

Institute for European Environmental Policy, London
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Company No. 2458951

Charity No. 802956

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER 2013

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Trustees' Report for the year ended 31 December 2013

The Institute for European Environmental Policy, London (trading as the Institute for European Environmental Policy or IEEP) is a charity and a registered not-for-profit company limited by guarantee and, as such, is governed by its Memorandum of Association and Articles of Association. Directors, who are also the charitable Trustees, present their annual report together with the audited financial statements for the year ended 31 December 2013, which have been prepared in accordance with current statutory requirements, the Memorandum and Articles of Association and the Charity Statement of Recommended Practice issued in 2005.

Objects and Policies of the Charity

The Institute is a leading centre for the analysis and development of environmental and related policies in Europe. The objects are to advance the education of the public in the protection of the environment in the continent of Europe and in all forms of national and international policy relating thereto, and to carry out research and enquiry into all aspects of the environment and environmental policy.

These objects are achieved by all appropriate means, including research, the provision of advisory services and preparation of commissioned reports, the organisation of conferences and training courses, and the publication of manuals and other books, reports, articles and newsletters, utilising both digital and paper media. Offices are maintained in London and Brussels, and there is also a full time staff member in Finland. The Institute has associate colleagues and functional links with similar institutions across Europe.

Aims and Activities

The Institute's aims are both educational and to contribute to a better environment through improved policy interventions, particularly within the European Union (EU). These two goals are pursued mainly through projects which address many different aspects of European policy-making and implementation. We look for practical and robust solutions in a complex legislative environment based on our knowledge of European and related national policies, developed over more than thirty years.

Policies developed at the EU level have widespread influence on decision making and outcomes on the ground throughout Europe. However, they are often formulated in terms which are bureaucratic and opaque to the non-specialist and this can be a major barrier to understanding and to participation in the policy making process. There is an enduring role for independent and well informed organisations to explain and interpret both the policy making process and the policy measures themselves to improve their transparency and accessibility to the non-specialist citizen and voluntary organisations. This is an important strand in the Institute's work. It is pursued through the preparation of policy papers, briefings, newsletters, a general and more specialist public website, presentations to conferences and university students, published reports and other means. We seek to broaden the understanding of European and related policies affecting the environment and improve access to decisions which set standards and goals at a European and sometimes global level.

A second major strand of our work is the analysis of policy development, design and implementation. We aim to cover not only 'traditional' environmental policies, such as pollution control, climate change, waste management, the regulation of chemicals and nature conservation, but also many of the sectors with the greatest environmental impacts, such as transport, agriculture, fisheries and

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regional policy. Our objective is to contribute to the deployment of effective, appropriate and relevant policies, in particular at the European and national levels.

Many of the most important environmental issues, such as climate change, nature conservation and excessive natural resource use, cannot effectively be tackled by national policy alone. A more concerted European effort is required, generally involving the formulation and practical application of appropriate measures addressing the variety of conditions within the continent. Work by the Institute considers inter alia:

- Which are the most important and pressing concerns for the environment;
- The extent to which European policy is confronting the issues of the day in appropriate ways;
- How effective existing measures have been in addressing the issues they were designed to tackle – taking account of the highly variable conditions to be found within Europe;
- Improvements in policy that are necessary or desirable; and
- Where policy needs to develop in the future.

By engaging actively with decision makers and the wider policy and stakeholder community we aim to present information, analysis and arguments that will lead to better policy and a more sustainable Europe, increasingly attuned to environmental concerns. The right policy commitments in Europe are essential, not only to meet challenges in this continent but also those arising in the quest for a more sustainable planet.

Review of the Year

Objectives and priorities for 2013

As in previous years our primary goalswere to undertake analysis designed to improve policies affecting the environment, advance understanding of relevant EU policy and facilitate the engagement of civil society in the policy debate. Work on a wide range of specific issues of topical importance was balanced by an active engagement with the development of several policies in Europe of strategic environmental significance.

Our overall aim in 2013 was to make further progress in delivering the various objectives in our 2009-14 plan. We focussed in particular on a set of key policy decisions in Europe with long-term implications for the environment. These concerned the next strategic Environmental Action Programme for the EU stretching ahead to 2020, the next EU budget for 2014 – 2020 and the Common Agricultural Policy, as well as more specific policy developments related to biodiversity, water, climate and energy. Our thematic priorities elaborated below reflected this. Linked to this was a commitment to strengthen external communication.

Our specific objectives for 2013 were:

Cross-cutting Thematic Priorities

Two of these broadly continued from 2012, whilst two others reflected the changing political priorities and opportunities as well as our own capacity and funding. Our objectives were to contribute:

- To continued momentum in the European environmental agenda, with coherent forward looking policies, including appropriate regulation, being sustained in the face of economic and competitiveness concerns.

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- To agreement on a stronger environmental component in the 2014-2020 EU Budget and the main sectorial policies associated with it, particularly in relation to climate and biodiversity mainstreaming.
- To the European debate on practical measures to create a green economy with a stronger emphasis on resource efficiency, and an adequate biodiversity component.
- To the more effective implementation of existing EU policies, notably environmental legislation, whether by existing approaches and mechanisms or new ones.

More Specific Policy Priorities

We aimed to engage in a considerable range of individual policies in particular areas, some relatively new to us, others where we have an established presence. The five areas where we hoped to play a constructive role in the policy debate were

- The process of agreement on a substantive and fit for purpose 7th Environmental Action Programme.
- Progress towards agreement on a new Directive on biofuels and indirect land use change which meets key environmental concerns within the context of a more climate efficient bioenergy policy.
- The effort to secure a range of genuinely effective greening measures within both pillars of the CAP.
- Translating the principles of "TEEB" and "No Net Loss of Biodiversity" into more effective measures on the ground.
- Helping to shape a new European debate on marine litter.

Achievements and performance 2013

In another busy year the Institute worked on more than seventy projects of different sizes, involving policy research, analysis, communication and education. Most led to the preparation of written reports. Our wider contributions to public policy were built on this foundation, together with the accompanying analysis of European and national policies and the associated interactions with stakeholders and experts that took place in all programmes during the year. Our projects covered topics over a considerable range including agricultural and rural policy, water pollution, biofuels, mitigating climate change, marine litter, the green economy, environmental taxation, and the protection of biodiversity. We engaged actively with policy makers, a range of stakeholders and the wider public through our regularly updated websites, the publication of a range of papers, reports and books, the circulation of briefings, participating in high level events, organising seminars and conferences, engaging in capacity building and training. We have also increased our activity on Twitter.

Amongst our principal policy achievements of the year were:

- Making a major contribution to establishing a new regime strengthening the extent to which environmental, climate and biodiversity considerations are taken into account within the EU budget for the period 2014-2020 with accompanying changes to the rules of individual funds.
- Becoming a recognised voice and source of expertise in debates related to policies on biofuels, including those relating to indirect land use change (ILUC) resulting from biofuel use, and the potential for using wastes and residues for the creation of biofuels. Throughout the year we

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worked with NGOs, decision makers and government officials, influencing the views of some key stakeholders and gaining a growing reputation for providing well considered and evidence-based opinion on this subject.

- Continuing to play a prominent role in the contentious debate about the greening of the Common Agricultural Policy (CAP), arguing for the best possible outcomes from the agreed reforms of the CAP from an environmental perspective, and providing advice and support to those who share this aim.

Outlined below are some of our most notable projects and initiatives during the year.

a.) The EU budget and the environment

In February, after extended negotiations, agreement was reached on the EU Budget for 2014-20. This will guide all EU expenditure for the next seven years, and is therefore crucial in supporting the implementation of EU policies, including those in the environmental policy sphere. We were pleased that this agreement included the principle that 20 per cent of EU expenditure from 2014 onwards should be devoted to climate action. This is a significant step forward and we have made a substantive contribution to its attainment over a period of several years. Following the broad overall agreement, we issued a policy brief which argued for the final negotiations on individual EU funds within the Budget to support certain pressing environmental objectives, in particular those related to climate change and biodiversity. We worked throughout the year on several projects to support this goal.

A particular focus of our work during 2013 was to maximise the chances that the formal commitment for 20 per cent of EU expenditure to support climate change action will be met in practice, with adequate mechanisms in place to undertake the necessary tracking and monitoring of expenditure. This included research into developing a common and clear methodology to ensure that the tracking process is delivered on a sustained basis. The outcomes of our analysis and proposals were disseminated to key players in the debate, including the European Commission, national managing authorities, financiers/funders, industry and NGOs. We maintained contact with these groups throughout the year, via various meetings and workshops, helping to ensure that this issue remained at the forefront of ongoing discussions. This work helped to shape the policy agenda with regard to the development of innovative EU financing for climate action as well as within the climate-related element of the EU's LIFE funding programme (the only EU fund solely dedicated to supporting environmental projects). The outcomes of our work in helping to establish this new flank in climate policy should be influential in the years to come.

b.) Better use of natural resources

There is a growing awareness that the EU and other developed countries are living beyond their means in terms of resource consumption, and contributing to environmental degradation in the process. During the year we undertook several projects aiming to get a better grip on this problem, referring to a considerable range of natural resources including minerals, waste, energy, biodiversity conservation and water.

Indeed better resource management is a theme running all through this report; many projects and initiatives during the year were linked inextricably to the resource use agenda. Amongst them was our contribution to a major multinational research project on economic growth, environmental impacts and the development of innovative policy instruments for financing resource efficiency, known as "DYNAMIX"

A key focus in this project is investigating how public policies, and mixes of policies, can contribute to achieving "decoupling" or breaking the link between economic growth and the level of natural resource use and its subsequent environmental impacts. Our input during 2013 focussed on reviewing existing policy mixes in the areas of fish, metals and land use, to analyse their achievements and

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extract lessons for the development of a future policy matrix which is more effective in increasing the sustainability of consumption. DYNAMIX places considerable importance on engaging with policy actors to disseminate the lessons learned and our work therefore has included ongoing contact with national governments, the European Commission, industry, parliamentarians, NGOs and academics.

As with many environmental objectives, steps towards greater resource efficiency require both research and other investment; financing mechanisms have an important role to play in mobilising the necessary resources. Recognising this, during the year we worked on a study for the European Commission's Environment DG to assess barriers to greater resource efficiency in Europe and identify EU financial instruments and grants that can be used in more innovative ways to help to lift some of the barriers to investment and attract private sector capital to resource efficiency-related activities. These funding mechanisms, which include the new EU research programme Horizon 2020 and the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) programme, were explored in some detail and discussed with a range of experts. Options were proposed to modify or complement existing financial instruments and technical assistance under the 2014-20 EU Budget to help overcome barriers and leverage finance to resource efficiency activities. The results of the study also fed into some of the most prominent policy development circles, such as discussions under the European Resource Efficiency Platform and the Finance Roundtable, so that the results have a practical use and a tangible influence.

c.) Greening the economy

Much has been made during the past year of 'greening the economy' both in the EU and globally. The United Nations Environment Programme (UNEP) defines a green economy as one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. Developing a green economy is a complex process, requiring many individual measures to be taken, including making economic and product processes more 'circular', developing 'accounts' of natural capital, addressing subsidies that have harmful environmental impacts, and implementing effective environmental taxation. During 2013, we worked on projects related to all of these areas.

Until recent times, economies and most production chains can be viewed as developing along a 'linear' approach, with the extraction of resources, creation of products and then the final disposal of those products at the end of their useful life. Public policy makers, and also businesses that create products, are increasingly realising that this is an inefficient and unsustainable way of working, and steps are now being taken towards envisioning and developing more efficient 'circular' economies. Circular economies set out to be restorative, managing resources as efficiently as possible, using renewable energy where possible, hugely reducing the use of toxic chemicals, minimising waste through careful product design, and recycling materials from old products to make new ones. The second half of 2013 saw us commence work on a study for the European Commission's Environment DG on ways forward to build a circular economy, examining, priority sectors actions, material flows and value chains. In due course, the results of this work should help to guide the initiation of new policy instruments or approaches at EU level to support progress towards a circular economy.

Another aspect of policy to foster a greener economy is the use of natural capital accounts. Such accounts enable the total stocks and flows of natural resources and services in a given ecosystem or region to be calculated, either in physical or monetary terms. Such accounts can then inform governmental, corporate and consumer decision making on natural resource and land use, with the aim of encouraging more sustainable behaviour. During the year we worked on several projects on this topic. One study, for the European Environment Agency (EEA), looked at how ecosystem capital

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accounts can be used in policy making. This fed into the large scale Mapping and Assessment of Ecosystems and the Services in Europe (MAES) process, by helping to develop guidance on how countries can map and assess the state of ecosystems and their services in their national territories. This is one of the objectives of the EU's Biodiversity Strategy to 2020. Another project, also for the EEA, looked at how to account for indirect flows that are embedded in trade and so more difficult to measure.

We undertook work for the Flemish Government on identifying environmentally harmful subsidies in the Flanders region of Belgium, with a specific focus on subsidies related to urban sprawl. This looked at potentially influential subsidies to public transport, property taxation, green certificates for the burning of biomass and certificates for the generation of combined heat and power. We developed guidance and a flowchart for subsidy reform, to help the Flemish Government to develop inventories of subsidies and a reform roadmap.

For the Swiss Government, we completed a study on environmental tax reform and how it is being taken forward in a number of case study countries. This was well received by the national authorities as a useful input to their deliberations on reforming existing carbon and energy taxes to support the phase-out of nuclear energy in the country.

d.) Agriculture and Land Management

Negotiations on reform of the CAP are invariably lengthy and the Institute has been engaged in the preparations for the recent 2013 reform for several years. The debate and decision making process entered a final and highly political phase during the year. In January 2013 several controversial issues were still unresolved. As a recognised and respected voice in the debate on greening the CAP, we continued to contribute measured and sometimes influential input to this debate, including a considerable number of presentations at events in different parts of Europe. The findings were disseminated to decision makers in the EU institutions at an important juncture in the negotiations. Political agreement on the CAP package was reached in June.

In environmental terms the proposed "Greening" of the main support system for farmers (Pillar One of the CAP) was the most significant and controversial element of the reform. It included the introduction of "Environmentally Sensitive Areas" (ESAs), a concept which the institute played an important part in developing in research work nearly a decade ago. Much of our work during the first half of the year related to the greening proposals, especially trying to demonstrate how they could be designed and implemented in ways that produced real environmental returns while minimising administrative costs. Unfortunately, support for this approach was insufficient in many European governments and the focus in the European Parliament was more on protecting the interests of producers than safeguarding the environment. Against this background we prepared reports on different approaches, including the possible use of greener certification schemes for farms and engaged actively with EU and national policy makers.

Reflecting on several years of work on the "greening" of the CAP we accept that this is a long term project, with several major barriers to overcome. In some areas progress has been made. For example, the principle of paying any agricultural subsidies only or predominately for the supply of "public goods" is now well entrenched in the rationale for the CAP, with our work widely referenced as a cornerstone of this advance. The decision to devote 30 per cent of the CAP budget to the environment and to introduce ESAs as part of this reform are both positive and also draw on our work.

However, the coherence of the proposals, (which were far from perfect in the first place) was greatly damaged in the negotiations and the end result is disappointing. We devoted considerable effort to trying to make the case against some of the most environmentally retrograde proposals to emerge from the negotiations, with some success in certain instances. Within the revised CAP framework that was finally agreed, Governments have considerable scope to deliver more for the environment if they

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choose to and we will aim to assist this process. For example, following agreement on the CAP package, we undertook some work for Scottish Natural Heritage (SNH) looking at different ways in which the new greening measures (which include ecological focus areas, crop diversification and maintaining permanent pasture) could be implemented in Scotland to achieve environmental benefits. This provided useful advice to SNH to support their discussions with the Scottish Government on this topic.

Nonetheless, for the longer term new thinking on how to design a genuinely environmental CAP and accompanying measures is required relatively soon and this will be a priority for the Institute in the coming years.

Irrespective of the CAP, some types of farming can be of considerable value to biodiversity and nature. Such 'high nature value' (HNV) farming was the topic of a major study that we undertook for the European Commission's Environment DG during 2013. The study made probably the largest effort to date to compile information on the wide variety of HNV farming systems and practices across the EU, and assessed the extent to which countries use funding from the CAP to support their HNV farmers. The long-term viability of such farming systems, which are often small-scale and labour-intensive, is crucial to the maintenance of many species and habitats in Europe (and to the achievement of the targets in the EU Biodiversity Strategy). However, there was extremely disparate information available on HNV farming prior to our study. As such, the data gathered will be an important resource with the hope that HNV farming is better understood and ultimately better supported in future.

On a broader scale is the challenge of balancing future food production, where global demands are expected to grow over time, and environmental protection. Here the dilemma for Europe needs to be seen in a global perspective. To this end, we worked on a study for the Scientific and Technological Options Assessment Panel (STOA) of the European Parliament examining key aspects of Europe's role in feeding the world to 2050. This looked at the implications of the interrelationships between agriculture and biodiversity, and also between agriculture and climate change. In a second stage it considered the potential for using a range of innovative options to increase agricultural productivity in the coming years, both for food and non-food products. A set of five studies addressed a wide range of issues, including the impacts of climate change on agriculture and vice versa, the biodiversity impacts of changes in land use, and the potential impacts of genetically modified crops and of biofuel crops, on biodiversity, particularly in Europe. Our conclusion was that the long-term sustainability of farming is being undermined by trends such as soil degradation, declines in pollinators (such as bees), the loss of natural biological control of pests and diseases, and the loss of plant and animal genetic diversity. We recommended options for incentivising actions to address these issues and associated problems such as food waste and bioenergy supply, which will support the European Parliament's future thinking on this topic.

During the year we also began to develop a separate but related strand of work, looking at policy options to support a shift towards more sustainable diets in Europe. This work, funded by WWF, set out the many different types of national and EU policy that already influence or have the potential to influence sustainable diets, ranging from advertising and education to taxation and regulation. This study has fed into thinking in the European Commission as well as NGO's, with a new EU communication on food policy due in 2014.

e.) Bioenergy

Debates related to bioenergy generally and biofuels in particular continued throughout the year, and look set to do so for the foreseeable future. In relation to biofuels we have been working principally on two key topics currently under discussion, which are interlinked. The first is the potential for wastes and residues to be used as 'feedstocks' for the manufacture of biofuels (rather than dedicated crops grown specifically as biofuel feedstocks). The second is the impacts of changes in land use (often

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referred to as indirect land use change (ILUC)) that can result from the displacement of crops from existing agricultural land to be grown on other types of land (including forests and grasslands), so as to accommodate the increasing demand to grow biofuel crops. IEEP has become a respected voice in both of these debates.

Our "Biofuels Exchange" project, financed by the Esmée Fairbairn Foundation, was one of our main priorities of the year. Aimed at both the European and UK policy arenas this allowed us to bring stakeholders together, work with NGOs on some key issues, prepare briefing notes and engage with government officials, industry representatives, the media and civil society. Several papers were published making the case for focussing public support only on sustainable biofuels and deploying what is effectively only a rather limited resource from waste and residues only for the most sustainable outcome. Publications included a questions and answers document on biofuels and ILUC. We identified the potential role of key wastes and residues and looked into claims from the biofuels industry that dedicated energy crops are needed on a large scale as feedstocks for biofuels alongside wastes and residues. We engaged where appropriate to seek to influence the political negotiations surrounding ILUC and a proposed new EU Directive on biofuels, and considered different approaches to decarbonising road transport to 2030. In the run-up to a European Parliament vote on biofuels, IEEP chaired the 'Big Debate on Biofuels' event in the European Parliament, which was attended by over 200 people including MEPs, industry, NGOs, academics and other stakeholders. The debate intended to find common ground and inform the Parliament vote on a common position to tackle ILUC. It has proved a difficult topic on which to reach consensus however and after several stalemates over new legislation the debate will continue in 2014.

Our work on the sustainability of the use of different wastes and residue streams for biofuels has helped to fill a significant evidence gap in the policy debate. For example, we researched and wrote a report for ActionAid that concluded that in the UK context materials such as straw, used cooking oil, the biological fraction of mixed municipal waste and certain woody biomass residues are available in sufficient quantities for commercial biofuel production and could be potentially sustainable, provided that effective environmental safeguards are in place. We also assessed the technological options for the sustainable use of wastes and residues from agriculture, forestry and the food chain for conversion to biomaterials and bioenergy, as part of a study for the STOA unit of the European Parliament. This exercise included the drafting of a relatively short, non-technical report making the findings more accessible and potentially useful to a wide audience. Since we focus strongly on evidence, our work has been broadly welcomed by the policy community, including the UK Department for Transport, several MEPs playing a leading role in the debate in European Parliament, and also by environmental and industry stakeholders.

Additional outreach work and communication on biofuels-related issues was undertaken through the establishment of an advanced biofuels stakeholder group, coordinated by IEEP in Brussels and funded by the European Climate Foundation (ECF). This group met four times during 2013, encouraging discussions amongst NGOs and biofuel producers on the availability and sustainability of wastes and residues, the CO₂ saving potential of the resulting biofuels and their potential costs and employment impacts. The group succeeded in agreeing common lines between industry and NGOs on the sustainability of advanced biofuels, issuing two joint statements which were circulated to EU institutions and gained some visibility in the European Parliament as a timely example of bridging the gap between industry and the environmental sector.

Towards the year end we focused increasingly on two strategic issues for policy in this contentious and unsettled area. One is on the correct role for bioenergy, including biofuels, in the spectrum of renewable energy sources that Europe will rely on beyond 2020, for which period new and highly influential targets are being negotiated. The other is the need for a larger framework for deciding how

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best to use Europe's array of "bioresources" which recognises their most valued applications and avoids inappropriate short term subsidies for energy purposes where better options can be identified. This work will continue into 2014.

f.) Biodiversity conservation

The EU Biodiversity Strategy to 2020 is at the heart of the EU's biodiversity conservation efforts. The Strategy has the ambitious aim – particularly in light of the failure of a previous strategy – to halt the loss of biodiversity and ecosystem services (the benefits we draw from ecosystems, including food and water production, disease and climate control, crop pollination and recreational benefits) in the EU by 2020. The Strategy includes a series of targets and actions to achieve this, including full implementation of EU legislation, better protection for ecosystems, more sustainable agriculture and forestry, tighter controls on non-native species, and a larger contribution by the EU to averting global biodiversity loss.

One of the actions of the EU Biodiversity Strategy to 2020 is for the European Commission to propose, by 2015, an initiative to ensure that there is 'no net loss' of ecosystems and their services. Our work on this topic during 2013 helped to identify policy options for this initiative, and to evaluate them in terms of their respective effectiveness and efficiency, compared with a scenario with no policy changes. This work included detailed research into the potential role for biodiversity 'offsetting' schemes, which would be used to compensate for the impacts on biodiversity and ecosystems of built developments, and certain developments in agriculture, forestry and fisheries. Such a mechanism is probably necessary to achieve No Net Loss of biodiversity but it is a controversial topic. Whilst such schemes could be beneficial, careful design and stringent regulation would be needed to ensure their effectiveness. Our work has made a vital contribution to the European Commission's deliberations on the topic, feeding directly into the work of the Commission's No Net Loss Working Group which is providing advice on the design of the new policy initiative. It has also led to our involvement in a new study, continuing into 2014, on the design of specific elements for biodiversity offsetting schemes, which will assess in greater detail the mechanisms and monitoring needed to ensure long-term conservation benefits.

Another major strand of our biodiversity work during 2013 was a study for the European Commission's Environment DG on how to finance Natura 2000, the EU-wide network of nature protection areas established under the 1992 Habitats Directive. The network aims to assure the long-term survival of Europe's most valuable and threatened species and habitats. Financial support is critical to allow sufficient investment in construction on the ground, and our work will make a contribution to ensuring that available EU funds are used for this purpose. Once completed, this will result in a fully up-to-date handbook providing straightforward and detailed guidance on financing opportunities for national and regional authorities responsible for financing Natura 2000, authorities and other stakeholders involved in the management of sites.

Ideas and guidance in a broader form were set out in an book published in August, edited and written by our staff in collaboration with a range of experts, on *the Social and Economic Benefits of Protected Areas*. The book introduces the socio-economic benefits of these areas, and provides step-by-step practical guidance on identifying, assessing and valuing the various ecosystem services and related benefits that they provide. It received an endorsing Foreword from the Executive Secretary of the Convention on Biological Diversity and the Chair of the World Commission on Protected Areas, and has been welcomed by protected area experts.

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g.) Water

As an absolutely critical environmental resource water is the subject of several pieces of EU legislation, designed to protect both its quality and quantity. The major overarching piece of legislation is the Water Framework Directive (WFD), which requires Member States to develop River Basin Management Plans to manage surface and ground waters, to assess the quality/ecological status of waters, and to establish measures in each river basin appropriate to the pressures experienced in their particular location. The Directive has now reached a crucial phase in its implementation by the responsible authorities in the different European countries.

IEEP has long been involved in the development of EU water policy, contributing both to the design and evaluation of water legislation. During the past year we have been leading, for DG Environment, a contract to support the Common Implementation Strategy under the WFD. This takes the form of providing support to three key groups involved in implementing policy: the Strategic Coordination Group, the Regulatory Committee (also known as the Article 21 Committee) and an Expert Group on water and agriculture. Our presence at the meetings of these groups allows us an interesting insight into key debates on the directions of EU water policy and an opportunity to present relevant evidence.

In February 2013 our report, on The Economics of Ecosystems and Biodiversity (TEEB) for Water and Wetlands, was published. Global in scope, the report aims to generate a better understanding of the ecosystem service values of water and wetlands, and to encourage improved decision making and business commitment for their conservation, investment and wise use. The aim to inform agenda-setting for further work on the topic has certainly been achieved; the report has been translated into five languages to enable wide dissemination, and throughout the year our staff undertook many outreach activities to communicate its messages to key water stakeholders. This included presentations at UNESCO in Paris, World Water Week in Stockholm, conferences in York and Bonn, a presentation and training workshop at the 6th Ecosystem Service Partnership conference in Bali, a training workshop for sub-Saharan Africa in Uganda, and two international webinars. The study has been extremely well received and its educational reach has been truly international.

h.) EU policy and the UK

Given the location of our head office in London we have been highly aware of the national debate on the benefits and drawbacks for the UK of EU membership, which has sharpened and deepened recently. We are often invited to contribute to debates on the environmental aspects of this question where several important issues arise. We do not however, engage in the broader question of whether or not the UK should remain a member of the EU under various possible circumstances.

Given our particular expertise, we felt qualified to contribute to this debate by identifying the record of EU policy on the environment, reviewing the evidence of impacts and considering some of the many environmental aspects of the UK's relationship with the EU. We made several specific written contributions to the UK Government's 'Review of the Balance of Competences', launched in 2012 and running throughout 2013. This is an exercise designed to gather evidence on what the EU does and how it affects the UK.

Our work in this area included drafting our own formal evidence for the Review on several topics of environmental importance, writing an NGO-funded report on the influence of EU policy on the UK environment, along with attendance at stakeholder events, political party conferences and meetings with Defra and NGOs. We carefully considered the role of a range of EU policies in influencing the environment both in Europe more broadly and particularly in the UK. One report highlighted some of the alternatives if the UK were to withdraw from active involvement in EU environmental policy or to withdraw from the EU entirely. Our evidence focussed on our primary areas of expertise, particularly environmental policy but also, including the CAP, Common Fisheries Policy, regional assistance, the EU Budget and energy policy. Overall, we argued that the impact of most EU policies within the

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environmental domain can be judged to be strongly positive, even accounting for a number of weaknesses; the action taken has had benefits for human health and welfare and the sustainability of the economy as well as the environment itself.

i.) Other issues

This summary has focussed on broad areas of policy where we have been particularly active. However, as always, our work during the year has been even broader than this suggests. Below, therefore, we include a handful of additional projects to illustrate the scope of our engagement in the environmental policy agenda.

- A study on marine litter, funded by the Brussels-based NGO "Seas At Risk", looked at existing legislation that could help to address marine litter from land-based sources, including waste, marine, industry and cosmetics legislation. We concluded that whilst there is a substantial legal framework in place, there are many ways in which it could be improved to better tackle marine litter, including increasing the ambition of national implementation of the Marine Strategy Framework Directive, improving the ambition and implementation of waste legislation, introducing a ban on the use of plastic microparticles in cosmetics, and using available funding for 'fishing for litter' programmes.
- We made a significant contribution to a project that will feed into the European Commission's major review of waste legislation being taken forward in 2014. The project provided an evaluation of five specific waste Directives (on batteries, packaging, end-of-life vehicles, sewage sludge and polychlorinated biphenyls (PCBs) and polychlorinated terphenyls (PCTs)), and will form the basis of any future review of these Directives.
- We also contributed to a project on 'fracking', the controversial method which can be used to extract shale gas and oil which has been much in the news in recent months. This raises substantial environmental concerns, particularly in relation to water quality and waste management, and the project looked into the ability of the current EU legislative framework to provide adequate safeguards for fracking. In fact, it was recommended that the most effective approach would be to cover the topic in a new dedicated Directive; however, it is yet to be seen whether the European Commission will adopt this approach.
- We examined the history of EU policy discussions on energy conservation and the case for establishing targets for energy efficiency which could be binding on national governments, with funding from WWF and other bodies. The benefits of investing in energy conservation rather than additional supply are accepted at a general level but translating this into workable policy measures which could be taken up in forthcoming policy decisions on the future of EU climate and energy policy is more challenging.
- We were asked by a consortium of environmental NGOs based in Scotland to examine the record of the Scottish administration in taking forward environmental goals in five areas of policy – climate, rural development and agri-environment schemes, aspects of water pollution control and the establishment of marine protected areas. Our analysis suggested a high level of ambition in many of these areas but a more mixed picture in terms of progress on the ground. For example, there has been an impressive level of investment in renewable energy but less progress in decarbonising transport policy or adjusting agricultural subsidies to environmental priorities. Expenditure on some topics was less than seemed necessary to meet the objectives. The report was published and led to a constructive dialogue with representatives of the Scottish Government.
- The Institute continues to be represented on two European "High Level Groups" of stakeholders. One is on the future of the EU car industry including aspects of its environmental performance and another is on "Key Enabling Technologies", an important element in the European research agenda.

Institute for European Environmental Policy, London
Trustees' Report for the year ended 31 December 2013

Objectives, aims and plans for future periods

The principal aims of the Institute, to contribute to improved understanding, stronger analysis and better policy decisions relating to the environment in Europe, will remain highly relevant in 2014. By helping to shape policies that are sustainable and to engage a wider range of people in the process we will continue to focus on contributing to the wider public benefit. We have identified a number of European policy challenges and debates that are likely to be of particular environmental significance in 2014 and these will be priorities for our work in the coming year: These priorities are:

- Implementing the environmental commitments made by governments and the EU institutions as part of the significant reforms of the EU budget, the Common Agricultural Policy and other EU policies agreed in 2013. This will include more detailed work on aspects of "greening" EU expenditure and making use of options to support the environment under the CAP.
- Contributing to the development of an appropriate set of EU policies addressing the main climate and energy challenges in the period to 2030, including targets for reducing emissions
- Contributing to the improved use of natural resources in Europe through a stronger focus on the "circular economy" and the policies that can be employed to achieve this.
- Providing more analysis of the difficult problems surrounding the growing use of bioenergy, including biofuels, in Europe with a view to the emergence of a more robust and appropriate policy framework over a period of years.
- Contributing to the debate over the future of nature conservation in Europe, with particular reference to the forthcoming review of some key legislative measures and the wider implementation of the Biodiversity Action Programme.
- Thinking strategically about the future direction of environmental policy in Europe, taking account of the new European Parliament and Commission and engaging in the active debate about the appropriate role and formulation of legislation, particularly at the EU level.
- Examining longer term options for agricultural and land management policy in Europe with a view to informing policies above and beyond the current CAP and forestry policies in Europe.

Communication

IEEP strives to make its work widely available to encourage participation by interested bodies and the wider public in European policy debates. We aim to increase the accessibility of European policy questions and decision making processes to the wider community beyond those immediately involved. This is done by publishing and disseminating our work and seeking to utilise different means of making information, research and analysis more widely available. Certain publications aim to interpret and explain policy issues that often are debated primarily in arcane and specialist language. Over the year we have continued to invest in our website, produced a larger number of more accessible and shorter briefings for a wider audience and engaged more with social media, particularly with Twitter.

External communication is made through:

- the publication of project reports and summaries,
- preparing briefings on current areas of interest,
- giving frequent presentations at seminars and conferences,
- producing a quarterly newsletter,
- managing our dedicated 'CAP2020' website on the future of the Common Agricultural Policy as well as a dynamic "Biofuels Exchange" mini-site that provides briefings and resources in relation to the biofuels debate, both in Europe and the UK and

Institute for European Environmental Policy, London
Trustees' Report for the year ended 31 December 2013

- various other outreach activities, including occasional policy papers, work with journalists, presenting material on our main website and engaging with our followers through Twitter

In addition, we provide information and intelligence on European policy developments to the UK statutory nature and conservation agencies who are important national actors in this domain.

Our website, (www.ieep.eu) is a central part of our communication effort and is regularly updated with new publications, reports and news items. It features a section that explicitly aims to demystify the EU and its institutions, shedding light on what they do, how EU decision making processes work, how EU legislation affects the environment, and explaining 'euro jargon' and commonly used EU acronyms. We increase the number of news items on the site as well as uploading a substantial number of reports and papers on a wide range of topics. Some projects, for example one on the value of wetlands, have a large communications element to them and we have recently embarked on a new project concerned with "results based environmental payments" which will involve the active use of social media and a new website.

Our work on biofuels and bioenergy included a number of press releases and briefings to individual journalists as well as shorter documents accessible to different stakeholders, including MEPs. These materials were quoted in a range of media reports during the year. The reform of the Common Agricultural Policy was also an area of our work that received a lot of media attention. We were pleased to have been quoted in several of the main broadsheet news outlets as well as in specialist publications.

Our regular electronic newsletter continues to provide a non technical summary of our work to a wide range of individuals with an interest in policy questions throughout Europe. During 2013 we revamped the newsletter adopting a more attractive format with more pictures and a more accessible approach. This has proved successful with 2013 seeing a steadily increasing number of recipients opening and clicking through to read articles on our website.

We also increased our number of followers on Twitter, reaching a total of around 1720 by the end of 2013. Our aim is to draw attention to the publication of studies and other products, attracting people to the website who might otherwise not be inclined to look at it on a more routine basis. There is evidence to show that our increased use of Twitter to promote IEEP's reports and news is bringing people to the website as well as the newsletter and newsletter subscription pages. Additionally, IEEP's audience on Twitter is engaging with what is being published on this platform in the form of regular 'retweets', 'mentions' and 'conversations'.

We receive regular and positive feedback that our analysis and views reach key players in the policy domain as well as academics and students and are respected and taken seriously. Several of our reports during the year fed directly into EU policy decisions or helped to formulate ideas that will influence the evolution of policy in the longer term.

Public Benefit

The Trustees confirm that they have complied with section 4 of the Charities Act 2006 and have due regard to the Charity Commission general guidance on public benefit. The Institute believes that its independent work helps to inform those developing and implementing European policy in such a way

Institute for European Environmental Policy, London
Trustees' Report for the year ended 31 December 2013

that the results are to the benefit of the public as a whole as well as the environment. A large and growing number of our reports are freely available on our website, the accessibility of which we seek to improve progressively over time.

Resources and thanks to staff

During 2013, the number of staff who worked for IEEP for all or part of the year, was thirty four including the Director, (2013 Full Time Equivalents FTE: 26, 2012 FTE: 32). Associates and an honorary fellow also contributed to the Institute's work throughout the year, working closely with research staff on a number of projects. Whilst the Institute is not dependent on unpaid volunteers, we welcomed a number of volunteer "interns" throughout 2013 who assisted us on a variety of projects and tasks in both London and Brussels.

The Trustees would like to thank all the staff and volunteer interns who have worked so hard and so ably to deliver the work of the Institute over the past year.

The Institute continued to have offices in central London and Brussels which are also used for conferences and a series of workshops and seminars. In addition we now have a well-established presence in Finland and our work is supported by a network of partners and consultants in other European countries.

Financial Review

The Institute's funds have been applied in furtherance of the company's objects, as detailed above and to a small extent for governance of the charity. In addition some surplus office space was rented out and the accounts reflect this income and associated costs. Its assets are held for the efficient operation of the company.

Due to the mix of projects undertaken as lead partner or sub-contracted partner, total gross income in 2013 of £2,146,097 was lower than in 2012: £2,633,721. The decrease in income was accompanied by a decrease in sums paid to project partners who aided us in the delivery of the research that we contracted. There were also savings in salary and other costs. Total expenditure on activities was £2,130,167, a decrease on 2012: £2,594,837. Before taking into account profits on foreign currency exchange, the Institute made a surplus in 2013 of £15,930 (2012: £38,884). The net movement in funds for the year, after taking in gains and losses on foreign exchange, was £24,500 (2012: £28,061)

Several significant new research projects were awarded during the year in addition to those continued from 2012. The Institute has been notified of the success of several proposals and tenders which will be undertaken in 2014 and beyond. IEEP contracts and grants are mainly denominated in Euros with some in Sterling and a small number in US Dollars or other currencies. Project costs are generally denominated in the currency of the contract while the majority of core costs are in Sterling. 2013 saw a gain due to currency movements compared to losses in 2012. Exchange movements also arose from converting bank, debtor and creditor year end balances denominated in currency to Sterling at the year-end rate. The resulting net foreign exchange gains for the year were £8,570 (2012: £10,823 loss). It is expected that the volatility in exchange rates will continue and the Trustees have therefore put mechanisms in place to shield IEEP from the most serious effects of this volatility. Exchange movements are regularly monitored by the Finance Committee. In addition the Trustees decided to continue to designate an exchange reserve fund which, after 2013 gains, stands at £58,839 to cover this eventuality. At 31 December 2013, after adding foreign exchange gains, unrestricted funds stood at £756,996 (2011: £732,496). Further details of the financial performance for the year and reserves are included elsewhere in the Financial Statements.

Institute for European Environmental Policy, London
Trustees' Report for the year ended 31 December 2013

The Trustees are of the opinion that the assets of the charity at the accounting date are available and adequate, within the normal commercial meaning attributed to those words, to fulfil the obligations of the charity. Other than unfinished projects allowed for in the accounts, the Institute's only significant outstanding commitments are the lease on its London office which runs until a break clause in 2017, and the lease on its office in Brussels which runs until a break clause in 2014. During 2013 the London office moved to new premises and took on a new lease.

No assets were held on behalf of any other organisation, charity or Trustee at 31 December 2013 (2012: nil). There have been no significant changes in accounting policy in the year.

Due to the nature of the charity's work it obtains the majority of its incoming resources from public sector organisations within the European Union.

Reserves policy

The Trustees consider that it is appropriate for the Institute to hold reserves in order to fund work in progress and as a guard against the risk of an uneven flow of income. The need to fund work in progress is particularly important as the Institute is subject to fluctuations in cash flow arising from the payment arrangements under certain contracts with the European Commission. The Trustees believe that an unrestricted reserve level of £770,000, excluding designated reserves and net fixed assets, would be a reasonable target appropriate to the current scale of the Institute's activities. £770,000 represents approximately six months cover for forecast operating costs, excluding direct project costs, based on the 2014 budget.

At 31 December 2013 total unrestricted funds were £756,996 (2012: £732,496). Of this £58,839 were designated as a currency exchange movement reserve, £25,000 were designated for the costs which may arise on termination of the London and Brussels leases and £ 53,609 (2012: 32,871) were committed to fixed assets, leaving £619,548, broadly equivalent to 4.8 months expenditure cover based on 2014 budget, (2012: £589,356 and 4 months). These reserves are effectively the charity's working capital and the Trustees consider the level to be adequate at present. However further increases in future are necessary to reach the target reserve level of six months operating costs. The Trustees and staff are committed to increasing the reserves to the target level and are actively pursuing policies to achieve this goal, in particular through close financial monitoring and management by the Finance Committee.

Treasury management policy

IEEP operates principally in Sterling and Euros and has a policy of minimising the risk of adverse exchange rate fluctuations and the cost of transfer by retaining balances in either Sterling or Euros in their original currency for use in paying expenses in that currency to the extent required. Where possible any surplus balances are placed in interest bearing bank deposit accounts.

IEEP seeks to minimise exposure to currency risks in contracts by having sub-contract payments denominated in the currency of the main contract wherever possible and by taking other measures to secure exchange rates in advance where this is felt to be prudent.

Risk management

A risk assessment and management exercise encompassing the strategic direction, operations, finances and staffing of the Institute has been carried out and reviewed by the Trustees, who are

Institute for European Environmental Policy, London
Trustees' Report for the year ended 31 December 2013

satisfied that the major risks to which the charity is exposed have been identified and reviewed and that systems are in place to mitigate the Institute's exposure to the major risks it faces. The Trustees review risks annually as part of an on-going process.

As part of their review in 2013 /14 the Trustees considered that the major risks that IEEP might face were in the areas of potential loss of major funders, competition for funds, longer payment terms offered by some funders, potentially reduced payment or claw-back of income by certain funders, liquidity and recruitment and retention of suitably qualified staff, currency risks and loss of influence. In respect of all of these matters the Trustees consider that IEEP has adopted policies to minimise any such risks.

Structure, governance and management

The Institute for European Environmental Policy, London ("IEEP") is a Company Limited by Guarantee and not having a share capital and a registered charity. The charity's principal office is in London and there is also an office in Brussels and a presence in Finland.

In accordance with the Articles of Association and provisions of the Companies Act 2006, Trustees/Directors are appointed by applying in writing to become members of the company, and are proposed for election, by the members, as a Director and a member either by ordinary resolution at a general meeting or by written resolution and appointed, if the resolution is agreed by a simple majority of those eligible to vote. Board Directors automatically become the charity's Trustees on appointment. Trustees/Directors generally serve for 4 to 6 years, and are eligible for re-appointment.

The Trustees maintain responsibility for the charity's strategy, governance and risk management. The Board meets quarterly and there is in addition a Finance Committee which also meets quarterly. The Finance Committee of the Board has a remit to maintain an overview of the financial operations and management of the Institute. It also provides help and advice for the Director, and has a duty to ensure the Institute's compliance with the relevant Charity Accounting obligations.

The Trustees appoint the Director of the Institute and delegate to him responsibility for selecting other staff and for the day to day management of the charity. The Trustees also appoint the Company Secretary. Details of the Trustees and officers are shown below.

Trustees are recruited as individuals who bring relevant skills and experience to the Board. Recruitment takes place via contacts in organisations that have environmental interests and expertise or more widely when a particular type of more general management experience is sought.

Induction of Trustees includes being provided with relevant information about the charity and briefings from the Chair of Trustees, the Director of the Institute and meetings with staff and other Trustees as appropriate. Trustee training is made available to those new to trusteeship and where new issues arise.

Details of the charity's wider networks are given elsewhere in the Trustees' report.

Institute for European Environmental Policy, London
Trustees' Report for the year ended 31 December 2013

Reference and administrative information:

Directors/Trustees

The Directors of the company are also the Trustees of the charity.

Trustees who served during the year and since the year end were:

- Domingo Jimenez Beltran
- Ralph Hallo *
- Sir John Harman (Chair)
- Patricia Henton *
- Dr Christian Hey Appointed 11 March 2014
- Dr Caroline Jackson
- Paul Meins *
- Derek Osborn CB
- Fiona Reynolds, DBE Retired 15 January 2013
- Judith Ward Retired 15 January 2013
- Sir Graham Wynne Appointed 15 April 2013

* Finance Committee Member. Finance Committee Chair was Paul Meins.

Officers

Director of the Institute	David Baldock
Secretary	Claire Froomberg

Registration details

The Institute for European Environmental Policy, London is a Company Limited by Guarantee and not having a share capital with Company number 2458951.

It is also a registered charity with Charity number 802956.

VAT number GB 648 7001 33

Registered Office and Principal office

11 Belgrave Road, IEEP Offices, Floor 3, London, SW1V 1RB, UK from 20 May 2013
(previously 15 Queen Anne's Gate, London SW1H 9BU, UK to 20 May 2013)

Bankers

National Westminster Bank, Tavistock House, Tavistock Square, London WC1H 9XA

Solicitors

Bates Wells and Braithwaite LLP, 2-5 Cannon Street, London, EC4M 6YH

Auditor

Buzzacott LLP, 130 Wood Street, London EC2V 6DL

Institute for European Environmental Policy, London
Trustees' Report for the year ended 31 December 2013

Relationships with Others

In the year IEEP London had one significant associate institution - in Berlin (Ecologic, Institute for International and European Environmental Policy).

We continue to have a joint venture – “Alliance Environment”, owned jointly with a French partner, Oréade-Brèche. Further information can be found in Note 17 to the financial statements.

Much of our work is sponsored by other charities, and we are particularly grateful to the following for their support of our work during 2013:

Esmée Fairbairn Foundation

European Climate Foundation

Villum Foundation

Many projects were funded by the European Commission, the European Environment Agency, the Organisation for Economic Cooperation and Development, the United Nations, the UK Department for the Environment, Food and Rural Affairs, the Environment Agency, the UK statutory countryside agencies, the environment ministry in Belgium, and the Dutch Ministry of the Environment and other European ministries and Environmental Agencies. Their continued support is appreciated.

Institute for European Environmental Policy, London
Trustees' Report for the year ended 31 December 2013

Statement of Trustees' Responsibilities

The Trustees (who are also the Directors of Institute for European Environmental Policy for the purposes of company law) are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Standards).

Company law require Trustees to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period. Under company law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and of the incoming resources and application of resources, including the income and expenditure, of the charitable company for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Statement of Recommended Practice (Accounting and Reporting by Charities) (the Charities' SORP);
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in operation.

The Trustees are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Trustees confirms that:

- so far as the Trustee is aware, there is no relevant audit information of which the charity's auditor is unaware; and
- the Trustee has taken all steps that he/she ought to have taken as a Trustee in order to make himself/herself aware of any relevant audit information and to establish that the charity's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The Trustees are responsible for the maintenance and integrity of the financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Institute for European Environmental Policy, London
Trustees' Report for the year ended 31 December 2013

Statement of Directors' Responsibilities (continued)

Auditor

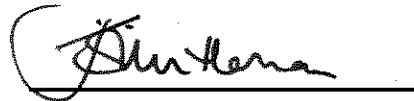
Buzzacott LLP was appointed as auditor from 4 November 2009. As auditor in office, Buzzacott LLP will automatically be deemed to be re-appointed under the provisions of the Companies Act 2006 until further notice.

Small Companies Exemption

The above report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

On behalf of the Board:

Sir John Harman
Chair



Date: 1-9-2014

Independent Auditor's Report To the Members of Institute for European Environmental Policy, London

We have audited the financial statements of the Institute for European Environmental Policy, London for the year ended 31st December 2013 which comprise the Statement of Financial Activities; the Balance Sheet; the principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Trustees and Auditor

The trustees are also the directors of the Institute for European Environmental Policy, London for the purposes of company law. As explained more fully in the Statement of Trustees' Responsibilities set out in the Trustees' Report, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charitable company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 December 2013 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006;

**Independent Auditor's Report
To the Members of
Institute for European Environmental Policy, London**

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Trustees' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns;
- certain disclosures of trustees' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit; or
- the trustees were not entitled to prepare the financial statements in accordance with the small companies regime or take advantage of the small companies exemption in preparing the Trustees' Annual Report



Edward Finch, Senior Statutory Auditor
for and on behalf of Buzzacott LLP, Statutory Auditor
130 Wood Street
London EC2V 6DL

Date: 26/9/14

Institute for European Environmental Policy, London
Statement of Financial Activities
(Incorporating the Summary Income and Expenditure Accounts)
For the year ended 31st December 2013

	Note	Unrestricted Funds £	Restricted Funds £	Total 2013 £	Total 2012 £
Incoming Resources					
<i>Incoming resources from generated funds:</i>					
Investment income - interest received		477	-	477	1,107
Income from property (surplus space)		47,178	-	47,178	76,801
<i>Incoming resources from Charitable Activities:</i>					
Grants and donations	2	150	264,442	264,592	211,049
Research projects		1,826,392	-	1,826,392	2,340,052
Other incoming resources		7,458	-	7,458	4,712
Total Incoming Resources		<u>1,881,655</u>	<u>264,442</u>	<u>2,146,097</u>	<u>2,633,721</u>
Resources Expended					
<i>Costs of Generating Funds:</i>					
Expenditure related to generating income from property		47,178	-	47,178	76,801
<i>Charitable Activities:</i>					
Research projects		1,746,322	264,442	2,010,764	2,450,939
<i>Governance costs</i>		72,225	-	72,225	67,097
Total Resources Expended	3	<u>1,865,725</u>	<u>264,442</u>	<u>2,130,167</u>	<u>2,594,837</u>
Net Incoming Resources before other recognised gains		15,930	-	15,930	38,884
Other recognised gains and losses					
Net gains/(losses) on foreign exchange	3	8,570	-	8,570	(10,823)
Net movement in funds for the year		24,500	-	24,500	28,061
Fund Balances Brought Forward		<u>732,496</u>	-	<u>732,496</u>	<u>704,435</u>
Fund Balances Carried Forward	13,14	<u>756,996</u>	-	<u>756,996</u>	<u>732,496</u>

All gains and losses arising in the year have been recognised above and arise from continuing operations.

The notes on pages 25 to 33 form part of these Financial Statements.

Institute for European Environmental Policy, London

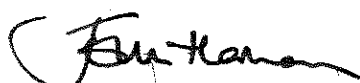
Balance Sheet as at 31st December 2013

	Note	2013 £	2013 £	2012 £	2012 £
Tangible Fixed Assets	7		53,609		32,871
Current Assets					
Debtors	8	774,138		850,158	
Cash at bank	9	<u>765,779</u>		<u>594,761</u>	
		1,539,917		1,444,919	
Creditors: Amounts falling due within one year	10	<u>(718,530)</u>		<u>(745,294)</u>	
Total assets less current liabilities			<u>821,387</u>		<u>699,625</u>
Provision for liabilities and charges					
Provisions for amounts that may result in present obligations as a result of past events	11		(118,000)		-
			<u> </u>		<u> </u>
Total net assets			<u><u>756,996</u></u>		<u><u>732,496</u></u>
Represented by:					
Unrestricted Funds	13		756,996		732,496
Restricted Funds	14		<u> </u>		<u> </u>
			<u><u>756,996</u></u>		<u><u>732,496</u></u>

The accounts have been prepared under the special provisions of Part 15 of the Companies Act 2006 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

The financial statements were approved by the Board and authorised for distribution

on 1-9-2014 and signed on its behalf by:



Sir John Harman
Chair

The notes on pages 25 to 33 form part of these Financial Statements.

Institute for European Environmental Policy, London
Company registration number : 2458951 (England and Wales)

Institute for European Environmental Policy, London
Notes to the Accounts
For the year ended 31st December 2013

1 Accounting Policies

Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008), the Companies Act 2006 and follow the recommendations in Accounting and Reporting by Charities: Statement of Recommended Practice issued in March 2005 (SORP 2005).

The charity has taken advantage of the provisions of Paragraph 3 (3) of Schedule 4 of the Companies Act and adapted the Companies Act formats to reflect the special nature of the charity's activities.

The following principal accounting policies have been consistently applied in preparing these financial statements.

Income Classification

Grants are considered to be restricted where the donor attaches conditions to the use of funds and where the outcome will remain in the public domain. Research project income is where the funder is the principal recipient of the project findings and income is considered to be part of the core activities.

Income Recognition

Incoming resources are recognised when the Institute becomes entitled to the income and the amount can be measured with reasonable certainty.

Grant income is recognised in full when the Institute becomes entitled to the income unless it either relates to a grant for a specific future period or is a performance related grant.

Incoming resources receivable under performance related grants and contracts for services provided are recognised to the extent that the relevant work has been performed. Income received in advance of work performed is deferred.

Expenditure

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Wherever possible costs are directly attributed to these headings. Costs common to more than one area are apportioned on the basis described in Note 3.

Indirect costs are those costs incurred in support of the charitable objectives. These have been allocated to the resources expended on a basis that fairly reflects the true use of those resources within the organisation.

Governance costs are those incurred in the governance of the charity and are primarily associated with constitutional and statutory requirements.

Foreign Currencies

Transactions during the year in foreign currencies have been translated into sterling at an average rate for the period and closing balance sheet year end balances have been revalued at the exchange rate ruling at that date where applicable. All differences on exchange are reflected in the Statement of Financial Activities. A designated reserve has been set up as part of the unrestricted funds to recognise the possibility that exchange gains may be reversed in future periods.

Pension Scheme Arrangements

The company makes contributions to personal money purchase pension schemes for each eligible employee, the assets of the schemes being held separately from the assets of the company. The pension cost charge represents contributions payable to the schemes. Where employees prefer to make contributions to their own schemes additional remuneration is paid to enable them to be treated on an equal basis. These additional payments are included in gross pay in note 4.

Institute for European Environmental Policy, London
Notes to the Accounts
For the year ended 31st December 2013

Tangible fixed assets

Tangible fixed assets costing more than £500 are capitalised at cost.

Depreciation is provided on a basis which will write off the cost of fixed assets over their estimated useful lives by equal annual instalments. The estimated life of the fixed assets is four years.

Stocks

No value has been ascribed to the stocks of publications on the basis that the majority of these are given away and it is therefore considered prudent to account for all production costs in the period they were incurred.

Fund Accounting

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor.

Unrestricted funds are funds which are available for use at the discretion of the trustees in furtherance of the general objectives of the charity. Designated funds are those where the Trustees have set funds aside for particular purposes.

Provisions

Provisions are recognised when the charitable company has a legal or constructive present obligation as a result of a past event, it is likely that a transfer of economic benefits will be required to settle the obligation, and the value of the obligation can be reliably estimated.

Institute for European Environmental Policy, London
Notes to the Accounts (continued)
For the year ended 31st December 2013

2 Grants and Donations Receivable	Donations Unrestricted £	Grants Restricted £	2013 £	2012 £
European Commission various Grants	-	241,289	241,289	223,354
Esmée Fairbairn Foundation	-	46,839	46,839	-
Villum Foundation	-	5,950	5,950	74,375
European Climate Foundation	-	19,901	19,901	40,711
Executive Agency for Competitiveness and Innovation *	-	641	641	(8,579)
Others	150	-	150	50
	150	314,620	314,770	329,911
Movement in deferred income	-	(50,178)	(50,178)	(118,862)
	<u>150</u>	<u>264,442</u>	<u>264,592</u>	<u>211,049</u>

*Negative figures for grants reflect a repayment or reduction in funding previously awarded by donors

3 Total Resources Expended	Direct Project Costs £	Staff Costs £	Other Costs £	2013 Total £	2012 Total £
Costs of generating funds: in respect of property income	-	7,265	39,913	47,178	76,801
Costs of charitable activities in furtherance of the objects:					
Grants	25,574	185,148	53,720	264,442	210,999
Projects	454,144	1,035,087	257,091	1,746,322	2,239,940
Sub Total Research projects	479,718	1,220,235	310,811	2,010,764	2,450,939
Governance	-	51,771	20,454	72,225	67,097
	<u>479,718</u>	<u>1,279,271</u>	<u>371,178</u>	<u>2,130,167</u>	<u>2,594,837</u>
		(note 4)			

Institute for European Environmental Policy, London

Notes to the Accounts (continued)

For the year ended 31st December 2013

3 Total Resources Expended (continued)

Other Costs include	Costs of generating funds	Projects	Governance	2013 Total	2012 Total
	£	£	£	£	£
Property occupancy costs:					
- operating leases	25,583	92,661	5,017	123,261	189,614
- other	10,964	66,231	3,314	80,509	70,018
Staff planning days	-	37	-	37	4,942
Telephone, postage, copying and stationery:					
- operating leases	-	2,214	-	2,214	4,572
- other	3,208	35,242	-	38,450	53,205
Auditors remuneration:					
- current year	-	-	7,000	7,000	8,000
- in respect of prior year	-	-	(1,000)	(1,000)	(1,950)
- accountancy and other assurance services	-	11,200	-	11,200	12,000
Payroll services	-	5,860	-	5,860	7,917
Legal and professional	-	12,126	-	12,126	1,780
Depreciation	-	30,217	1,282	31,499	23,498
Loss on disposal of fixed assets	-	2,433	103	2,536	-
IT and computer support	-	22,533	956	23,489	29,855
Irrecoverable VAT	-	3,334	-	3,334	1,361
Other costs	158	26,723	3,782	30,663	29,858
	<u>39,913</u>	<u>310,811</u>	<u>20,454</u>	<u>371,178</u>	<u>434,670</u>
Other resources expended				-	-
Total other costs				<u>371,178</u>	<u>434,670</u>

Institute for European Environmental Policy, London
Notes to the Accounts (continued)
For the year ended 31st December 2013

3 Total Resources Expended (continued)

Basis of allocation of staff and other costs

Costs of generating funds: costs and basis of allocation

Nature of cost	Allocation basis	2013 Total £	2012 Total £
Staff salaries and pensions	Estimate of staff time	7,265	12,733
Property occupancy costs	Pro rata to staff cost allocation	36,547	58,530
Services and other operating expenses	Actual and estimated use	3,366	5,538
Total		47,178	76,801

Grant and Project costs and basis of allocation

Nature of cost	Allocation basis	2013 Total £	2012 Total £
Staff salaries and pensions	Estimate of staff time	1,220,235	1,399,968
Property occupancy costs	Pro rata to staff cost allocation	158,892	192,728
Services and other operating expenses	Actual and estimated use	90,083	114,133
Professional fees	Actual and estimated use	29,186	21,697
Depreciation and loss on disposal	Pro rata to staff cost allocation	32,650	22,723
Total costs allocated		1,531,046	1,751,249
Direct project costs		479,718	699,690
Total resources expended on research projects		2,010,764	2,450,939

Governance costs and basis of allocation

Nature of cost	Allocation basis	2013 Total £	2012 Total £
Staff salaries and pensions	Estimate of staff time	51,771	47,776
Property occupancy costs	Pro rata to staff cost allocation	8,331	8,374
Services and other operating expenses	Actual and estimated use	4,738	4,122
Professional fees	Actual cost main audit and governance	6,000	6,050
Depreciation and loss on disposal	Pro rata to staff cost allocation	1,385	775
Total		72,225	67,097

Other recognised gains and losses

	2013 Total £	2012 Total £
Gains/(losses) on foreign exchange	8,570	(10,823)

Institute for European Environmental Policy, London
Notes to the Accounts (continued)
For the year ended 31st December 2013

4 Employee information

	2013	2012
	No.	No.
The average number of employees (Full time equivalents) during the period was:		
Director, management, research and writing	21	27
Finance and administration	5	5
	<u>26</u>	<u>32</u>

	2013	2012
	£	£
The total costs of these employees were:		
Wages and salaries	1,048,088	1,194,514
Social Security costs	173,071	193,383
Pension	57,251	69,388
	<u>1,278,410</u>	<u>1,457,285</u>
Other staff costs	861	3,192
Total staff costs	<u>1,279,271</u>	<u>1,460,477</u>

	2013	2012
	No.	No.
Number of employees who received emoluments in the ranges between :		
£60,001 and £70,000	1	1
£80,001 and £90,000	1	1

Pension contributions of £8,282 (2012: £8,738) were made during the year in relation to one of the higher paid employees

5 Transactions with Directors

The Directors, who are also the Trustees for the charitable activities of the Institute, received no remuneration for services rendered during the year. Properly approved expenses were incurred relating to 7 Directors in respect of their duties as trustees of the charity in the year totalling £2,336 (2012 - expenses relating to 6 Directors £2,744). These expenses covered travel, accommodation and subsistence associated with attending Board meetings and Finance Committee meetings and other meetings associated with Governance in London and Brussels. Some of these expenses were incurred directly by IEEP, others were reimbursed to the Directors.

6 Taxation

The company is taking advantage of the reliefs available for registered charities from tax charges and, therefore, no provision for taxation has been made.

7 Tangible Fixed Assets

	Furniture & Equipment
	£
Cost	
Brought forward at 1st January 2013	127,373
Additions	54,773
Disposals	(32,902)
Carried forward at 31st December 2013	<u>149,244</u>
Depreciation	
Brought forward at 1st January 2013	94,502
Charge for the year	31,499
Eliminated on Disposal	(30,366)
Carried forward at 31st December 2013	<u>95,635</u>
Net Book Value	
At 31st December 2013	<u>53,609</u>
At 31st December 2012	<u>32,871</u>

All assets are in use for charitable purposes.

Institute for European Environmental Policy, London
Notes to the Accounts (continued)
For the year ended 31st December 2013

8 Debtors	2013	2012
	£	£
Trade debtors	249,220	199,058
Prepayments and accrued income	497,886	645,279
Other debtors	27,032	5,821
	<u>774,138</u>	<u>850,158</u>

All amounts fall due within one year.

9 Cash at Bank	2013	2012
	£	£
Bank	765,779	594,761
	<u>765,779</u>	<u>594,761</u>

10 Creditors: Amounts falling due within one year	2013	2012
	£	£
Trade creditors	50,728	112,520
Taxation and Social Security	39,358	29,059
Rent deposits	10,687	11,027
Deferred income (see below)	350,854	417,525
Accruals	266,903	175,163
	<u>718,530</u>	<u>745,294</u>

<u>Deferred income</u>	2013	2012
	£	£
Balance brought forward:		
Research projects	195,170	359,794
Grants and donations	222,355	103,493
Released in the year	(417,525)	(463,287)
Deferred in the year:		
Research projects	78,321	195,170
Grants and donations	272,533	222,355
Balance carried forward	<u>350,854</u>	<u>417,525</u>

11 Provision for liabilities and charges

	2013
	£
Provisions brought forward at 1.1.2013	-
Increase in provision during the year	118,000
Provisions carried forward at 31.12.2013	<u>118,000</u>

The provision relates to the potential recovery of income on certain projects where there exists some uncertainty in what the final figure recoverable might be. This may arise because of the findings of project audits by funders or where estimated amounts have been used in calculating revenue which can only be confirmed when project accounts are finalised or where guidelines have been clarified during the period of a project by funders on what may be recoverable under certain funding schemes. There are also certain matters which are still to be clarified by funders.

In the previous year the a figure of £120,408 had been treated as deferred income for a variety of types of projects but the figure above has been treated as a provision this year as there is material uncertainty in the amount which is based on estimation.

Institute for European Environmental Policy, London
Notes to the Accounts (continued)
For the year ended 31st December 2013

12 Financial Commitments

The company is committed to making the following operating lease payments within the next twelve months.

	2013	2012	2013	2012
Property and equipment leases due to end in:	Property £	Property £	Equipment £	Equipment £
Up to one year	53,600	67,157	450	-
One to five years	<u>47,875</u>	<u>51,412</u>	<u>-</u>	<u>1,752</u>

13 Unrestricted Funds

	Balance at 01.01.2013 £	Income & other gains £	Expenditure £	Funds transfers £	Balance at 31.12.2013 £
Unrestricted Reserves	622,227	1,881,655	(1,865,725)	35,000	673,157
Designated Foreign Exchange Fund	50,269	8,570	-	-	58,839
Designated Premises Fund	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>(35,000)</u>	<u>25,000</u>
Total Unrestricted Funds	<u>732,496</u>	<u>1,890,225</u>	<u>(1,865,725)</u>	<u>-</u>	<u>756,996</u>

Designated Foreign Exchange Fund

The Institute reports in Sterling but conducts its operations in Euros, Sterling, US Dollars and other currencies and accounts for foreign exchange gains and losses which may arise on those transactions during the year. In addition the Institute re-values its bank, creditor and debtor balances denominated in currency at 31 December each year at the year end conversion rate to Sterling. In 2008 exceptional exchange gains were made due to the fall in the value of Sterling against the other currencies and in particular the low value of Sterling at 31 December 2008. The Trustees considered the exchange losses recorded in 2009 part of which arose due to the reversal of the exceptional gains for 2008 as Sterling strengthened again and decided, given the continuing volatility in currency values, that the Institute should set aside a designated reserve fund of £100,000 against the possibility of future exchange losses. In 2013 the exchange gains were £8,570 (2012 - losses £10,823) and these have been added to the designated fund. The Trustees consider the resulting balance of £58,839 to be adequate.

Designated Premises Fund

Following the end of the London office lease at 15 Queen Anne's Gate and the move to new offices at 11 Belgrave Road with different lease terms, the Institute has reduced its designated premises reserve from £60,000 to 25,000. This sum is for future obligations which may arise on concluding its current office leases in both London and Brussels (dilapidations, etc). The London office lease has a break clause in 2017. The obligations that may arise under the Brussels lease are dependant, in part, on the date of termination, including whether any break clause is exercised. The next break is set for 31.12.2014.

14 Restricted Funds

The restricted funds all relate to projects carried out as part of the core work. No amounts remained unspent at 31st December 2013 (2012: £nil).

Institute for European Environmental Policy, London

Notes to the Accounts (continued)

15 Legal status

Institute for European Environmental Policy, London is a company limited by guarantee, and not having a share capital, governed by its Memorandum and Articles of Association. Every member undertakes to contribute to the assets of the company, if it is wound up, a sum not exceeding £1. At 31st December 2013 the company had 8 members (2012 : 9). The company is a registered charity number 802956.

16 Accounting for retirement benefits

The charity makes contributions to individual money purchase schemes on behalf of its staff as described in note 1. Contributions in the year to these schemes were £57,251 (2012: £ 69,388).

17 Investment in Joint Venture

During 2006 the Institute established a joint venture, Alliance Environnement GEIE, a company incorporated in Belgium. The cost of this to the Institute was £3,400 which consisted only of the acquisition of 50% of the ordinary share capital of the joint venture. The joint venture was incorporated to act as a collection agent for its shareholders. The costs of establishing the venture have been treated as expenditure in 2006 as there is no expectation of recovering the initial outlay. The Institute's share of the loss for the period is £550 (2012: £246) and, due to the fact that it is immaterial, it has not been consolidated into these accounts.

18 Contingent Liability

The Institute enters into a variety of funding arrangements under which it is accountable to the funders for the application of resources provided. Where these are subject to audit, this may occur in a period subsequent to that in which the project was delivered and income recognised. There is an ongoing risk that funder audits may disallow income previously claimed.

