

# Director's Report on the Execution of the Budget for the Year 2020

The present annual report of the Director to the Ministerial Council (as required under Art 75 of the Treaty<sup>1</sup>) gives an overview of Energy Community spending in 2020. This was a challenging year in many aspects. Yet, it was also a year full of achievements, whose realisation was possible thanks to the funds provided by the Parties to the Energy Community Treaty, i.e. the European Union (94.78%) and the Contracting Parties (5.22%).

Energy Community is thankful also to its traditional donors – Republic of Austria, Republic of Poland and Visegrad Fund for their contribution.

In 2020, the Energy Community and the work of its institutions, apart from their regular activities focused on the energy transition process and harmonisation with the acquis, gained speed considerably with the intensified discussion on decarbonisation and 2030 targets. The Secretariat opened several initiatives to assess viable pathways towards a transition away from coal at the legislative, financial and technical level.

Dr Janez Kopač

A handwritten signature in blue ink, reading "Janez Kopač".

Director  
Energy Community Secretariat

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<sup>1</sup> Article 75 of the Treaty establishing the Energy Community ("the Treaty") and Art 38 of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection ("Budgetary Procedures") stipulate that the Director reports annually on the execution of the budget and activities of the Community to the Ministerial Council.

The presentation follows the applicable Standard 24 of the International Public Sector Accounting Standard (IPSAS) "Presentation of Budget Information in Financial Statements". In accordance with the standard, the comparison of the budget and actual implementation shall be presented, for each heading (budget line) separately, on the basis of both the original and the final budget amounts.

## Key achievements in 2020

- The Secretariat drafted 24 primary laws and secondary legal acts and assessed 135 legal acts, strategies and other similar documents to assist the Contracting Parties in the transposition of the *acquis*;
- It designed several policy documents, including Policy Guidelines on increasing competition and liquidity of wholesale electricity markets and published several studies to guide informed policy-making on a number of pertinent issues such as: direct and indirect coal subsidies, capacity adequacy mechanism, carbon pricing, potential 2030 targets for RES, energy efficiency and CO2 emissions, etc.;
- The Secretariat was deeply engaged in several certification and exemption processes, most well-known are certification of the Ukrainian gas transmission system operator and an exemption opinion for Gastrans in Serbia, representing a continuation of Turkish Stream.
- The Secretariat assisted in the smooth implementation of several reforms across the Contracting Parties. Most notable was the introduction of an electricity market in Ukraine, unbundling of Naftogaz, establishment of a power exchange in Montenegro, beginning of electricity market coupling between Bulgaria and North Macedonia, completion of electricity market opening in North Macedonia, beginning of reporting according to Large Combustion Plants Directive, etc.;
- Through other sources of financing, entrusted by the EU and other donors to the Energy Community energy sector reforms in the Eastern Neighbourhood;
- Guidelines on measurement in gas distribution network, report on DSO gas unbundling and an updated Report on implementation of Network Code on interoperability and data exchange were published in 2020;
- A project dedicated to identify, measure and prevent CH4 emissions from the gas sector has started;
- Secretariat launched the SEEGAS initiative, which aims to coordinate gas market development efforts of the countries of South-Eastern and Eastern Europe towards further integration into the single European gas market;
- The Secretariat continued its market monitoring activities via its Annual Implementation Report and through the independent regional body and institution of the Energy Community – the Energy Community Regulatory Board (ECRB) - and shared best practice experience with other regional regulatory bodies and deepened international cooperation with the Agency for Cooperation of Energy Regulators (ACER), the Council of European Energy Regulators (CEER) and the Association of Mediterranean Energy Regulators (MEDREG);
- The Secretariat assisted in the smooth implementation of several reforms across the Contracting Parties. Most notable was the introduction of an electricity market and improvement of gas retail market functioning in Ukraine, unbundling of Naftogaz, preparation of market opening in Moldova and Georgia, establishment of a power exchange in Montenegro and Albania, beginning of electricity market coupling between Bulgaria and North Macedonia, Kosovo\* and Albania, completion of electricity market opening in North Macedonia, beginning of reporting according to Large Combustion Plants Directive, transposition of the REMIT Regulation etc.;
- The Secretariat helped to boost the Contracting Parties' capacities for effective multi-level climate governance, including support in preparing integrated Energy and Climate Plans. The Secretariat also launched initiatives to ensure just transition addressing energy poverty;
- The Secretariat oversaw the implementation of the energy transition in the Western Balkans and reported on the progress achieved in the WB6 Energy Transition Tracker;

- Energy Community institutions organized more than 250 online meetings in 2020, bringing together thousands of international energy experts from industry, academia and the public sector to discuss energy policy issues of relevance for Contracting Parties (Electricity, Gas, Oil, Sustainability, Competition and Dispute Resolution Fora, Summer School, Regulatory School, Coordination Groups, Task Forces and Working Groups' meetings);
- The Secretariat oversaw the implementation of the *acquis* under the Treaty by Contracting Parties and reported on the progress achieved in the Implementation Report 2020;
- The Secretariat complemented assistance and monitoring by several enforcement actions, including high profile ones such as State aid to new coal power plant projects or restrictions of third-party access to gas interconnectors in the Contracting Parties;
- The Secretariat gave Opinions in several certification procedures, including a gas transmission system operator in Bosnia and Herzegovina and the electricity transmission system operator of Ukraine;
- In 2020, the Secretariat conducted the Project of Energy Community Interest and Project of Mutual Interest selection process and this resulted in a new list for each category, that was adopted by the Ministerial Council, replacing the 2018 lists;
- The Secretariat prepared a Report on Electricity Interconnection Targets in the Energy Community Contracting Parties;
- To guide informed decision-making, the Secretariat designed Policy Guidelines on measurement in the natural gas distribution network, energy efficiency financing mechanisms, renewables self-consumers and small hydropower projects and published studies on carbon pricing design, direct subsidies to coal and lignite electricity production, smart grids, system adequacy and capacity mechanisms and renewable energy sources in the transport sector and an assessment of candidate Projects of Energy Community Interest and Projects for Mutual Interest;
- The Secretariat launched a series of free educational webinars on energy topics. The online lectures offering insights into contemporary energy issues attracted a new audience to the Energy Community and its activities;
- Reaching out to citizens and stakeholders, the Secretariat conducted four public consultations covering hydropower, renewables self-consumers, energy infrastructure and fuel quality. It also launched two new discussion platforms dedicated to gas distribution and district heating and cooling;
- The Secretariat continued to increase the presence of the Energy Community in social media (i.e. Twitter, Facebook, LinkedIn) and served as the focal point for journalists seeking detailed information on the process and energy sector developments in the Parties;
- Recognising that its supporting role does not come without environmental impact, the Secretariat launched the process of introducing the Eco-Management and Audit Scheme (EMAS). The Secretariat expects to obtain the EMAS certification in the course of 2021;

With all these and other efforts, the Secretariat is committed to ensure that the Energy Community budget achieves the best outcomes for contributing to the attainment of the Energy Community's priorities and activities defined in the work programme. Its continuous efforts ensure the implementation of the budget in accordance with the principle of sound financial management.

Budget implementation in 2020 was smooth, effective, efficient and timely. Due to Covid-19 pandemic the Energy Community had saved the budgetary resources in the areas of event management and participant's travels, but at the same time there were some additional investments into the upgrade of the online conference equipment and remote work capacities. The overall results of the audited year-end accounts resulted in an *unqualified auditors' opinion*.

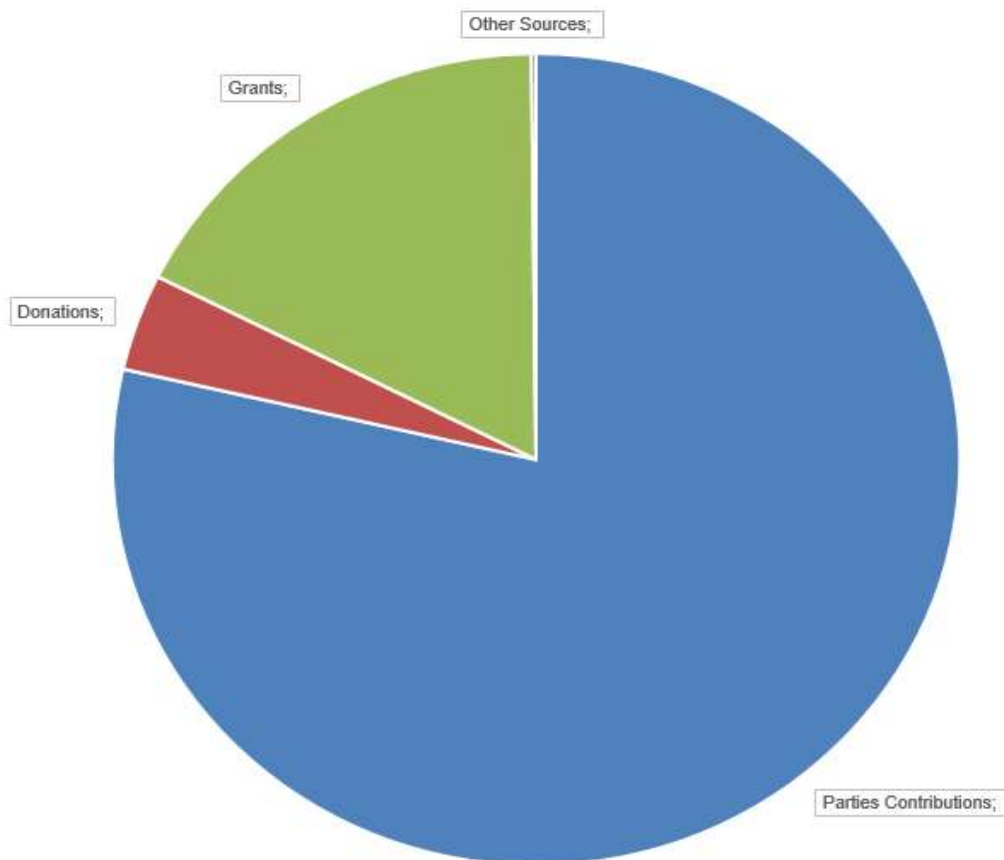
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## 1. 2020 Energy Community regular and extraordinary budget

### 1.1. Available sources

In 2020, the Energy Community revenues and other available sources amounted to EUR 6,123,654.55 and were derived from the Parties' contributions (ordinary budget EUR 4,812,073 - see Annex 2) and other sources (extraordinary budget, EUR 1,301,110.35 and other revenue EUR 10,471.20. Its composition (in %) is presented in a chart below:



*Percentage-split of 2020 available sources of EUR 6,123,654.55*

#### 1.1.1. Parties' contributions

The core financing of the Energy Community comes from the Parties' contributions. Parties shall pay the annual budget contribution until the end of March.

**Table 1:** Payments of contributions and repayments of unused budget appropriations and other income

| Parties                | Contribution in EUR | Contribution in % | Unused Appropriations 2020 | Total repayment amount |
|------------------------|---------------------|-------------------|----------------------------|------------------------|
| European Union         | 4,560,883.00        | 94.78%            | 796,372.85                 | 796,372.85             |
| Republic of Albania    | 4,331.00            | 0.09%             | 756.23                     | 756.23                 |
| Bosnia and Herzegovina | 9,624.00            | 0.20%             | 1,680.44                   | 1,680.44               |
| North Macedonia        | 4,812.00            | 0.10%             | 840.22                     | 840.22                 |
| Moldova                | 4,812.00            | 0.10%             | 840.22                     | 840.22                 |
| Montenegro             | 2,406.00            | 0.05%             | 420.11                     | 420.11                 |
| Republic of Serbia     | 26,948.00           | 0.56%             | 4,705.37                   | 4,705.37               |
| Ukraine                | 189,596.00          | 3.94%             | 33,105.24                  | 33,105.24              |
| Kosovo*                | 3,368.00            | 0.07%             | 588.08                     | 588.08                 |
| Georgia                | 5,293.00            | 0.11%             | 924.21                     | 924.21                 |
| <b>TOTAL</b>           | <b>4,812,073.00</b> | <b>100.00%</b>    | <b>840,232.97</b>          | <b>840,232.97</b>      |

### 1.1.2. Other available sources

Other available sources represent additional funds available to the Energy Community (also called 'extraordinary budget'). In 2020, it comprised donations from the Republic of Austria, Republic of Poland and Visegrad Fund as well as direct grants received from the European Commission and other revenues. Details presenting the purposes for which additional available funds were spent are in the table 4.

#### Donations

A donation from the Republic of Austria occurs every year in a fixed amount 170,000 EUR and its purpose is to contribute to the rent expenditures of the Secretariat's office, the Energy Community's headquarters in Vienna.

In years 2015-2018, the Republic of Poland provided several donations, all together 105,000 EUR for different activities of the Energy Community. Majority of that sum was spent in previous years. In 2020 the Energy Community Secretariat spent 20,490.00 EUR from that donation for the following purposes:

|   |           |
|---|-----------|
| Study on Implementation of Article 7 (Energy Efficiency Directive in Ukraine) | 6,250.00  |
| Legal advice: Advisory Committee member fees                                  | 13,500.00 |
| Interpretation services   | 370.00    |
| Expenses of conferences and seminars  | 370.00    |

**Table 2:** Overview of the expenditures financed by the donation of Republic of Poland

Still remaining funds from that donation will be spent in 2021.

A donation of Visegrad Fund to organize Energy Community Summer school in the amount of 28.000 EUR was received in 2020. Due to Covid-19 pandemic the summer school didn't take place and funds will be spent in 2021.

## Grant Contracts

In 2020, the Energy Community continued the implementation of a project under grant received from the European Commission, based on the contract from June 2016 - EU4ENERGY Governance.

### EU4ENERGY Governance

The EU4ENERGY Governance project is part of the EU4ENERGY Initiative that covers EU's support for evidence-based energy policy-making and energy efficiency in the region of the Eastern Partnership. This initiative brings together the EU, its Member States and the six partner countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Components 1, 2 and 4 of the overall EU4Energy Programme are implemented by the International Energy Agency, whereas Component 3 – EU4Energy Governance "Legislative and Regulatory Environment and Key Energy Infrastructure" was implemented by the Energy Community Secretariat and the Energy Charter Secretariat based on separate direct grant contracts with the European Commission.

The EU's contribution to this project was EUR 6,5 Mio during the four-years period, from 2016 till 2020.

In 2020, the Energy Community managed project-related funds out of which spent EUR 1,041.580,02. The project and its results are subject to separate reporting under the provisions of the grant contract<sup>2</sup>.

### EU4Climate

In 2020 the Secretariat finalized the implementation of the EU4Climate project, financed by a Grant Contract between European Commission and UNDP. The Secretariat was a subcontractor in that technical assistance project. By the end of 2020 the Secretariat received a total amount of EUR 31,000.00 out of which it spent 21.337,50 EUR in 2020. Revenues were spent entirely for outsourced consultants.

### Other

In 2020 other revenue received amounted to EUR 10.471,20. This were mostly reimbursements of VAT for a year before.

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<sup>2</sup> For additional information on EU4ENERGY Governance, please visit <https://www.energy-community.org/regionalinitiatives/EU4Energy.html>.

## 2.2. Expenditures

### Human resources

The budget line human resources cover the resources needed for employment of professionals and experts, assigned also on a temporary basis, to manage the work of the Energy Community. The employment follows the establishment plan approved by the Ministerial Council together with the statement of expenditures.

In 2020, the Energy Community employed on average 45 staff members<sup>3</sup>.

The budget for *Human Resources* in the regular budget amounted to EUR 2.652.868,00 and was used almost in its entirety (95.82%).

### Travel

Resources assigned to the travel budget line are necessary to cover the activities of Secretariat's personnel required to participate to different events related to the implementation of the Treaty. It covers costs of transport as well as refunding of travel expenses to the personnel.

In 2020, the budget for *Travel* amounted to EUR 350.471,20 and due to Covid-19 pandemic was used at a low level (19.77%).

### Office

Under the Treaty, the Energy Community's seat is in Vienna. Since 2006, the organization rents its premises from the Austrian state property owner in charge of management of a number of governmental buildings in Vienna ('BIG'). The premises are suitable for offices and offer substantial conference area for the organization of events. The surface area is in total 1,325.94 m<sup>2</sup>, of which 665.12 m<sup>2</sup> is for office space and 660.82 m<sup>2</sup> for non-office space (including conference facilities).

In 2020, annual rent was EUR 323.996,50, of which EUR 170,000 was covered from a donation of the Republic of Austria.

Under this budget line also other resources are foreseen as required for the operation of the Secretariat in Vienna, i.e. budget for *Office Equipment and IT* (EUR 62,000), *Consumables* (EUR 134,000) and *Other Services*, i.e. telephoning, cleaning etc. (EUR 58.205).

In 2020, the final budget for *Office* of EUR 424.205 was used almost in its entirety (93.05%).

### Other costs and services

This budget line includes expenditure related to outsourced services related to IT, accountancy, legal and financial advice, interpretation etc. It also provides funding for the implementation of technical assistance and consultancy as well as for the organization of Energy Community events.

In the year 2020, the budget funds of EUR 418.595,86 in the budget position *Other costs and services* remained unspent due to the ongoing global pandemic (budget utilization 69,99%).

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<sup>3</sup> Including permanent staff members, interns and locally recruited short term employees



The summary of budget utilization is presented in the table 3:

| (in EUR)   | Final<br>Budget<br>2020 | Actual amounts<br>2020 on a<br>comparable basis<br>incl. Legal<br>Commitments | Actual amounts on<br>a comparable basis<br>incl. Legal<br>Commitments<br>[in %] |
|--|-------------------------|---|---|
| Notes  |                         |   |   |
| <b>ORDINARY BUDGET</b>                           |                         |   |   |
| <b>1. HUMAN RESOURCES</b>                        |                         |   |   |
| <b>Subtotal Human Resources</b>                  | <b>2,652,868.00</b>     | <b>2,541,925.89</b>   | <b>95.82%</b>   |
| <b>2. TRAVEL EXPENSES</b>                        |                         |   |   |
| Daily Subsistence Allowance (DSA)                | 112,000.00              | 28,335.90   | 25.30%  |
| Travel Expenses (flights and incidentals)        | 238,471.20              | 40,943.19   | 17.17%  |
| <b>Subtotal Travel Expenses</b>                  | <b>350,471.20</b>       | <b>69,279.09</b>  | <b>19.77%</b>   |
| <b>3. OFFICE EXPENSES</b>                        |                         |   |   |
| Office rent                                      | 170,000.00              | 153,996.50  | 90.59%  |
| Office equipment                                 | 62,000.00               | 58,054.36   | 93.64%  |
| Consumables                                      | 134,000.00              | 127,366.70  | 95.05%  |
| Other Services                                   | 58,205.00               | 55,284.55   | 94.98%  |
| <b>Subtotal Office Expenses</b>                  | <b>424,205.00</b>       | <b>394,702.11</b>   | <b>93.05%</b>   |
| <b>4. OTHER COSTS AND SERVICES</b>               |                         |   |   |
| Advertising, communication and representation    | 56,500.00               | 20,034.99   | 35.46%  |
| Studies, research and consulting                 | 539,000.00              | 511,269.01  | 94.86%  |
| Costs of outsourced services (IT, payroll, etc.) | 198,000.00              | 186,313.96  | 94.10%  |
| Costs of Audit, Legal and Financial Advice       | 146,000.00              | 118,153.93  | 80.93%  |
| Financial services                               | 22,500.00               | 9,541.33  | 42.41%  |
| Conference costs                                 | 63,200.00               | 11,612.02   | 18.37%  |
| Refunding  | 259,800.00              | 39,923.14   | 15.37%  |
| Training   | 110,000.00              | 79,555.76   | 72.32%  |
| <b>Subtotal Other Costs and Services</b>         | <b>1,395,000.00</b>     | <b>976,404.14</b>   | <b>69.99%</b>   |
| <b>Subtotal Operating Expenses</b>               | <b>2,169,676.20</b>     | <b>1,440,385.34</b>   | <b>66.39%</b>   |
| <b>TOTAL EXPENSES - ORDINARY BUDGET</b>          | <b>4,822,544.20</b>     | <b>3,982,311.23</b>   | <b>82.58%</b>   |

**Table 3:** Summary of regular budget utilization

| (in EUR)                                       | ORDINARY BUDGET     |   |                            | EXTRAORDINARY BUDGET                  |                                      |   |  | Total Ordinary and Extraordinary Expenditures 2020 |
|--|---------------------|---|----------------------------|---------------------------------------|--------------------------------------|---|--|--|
|  | Final Budget 2020   | Actual amounts 2020 incl. Legal Commitments | Budget 2020 Utilization, % | Actual Expenses Donation Austria 2020 | Actual Expenses Donation Poland 2020 | Actual Expenses Grant Contract EU4Energy 2020 | Actual Expenses Grant Contract EU4Climate CC |  |
| <b>1. HUMAN RESOURCES</b>                      |                     |   |                            |                                       |                                      |   |  |  |
| <b>Subtotal Human Resources</b>                | <b>2.652.868,00</b> | <b>2.541.925,89</b>                         | <b>95,82%</b>              |                                       |                                      | <b>430.346,83</b>                             |  | <b>2.972.272,72</b>                                |
| <b>2. TRAVEL EXPENSES</b>                      |                     |   |                            |                                       |                                      |   |  |  |
| Daily Subsistence Allowance (DSA)              | 112.000,00          | 28.335,90                                   | 25,30%                     |                                       |                                      | 7.175,60                                      |  | 35.511,50  |
| Travel Expenses (flights and incidentals)      | 238.471,20          | 40.943,19                                   | 17,17%                     |                                       |                                      | 5.050,50                                      |  | 45.993,69  |
| <b>Subtotal Travel Expenses</b>                | <b>350.471,20</b>   | <b>69.279,09</b>                            | <b>19,77%</b>              |                                       |                                      | <b>12.226,10</b>                              |  | <b>81.505,19</b>                                   |
| <b>3. OFFICE EXPENSES</b>                      |                     |   |                            |                                       |                                      |   |  |  |
| Office rent                                    | 170.000,00          | 153.996,50                                  | 90,59%                     | 170.000,00                            |                                      | 46.961,30                                     |  | 370.957,80   |
| Office equipment                               | 62.000,00           | 58.054,36                                   | 93,64%                     |                                       |                                      | 1.926,69                                      |  | 59.981,05  |
| Consumables                                    | 134.000,00          | 127.366,70                                  | 95,05%                     |                                       |                                      | 13.974,71                                     |  | 141.341,41   |
| Other Services                                 | 58.205,00           | 55.284,55                                   | 94,98%                     |                                       | 370,00                               | 25.304,00                                     |  | 80.958,55  |
| <b>Subtotal Office Expenses</b>                | <b>424.205,00</b>   | <b>394.702,11</b>                           | <b>93,05%</b>              | <b>170.000,00</b>                     | <b>370,00</b>                        | <b>88.166,70</b>                              |  | <b>653.238,81</b>                                  |
| <b>4. OTHER COSTS AND SERVICES</b>             |                     |   |                            |                                       |                                      |   |  |  |
| Advertising, communication, representation     | 56.500,00           | 20.034,99                                   | 35,46%                     |                                       |                                      | 57.056,96                                     |  | 77.091,95  |
| Studies, research and consulting               | 539.000,00          | 511.269,01                                  | 94,86%                     |                                       | 6.250,00                             | 422.494,50                                    | 21.220,50                                    | 961.234,01   |
| Costs of outsourced services (IT, payroll etc) | 198.000,00          | 186.313,96                                  | 94,10%                     |                                       |                                      | 8.595,00                                      |  | 194.908,96   |
| Costs of Audit, Legal and Financial Advice     | 146.000,00          | 118.153,93                                  | 80,93%                     |                                       | 13.500,00                            | 11.119,70                                     |  | 142.773,63   |
| Financial services                             | 22.500,00           | 9.541,33                                    | 42,41%                     |                                       |                                      | 3.300,42                                      | 117,00                                       | 12.958,75  |
| Conference costs                               | 63.200,00           | 11.612,02                                   | 18,37%                     |                                       | 370,00                               | 7.501,34                                      |  | 19.483,36  |
| Refunding                                      | 259.800,00          | 39.923,14                                   | 15,37%                     |                                       |                                      | 2.699,16                                      |  | 42.622,30  |
| Training                                       | 110.000,00          | 79.555,76                                   | 72,32%                     |                                       |                                      |   |  | 79.555,76  |
| <b>Subtotal Other Costs and Services</b>       | <b>1.395.000,00</b> | <b>976.404,14</b>                           | <b>69,99%</b>              |                                       | <b>20.120,00</b>                     | <b>512.767,08</b>                             | <b>21.337,50</b>                             | <b>1.530.628,72</b>                                |
| <b>TOTAL</b>                                   | <b>4.822.544,20</b> | <b>3.982.311,23</b>                         | <b>82,58%</b>              | <b>170.000,00</b>                     | <b>20.490,00</b>                     | <b>1.043.506,71</b>                           | <b>21.337,50</b>                             | <b>5.237.645,44</b>                                |

**Table 4:** Overview of budget expenditures from regular and extraordinary budget

### 3. Activity based budget reporting

The Secretariat is performing three basic activities (A) in line with Art 67 of the Energy Community Treaty:

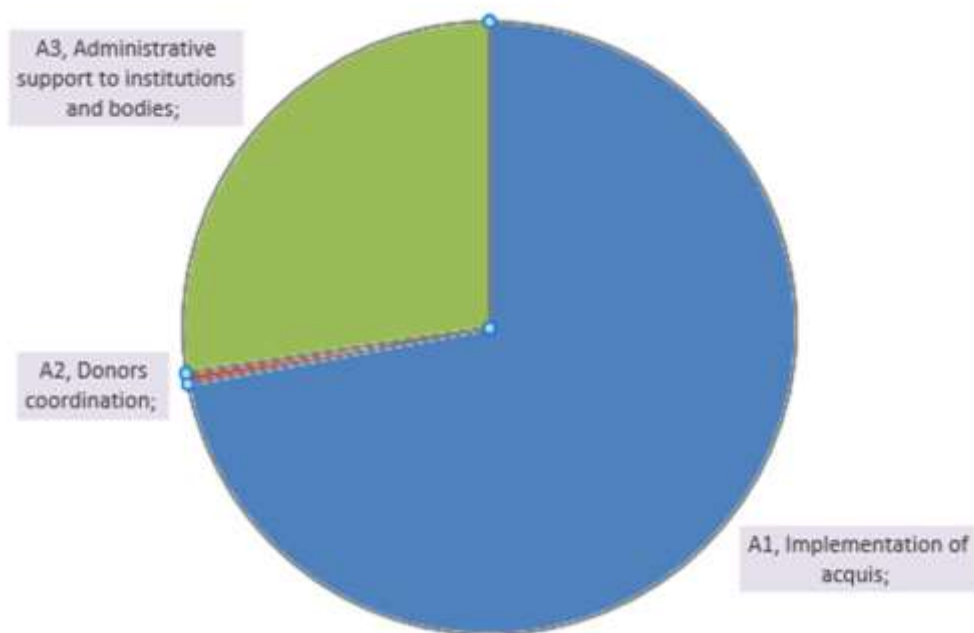
- (a) providing administrative support to institutions and bodies;
- (b) reviewing and assisting in the implementation of acquis in the Contracting Parties,
- (c) assisting in the coordination of the donors' activities in the territories of the Contracting Parties.

In 2019 the Secretariat developed its own methodology of activity based budget reporting which the Budget Committee endorsed. Performance indicators for the year 2020 are:

| INDICATOR OF THE ACTIVITY in 2020                                      |                          | RESOURCES                         |           |
|--|--------------------------|-----------------------------------|-----------|
| Description  | Number / Percentage 2020 | # headcounts assigned to activity | in EUR    |
| # legal acts drafted   | 24                       | 30,5                              | 2.883.034 |
| # infringement cases launched  | 9                        |                                   |           |
| # reviews of national legal acts, national action plans and strategies | 135                      |                                   |           |
| # Guidelines and policy related publications                           | 11                       |                                   |           |
| # of approvals, opinions on certification, opinions to ACER            | 6                        |                                   |           |
| # of donors represented at ECS hosted meetings                         | 18                       | 0,2                               | 27.002    |
| increase (%) in project fiches in the Donors Coordination Platform     | 32%                      |                                   |           |
| # institutions/bodies meetings   | 104                      | 7,3                               | 1.081.587 |
| # participants to workshops and institutional meetings                 | 6.480                    |                                   |           |

|   |        |  |           |
|---|--------|--|-----------|
| % increase in downloads of annual implementation report | 21%    |  |           |
| # of views of NEWS                                      | 9.359  |  |           |
| # twitter followers                                     | 2.895  |  |           |
| # twitter mentions                                      | 1.120  |  |           |
| # of website unique visitors                            | 73.715 |  |           |
|   |        |  | 3.982.311 |

According to that presentation design, the assessment of budget expenditures distribution in 2020 is presented in the following graph:



#### 4. Budget management

Since 2007, the EU and the Contracting Parties to the Treaty establishing the Energy Community have committed to biannual budgets that provide a solid basis for the implementation of the objectives of the Treaty and functioning of the institutions.

The Director of the Secretariat is entrusted with the implementation of the budget in accordance with the principles of Energy Community financial regulation, primarily Procedures for the Establishment and Implementation of Budget, Auditing and Inspection and Budget Committee Internal Rules of Procedure ("Budgetary Procedures").

The budget for 2020 is part of the biennium 2020-2021 approved by the Ministerial Council in 2019.

The biannual financial framework lays down the maximum amounts (ceilings) which the Energy Community may spend in different categories of expenditure (budget lines) each year.

The structure of the budget is defined in Title V of the *Budgetary Procedures*.

The funds are allocated between four major categories of expenditures of the Energy Community, "*budget lines*", composed of "*budget positions*". The headings (budget lines) correspond, therefore, to different types of expenditures, which are:

1. *Human resources* include the resources for the employment of the Energy Community personnel (temporary and permanent) at the seat of its Secretariat in Vienna;
2. The *travel* budget line defines resources required for the travel activities of its personnel;
3. *Office expenditures* include any resources that are necessary for the functioning of the Secretariat as a seat of the Energy Community;
4. *Other costs and services* include resources required for the continuous functioning of the Secretariat (i.e. outsourced services for IT and accounting) and for technical assistance provided to the Contracting Parties as well as management and refunding of events.

The operational expenditures necessary for the functioning of its institutions are laid down in different parts of the budget. For the year 2020, the biannual budget sets a maximum of EUR 4,812,073 for commitment appropriations.

##### Budget implementation

During the year, the budget of the Energy Community may be modified as is often required by the changing conditions during the year of implementation. This is usually done either through transfers or sometimes through amending the budget.

The final budget for a given year is considered as a final one once the financial year has ended and all changes have been approved, either by the Director or by the Budget Committee in line with their respective competences (Art 18 of the Budgetary Procedures).

The following flexibility instruments may result in changes in the annual budget of the financial year:

- Carryover of unused *legal commitments*

Unused commitments are budget contributions which have not been used (paid or invoiced) at the balance sheet date but for which commitments (e.g. by the commissioning of studies) have been entered into in the current year or in prior years. The carryover of legal commitments is presented in Annex 1.

- Transfers of budget appropriations

Transfers between budget items are by definition neutral in their effect on the overall budget. They are decided upon either by the Director, who has to inform the Chair of the Budget Committee, or in agreement with the Budget Committee. In 2020 the Director transferred 6.20% of the total budget. Transfers are presented in Annex 2.

- Amendments to the budget – there were no amendments in 2020.

### Accounting framework

The Energy Community accounts are prepared in accordance with the International Public Sector Accounting Standards (IPSAS), ensuring that the accounts provide relevant, reliable, comparable and understandable financial information to its stakeholders.

### Annual accounts

The accounts provide information on the financial position (statement of financial position) and financial performance (statement of financial performance) with detailed explanations of the respective positions presented (notes to the financial statements). Further, a detailed report on the execution of the Energy Community budget, as required under IPSAS 24, is part of the annual accounts.

Annual accounts comprise two main elements:

- Financial statements that show the Energy Community's assets and liabilities and the revenues and expenditure for that period,
- The budget implementation report showing the ordinary budget, derived from the contributions of the Parties, and the extraordinary budget, established through other sources of revenues received (direct grants, donations, other).

## The budgetary discharge

Every year, the Ministerial Council, after taking account of the potential observations of the Budget Committee, examines the certified accounts and financial statements of the Energy Community and the report of the external auditors, with the view of granting the discharge of the Director from his/her management and administrative responsibility with respect to the budget for the year in question.

The integrated financial package being a basis for the discharge decision comprises the following documents:

- The Director's Report on the budget utilization as required under Article 75 of the Treaty (the present Report);
- Annual accounts produced in accordance with IPSAS; and
- Potential observations of the Budget Committee in relation with the audit as per Article 82 of the Budgetary Procedures.

## Control of the Energy Community budget

The annual accounts are audited by the assigned external audit company, which gives its opinion in a public report (published on the website of the Energy Community) and directly to the Budget Committee of the Energy Community comprising representatives of the Parties to the Treaty.

In April 2021, the designated external audit company (PriceWaterhouseCoopers) finalized the audit of the financial statements of the Energy Community for the year ending 31 December 2020. The audit's scope included the review of the annual accounts of the Energy Community as well as of the internal control systems relevant for the implementation of the budget.

The key statement of the auditors for the relevant period ending 31 December 2020 is the following:

*"In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of the Organization as at 31 December 2020, of the financial performance and of its cash flow for the financial year then ended in accordance with International Public Sector Accounting Standards (IPSAS). The Statement of Comparison of Budget and Actual Amounts for the Year 2020 is prepared, in all material respects, also in accordance with IPSAS."<sup>4</sup>*

As a final outcome, a statement of assurance has been issued by the audit company, which is the sound basis for the proposal for the decision on the discharge of the Director from his management and administrative responsibility for the financial year 2020.

## **Annex 1: Legal Commitments carried forward from 2020 into 2021**

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<sup>4</sup> See Audit Report on the Financial Statements as at 31 December 2020.

| Title  | Service Provider                   | Date of Contract | Prepayment amount, in EUR | Prepayment date | Legal Commitment in EUR |
|--|------------------------------------|------------------|---------------------------|-----------------|-------------------------|
| <b>Studies, research and consulting</b>  |                                    |                  |                           |                 |                         |
| Study on the Potential for Implementation of Hydrogen Technologies and its Utilization in the Energy Community | Economic Consulting Associates Ltd | 29.09.2020       | 12.489,00                 | 19.11.2020      | 112.401,00              |
| Study on assessing energy poverty in the Energy Community Contracting Parties                                  | EIHP and SSDD (consortium)         | 10.11.2020       | 14.180,00                 | 18.12.2020      | 127.620,00              |
| Technical Assistance to conduct a Survey of energy consumption of households in Serbia                         | EIHP                               | 23.12.2020       | 0,00                      | n/a             | 129.648,00              |
| Technical Assistance for the Connection Network Codes implementation in the Energy Community                   | EKC                                | 18.12.2020       | 0,00                      | n/a             | 80.700,00               |
| Employees' trainings   |                                    |                  |                           |                 | 15.649,01               |
| <b>TOTAL:</b>  |                                    |                  |                           |                 | <b>466.018,01</b>       |



## Annex 2: Comparison of original budget as adopted by the Ministerial Council and the final budget after budget transfers decided by the Director

| (in EUR)   | Original Budget 2020 | Changes due to other Sources of Revenue | Budget Transfers 2020 | Final Budget 2020   |
|--|----------------------|---|-----------------------|---------------------|
| Notes  |                      | 13                                      |                       |                     |
| <b>ORDINARY BUDGET</b>                           |                      |   |                       |                     |
| <b>1. HUMAN RESOURCES</b>                        |                      |   |                       |                     |
| <b>Subtotal Human Resources</b>                  | <b>2.652.868,00</b>  | <b>0,00</b>                             |                       | <b>2.652.868,00</b> |
| <b>2. TRAVEL EXPENSES</b>                        |                      |   |                       |                     |
| Daily Subsistence Allowance (DSA)                | 112.000,00           | 0,00                                    | 0,00                  | 112.000,00          |
| Travel Expenses (flights and incidentals)        | 228.000,00           | 10.471,20                               | 0,00                  | 238.471,20          |
| <b>Subtotal Travel Expenses</b>                  | <b>340.000,00</b>    | <b>10.471,20</b>                        | <b>0,00</b>           | <b>350.471,20</b>   |
| <b>3. OFFICE EXPENSES</b>                        |                      |   |                       |                     |
| Office rent                                      | 170.000,00           | 0,00                                    | 0,00                  | 170.000,00          |
| Office equipment                                 | 50.000,00            | 0,00                                    | 12.000,00             | 62.000,00           |
| Consumables                                      | 141.000,00           | 0,00                                    | -7.000,00             | 134.000,00          |
| Other Services                                   | 63.205,00            | 0,00                                    | -5.000,00             | 58.205,00           |
| <b>Subtotal Office Expenses</b>                  | <b>424.205,00</b>    | <b>0,00</b>                             | <b>0,00</b>           | <b>424.205,00</b>   |
| <b>4. OTHER COSTS AND SERVICES</b>               |                      |   |                       |                     |
| Advertising, communication and representation    | 56.500,00            | 0,00                                    | 0,00                  | 56.500,00           |
| Studies, research and consulting                 | 459.000,00           | 0,00                                    | 80.000,00             | 539.000,00          |
| Costs of outsourced services (IT, payroll, etc.) | 145.000,00           | 0,00                                    | 53.000,00             | 198.000,00          |
| Costs of Audit, Legal and Financial Advice       | 96.000,00            | 0,00                                    | 50.000,00             | 146.000,00          |
| Financial services                               | 22.500,00            | 0,00                                    | 0,00                  | 22.500,00           |
| Conference costs                                 | 133.200,00           | 0,00                                    | -70.000,00            | 63.200,00           |
| Refunding  | 372.800,00           | 0,00                                    | -113.000,00           | 259.800,00          |
| Training   | 110.000,00           | 0,00                                    | 0,00                  | 110.000,00          |
| <b>Subtotal Other Costs and Services</b>         | <b>1.395.000,00</b>  | <b>0,00</b>                             | <b>0,00</b>           | <b>1.395.000,00</b> |
| <b>Subtotal Operating Expenses</b>               | <b>2.159.205,00</b>  | <b>10.471,20</b>                        | <b>0,00</b>           | <b>2.169.676,20</b> |
| <b>TOTAL EXPENSES - ORDINARY BUDGET</b>          | <b>4.812.073,00</b>  | <b>10.471,20</b>                        | <b>0,00</b>           | <b>4.822.544,20</b> |