may be lengthy, the indicator shows the situation after 12 months. For example, the recommended recovery following the 2013 ex-post audit amounts to € 829,021.95; as of 31/12/2014, these recommendations have resulted in recovery orders of € 636.263,89 (77%).

- *Ex-ante controls (LIFE grants)*: In 2014 the proportion of payments where there was an adjustment following ex-ante verification was 9.9% compared to the total number of verified transactions, increasing from 8,5% in 2013. One explanation of this increase could be the risk based monitoring mechanism that was set in place at the end of 2013. The situation is not alarming as the rate of rejection is still under the target of 10%, however, a re-examination of this mechanism will be done in 2015.
- *Ex-post controls*: In 2014 it was decided to rely more on the corporate framework contract for external auditors. The external contractor performed 75% of the audit engagements which were used to calculate the detected error rate. It should also be noted that the value of recovery orders actually issued compared to the recommended recovery increased compared to the previous year. This can be explained by the introduction of new procedures involving the systematic forecast of revenue and closer cooperation between the ex post audit team and the operational units (including, most notably, a strengthened contradictory procedure).
- *Exception reporting*: The number of reported cases remains low. The analysis of the reported cases does not point to any weaknesses in the internal control system.
- *Payment delays*: For payments, where there is no prior approval of reports, payment delays in DG Environment are generally in line or better than the average for the Commission. However, for payments to be made after the approval of a technical report, delays are above the Commission average. Specific actions have been implemented to improve these delays. In particular, DG Environment has introduced a "Financial Priorities Report" (issued twice every month) that shows each manager a list of open invoices under his/her responsibility, together with an indication of the invoices which are near the payment deadline. In 2014, 11.1% of all DG ENV's payments were paid late in comparison with legal deadlines. This is a significant improvement compared to 2013 (12.5%). The 2014 result would have been even better had there not been a significant number of payments that were suspended as from September 2014 due to the lack of payment appropriations.

### Control efficiency and cost-effectiveness

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

#### Procurement – Cost of Controls

Procurement procedures/launch of calls
Financial operations (ex-ante)
Supervisory checks (ex-post)
<b>Subtotal before allocations</b>
Overhead cost allocation (6.5%)
<b>Overall cost of controls</b>

Cost of controls		
FTE Officials		Total
N	€	€
1	132,000	
5.5	726,000	
1	132,000	-
<b>7.5</b>		<b>990,000</b>
0.49	64,680	64,680
<b>8.99</b>		<b>1,054,680</b>

The number of FTEs associated with exercising controls has been established. The overall cost of controls consists of direct cost and allocated overhead cost obtained from the annual screening

exercise (6.5%). There are no units indirectly involved in the system of controls. The overall cost of controls for procurement is € 1,054,680.

The costs of these controls are matched against benefits that are derived from:

- savings during the ex-ante phase (where the full amount dedicated to a call not having been consumed, the balance becomes available for re-use), and
- the supervisory/ex-post checks performed during the running life of the contract on payments (resulting in a reduction of the amount paid)

Apart from these quantifiable benefits, the control of procurement procedures means that in 2014 the DG has avoided reputational costs and damages, and has not faced any legal action and complaints to the Ombudsman, while the controllers have made every effort to implement the anti-fraud action.

### **Procurement - Direct Management**

	<b>Benefits of controls</b>			
	Prevented	Detected	Corrected	Total
	€	€	€	€
Procurement procedures/launch of calls				-
Financial operations (ex-ante)	2,917,317	1,476,828	7,603	4,401,748
Supervisory checks (ex-post)		1,189,995	3,247,189	4,437,184
<b>Overall cost of controls</b>	<b>2,917,317</b>	<b>2,666,823</b>	<b>3,254,792</b>	<b>8,838,932</b>

The prevented errors relate to funds that have been saved after the conclusion of procurement procedures and have been re-allocated for use in 2014 and early 2015. The detected errors relate to procurement files that led to a re-launch of a call or a new evaluation, and to credit notes issued in favour of DG Environment. The corrected errors relate to non-eligible expenditure corrected prior to payments which led to de-commitments as well as to one off-setting observed in 2014.

### **Grants - Direct Management (Costs of controls)**

In order to estimate the cost of controls regarding grants under direct management by the LIFE units, we have identified all technical staff allocated time, as well as the costs of initiation and verification associated with the exercise of controls. In addition, we have considered the relevant costs in associated with the exercise of controls in the central financial unit. To this breakdown (please refer to the table below), we add the cost of external evaluation when new project proposals are being evaluated and revised, as well as time allocated by the monitoring team.

**Cost of controls**

	FTE Officials		FTE CA		Other (external) inputs		Total	
	n	€	n	€	€	€		
Stages 1 and 2 - Evaluation, selection, contracting	5.5	726,000			500,000	1,226,000		
Stage 3 - Monitoring and execution (fin circuits)	9.85	1,300,200			769,100	2,069,300		
<b>Total ex-ante =</b>	<b>15.35</b>	<b>2,026,200</b>			<b>1,269,100</b>	<b>3,295,300</b>		
Stage 4 - Ex-post controls and recoveries	4	528,000						
<b>Total ex-post</b>	<b>4</b>	<b>528,000</b>			<b>258,040</b>	<b>786,040</b>		
<b>Subtotal before allocations</b>		<b>2,554,200</b>			<b>1,527,140</b>	<b>4,081,340</b>		
Overhead cost allocation (6.5%)		166,023				166,023		
<b>Total costs</b>	<b>19.35</b>	<b>2,720,223</b>			<b>1,527,140</b>	<b>4,247,363</b>		

### Grants - Direct Management (Benefits of controls)

Both cost pools per above are matched against the benefits of controls derived during the revision phase of new project proposals. We have identified an amount of €19 million of project proposals that, if there had not been a rigorous revision phase, would have been allocated to actions that are not eligible. We not only benefit from the saving of money that would have been wrongly allocated but we also reinvest it immediately in actions that are eligible and necessary, which makes the programme more effective. Finally, we have added non-eligible expenditures due to irregularities and recovery orders due to irregularities and recommended from ex-post audits.

	Benefits of controls			
	Prevented	Detected	Corrected	Total
	€	€	€	€
Stages 1 and 2 - Evaluation, selection, contracting			19,000,000	19,000,000
Stage 3 - Monitoring and execution (fin circuits)			6,666,000	6,666,000
<b>Total ex-ante =</b>				<b>25,666,000</b>
Stage 4 - Ex-post controls and recoveries				
<b>Total ex-post</b>		4,053,479		<b>4,053,479</b>
<b>Total benefits =</b>				<b>29,719,479</b>

### **OVERALL CONCLUSION ON THE COSTS AND BENEFITS OF CONTROLS:**

DG Environment quantifies the costs of the resources and inputs required for carrying out the controls described in annex 5 and estimates, in so far as possible, their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls.

Overall, during the reporting year the controls carried out by DG Environment for the

management of the budget appropriations were cost effective, as the estimated quantifiable benefits exceeded the cost by a ratio of 7 to 1.

In addition, there are a number of non-quantifiable benefits resulting from the controls operated during the programming phase control stage, aimed to ensure that the financed projects contributed to the achievement of the policy objectives, and from the deterrent effect of ex-post controls. Furthermore, DG Environment considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk in case they would not be in place.

### **Time to grant**

The "time to grant" is the period between the final deadline to submit a proposal and the signature of the grant agreements. For the LIFE programme, this delay is fixed in the calls for proposal at 12 months. Although slightly longer than the benchmarks defined in the FR, this is justified by the fact that additional time is needed to comply with the specific procedures required in the LIFE Regulation: i.e. revision of the proposals by the national contact points, revision phase by the Commission, Comitology and decision from the College. In 2014, the delay between the deadline for submission and the average date of signature the agreements was 12,176 months.

For the call on Environmental Technology Verification a "time to grant" of 11 months was achieved. This reflects the fact that the bodies selected have to be accredited before signing the grant agreement and in some cases this process has taken time.

On other calls - NGOs, calls for pilot projects and preparatory actions – the delays of 9 months defined in Article 128.2 of the Financial Regulation have been respected. More specifically, for the two other calls launched in 2014, the ECOS standardisation call and the RBAPS call, the grant agreements were signed 4 and 3 months respectively after final date for submission of proposals

### **Fraud prevention and detection**

DG Environment has developed its anti-fraud strategy as foreseen in the Commission's overall anti-fraud strategy<sup>85</sup>. In line with the Commission's new Anti-Fraud Strategy (CAFS)<sup>86</sup>, DG Environment has elaborated a tailored anti-fraud strategy, the implementation of which started in 2013 and has continued in 2014. The Anti-Fraud Strategy is built around the following anti-fraud objectives: (1) ensuring an effective internal organisation for implementing anti-fraud measures; (2) maintaining a high level of ethics and fraud awareness within the DG; (3) strengthening fraud detection in ex-ante and ex-post controls; (4) increasing the use of IT to detect potential fraud; and (5) ensuring an effective fraud-proofing of new legislation.

The following actions have already been implemented:

- Objective 1: A manual of procedures has been issued.
- Objective 2: In coordination with OLAF, specific anti-fraud awareness training sessions were delivered at the end of 2013 and in November 2014. All LIFE project managers, financial initiators, financial correspondents, and ex-post auditors have been trained.
- Objective 3: Following consultation with OLAF, training sessions with LIFE monitors and with the relevant staff in the LIFE and Finance Units were held. As a result, guidance on the most appropriate Red Flags for use in the various funding programmes and procurement actions

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<sup>85</sup> COM(2011) 376 24.06.2011.

<sup>86</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the Court of Auditors on the Commission Anti-Fraud Strategy, COM(2011) 376; Communication to the Commission: Commission internal action plan for the implementations of the Commission Anti-Fraud Strategy, SEC(2011) 787.

were identified. Relevant Red Flags sections are being used in various procurement training modules. The full Red Flags list was also discussed during the November 2014 AFS training. Staff have also been advised of preventive measures and the use of on-line information tools, e.g. to detect plagiarism or false contact details.

DG Environment will review the continued implementation of Objectives 4 and 5 throughout 2015.

This anti-fraud strategy was audited by the Shared Internal Audit Service in 2014. The final report was published on 5 February 2015 with no critical recommendation and one very important recommendation. Those recommendations will be taken on board in the revision of the anti-fraud strategy expected in 2015.

During the reporting year, the DG transmitted 2 cases OLAF for investigation. In addition, during the same period, OLAF has initiated 1 case which concerns the activities of DG Environment based on other sources of information.

## 2.2 Budget implementation tasks entrusted to other services and entities

This section reports on and assesses the elements that give assurance that internal control objectives have been met as regards budget implementation tasks carried out by other Commission services or by entrusted entities distinct from the Commission.

### Cross-sub-delegations

DG Environment has entrusted parts of its budget to other DGs through cross-delegations (DGs MOVE, DIGIT, EMPL). In all these cases, the DG's supervision arrangements are based on a memorandum of understanding with delegated DGs and defined reporting obligations.

*ALL DELEGATED AODS HAVE GIVEN ASSURANCE IN THEIR REPORTS ON THE CORRECT USE OF FUNDS.*

DG	Commitments	Payments
MOVE	-	-
DIGIT	307,523	169,148
EMPL	122,741	73,794
ESTAT	1,300,000	-
JRC	-	-
<b>Total:</b>	<b>1,730,264</b>	<b>242,942</b>

### Executive Agencies

A part of DG ENV's programme, LIFE, was delegated to the Executive Agency for Small and Medium-Sized Enterprises (EASME). DG Environment remains responsible for managing the legacy of the programme whereas the part of the programme that is delegated to the agency concerns the implementation of technical projects and standardised operations. DG Environment will continue to manage the legacy projects from the previous legal bases until their completion. It will also, for the moment, manage the new integrated, technical assistance and preparatory projects foreseen under the new LIFE Regulation. A decision on whether to delegate these to EASME will be taken after a 2017 mid-term review.

In order to ensure close cooperation between the DG and EASME in the transition phase of the LIFE programmes, a memorandum of understanding was signed by both parties. Prior to the

signature of the memorandum, the DG carried out an assessment of systems and procedures for internal control and risk management in the Agency, which confirmed their adequacy. Transition to the new arrangements is in progress and proceeding well.

DG Environment supervises the work externalised through regular reporting and ad hoc contacts with the Agency. Furthermore, DG Environment also plays a direct role such as the definition of the annual work programme of the agency, in collaboration with other parent DGs or in the evaluation of some projects. Furthermore, DG Environment and the Agency have established permanent organisation links; the DG participates in the Agency's Steering Committee meetings and Task-Force-Meetings at unit level are held regularly. Furthermore the Agency produces and disseminates quarterly reports as foreseen in the Memorandum of Understanding.

In its own AAR, EASME has given assurance on the use of the corresponding resources.

A delegation agreement was signed with the European Investment Bank (EIB) on 18 December 2014 for the management of a financial instrument - the Natural Capital Financing Facility – but it did not operate in 2014.

#### **CONCLUSION ON INDIRECT MANAGEMENT**

For the 2014 reporting year, the cross-delegated AODs and Executive Agency have reported reasonable assurance on the delegated budget managed by them on our behalf. They have signalled no serious control issues.

#### **2.3 Assessment of audit results and follow-up of audit recommendations**

This section reports on and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on the declaration of assurance, together with any management measures taken in response to the audit recommendations.

A summary of the audit work by the European Court of Auditors (ECA), the Internal Audit Service (IAS) and the Shared Internal Audit Capacity (SIAC) as set out below. The audits performed in 2014 do not indicate any significant weaknesses in DG Environment's internal control system.

#### **ECA**

- DAS 2013: Following ECA's detailed audit on accounting, all ECA's comments and suggestions regarding the 2013 cut-off were implemented.

#### **IAS**

- There are no specific on-going audits of DG Environment by IAS.

#### **SHARED INTERNAL AUDIT CAPABILITY (SIAC)**

- In 2014 the Shared Internal Audit Capability (SIAC) carried out audit engagements covering the following processes: Information Technology (IT) Governance and Management, Anti-Fraud Strategy and Payments (1<sup>st</sup> and 2<sup>nd</sup> follow-up). Moreover, capitalizing on the knowledge gained in 2013 during audits of LIFE+ grants, the auditors conducted a consulting engagement focused on Optimization of Processes in LIFE+ Programme Management. All audit engagements were conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. The work was done in accordance with the SIAC's multiannual audit planning, which covers DG Environment's management processes, governance and the state of the internal controls. There were no critical recommendations issued by the SIAC.



- The "very important" recommendations stemming from the IT Governance and Management audit related to: weaknesses in budgeting and cost management in the IT unit; lack of implementation of IT Security Plan in the DG; weaknesses in user access rights management. The "very important" recommendations that resulted from Anti-Fraud Strategy audit related to weaknesses in the monitoring and follow-up of (potential) fraud cases and in the application of recoveries and/or penalties related to confirmed fraud.
- Action plans to address these very important recommendations have been requested, prepared and are being implemented.
- As regards the Payments follow-up audit, all recommendations were considered as implemented. The recommendations issued in the previous years, i.e. regarding Ex-ante and Ex-post controls in LIFE+ Grants Management and Internal and External Communication, are being implemented.
- Consequently, the current state-of-play does not lead to assurance-related concerns. The SIAC expressed the opinion that, except for the very important findings stated above, the internal control system in place in DG Environment provided reasonable assurance regarding the achievement of the business objectives set up for the processes audited.

### 3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of internal control standards, based on international good practice, which aim to facilitate the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG Environment has put in place the organisational structure and internal control systems suited to the achievement of its policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

Below is a summary of the actions taken to implement the four Internal Control Standards that were prioritised in 2014, including a conclusion on their effectiveness.

#### **ICS 3 – Staff Allocation and Mobility**

This standard was prioritized in light of the ongoing staff reductions in the Commission which increases the need for effective staff allocation and mobility.

In the last reorganisation of the DG in 2013, Directorate D (responsible for implementation) was restructured and new responsibilities were assigned to it, to improve geographically based expertise and thus ensure more coherence and synergies in the DG's work on cohesion funds, infractions and the semester. The benefits of this were seen in 2014, through deeper integrated knowledge of individual Member States, better identification of obstacles to the implementation of environmental legislation, improved coherence between EU cohesion funding and environment policy goals, and more systematic input of sustainable development into the EU semester process.

A number of further initiatives were developed and implemented in 2014, most notably the following:

- Arrangements have been put in place focusing on the need to redeploy staff away from the LIFE units following the externalisation decision. Several actions were implemented in this area, most notably career interviews with staff who must be redeployed in the next three years, and the offer of training to those who need in this process to develop new skills.
- There is in place an effective process to identify and manage sensitive functions and any related compulsory mobility. An in-depth review was carried out in December 2014. In this review, two functions formerly considered to be sensitive were "desensitized". This reflected the change in responsibilities of the job holders following the externalisation of the management of the LIFE programme. As a result, the residual risk inherent in these two functions was considered to be reduced, so that the functions are no longer held to be sensitive and do not require mandatory mobility.
- New improved regular HR reports were introduced, based on new reporting tools/dashboards, to help managers assess staffing and mobility needs and the matching of staffing to priorities.
- The DG has continued efforts to limit overheads and has very good results compared to

other DGs. The 2014 screening exercise showed the DG as having one of the lowest overhead rates in the Commission.

- The DG has redeployed staff to make the best use of available resources and in order to cope with the staff reductions. Most notably, in 2014 the DG reduced the support staff of the Directors by one post and redeployed them to other functions.
- Effective use of resources also involved keeping the vacancy rate as low as possible. In this respect, the DG was very efficient in selecting and recruiting candidates to fill its allocation of posts for Croatian Nationals in 2014. The DG's vacancy rate was once again consistently lower than the Commission average, with an average of 5.7% for 2014.

The implementation of ICS 3 is considered effective. Nevertheless, given the environment of annual reductions in staffing combined with increasing and heavy workloads, ICS 3 will remain a priority standard in 2015.

### **ICS 11 – Document Management:**

DG Environment is conscious of the need to ensure effective document management systems and has therefore launched a series of actions to improve the knowledge and use of the various document management tools provided by the Secretary General.

Measures taken in 2014 focused on ensuring a higher standard of implementation of existing practices and preparations for future improvements and developments:

Awareness actions and specialised training was given in the course of the year with the following objectives:

#### **ARES**

- Refresher courses and coaching was provided to document managers at unit level to ensure knowledge of latest developments and of best practices;
- Information session and written material was provided to managers remind managers of the benefits of an efficient document management system;
- Hands-on training was available to AD and AST staff to get them to become more proficient users of ARES. Information sessions were organised and open to all on the new 'ARESLook' application for registering email.
- Units received regular reminders in relation to registration and filing of documents.

In total, 70 training sessions have been organised jointly for DGs Environment and Climate Action in 2014 and 452 staff attended the sessions.

#### **PILOT PROJECT E-SIGNATAIRE**

- As a first step to moving towards electronic transmission and signature of documents, two pilots were set-up, one at Directorate level (in the resources Directorate) and one at DG level on a specific application (answers to parliamentary questions).
- A thorough and clear guidance document was written and circulated. Training was provided to all staff concerned.

First results were positive but an evaluation will be conducted in 2015, when the practice will be extended.

#### **IMPROVED ARCHIVING PROCEDURES**

- Additional attention was given to archiving following the introduction of a new electronic archiving system. Guidance was issued to units and is being implemented. In some cases, units' filing systems were inspected and improvements made as a result.

The implementation of ICS 11 in 2014 is considered effective. However, in some domains, more could be improved. ICS 11 will therefore retain management's full attention in 2015 and is therefore carried forward as a priority standard in 2015.

#### **ICS 12 – Information and communication**

The main action to further improve communication in 2014 was the implementation of the audit recommendations issued by SIAC in May 2012 - the recommendations mainly concerned the need to clarify roles and responsibilities and strengthen the strategic planning of communication.

Key actions in 2014 have included the following:

##### **EXTERNAL COMMUNICATION:**

- A horizontal assessment of DG Environment's external communication activities took place during 2014. This assessment included the following:  
a mapping of communication activities, a general public survey, the development of seven in-depth case studies, interviews with a large number of relevant stakeholders as well as additional data collection, which included interviews with the communication team, analysis of horizontal monitoring data, a thorough review of communication strategies, management plans and other documentation, and a media analysis exercise to explore the reach and awareness of specific activities.

The assessment resulted in an analysis of the current approaches to communication within the DG and a set of practical recommendations for creating a more coherent communication strategy for the future.

##### **INTERNAL COMMUNICATION:**

- Continuous efforts to further implement DG Environment's Internal Communication Strategy and related Best Practice guidance.
- Analysis and preparatory work for the migration of the Intranet to MyIntracomm with a view to making it more participatory and focused on clear communication priorities.
- Publication of political achievements and progress reports on DG Environment's Intranet in order to keep colleagues informed.
- Increase of targeted lunch-time conferences that have been well attended by staff throughout 2014
- Debriefings by the Director General to all the staff after relevant European Environment Councils.
- Efforts to improve information to managers on resource management issues. This has included a new "Financial Priorities Report" to alert managers, with great ease, to

upcoming payment deadlines, and also new reporting routines for HR data.

The implementation of ICS 12 in 2014 is considered effective. However, in certain areas, more could be done to improve internal communication. The implementation of the internal audit recommendations (SIAC) on communication will continue and other efforts launched to improve internal and external communication will be consolidated. In addition, the results of the ICS management survey reported requests to update the intranet. Update of guidelines and new procedures is also a priority for 2015. The results of the ICS management survey also suggest that internal and external communication could be further improved. ICS 12 will therefore retain management's full attention in 2015 although it is not carried forward as a priority standard in 2015.

### **ICS 14 – Evaluation of Activities**

DG Environment is continuously monitoring and supporting the evaluation processes in order to ensure that ICS 14 is respected. Evaluations in DG Environment are performed in accordance with the guiding principles of the Commission's evaluation standards. New guidance and more requirements under REFIT call for high quality evaluations of expenditure programmes legislation and other non-spending activities. Therefore, evaluations of expenditure programmes, legislation and other non-spending activities are performed to assess the results, impacts and needs that these activities aim to achieve and satisfy. This is an ongoing process.

Key actions in 2014 have included the following:

- DG Environment has launched nine specific REFIT evaluations in 2014 with a view to identifying burdens, inconsistencies, gaps and ineffective measures in our legislation and policy. REFIT oriented evaluations will continue with new ones to be started in 2015.
- Staff involved in the evaluation process are made aware of the Commission's evaluation guidelines and standards including ICS 14 and encouraged to take part in the evaluation training courses centrally offered by SG
- Indicators to monitor control efficiency and cost-effectiveness have been developed in order to measure the efficiency of the control systems and to ensure the best relationship between resources employed and results achieved.

Given the constant need to further improve and develop solid evaluation processes and tools, ICS 14 is considered partially implemented. It has been carried forward as a priority standard in 2015.

### **THE ANNUAL ASSESSMENT OF THE INTERNAL CONTROL STANDARDS:**

The assessment of the sixteen standards did not identify any significant control weaknesses. While there is scope for improvement in some areas, DG Environment is confident that its internal control system as a whole – covering both financial and non-financial activities – is effective. It has the necessary procedures, staff skills and experience to identify and manage the main operational, financial and legal/regulatory risks.

This conclusion is based on a thorough review of all available information, in particular:

- a) The annual assessment of the **Internal Control Standards**: The assessment of the sixteen standards did not identify any significant control weaknesses but pointed out some areas

where improvements can be made. Concerning "mission and values" (ICS 1-2), good awareness of ethical values has been evidenced in 2014. In addition, a stock-take of the implementation of the Anti-Fraud Strategy (AFS) has been made, AFS training has been completed in 2014, and the AFS' implementation will continue in 2015. As regards "human resources" (ICS 3-4), in particular "staff allocation and mobility" (ICS 3), which was a priority standard in 2014, it should be noted that substantial efforts were made in 2014 to optimise staff allocation and staff development. However, given the environment of constant or reducing staff resources combined with heavy workloads, and the externalisation of part of the LIFE units work, these efforts will have to continue in 2015. Furthermore, increased transparency, and mobility opportunities will continue to be focus areas in 2015. In the domains of "planning and risk management" (ICS 5-6) and "operations and control activities" (ICS 7-11), a few improvements will be necessary in 2015. The most important ones will be around "document management" (ICS 11, a priority standard in 2014), where targeted training to ensure adequate protection of information and document classification has been suggested. Concerning "information and financial reporting" (ICS 12-13), the implementation of the internal audit recommendations on communication will continue in 2015. The focus will remain on both the external and internal communication domains. In addition, various requests to update the intranet have been noted which is also a priority in 2015. Finally, as regards the standards relating to "evaluation and audit" (ICS 14-16), some supplementary actions may be necessary to further raise staff's awareness of the internal control standards and of the new requirements for high quality evaluations of expenditure programmes legislation and other non-spending activities, as well as to ensure the audit recommendations are followed up properly.

- b) The annual declarations by the **Authorising Officers by Sub-delegation**: In this declaration, each AOS confirms that the commitments and payments authorised by them in 2014 are legal and regular and that the corresponding funds have been used for their intended purpose and in accordance with the principle of sound financial management. The AOS declarations do not indicate any significant weaknesses in the control system, but a few AOS raised some concerns of heavy workloads and the impact it could have on the timeliness and coverage of controls (e.g. risk of payment delays and the fact that some open projects are not verified due to constraint control resources).
- c) The reporting of **exceptions and non-compliance events** (ICS 8): The analysis of the two cases reported in 2014 does not show any weaknesses in the internal control system. DG Environment's tracking of exceptions and derogations from existing rules and procedures is aligned with the instructions received from DG BUDG. The objectives are to reinforce the consistent application of the reporting requirements, to adequately assess serious cases and to keep the number of exceptions and derogations at the lowest possible level. Documentation of and adaptation of procedures were updated, where necessary
- d) Information obtained from the **SRD monitoring dashboards**: This tool was implemented in 2012 and has become an effective means of reinforcing senior management supervision (ICS 5 and 9). It is based on a set of control indicators covering, for example, HR, budget implementation, payment delays, recovery orders, implementation of audit recommendations, etc. The monitoring results - which are discussed at senior management level on a regular basis - do not indicate any significant weaknesses in the internal control system.

For payments where there was no prior approval of reports, payment delays in ENV were generally in line or even better than the average of the Commission. Particular efforts have been made to improve those delays. In particular the DG introduced in 2014 a twice monthly "**Financial Priorities Report**" that gives to each manager a listing of open invoices under

his/her responsibility, with indication of those that are nearing the payment deadline. As a result of these and other efforts, the number of payments exceeding the deadlines has decreased as explained in part 2.

- e) The DG's **risk register** (ICS 6): The risk management process has become a mature and well established process in DG Environment. The majority of participants in the management survey on the Internal Control Standards consider that risk management in DG Environment is effective. As a follow-up to the IAS audit on "Risk Management Processes in the Commission", DG Environment transformed the Risk Steering Committee into a permanent body.
- f) The risk review took place in the context of preparations for the 2015 DG Environment Management Plan. Directorates were asked to review their existing risks in the light of mitigation plans put in place and to reflect on any new risks related to actions foreseen for 2015. The review of the Risk Steering Committee's mandate in 2013 proved positive. Following this review a distinction is made between risks falling within the Commission's remit and those where responsibility is shared among many external actors. This distinction has now become a valid evaluation criterion. In 2014, the management of all "critical" and "very important" risks in the DG's risk register progressed according to plan. One cross-cutting critical risk and three very important risks were listed in the DG's register at the end of the year.
- g) **OLAF fraud cases**: The DG has submitted two cases to OLAF in 2014 after ex-post audits were completed.
- h) The **European Ombudsman**: No new financial cases have been notified by the Ombudsman in 2014.
- i) Review of **sensitive functions**: The process in place to identify and manage sensitive functions is effective. An in-depth review was carried out in December 2014. As a result of this review, and the change in responsibilities of the job holders due to the externalisation of the management of the LIFE programme, two formerly sensitive functions were considered to be no longer sensitive and therefore not liable to mandatory. On the other hand, the review proposed as sensitive two new functions, and these have subsequently been flagged as sensitive. The rules have therefore been properly applied and in cases where there are changes in the responsibilities of the functions, or where new functions are identified, the Resources Director will carry out a risk assessment in collaboration with the Directorate/Unit concerned.
- j) **ECA and SIAC** audit reports (no IAS audits)
- k) **Ex-post controls** and on-site **monitoring of LIFE projects**.

In conclusion, the internal control standards are effectively implemented with the exception of internal control standard **14** (evaluation of activities) which is considered partially implemented. **ICS 14** is carried forward as a priority standard in 2015 given the constant need to further improve and develop solid evaluation processes and tools. **ICS 3** will remain a priority standard in 2015 due to the environment of constant or reducing staff resources combined with heavy workloads, and measures and actions to optimize staff allocation and ensure a flexible and dynamic organisation will continue. Although **ICS 11** is considered effective, it is also carried forward to 2015 as a prioritized standard as there is room for improvement in some domains and new guidelines on document management is expected in 2015.

**ICS 12** (information and communication) is considered effective, but it will retain management's full attention throughout 2015. The implementation of the internal audit recommendations (SIAC) on communication will continue and other efforts launched to improve internal and external communication will be consolidated. The results of the ICS management survey also

suggest that internal and external communication could be further improved. In addition, the survey also reported requests to update the intranet have been noted which is also a priority in 2015. Update of guidelines and new procedures is a priority for 2015.

The implementation of the Shared Internal Audit Capability (SIAC) audit recommendations will continue and will remain a high priority. The conclusions of the SIAC does not lead to assurance-related concerns and it expressed the opinion that, except for the very important findings stated above, the internal control system in place in DG Environment provided reasonable assurance regarding the achievement of the business objectives set up for the processes audited.



## 4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

### 4.1 Review of the elements supporting assurance and possible reservations

DG Environment has performed the necessary checks and verifications to ensure that all significant budget areas delegated to the AOD have been covered, and that the information provided is reliable. No significant information has been omitted.

While all checks and verifications contribute to the AOD's assurance, it is to a large extent based on the results of ex-post controls and on-site monitoring of LIFE projects. These results clearly indicate that the measures taken in recent years to decrease the error rate (notably the improved guidance to beneficiaries and the extensive on-site monitoring of LIFE projects) are effective. Thanks to these efforts – which will continue in 2014 and beyond - the likely "amount at risk" in relation to transactions authorised in 2014 is below the materiality threshold of 2%.

Additional assurance is obtained from the mandatory controls of all commitments and payments and from the annual declarations by the Authorising Officers by Sub-delegation, whereby they confirm that that all transactions authorised by them in 2014 are legal and regular and in compliance with the principle of sound financial management. It should be noted that the number of "exceptions" and "non-compliance events" reported in 2014 remains low.

The audit work performed by ECA and SIAC in 2014 did not identify any significant weaknesses in DG Environment's internal control system. SIAC's annual opinion on the state of control in DG Environment provides additional assurance that the internal control system in place is effective. Concerning the true and fair view of the accounting records and reporting, it should be noted that the audits performed by ECA and SIAC in 2014 this field did not identify any significant issues.

In order to ensure close cooperation between the DG and EASME in the transition phase of the LIFE programmes, a memorandum of understanding has been signed by both parties. Prior to the signature of the memorandum, the DG carried out an assessment of systems and procedures for internal control and risk management which confirmed their adequacy. Transition to the new arrangements is in progress and proceeding well. However, the terms of the externalisation decision regarding staff were not generous and mean that the staff situation will be very tight in both the Agency and the DG, particularly from 2016 onwards, which will require further review of the working methods.

Finally, DG Environment has received assurance from the Authorising Officers in EMPL, DIGIT, and MOVE regarding the cross sub-delegations with them. Within this context, it should be noted that the sub-delegated amounts are immaterial.

Considering the points above, no reservation is warranted for 2014. No subsequent events have occurred that would alter this opinion.

## 4.2 Overall conclusions on assurance

<b>ABB 0702</b>	<b>Payments made</b> (2014, €M)	<b>Error rate</b> %	<b>Amount at risk</b> (2014, €M)
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1. LIFE & LIFE completion, LIFE NGOs, other grants	196.3	1.45%	2.85
2. Procurement (LIFE, pilot projects, preparatory actions)	32.8	0%	0
3. Contributions (EEA, ECHA, MEA)	52.7	0%	0
4. Administrative (070102, 070104)	18.8	0.15%	0.03
5. Preparatory actions & pilot projects (grants)	2.0	1.45%	0.03
6. Co-delegations	4.9	0%	0
7. Credits managed by EASME	0	n/a	

<b>Overall:</b>	<b>307.5</b>	<b>0.9%</b>	<b>2.91</b>
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### Total Amount at risk - Average Error Rate (AER):

The total amount at risk compared to the overall budget, calculated as explained in the table above, is €2.91 million compared to a total amount of payments for the whole budget of €307.5 million as per Annex 3, Table 2. The average error rate is 0.9%.

### Average recoveries and corrections:

The average of recoveries and corrections at the time of payment is €6.81 million. This number is calculated by multiplying the average rate of recoveries and corrections (2.4%) with the amount of payments subject to recoveries and corrections (€283.7 million).

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the expenditure authorised during the reporting year is between 0% and 2%, which implies an amount at risk of €1.97 million for the operational lines (0702) and €2.91 million if the total budget managed by DG Environment is accounted for. The residual error rate has been calculated at 0.6%, which remains for 2014 below the 2% materiality error rate. Furthermore, the average error rate for the whole budget managed by DG Environment is 0.9%.

The internal control systems implemented by DG E Environment provide sufficient assurance that risks relating to the legality and regularity of the underlying transactions are adequately managed and also provide sufficient assurance with regard to the achievement of the other internal control objectives.

## DECLARATION OF ASSURANCE

*I, the undersigned, Karl Falkenberg*

*Director-General of DG Environment*

*In my capacity as authorising officer by delegation*

*Declare that the information contained in this report gives a true and fair view<sup>87</sup>.*

*State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.*

*This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.*

*Confirm that I am not aware of anything not reported here which could harm the interests of the institution.*

*Brussels, 27 March 2015*

*SIGNED*

*Karl FALKENBERG*

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<sup>87</sup> *True and fair in this context means a reliable, complete and correct view on the state of affairs in the service*