

Assessment of the Fuel Cells and Hydrogen 2 Joint Undertaking (FCH 2 JU) Annual Activity Report (AAR) 2016 by the FCH 2 JU Governing Board

Introduction

2016 has been a year of many important changes for the FCH 2 JU, as the Programme Office has undergone an extensive reorganisation following the appointment of the new Executive Director, and most of the Governing Board has been replaced.

The European Commission's Clean Energy Package, published at the end of 2016, puts a strong emphasis on the integration of renewables and energy storage, as well as the deployment of low-emission and renewable energy for transport, thereby providing an excellent entry point to valorise the benefits of hydrogen in both the transport and the energy sectors. In addition, as a general trend, more attention is being paid to the impact of emissions on the public health, an area where FCH technologies can deliver a significant impact.

At the same time, many cities and regions are taking steps towards improving the urban environments by cutting air pollution and decarbonising the transport and energy sectors. The FCH 2 JU has succeeded in bringing together these regional stakeholders through the signature of a Memorandum of Understanding.

The climate is therefore right to demonstrate to Europe and the world which benefits FCH technologies can bring, and the Governing Board will continue to guide the FCH 2 JU in order to maximise its impact within the means and mandate available.

Analysis

The Fuel Cells and Hydrogen 2 Joint Undertaking's Annual Activity Report 2016 (Authorising Officer's report) was sent to the FCH 2 JU Governing Board on 28 February 2017 and is planned to be approved by the Governing Board in June 2017.

The Governing Board is of the opinion that the FCH 2 JU AAR 2016 covers well the main activities of the FCH 2 JU in 2016, clearly identifies the risks associated with the FCH 2 JU operations, duly reports on the use made of the FCH 2 JU resources provided, and indicates the efficiency and effectiveness of the FCH 2 JU internal control system.

The Governing Board recognizes the progress made by the FCH 2 JU and the achieved results in year 2016 and positively notes in particular the following elements:

OPERATIONS:

- The winding down of the FP7 programme progressed further as reflected by an increased number of closed projects: out of the 155 FCH-FP7 projects 81 are closed by end 2016, out of which 28 were closed in 2016. For these 81 projects the leverage effect is about 1.09: for each euro provided by the FCH JU, the industry and research beneficiaries provided 1.09 EUR in-kind.
- At the same time, H2020 is gaining speed: The Governing Board notes with satisfaction that the 15 Grant Agreements (GA) resulting from the 2015 call for proposals were signed in 2016, as well as 16 out of the 19 GA from the 2016 call. In both cases, Time To Inform (TTI) and Time To Grant (TTG) stay below the targets set forward by the Commission. In conjunction with the strong performance on the Time To Pay, this demonstrates the fact that the Programme Office is mastering all procedures and operations associated with H2020 well. The GB equally notes that both the 2015 and 2016 Call results show SME participation

exceeding MAWP targets, and welcomes the growing number of Research participants following the 2016 Call.

- The Governing Board commends the work that has been done on the IKAA procedures, and the positive impact this has generated in terms of leverage. It is pleased to see that the FCH 2 JU is well on track to delivering the €380M of combined in-kind contributions via IKOP and IKAA, and cash contributions towards the administrative costs, both required by the founding Council Regulation, well ahead of schedule.
- The quality of the JU's internal control system (procedures, checks, ex-ante controls) as well as the continuous guidance to beneficiaries aiming at avoiding errors in financial reporting should be highlighted and are demonstrated by the clean report from the European Court of Auditors (for the financial year 2015 published in November 2016) and the low error rate (cumulative residual error rate at 31 December 2016 was 1.19%).
- Finally, the GB is pleased to see the efforts that have gone into reinforcing the knowledge management capabilities of the Programme Office, as well as the improved procedure for gathering project data. It looks forward to seeing results generated by TRUST in the near future.

COMMUNICATION:

- The GB appreciates the continued effort towards raising the JU's profile and highlighting the technology's potential and readiness, following on from the Communication Strategy adopted in 2015.
- It welcomes the effort made to improve the visibility of the FCH 2 JU at different levels, including social media. It also appreciates the update to the website and the improved access to projects data that is now offered through it.
- The activities targeting Cities and regions, and notably the public signature of the Memorandum of Understanding, have generated a lot of interest and are expected to leverage new deployment and co-funding opportunities in collaboration with national and regional associations. The GB is looking forward to synergies to be established with cities and regions.

However, the Governing Board considers that the following aspects of the report require improvement:

- In the sections on Leverage (1.1 and 1.7), in future the AAR should, aside from IKOP and IKAA figures, also include the financial contributions made by Members other than the Union towards the administrative costs of the FCH 2 JU and contribution to indirect actions by non-Members. In addition, section 1.7 should be more explicit regarding the fact that activities below the €325k threshold ("Similar activities") do not contribute towards the IKAA target.
- With reference to section 1.3.1, the GB would like to see an improvement of the number of overarching projects over the coming years, as it considers that the success of FCH technologies will depend on cross-sectorial applications and should therefore address both the transport and the energy systems. In addition, it notes that the cross-cutting activities consistently remain below MAWP target in terms of budget distribution and recommends that the effort towards education, PNR and outreach is increased over the coming years.
- The GB insists on continued efforts on communication and outreach, in particular in establishing collaborations with other sectors. The portfolio of success stories should be kept updated, as it is considered a valuable communication tool. In general, the GB feels that the visual aspect of communication can be improved, e.g. through the creation of videos or visually attractive slide presentations, to be made available to members for promotional

purposes. It would also like to receive more information on the results of communication activities.

- An element which merits highlighting in the AAR is the move towards strategic discussions, with the introduction of high-level GB strategic discussions **as pointed out in the report** and also with the decision by the GB to **refine strategic priorities for the upcoming calls** of the FCH 2 JU.
- In general, the GB members would appreciate more information on the activities and achievements of both the States Representative Group and Scientific Committee, either in the course of GB meetings or via reporting in the AAR.

Furthermore, the Governing Board observes that the budget of the call 2016 was not fully consumed, and welcomes the improved approach followed in the AWP 2017 which addresses this concern while allowing strategic prioritization.

Risk management process

It is pleased to note the high effort being put into ensuring a clean audit opinion from the Court of Auditors and a clean discharge from the European Parliament. The GB is overall satisfied with the risk management actions taken over the past year, but urges the Programme Office to remain highly active and vigilant on the IKAA process and outputs in view of the high visibility of this deliverable.

Human resources

The Governing Board notes that the FCH 2 JU staff assigned to the activities carried out in 2016 has been used efficiently in view of the budget and number of projects to be handled by the JU. It welcomes the introduction of the new organisational structure with the clear distinction between operational and administrative activities, and is looking forward to the output generated by the newly introduced strategic functions, notably those of the Strategy & Market Dev't Manager and of the Financial Engineering Officer.

Internal control system

The Governing Board takes note of the transition towards a principle-based Internal Control Framework in the course of 2017 and the preparatory steps taken by the Programme Office in educating its staff on this upcoming transformation. It is of the opinion that, generally speaking, the current internal control system is working and adequately mitigates the critical risks which could hamper the achievement of the FCH 2 JU objectives and activities. It also notes with satisfaction the efforts invested in objectives and KPI's, risk management processes, overall procedures and staff appraisal and development issues.

The Governing Board is of the opinion that the internal reporting and management communication process is adequate given the size, organisation and scope of activities of the Programme Office.

The Governing Board notes with satisfaction that the ex-post audit strategy intended to ensure the legality and regularity of the expenditure has been duly implemented in 2016. 117 audits (99 representative and 18 risk-based) have been launched (comprising 399 cost claims) of which 109 are finalized and 8 are on-going. The cumulative audit coverage represents 21% (on finalized audits) and 24% (on total audits) of the value of the validated cost claims at the cut-off reporting date (i.e. 31 December 2016).

Management Assurance

The Governing Board welcomes the reasonable assurance that overall suitable control systems are in place and working as intended; that the identified risks are being mitigated and/or monitored; and that the improvements and reinforcement are being implemented.

The Governing Board appreciates that the necessary controls and monitoring mechanisms are in place to ensure that all errors detected in favour of the FCH 2 JU are timely and effectively corrected

The Governing Board welcomes that no reservation is necessary to the AAR 2016, as it can be stated with reasonable assurance that by the end of the programme the residual error rate is below the materiality threshold (i.e. 2%).

Conclusion

The declaration of the Executive Director and the FCH 2 JU AAR 2016 gives a good assessment of operational and financial management in relation to the achievement of objectives. Based on the information provided, the FCH 2 JU key objectives set up for 2016 have been met in compliance with the principles of legality and regularity of operations. Improvements are nevertheless recommended on the few aspects stated in the analysis of this report.

The Governing Board notes that the management of the FCH 2 JU has reasonable assurance that, overall, suitable controls are in place and working as intended, risks are being properly monitored and mitigated and necessary improvements and reinforcements detected by the auditors are being implemented. Therefore, the Executive Director, in his capacity as Authorising Officer, has signed the Declaration of assurance without any reservation.