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PROPOSAL

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Proposal for a
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
establishing a Social Climate Fund

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

The **European Green Deal Communication**¹ ('the European Green Deal') launched a new growth strategy for the European Union that aims to transform the Union into a sustainable, fairer and more prosperous society, with a modern, resource-efficient and competitive economy, where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. It reaffirms the Commission's ambition to increase its climate ambition and make Europe the first climate-neutral continent by 2050. The necessity and value of the European Green Deal have only grown in light of the very severe effects of the COVID-19 pandemic on the health, social and economic well-being of the Union's citizens.

Based on the European Green Deal strategy and a comprehensive impact assessment, the Commission's Communication of September 2020 on **Stepping up Europe's 2030 climate ambition**² ('the 2030 Climate Target Plan') proposed to raise the Union's ambition and put forward a comprehensive plan to increase the Union's binding target for 2030 towards at least 55% net emissions reduction, in a responsible way. Raising the 2030 ambition now helps give certainty to policymakers and investors, so that decisions made in the coming years do not lock in emissions levels inconsistent with the Union's objective to be climate neutral by 2050. The Union increased 2030 target is in line with the objective of Paris Agreement signed under the United Nations Framework Convention on Climate Change ('UNFCCC') ('the Paris Agreement')³ to keep the global temperature increase to well below 2°C and pursue efforts to keep it to 1.5°C.

The **European Council** endorsed the new Union binding target for 2030 at its meeting of December 2020⁴. On 25 May 2021, the **European Council** reaffirmed these conclusions and invited the Commission to swiftly put forward its legislative package together with an in-depth examination of the environmental, economic and social impact at Member State level. Both, the climate neutrality of the Union by 2050 and the intermediate net emission reduction of at least 55% by 2030 are enshrined in Regulation (EU) 2021/1119 of the European Parliament and of the Council⁵ ('the European Climate Law').

In order to implement the European Climate Law and the conclusions of the **European Council**, the Commission has reviewed the climate and energy legislation currently in place and proposes the '**Fit for 55**' legislative package.

The increased Union climate ambition also means the contribution from all sectors need to be increased. For that purpose, emissions trading for buildings and road transport is proposed as part of the revision of Directive 2003/87/EC⁶ ('the ETS Directive'). It should provide an additional economic incentive to reduce the direct consumption of fossil fuels and thereby

¹ COM(2019)640 final.

² COM (2020) 562 final.

³ Paris Agreement (OJ L 282, 19.10.2016, p. 4).

⁴ European Council Conclusions 10-11 December 2020 EUCO 22/20 CO EUR 17 CONCL 8.

⁵ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).

⁶ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union (OJ L 275, 25.10.2003, p.32).

contribute to reducing greenhouse gas emissions. Introducing a market price on carbon in these two sectors in conjunction with other measures should in the medium to long term reduce the costs for buildings and road transport, and will provide new opportunities for investment and job creation that will be taken full advantage of in the presence of the appropriate labour market and skill policies like those supported at the EU level by the European Social Fund Plus (ESF+) established by Regulation (EU) 2021/1057 of the European Parliament and of the Council⁷ and the Just Transition Fund established pursuant to Regulation (EU) 2021/1056 of the European Parliament and of the Council⁸.

However, the increase in the price for fossil fuels will have significant social and distributional impacts that may disproportionately affect vulnerable households, vulnerable micro-enterprises and vulnerable transport users who spend a larger part of their incomes on energy and transport and who, in certain regions, do not have access to alternative, affordable mobility and transport solutions. Such impacts on vulnerable groups differ between Member States, and price impacts are likely to be felt more strongly in Member States, regions and population with lower average income. As corollary to the fuel price increases through carbon pricing, the emissions trading generates revenues, which can be used to alleviate the burden on the vulnerable groups.

To address the social and distributional impacts on the most vulnerable arising from the emissions trading for the two new sectors of buildings and road transport, a Social Climate Fund ('the Fund') is created. The adjustments to the Union budgetary framework necessary for this proposal will be presented by the Commission as part of the upcoming Own Resources package including a proposal to amend the multiannual financial framework⁹. In particular, part of the revenues from the emission trading for buildings and road transport will accrue to the Union budget and a percentage of it will in principle correspond to the new Fund. Before the end of the year, the Commission also intends to present a proposal for a Council Recommendation on how to address the social aspects of the desired green transition.

The Fund aims at mitigating the price impact of the new carbon pricing and should provide funding to Member States to support their policies to address the social impacts of such emissions trading on vulnerable households, vulnerable micro-enterprises and vulnerable transport users. This should be achieved notably through temporary income support and measures and investments intended to reduce in the medium to long term the reliance on fossil fuels through increased energy efficiency of buildings, decarbonisation of heating and cooling of buildings, including the integration of energy from renewable sources, and granting improved access to zero- and low-emission mobility and transport.

- **Consistency with existing policy provisions in the policy area**

Establishing the Social Climate Fund aims to address part of the social and distributional challenges of Union's green transition. It is consistent with the climate action policy of the Union and with the commitments undertaken by the Union and the Member States under the Paris Agreement. The increased climate ambition of the Union as confirmed by the European Council conclusions of December 2020 and May 2021, as well as the provisions of the

⁷ Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231, 30.6.2021, p. 21).

⁸ Regulation (EU) 2021/1056 of the European Parliament and of the Council of 24 June 2021 establishing the Just Transition Fund (OJ L 231, 30.6.2021, p. 1).

⁹ Amended proposal for a Council Regulation (EU) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027, COM/2021/XXX final.

European Climate Law are taken into account while establishing the Fund. In particular, the Fund is intended to alleviate the social and distributional burden from the price impacts of the emissions trading for the sectors of buildings and road transport, and to facilitate clean investments to mitigate that burden. Also other climate, energy and transport legislation which impact these sectors cover social aspects, for example current provisions of Directive 2012/27/EU of the European Parliament and of the Council¹⁰ (‘the Energy Efficiency Directive’) and the ETS Directive both already indicate that the use of funds and revenues should take into account social aspects. The new Fund is complementary to existing budgetary instruments focusing on the investments and skills in relation to the transition.

The climate neutrality objective of the European Green Deal and the European Climate Law, and the twin green and digital transition are a core priority of the Union. The **‘Fit for 55’** package, the Next Generation EU and the multiannual financial framework for 2021-2027 will help achieving the twin green and digital transitions that Europe is aiming for. The combination of these policies will contribute decisively to addressing the economic crisis and facilitating recovery following the COVID-19 pandemics and accelerating the shift to a clean and sustainable economy, linking climate action and economic growth and social and territorial cohesion.

The necessity and value of the green transition have only increased following the severe effects of the COVID-19 pandemic on the health and economic well-being of the Union’s citizens. The Fund will start to be operational during the last two years of the Recovery Instrument¹¹ and the Recovery and Resilience Facility¹² that are the Union measures to mitigate the economic and social impact of the COVID-19 pandemic and make Union economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. The implementation of the Fund, which should continue until 2032, will be consistent with those previous measures. Similarly, the Just Transition Fund is financed from the multiannual financial framework and will end in 2027. Thus, the Fund should continue to operate for five more years.

Governance and framing of the interventions

The European Green Deal acknowledged that the need for a socially just transition must also be reflected in policies at Union and national level. This includes investments to provide affordable solutions to those worst affected by, and less able to cope with, carbon pricing policies, for example through improved public transport, as well as measures to mitigate and address energy poverty and promote re-skilling. This is in line with Principles 1 and Principle 20 of the European Pillar of Social Rights to facilitate labour market transitions in the context of the twin transitions and the recovery from the socio-economic impact of the COVID-19 pandemic and ensure access to essential services such as energy and mobility for all.

Under the climate governance framework, Member States are obliged to update in 2023 their integrated national energy and climate plans (‘NECP’) in accordance with Regulation (EU)

¹⁰ Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (OJ L 315, 14.11.2012, p. 1).

¹¹ Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis (OJ L 4331, 22.12.2020, p. 23).

¹² Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

2018/1999 of the European Parliament and the Council¹³ (‘the Governance Regulation’). The 10 year NECPs outline how the EU Member States intend to address energy efficiency, renewables and greenhouse gas emission reductions and they already cover energy poverty under current legislation. The Commission monitors and reports on progress as part of the energy union report. The Fund and the Social Climate Plans will link in with and be framed by the reforms planned and the commitments made by the NECPs. With a view to minimize additional administrative costs, the timing of the Social Climate Plans presentation and adoption is aligned to the already existing NECP process.

The implementation of the Fund through the Member States’ Social Climate Plans will also be coherent with the policy and measures supported by various other EU instruments fostering a socially just transition. These include the European Pillar of Social Rights Action Plan¹⁴, which aims for a socially fair and just green transition for all Europeans, the European Social Fund Plus (ESF+), the Just Transition Plans pursuant to Regulation (EU) 2021/1056, Member States long-term buildings renovation strategies pursuant to Directive 2010/31/EU of the European Parliament and of the Council¹⁵ and the Energy Poverty Observatory, which supports Member States’ efforts in alleviating and monitoring energy poverty and related policy mixes, in line with the Commission Recommendation on Energy Poverty¹⁶.

The Social Climate Fund will also contribute to the implementation of the ‘EU Action Plan: Towards Zero Pollution for Air, Water and Soil’¹⁷ which aims at maximising synergies between decarbonisation and the zero pollution ambition. To this end, measures and investments will also be geared towards actions (e.g. on heating and boilers) that can simultaneously help reduce air pollution since the the fight against pollution is also a fight for fairness and equality. Pollution’s most harmful impacts on human health are typically borne by the most vulnerable groups.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

• Legal basis

The legal bases for the proposal of this Regulation to establish Social Climate Fund are Article 91(1)(d), Article 192(1) and Article 194(1)(c) of the Treaty on the Functioning of the European Union (‘TFEU’).

The Fund is established to tackle the social and distributional challenges from the green transition necessary to combat climate change and to incentivise the measures necessary to alleviate the social consequences of the emissions trading for the sectors of buildings and road transport.

According to Article 192(1) of TFEU, the Union is to contribute to the pursuit, *inter alia* to preserving, protecting and improving the quality of the environment, promoting measures at

¹³ Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (OJ L 328, 21.12.2018, p. 1).

¹⁴ Endorsed by the European Council on 24 and 25 June 2021.

¹⁵ Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (OJ L 153, 18.6.2010, p. 13).

¹⁶ Commission Recommendation (EU) 2020/1563 of 14 October 2020 on energy poverty C/2020/9600 (OJ L 357, 27.10.2020, p. 35).

¹⁷ COM(2021) 400.

international level to deal with regional or worldwide environmental problems, and in particular combating climate change. Union policy on the environment aims at a high level of protection taking into account the diversity of situations in the various regions of the Union. The measures aimed at sustainable transport are also adopted under these provisions.

The Fund addresses in particular the energy poverty challenges for vulnerable households and vulnerable micro-enterprises. It should support measures to promote energy efficiency, energy saving and the development of new and renewable forms of energy, as indicated in Article 194(1)(c) of TFEU.

The Fund also need to address the situation of vulnerable transport users. It should support measures to facilitate their access to zero- and low-emission mobility and transport solutions, including public transport, and thereby contribute to achieve the objectives of the common transport policy as indicated in Article 91(1)(d) of TFEU.

- **Subsidiarity (for non-exclusive competence)**

The Fund is established to complement the emission trading for buildings and road transport that is to apply throughout the Union. The application of a uniform price for greenhouse gas emissions from buildings and road transport will have an uneven impact in different Member States and regions. The Fund shall provide support to Member States, so that they could finance a coherent set of measures, including temporary direct income support, and investments considered necessary to meet the climate targets of the Union and, in particular ensuring affordable and sustainable heating, cooling, and mobility. The support should reflect the diverse situation of Member States and their regions, taking into account regional energy poverty maps and maps of poorly connected by road or rail, remote and rural areas. Those measures and investments, including the temporary direct income support shall benefit households, micro-enterprises and transport users, which are vulnerable and particularly affected by the emissions trading for buildings and road transport as regulated entities are expected to pass through costs to final consumers.

Funding from the Union budget concentrates on activities whose objectives cannot be sufficiently achieved by all the Member States alone ('necessity test'), and where the Union intervention can bring additional value compared to action of Member States alone. In the present case, the specific needs of the different Member States are reflected in the allocation methodology. The creation of a Union programme also ensures that all Member States can take measures to complement the climate action at Union level. The Member States will be those who will design and select the measures and investments, because they are best placed to design measures that reflect the national particularities.

Member States should put forward a comprehensive set of measures and investments to be financed by the Fund as their Social Climate Plans to be submitted together with the update of their NECP in accordance with the Governance Regulation.

Action at the Union level is necessary to achieve a fast and robust green transition where no one is left behind. Action thus at the Union level is needed to coordinate an appropriate response to the social challenges from the emission trading for the sectors of buildings and road transport ('effectiveness test'). This goal cannot be achieved to a sufficient degree by the Member States acting alone, while the Union's intervention can bring an additional value by establishing an instrument targeted at supporting Member States financially as regards the design and implementation of much needed measures and investments.

- **Proportionality**

The proposal complies with the proportionality principle in that it does not go beyond the minimum required in order to achieve the stated objective at the Union level and which is necessary for that purpose.

- **Choice of the instrument**

The goals described in the preceding sections cannot be reached through a harmonisation of legislations, or by voluntary action of the Member States. Only a regulation would allow them to be achieved. A regulation applicable to all Member States is also the most appropriate legal instrument to organise the provision of financial support with a view to ensure equal treatment of Member States.

The majority of revenues from the new emissions trading will accrue to national budgets of the Member States and should be used for climate-related purposes, including to address the social impacts of the new emissions trading. Member States are encouraged to use such revenues, as well as to direct additional funding available from other Union programmes, to measures that support a socially fair decarbonisation of the sectors. A new fund in direct management in the Union budget complements these measures in a way that provides specifically for, and is directly linked to the social challenges from emission trading in the sectors of buildings and road transport through a results oriented integrated approach based on an agreed plan with clear targets, milestones and deliverables. The distribution key for the Fund takes into account the uneven impact expected across and within Member States.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Ex-post evaluations/fitness checks of existing legislation**

There was no ex-post evaluation or fitness check related to this proposal as the implementation of the increased Union climate ambition has not yet started.

- **Stakeholder consultations**

The Commission invited the Member States, industry representatives from the private sector, non-governmental organisations, research and academic institutions, trade unions and citizens to provide their feedback and opinion on the possible emissions trading for the sectors of buildings and road transport, including on its social consequences.

The Commission collected first round of public consultation before it adopted the Communication on the 2030 Climate Target Plan that proposed to raise the Union's ambition and put forward a comprehensive plan to increase Union's binding target for 2030 towards at least 55% net emissions reduction, in a responsible way.

For each of the proposals of the '**Fit for 55**' package the Commission organised a second round of online public consultations. With regard to the revision of the ETS Directive, including the emissions trading for buildings and road transport, almost 500 replies were received¹⁸. Prior to that, the Commission invited feedback on an inception impact

¹⁸ This was open for 12 weeks from 13 November 2020 to 5 February 2021. The outcome can be found on the following website: <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12660-Updating-the-EU-Emissions-Trading-System/public-consultation>.

assessment¹⁹ of the revision of the ETS Directive, including the initial considerations and policy options on the possible set up of the emissions trading.

With regard to the buildings and road transport sectors, several stakeholders, including social partners from both the employer and employee side, are generally sceptical about an extension of emissions trading to these sectors. Among the presented options, the preferred policy option of a wide range of stakeholders was to start with a separate self-standing system for the building and road transport sectors, as reflected in the proposal on the ETS revision. Several stakeholders also referred to the social impacts of an increase in the price for heating and transport fuels on the most vulnerable households. In particular, it was highlighted that low-income households may need support in order to carry out the necessary investments in energy efficiency and zero- and low-emission mobility and transport.

- **Collection and use of expertise**

This proposal builds upon evidence gathered in the impact assessment accompanying the 2030 Climate Target Plan²⁰, the impact assessment underpinning the revision of the ETS Directive²¹, analysis conducted in support of the Commission's Long-Term Strategy²² and relevant evidence compiled in other concurrent European Green Deal initiatives, as well as earlier studies related to buildings and road transport.

- **Impact assessment**

The problems addressed by the proposed Fund and the possible solution directions are analysed in two consecutive impact assessments, therefore no specific impact assessment was carried out.

The impact assessment underpinning the 2030 Climate Target Plan found that an increase of the 2030 emission target to -55% increases the share of energy related households expenditures by around 0.7 to 0.8 percentage points. Changes in consumer prices affect households in contrasted manners that depend on their expenditure structure, level and sources of incomes, wealth and the very composition of the household.

The estimated changes in relative prices generated by higher climate ambition would affect lower income earners significantly more than the top income earners. However, these results do not include the redistribution of auction revenues. If for example, a lump-sum redistribution of the auction revenues based on household size is introduced for each Member State, this could generate a positive welfare impact on the bottom expenditure decile of the Union population as a whole and sharply reduce the negative impact on all other expenditure classes. The impact assessment also concluded that as an actual policy, a redistribution mechanism could be significantly more targeted to address the needs of lower income/expenditure deciles. This would enable a higher degree of compensation for and support to the households in need for any given level of revenue generated by carbon pricing.

¹⁹ The inception impact assessment was open for feedback from 29 October 2020 to 26 November 2020 and received about 250 contributions. The outcome can be found on the following website: <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12660-Updating-the-EU-Emissions-Trading-System>.

²⁰ SWD(2020)176, in particular section 6.5.2.

²¹ [Impact Assessment accompanying ...]

²² Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank 'A Clean Planet for all A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy', COM/2018/773 final.

The impact assessment accompanying the Proposal for amending the ETS Directive within the **‘Fit for 55’ package** refines this analysis. It puts a specific focus on introducing emissions trading for buildings and road transport and analyses its social impacts, in particular on the lower-income and vulnerable households. Notably it disaggregates the household energy expenditure into fuel costs and capital costs for investments, as well as per main household income groups and Member State income groups.

Residential investment expenditures are expected to increase in 2030 in the Union by 0.4 to 0.7 percentage points of household income compared to the baseline as consequence of the **‘Fit for 55’ package**. In a more carbon price driven policy setting, investment expenditures increase less strongly than in a more balanced policy mix. In a cost-effective policy mix the investment expenditure increases for lower income households would be across all MS income groups over double of the average household. Increases are well above Union average in MS with a GDP per capita below 60% of the Union average. This shows the importance of access to finance, for renovation of the housing stock, and the purchase of energy efficient equipment, in particular in lower income Member States.

The impact assessment for the revision of the ETS Directive found that emissions trading for buildings will not affect households equally, but would likely have a regressive impact on disposable income, as low-income households tend to spend a greater proportion of their income on heating. In addition, the introduction of a harmonised carbon price will have a very different impact on consumer prices in the Member States depending on the existing level of taxes on the fuels concerned, as pre-tax prices of fossil fuels are comparable across the Member States. However, overall fuel expenditures as percentage of income remain on average nearly stable. This means that there can be fuel expenditure savings despite the price increases, provided that cost-effective investments are realised. If these investments are realised, then on average the lower income households will be in a better position than the average household. For the low-income Member State group the share of fuel expenditures in household consumption expenditures rises across all income groups, and more strongly for low-income households. If the necessary energy efficiency, refurbishment and renewable energy investments are undertaken, the challenge of fuel price increases remains limited and focused on lower-income households in low-income Member States.

With regards to road transport, the Sustainable and Smart Mobility Strategy (‘SSMS’) and the impact assessment, accompanying the 2030 Climate Target Plan, have recognised the central importance of investments aimed at boosting demand for zero- and low-emission vehicles and at accelerating the rollout of recharging and refuelling infrastructure for these vehicles, which will play a key role in achieving the goal of decarbonising significantly road transport by 2030.

The impact assessment accompanying the proposal to revise the ETS Directive finds that the impacts on the households from the emissions trading for road transport are mixed. Typically, it is the lower-middle and middle parts of the household income classes where the proportion of spending on transport is highest (because the lowest income households do not have access to a private vehicle).

However, the impact assessment also concludes that although the carbon pricing increases energy costs for consumers, at the same time it raises revenues, which can be used for reinvestments, for stimulating climate action and to address social or distributional impacts of carbon pricing. Revenues from the auctioning of allowances under that emissions trading can be used through different redistributive mechanisms as compensation to the consumers, support to investment in energy efficiency or in renewables, or other options.

- **Regulatory fitness and simplification**

The EU ETS legislation has consistently favoured approaches to minimise the regulatory burden for both economic operators and administrations.

In line with the Commission's commitment to Better Regulation, this proposal has been prepared taking into account stakeholder contributions (see also section on the collection and use of expertise).

The Social Climate Plans are to be submitted together with the update of the existing national energy and climate plans ('NECPs') to minimise additional administrative efforts. The NECPs already contain a detailed overview of the underlying issues about energy poverty that the Fund addresses. Similarly, building renovation, sustainable transport and projects relating to decarbonising road transport have already been extensively addressed in the national Recovery and Resilience Plans.

The required additional administrative effort would mostly fall on administrations, while ultimate benefits would accrue to households, micro-enterprises and transport users. Opportunities for revenues and jobs would benefit local companies, often small and medium enterprises.

- **Fundamental rights**

The proposal has a positive effect on the preservation and development of Union fundamental rights as well as principles of inclusion and non-discrimination, assuming that the Member States request and receive support in related areas that may be financed under the Fund.

Women are particularly affected by carbon pricing measures as they represent 85% of single parent families. Single parent families have a particular high risk of child poverty. Gender equality and equal opportunities for all, and the mainstreaming of those objectives, are to be taken into account and promoted throughout the implementation of the Fund. Moreover, 87 million Europeans with some sort of disability live in private households and face significant risk of poverty and social exclusion (28.5% as compared to 18.6% of those without disabilities in the Union in 2019).

4. BUDGETARY IMPLICATIONS

The total financial envelope of the Fund for the 2025-32 period will be EUR 72.2 billion in current prices. The Commission will shortly propose a targeted amendment of the Regulation for the multiannual financial framework for the years 2021 to 2027 to accommodate an additional Union spending of an amount of EUR 23.7 billion for the period 2025-2027. The spending should be frontloaded to precede and accompany a smooth introduction of the new ETS. The amount of EUR 48.5 billion for the period 2028- 2032 is subject to the availability of the funds under the annual ceilings of the applicable multiannual financial framework referred to in Article 312 TFEU, for which the Commission will make a proposal before 1 July 2025²³.

The financial envelope of the Fund should in principle correspond to 25% of the expected revenues from the inclusion of buildings and road transport within the scope of application of the ETS Directive, given its direct link with the new ETS. The proposal for amendment to Own Resources Decision will set out how Member States should make available the necessary revenues to the Union budget as own resources.

²³ Article 21 of Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027 (OJ L 433I, 22.12.2020, p. 11).

For the period 2025-2032, the Fund will thus be financed by the own resources of the Union budget, including as of 2026 the revenues from the emission trading for buildings and road transport as foreseen in the amendment to Own Resources Decision that the Commission will present shortly. The Fund should apply one year before the introduction of carbon price under the new ETS.

The annual distribution of budgetary commitments shall be calibrated in line with the Fund's objective. The result is a frontloaded profile, in line with the Fund's objectives to alleviate the effects of the extended scope of the ETS Directive on vulnerable households, vulnerable micro-enterprises and vulnerable transport users. In order to anticipate the effects of the extension, some support is already made available in 2025.

Budgetary commitments shall be broken down into annual instalments spread over two multiannual periods 2025-2027 and 2028-2032, corresponding with the current and next MFF and in line with an indicative timetable for the implementation of the relevant milestones and targets included in the Commission Decision approving the Member State's Social Climate Plans.

Payments of financial allocations to the Member State shall be made upon completion of the relevant agreed milestones and targets indicated in the Member State's Social Climate Plan as approved and subject to available funding. Payments will be made based on the Decision authorising the disbursement of the financial allocation.

To facilitate the timely implementation of the supported measures and investments, the planning of the milestones and targets is expected to closely follow the schedule of the annual budgetary commitments, underpinning a fast absorption speed for the Fund. Final payments will be made in 2032 in line with the deadline for completion of all milestones and targets

The maximum financial allocation from the Fund to each Member State shall be calculated following the formula presented in Annex I of the Regulation. The resulting proportion and amount of each Member State in the financial envelope of the Fund is presented in Annex II. Each Member State may submit a request up to its maximum financial allocation to implement its respective plan.

The maximum financial allocation per Member State is to take into account the gross of the administrative support expenditure referred to in Article 9(3) of this Regulation. The related amounts will be deducted from the individual financial allocations on a *pro rata* basis.

Member States should finance at least 50% of the total costs of the Social Climate Plans. They are to use part of their expected revenues from the inclusion of buildings and road transport into the scope of application of the ETS Directive for this purpose, without prejudice to the start of the Fund in 2025.

Further details on the budgetary implications and the human and administrative resources required are provided in the Legislative Financial Statement attached to this proposal.

5. OTHER ELEMENTS

• Implementation plans and monitoring, evaluation and reporting arrangements

In order to monitor the performance of the implementation of the Fund a system for requesting and executing payments from the Fund will be set up.

Member States should develop their Social Climate Plans to set the measures and investments to be financed, their expected costs as well as milestones and targets to achieve them. The Commission is to assess those plans and may approve them only after a positive assessment

based on their relevance, effectiveness, efficiency and coherence. The disbursement of the financial allocation will follow the completion of the milestones and targets agreed with the Member State concerned and made binding by a Commission Implementing Decision. The submission timing as well as progress reporting cycles are aligned with the updates of the integrated national energy and climate plans submitted under the Governance Regulation.

For that purpose, once or twice per year Member States may be able to request a payment under the Fund that should be accompanied by evidence on the achieved relevant milestones and targets. The Member States should report to the Commission on the progress made for the implementation of the measures and investments under their Social Climate Plans in the biennial reporting on progress in the implementation of their NECPs under the Governance Regulation.

An evaluation and an ex-post evaluation will be carried out with a view to assessing the effectiveness, efficiency, relevance and coherence of the Fund. Where appropriate, the Commission will accompany the evaluation with a proposal for review of the Regulation.

- **Detailed explanation of the specific provisions of the proposal**

A Social Climate Fund is established for the period 2025 to 2032 to address the social impacts arising from the emissions trading for the sectors of buildings and road transport (Article 1). The funds of the Fund should be provided to Member States to provide temporary income support and to support their measures and investments intended to reduce reliance on fossil fuels through increased energy efficiency of buildings, decarbonisation of heating and cooling of buildings, including the integration of energy from renewable sources, and granting improved access to zero- and low-emission mobility and transport to the benefit of vulnerable households, vulnerable micro-enterprises and vulnerable transport users.

Each Member State should establish its Social Climate Plan (Article 3). The Plan is to be submitted together with the update of the NECP under the procedure and timeline envisaged by the Governance Regulation, where the official submission is due by end-June 2024. The Regulation sets the content of the Social Climate (Article 4) and lists the eligible (Article 6) and non-eligible (Article 7) actions. The Fund should support activities that fully respect the climate and environmental standards and priorities of the Union and the principle of ‘do no significant harm’ within the meaning of Article 17 of Regulation (EU) 2020/852 of the European Parliament and of the Council²⁴ (Article 5).

The financial envelope of the Fund is EUR 23.7 billion for the years 2025-2027 and EUR 48.5 billion for the years 2028-2032 (Article 9), which corresponds in principle to 25% of the expected revenues to be accumulated from the auctioning of allowances within the emissions trading for buildings and road transport. The distribution of the funds in the Fund will be made in accordance with Article 13 and Annexes I and II. Member States should contribute to at least 50% of the total estimated costs of the plan. For that purpose, they should *inter alia* use the revenues from auctioning of their allowances under the emissions trading for the two new sectors (Article 14).

The Commission is to assess the relevance, effectiveness, efficiency and coherence of Member States’ Plans (Article 15). Upon positive assessment, the Commission is to adopt an implementing decision (Article 16). Otherwise it may reject the Social Climate Plan, in which case the Member State concerned may submit an update of the Plan.

²⁴ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

During the implementation phase, the Member States may request a reasoned amendment of its Social Climate Plan, where its milestones and targets are no longer achievable, either partially or totally, because of objective circumstances (Article 17). The Member States should assess the appropriateness of their Social Climate Plans in view of the actual effects of the emissions trading system for buildings and road transport.

Based on a positive assessment of the Social Climate Plan, the Commission will conclude an agreement with the Member State concerned (Article 18) for the purposes of establishing an individual legal commitment within the meaning of the Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council²⁵ ('the Financial Regulation').

The payments of financial allocations to the Member States under the Fund are made upon completion of the relevant agreed milestones and targets indicated in the Social Climate Plans. Concrete rules are sets on payments, suspension and termination of agreements regarding financial allocations (Article 19).

The Regulation contains the necessary provisions to safeguard the linking of the Fund to the protection of the financial interests of the Union (Article 20).

Concrete provisions are included to ensure a robust system for coordination, communication and monitoring (Articles 21, 22 and 23). The Commission is to set out in delegated acts the common indicators for reporting on the progress and for the purpose of monitoring and evaluation.

Evaluation will be carried out with a view to assessing the effectiveness, efficiency, relevance and coherence of the Fund. An assessment of the size of financial envelope of the Fund will be made in view of the auction revenues accumulated from the auctioning of allowances under the emissions trading system for buildings and road transport under the ETS Directive. Where appropriate, the Commission will accompany the evaluation with a proposal for review of the Regulation (Article 24).

To ensure that the Fund is used only if the emissions trading system for buildings and road transport is effectively implemented, the Regulation will apply from date Member States have to transpose the ETS Directive for building and road transport (Article 26). Moreover, the Member States will be able to request a payment under the Fund not earlier than during the year preceding the year of the start of the auctions under the new emissions trading (Article 18(1)).

²⁵ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, p. 1).

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
establishing a Social Climate Fund

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,
 Having regard to the Treaty on the Functioning of the European Union, and in particular Article 91(1), point (d), Article 192(1) and Article 194(1), point (c), thereof,
 Having regard to the proposal from the European Commission,
 After transmission of the draft legislative act to the national parliaments,
 Having regard to the opinion of the European Economic and Social Committee²⁶,
 Having regard to the opinion of the Committee of the Regions²⁷,
 Acting in accordance with the ordinary legislative procedure,
 Whereas:

- (1) The Union and its Member States are Parties to the Paris Agreement, which was signed in December 2015 under the United Nations Framework Convention on Climate Change (UNFCCC) ('the Paris Agreement')²⁸ and entered into force in November 2016. According to that Agreement, they are bound to limit the increase in the global average temperature well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1,5°C above pre-industrial levels.
- (2) The Commission Communication The European Green Deal²⁹ sets out a new growth strategy that aims to transform the Union into a sustainable, fairer and more prosperous society, with a modern, resource-efficient and competitive economy, where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. The Commission proposes also to protect, conserve and enhance the Union's natural capital, and protect the health and well-being of citizens from environment-related risks and impacts. Finally, the Commission considers that this transition should be just and inclusive, leaving no one behind.
- (3) Regulation (EU) 2021/1119 of the European Parliament and of the Council³⁰ enshrines into law the target of economy-wide climate neutrality by 2050. That Regulation establishes a binding commitment on the part of the Union to reduce emissions. By 2030, the Union should reduce its greenhouse gas emission, after deduction of

²⁶ OJ C , , p.

²⁷ OJ C , , p.

²⁸ Paris Agreement (OJ L 282, 19.10.2016, p. 4).

²⁹ COM(2019)640 final.

³⁰ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).

removals of greenhouse gas emissions, by at least 55% compared to the level in 1990. All sectors of the economy should contribute to achieving that target.

- (4) On 11 December 2020 the European Council endorsed that target, while underlining the importance of considerations of fairness and solidarity and leaving no one behind. On 25 May 2021, the European Council reaffirmed those conclusions and invited the Commission to swiftly put forward its legislative package together with an in-depth examination of the environmental, economic and social impact at Member State level.
- (5) Principle 20 of the European Pillar of Social Rights states that “everyone has the right to access essential services of good quality, including water, sanitation, energy, transport, financial services and digital communications. Support for access to such services shall be available for those in need”.
- (6) The Porto Declaration of 8 May 2021 reaffirmed the European Council’s pledge to work towards a social Europe, and its determination to continue deepening the implementation of the European Pillar of Social Rights at EU and national level, with due regard for respective competences and the principles of subsidiarity and proportionality.
- (7) In order to implement the commitments towards climate neutrality, the Union’s climate and energy legislation has been reviewed and amended in order to accelerate the greenhouse gas emissions reductions.
- (8) Those amendments have differing economic and social impacts on the different sectors of the economy, on the citizens, and the Member States. In particular, the inclusion of greenhouse gas emissions from buildings and road transport into the scope of Directive 2003/87/EC of the European Parliament and the Council³¹ should provide an additional economic incentive to invest into the reduction of fossil fuel consumption and thereby accelerate the reduction of greenhouse gas emissions. Combined with other measures, this should, in the medium to long term, reduce the costs for buildings and road transport, and provide new opportunities for job creation and investment.
- (9) However, resources are needed to finance those investments. In addition, before they have taken place, the cost supported by households and transport users for heating, cooling and cooking, as well as for road transport, is likely to increase as fuel suppliers subject to the obligations under the emission trading for buildings and road transport pass on costs on carbon to the consumers.
- (10) The increase in the price for fossil fuels may disproportionately affect vulnerable households, vulnerable micro-enterprises and vulnerable transport users who spend a larger part of their incomes on energy and transport, who, in certain regions, do not have access to alternative, affordable mobility and transport solutions and who may lack the financial capacity to invest into the reduction of fossil fuel consumption.
- (11) Therefore, a part of the revenues generated by the inclusion of building and road transport into the scope of Directive 2003/87/EC should be used to address the social impacts arising from that inclusion, for the transition to be just and inclusive, leaving no one behind.

³¹ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union (OJ L 275, 25.10.2003, p. 32).

- (12) This is even more relevant in view of the existing levels of energy poverty. Energy poverty is a situation in which households are unable to access essential energy services such as cooling, as temperatures rise, and heating. About 34 million Europeans reported an inability to keep their homes adequately warm in 2018, and 6.9% of the Union population have said that they cannot afford to heat their home sufficiently in a 2019 EU-wide survey³². Overall, the Energy Poverty Observatory estimates that more than 50 million households in the European Union experience energy poverty. Energy poverty is therefore a major challenge for the Union. While social tariffs or direct income support can provide immediate relief to households facing energy poverty, only targeted structural measures, in particular energy renovations, can provide lasting solutions.
- (13) A Social Climate (‘the Fund’) should therefore be established to provide funds to the Member States to support their policies to address the social impacts of the emissions trading for buildings and road transport on vulnerable households, vulnerable micro-enterprises and vulnerable transport users. This should be achieved notably through temporary income support and measures and investments intended to reduce reliance on fossil fuels through increased energy efficiency of buildings, decarbonisation of heating and cooling of buildings, including the integration of energy from renewable sources, and granting improved access to zero- and low-emission mobility and transport to the benefit of vulnerable households, vulnerable micro-enterprises and vulnerable transport users.
- (14) For that purpose, each Member State should submit to the Commission a Social Climate Plan (‘the Plan’). Those Plans should pursue two objectives. Firstly, they should provide vulnerable households, vulnerable micro-enterprises and vulnerable transport users the necessary resources to finance and carry out investments in energy efficiency, decarbonisation of heating and cooling, in zero- and low-emission vehicles and mobility. Secondly, they should mitigate the impact of the increase in the cost of fossil fuels on the most vulnerable and thereby prevent energy and transport poverty during the transition period until such investments have been implemented. The Plans should have an investment component promoting the long-term solution of reduce fossil fuels reliance and could envisage other measures, including temporary direct income support to mitigate adverse income effects in the shorter term.
- (15) Member States, in consultation with regional level authorities, are best placed to design and to implement Plans that are adapted and targeted to their local, regional and national circumstances as their existing policies in the relevant areas and planned use of other relevant EU funds. In that manner, the broad diversity of situations, the specific knowledge of local and regional governments, research and innovation and industrial relations and social dialogue structures, as well as national traditions, can best be respected and contribute to the effectiveness and efficiency of the overall support to the vulnerable.
- (16) Ensuring that the measures and investments are particularly targeted towards energy poor or vulnerable households, vulnerable micro-enterprises and vulnerable transport users is key for a just transition towards climate neutrality. Support measures to promote reductions in greenhouse gas emissions should help Member States to address the social impacts arising from the emissions trading for the sectors of buildings and road transport.

³² Data from 2018. Eurostat, SILC [ilc_mdcs01]).

- (17) Pending the impact of those investments on reducing costs and emissions, well targeted direct income support for the most vulnerable would help the just transition. Such support should be understood to be a temporary measure accompanying the decarbonisation of the housing and transport sectors. It would not be permanent as it does not address the root causes of energy and transport poverty. Such support should only concern direct impacts of the inclusion of building and road transport into the scope of Directive 2003/87/EC, not electricity or heating costs related to the inclusion of power and heat production in the scope of that Directive. Eligibility for such direct income support should be limited in time.
- (18) Taking into account the importance of tackling climate change in line with Paris Agreement commitments, and the commitment to the United Nations Sustainable Development Goals, the actions under this Regulation should contribute to the achievement of the target that 30% of all expenditure under the 2021-2027 multiannual financial framework should be spent on mainstreaming climate objectives and should contribute to the ambition of providing 10% of annual spending to biodiversity objectives in 2026 and 2027, while considering the existing overlaps between climate and biodiversity goals. For this purpose, the methodology set out in Annex II of Regulation (EU) 2021/1060 of the European Parliament and of the Council³³ should be used to tag the expenditures of the Fund. The Fund should support activities that fully respect the climate and environmental standards and priorities of the Union and comply with the principle of ‘do no significant harm’ within the meaning of Article 17 of Regulation (EU) 2020/852 of the European Parliament and of the Council³⁴. Only such measures and investments should be included in the Plans. Direct income support measures should as a rule be considered as having an insignificant foreseeable impact on environmental objectives, and as such be considered compliant with the principle of ‘do no significant harm’. The Commission intends to issue technical guidance to the Member States well ahead of the preparation of the Plans. The guidance will explain how the measures and investments must comply with the principle of ‘do no significant harm’ within the meaning of Article 17 of Regulation (EU) 2020/852. The Commission intends to present in 2021 a proposal for a Council Recommendation on how to address the social aspects of the green transition.
- (19) Women are particularly affected by carbon pricing as they represent 85% of single parent families. Single parent families have a particularly high risk of child poverty. Gender equality and equal opportunities for all, and the mainstreaming of those objectives, as well as questions of accessibility for persons with disabilities should be taken into account and promoted throughout the preparation and implementation of Plans to ensure no one is left behind.
- (20) Member States should submit their Plans together with the update of their integrated national energy and climate plans in accordance with Article 14 of Regulation (EU)

³³ Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

³⁴ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

2018/1999 of the European Parliament and of the Council³⁵. The Plans should include the measures to be financed, their estimated costs and the national contribution. They should also include key milestones and targets to assess the effective implementation of the measures.

- (21) The Fund and the Plans should be coherent with and framed by the reforms planned and the commitments made by the Member States under their updated integrated national energy and climate plans in accordance with Regulation (EU) 2018/1999, under Directive [yyyy/nnn] of the European Parliament and the Council [Proposal for recast of Directive 2012/27/EU on energy efficiency]³⁶, the European Pillar of Social Rights Action Plan³⁷, the European Social Fund Plus (ESF+) established by Regulation (EU) 2021/1057 of the European Parliament and of the Council³⁸, the Just Transition Plans pursuant to Regulation (EU) 2021/1056 of the European Parliament and of the Council³⁹ and the Member States long-term buildings renovation strategies pursuant to Directive 2010/31/EU of the European Parliament and of the Council⁴⁰. To ensure administrative efficiency, where applicable, the information included in the Plans should be consistent with the legislation and plans listed above.
- (22) The Union should support Member States with financial means to implement their Plans through the Social Climate Fund. Payments from the Social Climate Fund should be made conditional on achievement of the milestones and targets included in the Plans. This would allow efficiently taking into account national circumstances and priorities while simplifying financing and facilitating its integration with other national spending programmes while guaranteeing the impact and the integrity of EU spending.
- (23) The financial envelope of the Fund should, in principle, be commensurate to amounts corresponding to 25% of the expected revenues from the inclusion of buildings and road transport into the scope of Directive 2003/87/EC in the period 2026-2032. Pursuant to Council Decision (EU, Euratom) 2020/2053⁴¹, Member States should make those revenues available to the Union budget as own resources. Member States are to finance 50% of the total costs of their Plan themselves. For this purpose, as well as for investment and measures to accelerate and alleviate the required transition for citizens negatively affected, Member States should *inter alia* use their expected revenues from emissions trading for buildings and road transport under Directive 2003/87/EC for that purpose.

³⁵ Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (OJ L 328, 21.12.2018, p. 1).

³⁶ [Add ref]

³⁷ Endorsed by the European Council on 24 and 25 June 2021.

³⁸ Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231, 30.6.2021, p. 21).

³⁹ Regulation (EU) 2021/1056 of the European Parliament and of the Council of 24 June 2021 establishing the Just Transition Fund (OJ L 231, 30.6.2021, p. 1).

⁴⁰ Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (OJ L 153, 18.6.2010, p. 13).

⁴¹ Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom (OJ L 424, 15.12.2020, p. 1).

- (24) The Fund should support measures that respect the principle of additionality of Union funding. The Fund should not be a substitute for recurring national expenditures, except in duly justified cases.
- (25) In order to ensure an efficient and coherent allocation of funds and to respect the principle of sound financial management, actions under this Regulation should be consistent with and be complementary to ongoing Union programmes, whilst avoiding double funding from the Fund and other Union programmes for the same expenditure. In particular, the Commission and the Member State should ensure, in all stages of the process, effective coordination in order to safeguard the consistency, coherence, complementarity and synergy among sources of funding. To that effect, Member States should be required to present the relevant information on existing or planned Union financing when submitting their plans to the Commission. Financial support under the Fund should be additional to the support provided under other Union programmes and instruments. Measures and investment financed under the Fund should be able to receive funding from other Union programmes and instruments provided that such support does not cover the same costs.
- (26) Payments should be made on the basis of a Commission decision authorising the disbursement to the Member State concerned. Therefore, it is necessary to derogate from Article 116(2) of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council⁴², so that the payment deadline can start running from the date of the communication from the Commission to the Member State concerned of that decision and not from the date on which a payment request is received.
- (27) In order to ensure transparent rules for monitoring and evaluation, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission in respect of setting the common indicators for reporting on the progress and for the purpose of monitoring and evaluation of the implementation of the Plans. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement on Better Law-Making of 13 April 2016. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts.
- (28) The implementation of the Fund should be carried out in line with the principle of sound financial management, including the effective prevention and prosecution of fraud, tax fraud, tax evasion, corruption and conflicts of interest.
- (29) For the purpose of sound financial management, while respecting the performance-based nature of the Fund, specific rules should be laid down for budget commitments, payments, suspension, and recovery of funds as well as for the termination of agreements related to financial support. The Member States should take appropriate measures to ensure that the use of funds in relation to measures supported by the Fund

⁴² Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, p. 1).

complies with applicable Union and national law. Member States must ensure that such support is granted in compliance with the EU State aid rules, where applicable. In particular, they should ensure that fraud, corruption and conflicts of interests are prevented, detected and corrected, and that double funding from the Fund and other Union programmes is avoided. Suspension and the termination of agreements related to financial support as well as reduction and recovery of the financial allocation should be possible when the Plan has not been implemented in a satisfactory manner by the Member State concerned, or in the case of serious irregularities, meaning fraud, corruption and conflicts of interest in relation to the measures supported by the Fund, or a serious breach of an obligation under the agreements related to financial support. Appropriate contradictory procedures should be established to ensure that the decision by the Commission in relation to suspension and recovery of amounts paid as well as the termination of agreements related to financial support respects the right of Member States to submit observations.

- (30) The Commission should ensure that the financial interests of the Union are effectively protected. While it is primarily the responsibility of the Member State itself to ensure that the Fund is implemented in compliance with relevant Union and national law, the Commission should be able to receive sufficient assurance from Member States in that regard. To that end, in implementing the Fund, the Member States should ensure the functioning of an effective and efficient internal control system and recover amounts unduly paid or misused. In that regard, Member States should be able to rely on their regular national budget management systems. Member States should collect, record and store in an electronic system standardised categories of data and information allowing the prevention, detection and correction of serious irregularities, meaning fraud, corruption and conflicts of interests, in relation to the measures supported by the Fund. The Commission should make available an information and monitoring system, including a single data-mining and risk-scoring tool, to access and analyse this data and information, with a view to a mandatory application by the Member States.
- (31) The Commission, the European Anti-Fraud Office (OLAF), the Court of Auditors and, where applicable, the European Public Prosecutor's Office (EPPO) should be able to use the information and monitoring system within their competences and rights.
- (32) The Member States and the Commission should be allowed to process personal data only where necessary for the purpose of ensuring discharge, audit and control, information, communication and publicity of the use of funds in relation to measures for the implementation under the Fund. The personal data should be processed in accordance with Regulation (EU) 2016/679 of the European Parliament and of the Council⁴³ or Regulation (EU) 2018/1725 of the European Parliament and of the Council⁴⁴, whichever is applicable.

⁴³ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (OJ L 119, 4.5.2016, p. 1).

⁴⁴ Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

- (33) In accordance with Regulation (EU, Euratom) 2018/1046, Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council⁴⁵, and Council Regulations (EC, Euratom) No 2988/95⁴⁶, (Euratom, EC) No 2185/96⁴⁷ and (EU) 2017/1939⁴⁸, the financial interests of the Union are to be protected by means of proportionate measures, including measures relating to the prevention, detection, correction and investigation of fraud, corruption and conflicts of interests, and, where appropriate, the imposition of administrative penalties. In particular, in accordance with Regulations (Euratom, EC) No 2185/96 and (EU, Euratom) No 883/2013, OLAF has the power to carry out administrative investigations, including on-the-spot checks and inspections, with a view to establishing whether there has been fraud, corruption, conflicts of interests or any other illegal activity affecting the financial interests of the Union. EPPO is empowered, in accordance with Regulation (EU) 2017/1939, to investigate and prosecute fraud, corruption, conflicts of interests and other criminal offences affecting the financial interests of the Union as provided for in Directive (EU) 2017/1371 of the European Parliament and of the Council⁴⁹. In accordance with Regulation (EU, Euratom) 2018/1046, any person or entity receiving funds from the Union budget is to fully cooperate in the protection of the Union's financial interests, grant the necessary rights and access to the Commission, OLAF, the Court of Auditors and, in respect of those Member States participating in enhanced cooperation pursuant to Regulation (EU) 2017/1939, EPPO and ensure that any third parties involved in the implementation of funds financed from the Union budget grant equivalent rights.
- (34) Horizontal financial rules adopted by the European Parliament and the Council pursuant to Article 322 of the Treaty on the Functioning of the European Union apply to this Regulation. Those rules are laid down in Regulation (EU, Euratom) 2018/1046 and determine in particular the procedure for establishing and implementing the budget through grants, procurement, prizes, indirect implementation, and provide for checks on the responsibility of financial actors. Rules adopted pursuant to Article 322 of the Treaty on the Functioning of the European Union also include a general regime of conditionality for the protection of the Union's budget.

⁴⁵ Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).

⁴⁶ Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.1995, p. 1).

⁴⁷ Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

⁴⁸ Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office ('the EPPO') (OJ L 283, 31.10.2017, p. 1).

⁴⁹ Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law (OJ L 198, 28.7.2017, p. 29).

HAVE ADOPTED THIS REGULATION:

CHAPTER I GENERAL PROVISIONS

Article 1

Subject matter, scope and objectives

The Social Climate Fund ('the Fund') is established.

It shall provide support to Member States for the financing of the measures and investments included in their Social Climate Plans ('the Plans').

The measures and investments supported by the Fund shall benefit households, micro-enterprises and transport users, which are vulnerable and particularly affected by the inclusion of greenhouse gas emissions from buildings and road transport into the scope of Directive 2003/87/EC, especially households in energy poverty and citizens without public transport alternative to individual cars (in remote and rural areas).

The general objective of the Fund is to contribute to the transition towards climate neutrality by addressing the social impacts of the inclusion of greenhouse gas emissions from buildings and road transport into the scope of Directive 2003/87/EC. The specific objective of the Fund is to support vulnerable households, vulnerable micro-enterprises and vulnerable transport users through temporary direct income support and through measures and investments intended to increase energy efficiency of buildings, decarbonisation of heating and cooling of buildings, including the integration of energy from renewable sources, and granting improved access to zero- and low-emission mobility and transport.

Article 2

Definitions

For the purposes of this Regulation, the following definitions apply:

- (1) 'building renovation' means all kinds of energy-related building renovation, including the insulation of the building envelope, that is to say walls, roof, floor, the replacement of windows, the replacement of heating, cooling and cooking appliances, and the installation of on-site production of energy from renewable sources;
- (2) 'energy poverty' means energy poverty as defined in point [(49)] of Article 2 of Directive (EU) [yyyy/nnn] of the of the European Parliament and of the Council⁵⁰;
- (3) 'estimated total costs of the Plan' means estimated total costs of the measures and investments included in the submitted Plan;
- (4) 'financial allocation' means non-repayable financial support under the Fund that is available for allocation or that has been allocated to a Member State;

⁵⁰ [Directive (EU) [yyyy/nnn] of the of the European Parliament and of the Council (OJ C [...], [...], p. [...]).] [Proposal for recast of Directive 2012/27/EU on energy efficiency]

- (5) ‘household’ means private household as defined in Article 2, point (15) of Regulation (EU) 2019/1700 of the European Parliament and of the Council⁵¹;
- (6) ‘milestone’ means a qualitative achievement used to measure progress towards the achievement of a measure or investment;
- (7) ‘target’ means a quantitative achievement used to measure progress towards the achievement of a measure or investment;
- (8) ‘energy from renewable sources’ means energy from renewable non-fossil sources as defined in Article 2, second subparagraph, point (1) of Directive (EU) 2018/2001 of the European Parliament and of the Council⁵²;
- (9) ‘micro-enterprise’ means an enterprise that employs fewer than 10 persons and whose annual turnover or annual balance sheet does not exceed EUR 2 million, calculated in accordance with Articles 3 to 6 of Annex I to Commission Regulation (EU) No 651/2014⁵³;
- (10) ‘transport users’ means households or micro-enterprises that use various transport and mobility options;
- (11) ‘vulnerable households’ means households in energy poverty or households, including lower middle-income ones, that are significantly affected by the price impacts of the inclusion of buildings into the scope of Directive 2003/87/EC and lack the means to renovate the building they occupy;
- (12) ‘vulnerable micro-enterprises’ means micro-enterprises that are significantly affected by the price impacts of the inclusion of buildings into the scope of Directive 2003/87/EC and lack the means to renovate the building they occupy;
- (13) ‘vulnerable transport users’ means transport users, including from lower middle-income households, that are significantly affected by the price impacts of the inclusion of road transport into the scope of Directive 2003/87/EC and lack the means to purchase zero- and low-emission vehicles or to switch to alternative sustainable modes of transport, including public transport, particularly in rural and remote areas.

⁵¹ Regulation (EU) 2019/1700 of the European Parliament and of the Council of 10 October 2019 establishing a common framework for European statistics relating to persons and households, based on data at individual level collected from samples, amending Regulations (EC) No 808/2004, (EC) No 452/2008 and (EC) No 1338/2008 of the European Parliament and of the Council, and repealing Regulation (EC) No 1177/2003 of the European Parliament and of the Council and Council Regulation (EC) No 577/980 (OJ L 261I, 14.10.2019, p. 1).

⁵² Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources (OJ L 328, 21.12.2018, p. 82).

⁵³ Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty Text with EEA relevance (OJ L 187, 26.6.2014, p. 1).

CHAPTER II SOCIAL CLIMATE PLANS

Article 3

Social Climate Plans

1. Each Member State shall submit to the Commission a Social Climate Plan ('the Plan') together with the update to the integrated national energy and climate plan referred to in Article 14(2) of Regulation (EU) 2018/1999 in accordance with the procedure and timeline laid down in that Article. The Plan shall contain a coherent set of measures and investments to address the impact of carbon pricing on vulnerable households, vulnerable micro-enterprises and vulnerable transport users in order to ensure affordable heating, cooling and mobility while accompanying and accelerating necessary measures to meet the climate targets of the Union.
2. The Plan may include national measures providing temporary direct income support to vulnerable households and households that are vulnerable transport users to reduce the impact of the increase in the price of fossil fuels resulting from the inclusion of buildings and road transport into the scope of Directive 2003/87/EC.
3. The Plan shall include national projects to:
 - (a) finance measures and investments to increase energy efficiency of buildings, to implement energy efficiency improvement measures, to carry out building renovation, and to decarbonise heating and cooling of buildings, including the integration of energy production from renewable energy sources;
 - (b) finance measures and investments to increase the uptake of zero- and low-emission mobility and transport.

Article 4

Content of Social Climate Plans

1. Social Climate Plans shall set out in particular the following elements:
 - (a) concrete measures and investments in accordance with Article 3 to reduce the effects referred to in point (c) of this paragraph together with an explanation of how they would contribute effectively to the achievement of the objectives set out in Article 1 within the overall setting of a Member State's relevant policies;
 - (b) concrete accompanying measures needed to accomplish the measures and investments of the Plan and reduce the effects referred to in point (c) as well as information on existing or planned financing of measures and investments from other Union, international, public or private sources;
 - (c) an estimate of the likely effects of that increase in prices on households, and in particular on incidence of energy poverty, on micro-enterprises and on transport users, comprising in particular an estimate and the identification of vulnerable households, vulnerable micro-enterprises and vulnerable transport users; these impacts are to be analysed with a sufficient level of regional disaggregation, taking into account elements such as access to public transport

and basic services and identifying the areas mostly affected, particularly territories which are remote and rural;

- (d) where the Plan provides for measures referred to in Article 3(2), the criteria for the identification of eligible final recipients, the indication of the envisaged time limit for the measures in question and their justification on the basis of a quantitative estimate and a qualitative explanation of how the measures in the Plan are expected to reduce energy and transport poverty and the vulnerability of households, micro-enterprises and transport users to an increase of road transport and heating fuel prices;
 - (e) envisaged milestones, targets and an indicative timetable for the implementation of the measures and investments to be completed by 31 July 2032;
 - (f) the estimated total costs of the Plan accompanied by appropriate cost justification and explanations of how it is in line with the principle of cost efficiency and commensurate to the expected impact of the Plan;
 - (g) the envisaged national contribution to the total estimated costs, calculated in accordance with Article 14;
 - (h) an explanation of how the Plan ensures that no investment or measure, included in the Plan does significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) 2020/852; the Commission shall provide technical guidance to the Member States targeted to the scope of the Fund to that effect; no explanation is required for the measures referred to in Article 3(2);
 - (i) the arrangements for the effective monitoring and implementation of the Plan by the Member State concerned, in particular of the proposed milestones and targets, including indicators for the implementation of measures and investments, which, where relevant, shall be those available with the Statistical office of the European Union European Statistical Office and the European Energy Poverty Observatory as identified by Commission Recommendation 2020/1563⁵⁴ on energy poverty;
 - (j) for the preparation and, where available, for the implementation of the Plan, a summary of the consultation process, conducted in accordance with Article 10 of Regulation (EU) 2018/1999 and with the national legal framework, of local and regional authorities, social partners, civil society organisations, youth organisations and other relevant stakeholders, and how the input of the stakeholders is reflected in the Plan;
 - (k) an explanation of the Member State's system to prevent, detect and correct corruption, fraud and conflicts of interests, when using the funds provided under the Fund, and the arrangements that aim to avoid double funding from the Fund and other Union programmes.
2. The Plans shall be consistent with the information included and the commitments made by the Member States under the European Pillar of Social Rights Action Plan and the European Social Fund Plus (ESF+) established by Regulation (EU) 2021/1057, under their cohesion policy operational programmes under Regulation

⁵⁴ OJ L 357, 27.10.2020, p. 35.

(EU) 2021/1058⁵⁵, under their Recovery and Resilience Plans in accordance with Regulation (EU) 2021/241 of the European Parliament and of the Council⁵⁶, under their long-term buildings renovation strategies pursuant to Directive 2010/31/EU and under their updated integrated national energy and climate plans under Regulation (EU) 2018/1999. They shall also be complementary to the Just Transition Plans pursuant to Regulation (EU) 2021/1056 of the European Parliament and of the Council⁵⁷.

3. When preparing their Plans, Member States may request the Commission to organise an exchange of good practices. Member States may also request technical support under the ELENA facility, established by an Agreement of the Commission with the European Investment Bank in 2009, or under the Technical Support Instrument established by Regulation (EU) 2021/240 of the European Parliament and of the Council⁵⁸.

CHAPTER III

SUPPORT FROM THE FUND FOR SOCIAL CLIMATE PLANS

Article 5

Principles governing the Fund and eligibility

1. The Fund shall provide financial support to Member States to fund the measures and investments set out in their Plans.
2. Payment of support shall be conditional upon achieving the milestones and targets for measures and investments set out in the Plans. Those milestones and targets shall be compatible with the Union's climate targets and cover in particular:
 - (a) energy efficiency;
 - (b) building renovation;
 - (c) zero- and low-emission mobility and transport;
 - (d) greenhouse gas emissions reductions;
 - (e) reductions in the number of vulnerable households, especially households in energy poverty, of vulnerable micro-enterprises and of vulnerable transport users, including in rural and remote areas.
3. The Fund shall only support measures and investments respecting the principle of 'do no significant harm' referred to in Article 17 of Regulation (EU) 2020/852.

⁵⁵ Regulation (EU) 2021/1058 of the European Parliament and of the Council of 24 June 2021 on the European Regional Development Fund and on the Cohesion Fund (OJ L 231, 30.6.2021, p. 60).

⁵⁶ Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

⁵⁷ Regulation (EU) 2021/1056 of the European Parliament and of the Council of 24 June 2021 establishing the Just Transition Fund (OJ L 231, 30.6.2021, p. 1).

⁵⁸ Regulation (EU) 2021/240 of the European Parliament and of the Council of 10 February 2021 establishing a Technical Support Instrument (OJ L 57, 18.2.2021, p. 1).

Article 6

Measures and investments to be included in the estimated total costs of the Social Climate Plans

1. Member States may include the costs of measures providing temporary direct income support to vulnerable households and vulnerable households that are transport users to absorb the increase in road transport and heating fuel prices. Such support shall decrease over time and be limited to the direct impact of the emission trading for buildings and road transport. Eligibility for such direct income support shall cease within the time limits identified under Article 4(1) point (d).
2. Member States may include the costs of the following measures and investments in the estimated total costs of the Plans, provided they principally benefit vulnerable households, vulnerable micro-enterprises or vulnerable transport users and intend to:
 - (a) support building renovations, especially for those occupying worst-performing buildings, including in the form of financial support or fiscal incentives such as deductibility of renovation costs from the rent, independently of the ownership of the buildings concerned;
 - (b) contribute to the decarbonisation, including the electrification, of heating and cooling of, and cooking in, buildings and the integration of energy from renewable sources that contribute to the achievements of energy savings;
 - (c) support public and private entities in developing and providing affordable energy efficiency renovation solutions and appropriate funding instruments in line with the social goals of the Fund;
 - (d) provide access to zero- and low-emission vehicles and bikes, including financial support or fiscal incentives for their purchase as well as for appropriate public and private infrastructure, including for recharging and refuelling; for support concerning low-emission vehicles, a timetable for gradually reducing the support shall be provided;
 - (e) grant free access to public transport or adapted tariffs for access to public transport, as well as fostering sustainable mobility on demand and shared mobility services;
 - (f) support public and private entities in developing and providing affordable zero- and low-emission mobility and transport services and the uptake of attractive active mobility options for rural, insular, mountainous, remote and less accessible areas or for less developed regions or territories, including less developed peri-urban areas.

Article 7

Exclusions from the estimated total costs of Social Climate Plans

1. The Fund shall not support, and the estimated total costs of Plans shall not include measures in the form of direct income support pursuant to Article 3(2) of this Regulation for households already benefiting:
 - (a) from public intervention in the price level of the fuels covered by Chapter IVa of Directive 2003/87/EC;

- (b) from public interventions in the price setting for the supply of gas in accordance with Article 3(3) of Directive 2009/73/EC;
2. Where it is proven by the Member State concerned in its Plan that the public interventions referred to in paragraph 1 do not fully off-set the price increase resulting from the inclusion of the sectors of buildings and road transport into the scope of Directive 2003/87/EC, direct income support may be included in the estimated total costs in the limits of the price increase not fully off-set.

Article 8

Pass-on of benefits to households, micro-enterprises and transport users

Member States may include into the estimated total costs financial support provided to public or private entities other than vulnerable households, vulnerable micro-enterprises and vulnerable transport users, if those entities carry out measures and investments ultimately benefitting vulnerable households, vulnerable micro-enterprises and vulnerable transport users.

Member States shall provide for the necessary statutory and contractual safeguards to ensure that the entire benefit is passed on to the households, micro-enterprises and transport users.

Article 9

Budget

1. The financial envelope for the implementation of the Fund for the period 2025-2027 shall be EUR 23 700 000 000 in current prices.
2. The financial envelope for the implementation of the Fund for the period 2028-2032 shall be EUR 48 500 000 000 in current prices, subject to the availability of the amounts under the annual ceilings of the applicable multiannual financial framework referred to in Article 312 TFEU.
3. The amounts referred to in paragraphs 1 and 2 may also cover expenses pertaining to preparatory, monitoring, control, audit and evaluation activities which are required for the management of the Fund and the achievement of its objectives, in particular studies, meetings of experts, consultation of stakeholders, information and communication actions, including inclusive outreach actions, and corporate communication of the political priorities of the Union, insofar as they are related to the objectives of this Regulation, expenses linked to IT networks focusing on information processing and exchange, corporate information technology tools, and all other technical and administrative assistance expenses incurred by the Commission for the management of the Fund. Expenses may also cover the costs of other supporting activities such as quality control and monitoring of projects on the ground and the costs of peer counselling and experts for the assessment and implementation of the eligible actions.

Article 10

Resources from shared management programmes and use of resources

1. Resources allocated to Member States under shared management may, at their request, be transferred to the Fund subject to the conditions set out in the relevant provisions of Regulation (EU) 2021/1060. The Commission shall implement those resources directly in accordance with Article 62(1), first subparagraph, point (a) of Regulation (EU, Euratom) 2018/1046. Those resources shall be used exclusively for the benefit of the Member State concerned.
2. Member States may entrust the managing authorities of the European Social Fund Plus (ESF+) established by Regulation (EU) 2021/1057 and of the cohesion policy operational programmes under Regulation (EU) 2021/1058 with the implementation of measures and investments benefitting from this Fund, where applicable in view of the synergies with those Union funds and in conformity with the objectives of the Fund. Member States shall state their intention to entrust those authorities in their Plans.
3. Member States may include in their Plan, as part of the estimated total costs, the payments for additional technical support pursuant to Article 7 of Regulation (EU) 2021/240 and the amount of the cash contribution for the purpose of the Member State compartment pursuant to the relevant provisions of Regulation (EU) 2021/523. Those costs shall not exceed 4 % of the financial total allocation for the Plan, and the relevant measures, as set out in the Plan, shall comply with this Regulation.

Article 11

Implementation

The Fund shall be implemented by the Commission in direct management in accordance with the relevant rules adopted pursuant to Article 322 TFEU, in particular Regulation (EU, Euratom) 2018/1046 and Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council⁵⁹.

Article 12

Additionality and complementary funding

1. Support under the Fund shall be additional to the support provided under other Union funds, programmes and instruments. Measures and investments supported under the Fund may receive support from other Union funds, programmes and instruments provided that such support does not cover the same cost.
2. Support from the Fund shall be additional and shall not substitute recurring national budgetary expenditure.

Article 13

Maximum financial allocation

⁵⁹ Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget (OJ L 433I, 22.12.2020, p. 1).

1. The maximum financial allocation shall be calculated for each Member State as specified in Annex I and Annex II.
2. Each Member State may submit a request up to its maximum financial allocation to implement its Plan.

Article 14

National contribution to the total estimated costs

1. Member States shall contribute at least to 50 percent of the total estimated costs of their Plans.
2. Member States shall *inter alia* use revenues from the auctioning of their allowances in accordance with Chapter IVa of Directive 2003/87/EC for their national contribution to the total estimated costs of their Plans.

Article 15

Commission assessment

1. The Commission shall assess the Plan and, where applicable, any amendment to that Plan submitted by a Member State in accordance with Article 17, for compliance with the provisions of this Regulation. When carrying out that assessment, the Commission shall act in close cooperation with the Member State concerned. The Commission may make observations or seek additional information. The Member State concerned shall provide the requested additional information and may revise the Plan if needed, including after the submission of the Plan. The Member State concerned and the Commission may agree to extend the deadline for assessment by a reasonable period if necessary.
2. The Commission shall assess the relevance, effectiveness, efficiency and coherence of the Plan as follows:
 - (a) For the purpose of assessing relevance, the Commission shall take into account the following criteria:
 - (i) whether the Plan represents a response to the social impact on and challenges faced by vulnerable households, vulnerable micro-enterprises and vulnerable transport users in the Member State concerned from establishing the emission trading system for buildings and road transport established pursuant to Chapter IVa of Directive 2003/87/EC, especially households in energy poverty, duly taking into account the challenges identified in the assessments of the Commission of the update of the concerned Member State's integrated national energy and climate plan and of its progress pursuant to Article 9(3), and Articles 13 and 29 of Regulation (EU) 2018/1999, as well as in the Commission recommendations to Member States issued pursuant to Article 34 of Regulation (EU) 2018/1999 in view of the long-term objective of climate neutrality in the Union by 2050. This shall take into account the specific challenges and the financial allocation of the Member State concerned;

- (ii) whether the Plan is expected to ensure that no measure or investment included in the Plan does significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) 2020/852;
 - (iii) whether the Plan contains measures and investments that contribute to the green transition, including to addressing the challenges resulting therefrom and in particular to the achievement of the 2030 climate and energy objectives of the Union and the 2030 milestones of the Mobility Strategy.
- (b) For the purpose of assessing effectiveness, the Commission shall take into account the following criteria :
- (i) whether the Plan is expected to have a lasting impact on the challenges addressed by that Plan and in particular on vulnerable households, vulnerable micro-enterprises and vulnerable transport users, especially households in energy poverty, in the Member State concerned;
 - (ii) whether the arrangements proposed by the Member State concerned are expected to ensure the effective monitoring and implementation of the Plan, including the envisaged timetable, milestones and targets, and the related indicators;
 - (iii) whether the measures and investments proposed by the Member State concerned are consistent and complying with the requirements under Directive [yyyy/nnn] [Proposal for recast of Directive 2012/27/EU], Directive (EU) 2018/2001, Directive 2014/94/EU of the European Parliament and of the Council⁶⁰, Directive (EU) 2019/1161 of the European Parliament and of the Council and Directive 2010/31/EU;
- (c) For the purposes of assessing efficiency the Commission shall take into account the following criteria:
- (i) whether the justification provided by the Member State for the amount of the estimated total costs of the Plan is reasonable, plausible, in line with the principle of cost efficiency and commensurate to the expected national environmental and social impact;
 - (ii) whether the arrangements proposed by the Member State concerned are expected to prevent, detect and correct corruption, fraud and conflicts of interests when using the funds provided under the Fund, including the arrangements that aim to avoid double funding from the Fund and other Union programmes;
 - (iii) whether the milestones and targets proposed by the Member State are efficient in view of the scope, objectives and eligible actions of the Fund;
- (d) For the purpose of assessing coherence, the Commission shall take into account whether the Plan contains measures and investments that represent coherent actions.

⁶⁰ Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014 on the deployment of alternative fuels infrastructure (OJ L 307, 28.10.2014, p. 1).

Commission decision

1. On the basis of the assessment in accordance with Article 15, the Commission shall decide on the Plan of a Member State, by means of an implementing act, within six months from the date of the submission of that Plan pursuant to Article 3(1) of this Regulation.

Where the Commission gives a positive assessment, that decision shall set out:

- (a) the measures and investments to be implemented by the Member State, the amount of the estimated total costs of the Plan and the milestones and targets;
 - (b) the Union financial allocation allocated in accordance with Article 13 of this Regulation to be paid in instalments once the Member State has satisfactorily fulfilled the relevant milestones and targets identified in relation to the implementation of the Plan, which shall be subject, for the period 2028-2032, to the availability of the amounts referred to in Article 9(2) of this Regulation under the annual ceilings of the multiannual financial framework referred to in Article 312 TFEU;
 - (c) the national contribution;
 - (d) the arrangements and timetable for monitoring and implementation including, where relevant, measures necessary for complying with Article 20 of this Regulation;
 - (e) the relevant indicators relating to the fulfilment of the envisaged milestones and targets;
 - (f) the arrangements for providing full access by the Commission to the underlying relevant data.
2. The financial allocation referred to in paragraph 1, point (b) shall be determined on the basis of the estimated total costs of the Plan proposed by the Member State concerned, as assessed under the criteria set out in Article 15(2).

The amount of the financial allocation shall be set as follows:

- (a) where the Plan complies satisfactorily with the criteria set out in Article 15(2), and the amount of the estimated total costs of the package minus the national contribution is equal to, or higher than, the maximum financial allocation for that Member State referred to in Article 13(1), the financial allocation allocated to the Member State concerned shall be equal to the total amount of the maximum financial allocation referred to in Article 9;
- (b) where the Plan complies satisfactorily with the criteria set out in Article 15(2), and the amount of the estimated total costs of the package minus the national contribution is lower than the maximum financial allocation for that Member State referred to in Article 13(1), the financial allocation allocated to the Member State shall be equal to the amount of the estimated total costs of the package minus the national contribution;
- (c) where the Plan complies satisfactorily with the criteria set out in Article 15(2), but the assessment establishes weaknesses in the control systems, the Commission may require additional milestones and targets to be achieved before the first payment;

- (d) where the Plan does not comply satisfactorily with the criteria set out in Article 15(2), no financial allocation shall be allocated to the Member State concerned.
3. Where the Commission gives a negative assessment to a Plan, the decision referred to in paragraph 1 shall include the reasons for that negative assessment. The Member State concerned shall resubmit the Plan, after taking into account the assessment of the Commission.

Article 17

Amendment of Social Climate Plans

1. Where a Social Climate Plan, including relevant milestones and targets, is no longer achievable, either in whole or in part, by the Member State concerned because of objective circumstances, in particular because of the actual direct effects of the emission trading system for buildings and road transport established pursuant to Chapter IVa of Directive 2003/87/EC, the Member State concerned may submit to the Commission an amendment of its Plan to include the necessary and duly justified changes. Member States may request technical support for the preparation of such request.
2. The Commission shall assess the amended Plan in accordance with Article 15.
3. Where the Commission gives a positive assessment to the amended Plan, it shall in accordance with Article 16(1) adopt, within three months of the official submission of the amended Plan by the Member State, a decision setting out the reasons for its positive assessment, by means of an implementing act.
4. Where the Commission gives a negative assessment to the amended Plan, it shall reject the request within the period referred to in paragraph 3, after having given the Member State concerned the possibility to present its observations within three months of the communication of the Commission's assessment.
5. By 15 March 2027 each Member State concerned shall assess the appropriateness of its Plans in view of the actual direct effects of the emission trading system for buildings and road transport established pursuant to Chapter IVa of Directive 2003/87/EC. Those assessments shall be submitted to the Commission as part of the biennial progress reporting pursuant to Article 17 of Regulation (EU) 2018/1999.

Article 18

Commitment of the financial allocation

1. After the Commission has adopted a decision as referred to in Article 16, it shall in due time conclude an agreement with the Member State concerned constituting an individual legal commitment within the meaning of Regulation (EU, Euratom) 2018/1046 covering the period 2025-2027. That agreement may be concluded at the earliest one year before the year of the start of the auctions under Chapter IVa of Directive 2003/87/EC.
2. The individual legal commitment covering the period 2028-2032 shall be concluded subject to the availability of the amounts referred to in Article 9(2) of this Regulation

under the annual ceilings of the multiannual financial framework referred to in Article 312 TFEU.

3. Budgetary commitments may be based on global commitments and, where appropriate, may be broken down into annual instalments spread over several years.

Article 19

Rules on payments, suspension and termination of agreements regarding financial allocations

1. Payments of financial allocations to the Member State concerned under this Article shall be made upon completion of the relevant agreed milestones and targets indicated in the Plan as approved in accordance with Article 16 and subject to available funding. Upon such completion, the Member State concerned shall submit to the Commission a duly justified request for payment of the financial allocation. Such requests for payment shall be submitted by the Member States to the Commission once or twice a year by 31 July.
2. The Commission shall assess without undue delay, and at the latest within two months of receiving the request, whether the relevant milestones and targets set out in the Commission decision referred to in Article 16 have been satisfactorily fulfilled. The satisfactory fulfilment of milestones and targets shall presuppose that measures related to previously satisfactorily fulfilled milestones and targets have not been reversed by the Member State concerned. The Commission may be assisted by experts.
3. Where the Commission makes a positive assessment, it shall adopt without undue delay a decision authorising the disbursement of the financial allocation in accordance with Regulation (EU, Euratom) 2018/1046.
4. Where, as a result of the assessment referred to in paragraph 3, the Commission establishes that the milestones and targets set out in the Commission decision referred to in Article 16 have not been satisfactorily fulfilled, the payment of all or part of the financial allocation shall be suspended. The Member State concerned may present its observations within one month of the communication of the Commission's assessment.

The suspension shall only be lifted where the milestones and targets have been satisfactorily fulfilled as set out in the Commission decision referred to in Article 16.
5. By way of derogation from Article 116(2) of Regulation (EU, Euratom) 2018/1046, the payment deadline shall start running from the date of the communication of the decision authorising the disbursement to the Member State concerned pursuant to paragraph 3 of this Article, or from the date of the communication of the lifting of a suspension pursuant to the second subparagraph of paragraph 4 of this Article.
6. Where the milestones and targets have not been satisfactorily fulfilled within a period of six months from the suspension, the Commission shall reduce the amount of the financial allocation proportionately after having given the Member State concerned the possibility to present its observations within two months from the communication of its conclusions.

7. Where, within 12 months of the date of the conclusion of relevant agreements referred to in Article 18, no tangible progress has been made in respect of any relevant milestones and targets by the Member State concerned, the Commission shall terminate the relevant agreements referred to in Article 18 and shall de-commit the amount of the financial allocation. The Commission shall take a decision on the termination of agreements referred to in Article 18 after having given the Member State concerned the possibility to present its observations within a period of two months of the communication of its assessment as to whether no tangible progress has been made.

Article 20

Protection of the financial interests of the Union

1. In implementing the Fund, the Member States, as beneficiaries of funds under the Fund, shall take all the appropriate measures to protect the financial interests of the Union and to ensure that the use of funds in relation to measures and investments supported by the Fund complies with the applicable Union and national law, in particular regarding the prevention, detection and correction of fraud, corruption and conflicts of interests. To this effect, the Member States shall provide an effective and efficient internal control system as further detailed in Annex III and the recovery of amounts wrongly paid or incorrectly used. Member States may rely on their regular national budget management systems.
2. The agreements referred to in Article 18 shall provide for the obligations of the Member States:
 - (a) to regularly check that the financing provided has been properly used in accordance with all applicable rules and that any measure or investment under the Plan has been properly implemented in accordance with all applicable rules in particular regarding the prevention, detection and correction of fraud, corruption and conflicts of interests;
 - (b) to take appropriate measures to prevent, detect and correct fraud, corruption, and conflicts of interests as defined in Article 61 of Regulation (EU, Euratom) 2018/1046 affecting the financial interests of the Union and to take legal actions to recover funds that have been misappropriated, including in relation to any measure or investment implemented under the Plan;
 - (c) to accompany a request for payment by:
 - (i) a management declaration that the funds were used for its intended purpose, that the information submitted with the request for payment is complete, accurate and reliable and that the control systems put in place give the necessary assurances that the funds were managed in accordance with all applicable rules, in particular rules on avoidance of conflicts of interests, fraud prevention, corruption and double funding from the Fund and other Union programmes in accordance with the principle of sound financial management; and
 - (ii) a summary of the audits carried out in accordance with internationally accepted audit standards, including the scope of these audits in terms of

amount of spending covered and period of time covered and an analysis of the weaknesses identified and any corrective actions taken;

- (a) for the purpose of audit and control and to provide for comparable information on the use of funds in relation to measures and investments implemented under the Plan, to collect, record and store in an electronic system and ensure access to the following standardised categories of data:
 - (i) name of the final recipients of funds, their VAT registration numbers or tax identification numbers and amount of the financial allocation from the Fund;
 - (ii) name of the contractor(s) and sub-contractor(s) and their VAT registration number(s) or tax identification number(s) where the final recipient of funds is a contracting authority in accordance with Union or national law on public procurement, and value of the contract(s);
 - (iii) first name(s), last name(s), date of birth and VAT registration number(s) or tax identification number(s) of beneficial owner(s) of the recipient of funds or contractor, as defined in Article 3, point (6), of Directive (EU) 2015/849 of the European Parliament and of the Council⁶¹;
 - (iv) a list of any measures and investments implemented under the Fund with the total amount of public funding of those measures and investments and indicating the amount of funds paid under other funds financed from the Union budget;
 - (b) to expressly authorise the Commission, OLAF, the Court of Auditors and, where applicable, EPPO to exert their rights as provided for in Article 129(1) of Regulation (EU, Euratom) 2018/1046 and to impose obligations on all final recipients of funds paid for implementing the measures and investments included in the Plan, or to all other persons or entities involved in their implementation to expressly authorise the Commission, OLAF, the Court of Auditors and, where applicable, EPPO to exert their rights as provided for in Article 129(1) of Regulation (EU, Euratom) 2018/1046 and to impose similar obligations on all final recipients of funds disbursed;
 - (c) to keep records in accordance with Article 132 of Regulation (EU, Euratom) 2018/1046.
3. Personal data as referred to in paragraph 2, point (d) of this Article shall be processed by Member States and by the Commission for the purpose, and corresponding duration, of discharge, audit and control, information, communication and publicity proceedings related to the use of funds related to the implementation of the agreements referred to in Article 18. The personal data shall be processed in accordance with Regulation (EU) 2016/679 or Regulation (EU) 2018/1725, whichever is applicable. Within the framework of the discharge procedure to the Commission, in accordance with Article 319 TFEU, the Fund shall be subject to

⁶¹ Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (OJ L 141, 5.6.2015, p. 73).

reporting under the integrated financial and accountability reporting referred to in Article 247 of Regulation (EU, Euratom) 2018/1046, and, in particular, separately in the Annual Management and Performance Report.

4. The Commission shall make available to the Member States an integrated and interoperable information and monitoring system including a single data-mining and risk-scoring tool to access and analyse the relevant data. The Member States shall use the tool for audit and control purposes to avoid double funding and to prevent, detect and correct fraud, corruption and conflict of interests in relation to the measures and investments supported by the Fund. The Commission, OLAF, the Court of Auditors and, where applicable, EPPO may use the tool within its competences and rights referred to in paragraph 2, point (d) of this Article.
5. The agreements referred to in Article 18 shall also provide for the right of the Commission to reduce proportionately the support under the Fund and recover any amount due to the Union budget, in cases of fraud, corruption, and conflicts of interests affecting the financial interests of the Union that have not been corrected by the Member State, or a serious breach of an obligation resulting from such agreements.

When deciding on the amount of the recovery and reduction the Commission shall respect the principle of proportionality and shall take into account the seriousness of the fraud, corruption and conflict of interests affecting the financial interests of the Union, or of a breach of an obligation. The Member State shall be given the opportunity to present its observations before the reduction is made.

CHAPTER IV COMPLEMENTARITY, MONITORING AND EVALUATION

Article 21

Coordination and complementarity

The Commission and the Member States concerned shall, in a manner commensurate to their respective responsibilities, foster synergies and ensure effective coordination between the Fund and other Union programmes and instruments, including InvestEU Programme, the Technical Support Instrument, the Recovery and Resilience Facility, and the Funds covered by Regulation (EU) 2021/1060. For that purpose, they shall:

- (a) ensure complementarity, synergy, coherence and consistency among different instruments at Union, national and, where appropriate, regional levels, both in the planning phase and during implementation;
- (b) optimise mechanisms for coordination to avoid duplication of effort; and
- (c) ensure close cooperation between those responsible for implementation and control at Union, national and, where appropriate, regional levels to achieve the objectives of the Fund.

Article 22

Information, communication and publicity

1. Member States shall make the data referred to in Article 20(2), point (d), (i), (ii) and (iv) of this Regulation publicly available and up to date in a single website in open, machine-readable formats, as set out in Article 5(1) of Directive (EU) 2019/1024 of the European Parliament and of the Council⁶², which shall allow data to be sorted, searched, extracted, compared and reused. The information referred to in Article 20(2), point (d), (i) and (ii) of this Regulation shall not be published in cases referred to in Article 38(3) of Regulation (EU, Euratom) 2018/1046 or if the direct income support paid is less than EUR 15 000.
2. The recipients of Union funding shall acknowledge the origin of those funds and ensure the visibility of the Union funding, in particular when promoting the actions and their results, by providing coherent, effective and proportionate targeted information to multiple audiences, including the media and the public.
3. The Commission shall implement information and communication actions relating to the Fund, to actions taken pursuant to this Regulation and to the results obtained, including, where appropriate and with the agreement of the national authorities, through joint communication activities with the national authorities and the representation offices of the European Parliament and of the Commission in the Member State concerned.

Article 23

Monitoring of implementation

1. Each Member State concerned shall, on a biennial basis, report to the Commission on the implementation of its Plan as part of its integrated national energy and climate progress report pursuant to Article 17 of Regulation (EU) 2018/1999 and in accordance with Article 28 thereof. The Member States concerned shall include in their progress report:
 - (a) detailed quantitative information on the number of households in energy poverty;
 - (b) when applicable, detailed information on progress towards the national indicative objective to reduce the number of households in energy poverty;
 - (c) detailed information on the results of the measures and investments, included in its Plan;
 - (d) information reported on greenhouse gas policies and measures and on projections as well as on energy poverty provided under Article 18 and Article 24 of Regulation (EU) 2018/1999;
 - (e) information reported under the long-term buildings renovation strategies pursuant to Directive 2010/31/EU;
 - (f) in 2027, an assessment of the Plan referred to in Article 17(5) in view of the actual direct effects of the emission trading system for buildings and road transport established pursuant to Chapter IVa of Directive 2003/087/EC;

⁶² Directive (EU) 2019/1024 of the European Parliament and of the Council of 20 June 2019 on open data and the re-use of public sector information (OJ L 172, 26.6.2019, p. 56).

- (g) information on changes of its Plan in accordance with Article 17.
2. The Commission shall monitor the implementation of the Fund and measure the achievement of its objectives. The monitoring of implementation shall be targeted and proportionate to the activities carried out under the Fund.
 3. The performance reporting system of the Commission shall ensure that data for monitoring the implementation of the activities and results are collected efficiently, effectively and in a timely manner. To that end, proportionate reporting requirements shall be imposed on recipients of Union funding.
 4. The Commission shall be empowered to adopt delegated acts in accordance with Article 25 to supplement this Regulation in order to set out the common indicators to be used for reporting on the progress and for the purpose of monitoring and evaluation of the Fund towards the achievement of the objectives set out in Article 1.

CHAPTER V FINAL PROVISIONS

Article 24

Evaluation and review of the Fund

1. By 1 July 2028, the Commission shall provide the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions with an evaluation report on the implementation and functioning of the Fund.
2. By 31 December 2033, the Commission shall provide the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions with an independent *ex post* evaluation report.
3. The evaluation report shall, in particular, assess to which extent the objectives of the Fund laid down in Article 1 have been achieved, the efficiency of the use of the resources and the Union added value. It shall consider the continued relevance of all objectives and actions set out in Article 6 in light of the impact on greenhouse gas emissions from the emission trading system for buildings and road transport pursuant to Chapter IVa of Directive 2003/87/EC and from the national measures taken to meet the binding annual greenhouse gas emission reductions by Member States pursuant to Regulation (EU) 2018/842 of the European Parliament and of the Council⁶³. It shall also consider the continued relevance of the financial envelope of the Fund in relation to possible developments concerning the auctioning of allowances under the emission trading system for buildings and road transport pursuant to Chapter IVa of Directive 2003/87/EC and other relevant considerations.
4. Where appropriate, the evaluation report shall be accompanied by a proposal for amendments to this Regulation.

⁶³ Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation (EU) No 525/2013 (OJ L 156, 19.6.2018, p. 26-42).

5. The ex post evaluation report shall consist of a global assessment of the Fund and shall include information on its impact.

Article 25

Exercise of delegation

1. The power to adopt delegated acts shall be conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Article 23(4) shall be conferred on the Commission for an indeterminate period of time.
3. The delegations of power referred to in Article 23(4) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect on the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.
4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.
5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.
6. A delegated act adopted pursuant to Article 23(4) shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

Article 26

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

It shall apply from the date by which the Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with Directive (EU) [yyyy/nnn] of the European Parliament and the Council⁶⁴ amending Directive 2003/87/EC as regards Chapter IVa of Directive 2003/87/EC.

⁶⁴ [Directive (EU) yyyy/nnn of the European Parliament and of the Council... (OJ)] [Directive amending Directive 2003/87/EC]

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

1.2. Policy area(s) concerned

1.3. The proposal/initiative relates to:

1.4. Objective(s)

1.4.1. General objective(s)

1.4.2. Specific objective(s)

1.4.3. Expected result(s) and impact

1.4.4. Indicators of performance

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative

1.5.2. Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.

1.5.3. Lessons learned from similar experiences in the past

1.5.4. Compatibility with the multiannual financial framework and possible synergies with other appropriate instruments

1.5.5. Assessment of the different available financing options, including scope for redeployment

1.6. Duration and financial impact of the proposal/initiative

1.7. Management mode(s) planned

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

2.2. Management and control system(s)

2.2.1. Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed

2.2.2. Information concerning the risks identified and the internal control system(s) set up to mitigate them

2.2.3. Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)

2.3. Measures to prevent fraud and irregularities

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

3.2. Estimated financial impact of the proposal on appropriations

3.2.1. Summary of estimated impact on operational appropriations

3.2.2. Summary of estimated impact on administrative appropriations

3.2.2.1. Estimated requirements of human resources

3.2.3. Compatibility with the current multiannual financial framework

3.2.4. Third-party contributions

3.3. Estimated impact on revenue

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Proposal for a Regulation of the European Parliament and the Council establishing a Social Climate Fund

1.2. Policy area(s) concerned

Environment and climate action, energy poverty, promoting energy efficiency and energy saving, promoting sustainable means of transport

1.3. The proposal/initiative relates to:

a new action

a new action following a pilot project/preparatory action⁶⁵

the extension of an existing action

a merger or redirection of one or more actions towards another/a new action

1.4. Objective(s)

1.4.1. General objective(s)

The general objective of the Fund is to contribute to the transition towards climate neutrality by addressing the social impacts of the inclusion of greenhouse gas emissions from buildings and road transport into the scope of Directive 2003/87/EC.

1.4.2. Specific objective(s)

The specific objective of the Fund is to support vulnerable households, vulnerable micro-enterprises and vulnerable transport users through measures and investments intended to increase energy efficiency of buildings through measures such as building renovation, to de-carbonise heating and cooling of buildings, including the integration of energy from renewable sources, and to finance the uptake zero- and low-emission mobility and transport.

1.4.3. Expected result(s) and impact

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

The Fund contributes to achieving the revised overall EU net greenhouse gas emission reduction target of at least -55% in 2030 compared to 1990, by supporting necessary investments and alleviating social impacts on the most vulnerable groups.

The funds of the Fund should be provided to Member States to support their measures and investments intended to increase energy efficiency of buildings, to carry out building renovation, and to decarbonise heating and cooling of buildings, including the integration of energy production from renewable energy sources and to finance zero- and low-emission mobility and transport.

1.4.4. Indicators of performance

Specify the indicators for monitoring progress and achievements.

⁶⁵ As referred to in Article 58(2)(a) or (b) of the Financial Regulation.

Output indicators

Indicator nr 1: number of plans as approved by the Commission

Indicator nr 2: overall financial allocation allocated to the plans

Result indicators:

Indicator nr 3: number of plans implemented

Impact indicators:

Indicator nr 4: objectives achieved that are set out in the plans

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative

Each Member State shall comply with the requirements outlined in the Regulation. This will mitigate the social imbalances between and within Member States when seeking to achieve the updated target of net GHG emissions of reducing by 55% compared to 1990, especially with respect to emissions trading for buildings and road transport.

The Fund shall be applicable from 2025 to 2032.

1.5.2. Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.

Reasons for action at European level (ex-ante)

Climate change is a transboundary problem and EU action can effectively complement and reinforce national action. Increasing the 2030 target for EU greenhouse gas reductions will impact many sectors across the EU economy and coordinated action as well as financial support at the EU level is therefore indispensable. In line with Article 191(1) of the Treaty on the Functioning of the European Union ("TFEU"), the Union policy on the environment shall contribute to preserving, protecting and improving the quality of the environment; as well as promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change. Union policy on the environment aims at a high level of protection taking into account the diversity of situations in the various regions of the Union.

In addition, in accordance with Article 194(1)(c) of TFEU, in the spirit of solidarity between Member States, Union policy on energy shall aim, in particular, at promoting energy efficiency and energy saving and the developing new and renewable forms of energy.

The Fund also need to address the situation of vulnerable transport users. It should support measures to facilitate their access to zero- and low-emission mobility and transport solutions, including public transport, and thereby contribute to achieve the objectives of the common transport policy as indicated in Article 91(1)(d) of TFEU.

Fund is established to alleviate the social burden from the emission trading for buildings and road transport by supporting Member States' measures and

investments intended to increase energy efficiency of buildings, to carry out building renovation, and to decarbonise heating and cooling of buildings, including the integration of energy production from renewable energy sources and to finance zero- and low-emission mobility and transport.

Expected generated Union added value (ex-post)

Financial support from the Fund will be distributed in a fair and just manner to address social impacts on the most vulnerable groups of EU citizen across all Member States. In order to receive funding, the Member States are to establish Social Plans that will list the activities (measures and investments) they intend to finance from the Fund. Funding from the Union budget concentrates on activities whose objectives cannot be sufficiently achieved by the Member States alone ("necessity test"), and where the Union intervention can bring additional value compared to action of Member States alone. Action at the Union level is needed to coordinate an appropriate response to the social challenges from emissions trading for the sectors of buildings and road transport ("effectiveness test"). This goal cannot be achieved to a sufficient degree by the Member States acting alone, while the Union's intervention can bring additional value by establishing an instrument targeted at supporting Member States financially as regards the design and implementation of necessary measures and investments.

1.5.3. Lessons learned from similar experiences in the past

This Fund builds upon experience gathered in the implementation of other Union funding. The establishment and implementation of the Fund follow the main principles of the Recovery and Resilience Facility ("RRF").

1.5.4. Compatibility with the multiannual financial framework and possible synergies with other appropriate instruments

The climate neutrality objective of the European Green Deal and the European Climate Law, and the twin green and digital transition are a core priority of the European Union. The 'fit for 55' package, the Next Generation EU and the multiannual financial framework for 2021-2027 will help achieving the twin green and digital transitions that Europe is aiming for. The combination of these policies will address the economic crisis following the COVID-19 pandemics and accelerate the shift to a clean and sustainable economy, linking climate action and economic growth.

This proposal is a part of the 'Fit for 55' climate and energy package. The overall objective of the package is to align Union legislation with the EU's increased climate ambition. All initiatives in the package are closely interlinked, and each one depends on the design of the others. This legislative proposal is complementary to the proposals made in the package and maintains consistency with them.

The Fund will be financed under Heading 3 'Natural Resources and Environment' of the multiannual financial framework, and in the annual budget nomenclature as part of the 'Environmental and Climate Action policy' cluster 9 .

The size of the the Social Climate Fund should in principle correspond to 25% of the expected revenues from the inclusion of road transport and buildings into the scope of application of Directive 2003/87/EC. The Commission will make shortly a proposal for an amendment of the Own Resources Decision, according to which

Member States should make available those revenues to the Union budget as own resources.

An equivalent amount to the above mentioned share will be available under the multiannual financial framework to support the Fund. To this end, the Commission will shortly propose a targeted revision of the multiannual financial framework to increase the ceiling in commitment appropriations of Heading 3 ‘Natural Resources and Environment’ by an amount of EUR 2 176 million in 2025, EUR 9 132 million in 2026 and EUR 8 786 million in 2027, in 2018 prices.

In light of the fact that the proposed increases in the ceiling in commitments will result in an equivalent increase of payment needs, the Commission thus proposes to revise the payment ceiling for the years 2025, 2026 and 2027 by the same amounts.

As regards synergies with other instruments, the most relevant is the RRF which is already allowing Member States to finance measures to reduce energy poverty. The RRF will complete its financial disbursements to Member States by the end of 2026, hence this Social Climate Fund would complement it in time and scope with focus on the most vulnerable. Equally the Just Transition Fund and especially its part of financing from the NextGeneration EU will be coming to an end shortly after the start of the Social Climate Fund.

1.5.5. Assessment of the different available financing options, including scope for redeployment

The Fund will be complementary and ensure synergies with other Union programmes, notably the projects financed by the Recover and Resilience Facility.

On the basis of Member States’ Social Climate plans, the Fund will provide non repayable financial support to co-finance national schemes that provide support for low-income households primarily through investment support and, as necessary, by temporary income support.

1.6. Duration and financial impact of the proposal/initiative

limited duration

in effect from [DD/MM]YYYY to [DD/MM]YYYY

Financial impact from 2025 to 2032 for commitment appropriations and from 2025 to 2032 for payment appropriations.

unlimited duration

Implementation with a start-up period from YYYY to YYYY, followed by full-scale operation.

1.7. Management mode(s) planned⁶⁶

Direct management by the Commission

by its departments, including by its staff in the Union delegations;

by the executive agencies

Shared management with the Member States

Indirect management by entrusting budget implementation tasks to:

third countries or the bodies they have designated;

international organisations and their agencies (to be specified);

the EIB and the European Investment Fund;

bodies referred to in Articles 70 and 71 of the Financial Regulation;

public law bodies;

bodies governed by private law with a public service mission to the extent that they provide adequate financial guarantees;

bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that provide adequate financial guarantees;

persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.

If more than one management mode is indicated, please provide details in the 'Comments' section.

Comments

N/A

⁶⁶ Details of management modes and references to the Financial Regulation may be found on the BudgWeb site:
<https://myintracomm.ec.europa.eu/budgweb/EN/man/budgmanag/Pages/budgmanag.aspx>

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

In order to monitor the performance of the implementation of the Fund a system for requesting and executing payments from the Fund will be set up.

In order to receive funds from the Fund, Member States should develop their Social Climate Plans ('Plans') to set the measures and investments to be financed. The Commission is to assess those Plans and may approve them only after a positive assessment based on their relevance, effectiveness, efficiency and coherence. The disbursement of the financial allocation will follow the completion of the milestones and targets agreed with the Member State concerned. The submission timing of the Plans, as well as progress reporting cycles are aligned with the updates of the integrated national energy and climate plans submitted under Regulation (EU)2018/1999.

For that purpose, twice per year Member States may request a payment under the Fund that should be accompanied by evidence on the progress made towards milestones and targets. The Member States should report to the Commission on the progress made for the implementation of the measures and investments under their plans in the biennial reporting on progress in the implementation of their national energy and claimed plans (NECPs) under the Governance Regulation.

An evaluation and an ex-post evaluation will be carried out with a view to assessing the effectiveness, efficiency, relevance and coherence of the Fund. Where appropriate, the Commission will accompany the evaluation with a proposal for review of the Regulation.

2.2. Management and control system(s)

2.2.1. Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed

Financing the actions included in the Plans submitted by the Member States, with national contributions, is the most appropriate solution. Direct management combined with performance-based instrument best ensures results for money and minimises administrative structures involved in the process, hence also reduces complexity and administrative costs.

The Fund is expected to have the following timeline:

From mid-2023 the MSs might start submitting their draft plans for the use of the Fund.

In late 2023 and early 2024, The Commission Services would need to start preparing the delegated acts on the reporting requirements under the Fund.

30 June 2024 is the planned date for entry into application of the Regulation to establish the Fund.

30 June 2024 is also the deadline by when the Member States would need to officially submit to the Commisison their Plans. However, as mentioned above, they may start submitting these plans already in mid-2023, as they are to be submitted in accordance with the NECPs under the Governance Regulation.

Between 30 June and 31 December 2024 the Commission has to assess the Plans for the use of the Fund and to eventually adopt delegated acts for their approval. This will be an enormous amount of work, having in mind that we envisage the same system as for the Recovery and Resilience Facility/Plans.

From early 2025 the Commission will start signing individual Agreements with the Member States on the use of the Fund – these will be the financial commitments for the use of the money by the Member States under the Fund.

From mid-2025, the Member States might start requesting payments from the Fund. Twice per year the Member States may request payments from the Fund. The payments will be made upon assessment of the completed milestones and targets.

- 2.2.2. Information concerning the risks identified and the internal control system(s) set up to mitigate them

The risk relates to the performance measurement (non-achievement of pre-defined targets/milestones) or serious irregularities.

The measures that will be put into place to mitigate these risks are the following:

- thorough evaluation process before the disbursement of funds for achievement of the milestones/targets by the beneficiary Member States;
- activation of suspension, recovery of funds, termination of agreements in case of non achievement of the milestones/targets by beneficiary Member States or in case of serious irregularities or breaches of obligations in the agreements with Member States.

The Fund will be implemented in direct management by the Commission in accordance with the Financial Regulation.

- 2.2.3. Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)

Financial allocation will be provided to Member States in the form of financing not linked to costs.

- 2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures, e.g. from the Anti-Fraud Strategy.

The Regulation contains the necessary provisions to ensure that the implementation of the Fund complies with the protection of the financial interests of the Union.

Appropriate internal control processes will apply at levels of management and be designed to provide reasonable assurance of achieving the following objectives: effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; adequate management of the risks relating to the legality and regularity of the underlying transactions, and prevention, detection, and correction of fraud, corruption, conflicts of interest, irregularities and double funding from the Fund and other Union programmes.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

New budget lines requested

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number	Diff./Non-diff.	from EFTA countries	from candidate countries	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
3	09 01 04 01 – Support expenditure for the Social Climate Fund	Non-diff.	NO	NO	NO	NO
3	09 05 01- Social Climate Fund – Operational expenditure	Diff	NO	NO	NO	NO

3.2. Estimated financial impact of the proposal on appropriations

3.2.1. Summary of estimated impact on operational appropriations

The proposal/initiative does not require the use of operational appropriations

The proposal/initiative requires the use of operational appropriations, as explained below:

Heading of multiannual financial framework	3	NATURAL RESOURCES AND ENVIRONMENT
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EUR million (to three decimal places)

			2025	2026	2027	2028	2029	2030	2031	2032	TOTAL
Operational appropriations											
09 05 01	Commitments	-1	2.495,000	10.695,000	10.495,000	10.145,000	9.945,000	9.745,000	9.495,000	9.145,000	72.160,000
	Payments	-2	2.495,000	10.695,000	10.495,000	10.145,000	9.945,000	9.745,000	9.495,000	9.145,000	72.160,000
Appropriations of an administrative nature financed from the envelope of specific programmes											
09 01 04 01		-3	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	40,000
TOTAL appropriations for the envelope of the programme	Commitments	= 1 + 3	2.500,000	10.700,000	10.500,000	10.150,000	9.950,000	9.750,000	9.500,000	9.150,000	72.200,000
	Payments	= 2 + 3	2.500,000	10.700,000	10.500,000	10.150,000	9.950,000	9.750,000	9.500,000	9.150,000	72.200,000

Heading of multiannual financial framework	7	‘Administrative expenditure’
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This section should be filled in using the 'budget data of an administrative nature' to be firstly introduced in the Annex to the Legislative Financial Statement (Annex V to the internal rules), which is uploaded to DECIDE for interservice consultation purposes.

EUR million (to three decimal places)

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	TOTAL
Human resources		1,824	8,664	8,664	8,664	8,664	8,664	8,664	8,664	8,664	8,664	8,664	88,464
Other administrative expenditure		-	-	0,059	0,016	-	-	-	-	-	-	-	0,075
TOTAL appropriations under HEADING 7 of the multiannual financial framework	(Total commitments = Total payments)	1,824	8,664	8,723	8,680	8,664	8,664	8,664	8,664	8,664	8,664	8,664	88,539

EUR million (to three decimal places)

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	TOTAL
TOTAL appropriations across HEADINGS of the multiannual financial framework	Commitments	1,824	8,664	8,723	2.508,680	10.708,664	10.508,664	10.158,664	9.958,664	9.758,664	9.508,664	9.158,664	72.288,539
	Payments	1,824	8,664	8,723	2.508,680	10.708,664	10.508,664	10.158,664	9.958,664	9.758,664	9.508,664	9.158,664	72.288,539

3.2.2. Summary of estimated impact on administrative appropriations

The proposal/initiative does not require the use of appropriations of an administrative nature

The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	TOTAL
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HEADING 7 of the multiannual financial framework												
Human resources	1,824	8,664	8,664	8,664	8,664	8,664	8,664	8,664	8,664	8,664	8,664	88,464
Other administrative expenditure	-	-	0,059	0,016	-	-	-	-	-	-	-	0,075
Subtotal HEADING 7 of the multiannual financial framework	1,824	8,664	8,723	8,680	8,664	8,664	8,664	8,664	8,664	8,664	8,664	88,539

Outside HEADING 7⁶⁷ of the multiannual financial framework												
Human resources												
Other expenditure of an administrative nature	-	-	-	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	40,000
Subtotal outside HEADING 7 of the multiannual financial framework	-	-	-	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	40,000

⁶⁷ Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

TOTAL	1,824	8,664	8,723	13,680	13,664	13,664	13,664	13,664	13,664	13,664	13,664	128,539
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The appropriations required for human resources and other expenditure of an administrative nature will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

3.2.2.1. Estimated requirements of human resources

The proposal/initiative does not require the use of human resources.

The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Establishment plan posts (officials and temporary staff)											
20 01 02 01 (Headquarters and Commission's Representation Offices)	12	57	57	57	57	57	57	57	57	57	57
20 01 02 03 (Delegations)											
01 01 01 01 (Indirect research)											
01 01 01 11 (Direct research)											
Other budget lines (specify)											
External staff (in Full Time Equivalent unit: FTE)[1]											
20 02 01 (AC, END, INT from the 'global envelope')											
20 02 03 (AC, AL, END, INT and JPD in the delegations)											
XX 01 xx yy zz	- at Headquarters										
	- in Delegations										
01 01 01 02 (AC, END, INT - Indirect research)											
01 01 01 12 (AC, END, INT - Direct research)											
Other budget lines (specify)											
TOTAL	12	57	57	57	57	57	57	57	57	57	57

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	<ul style="list-style-type: none"> • Design, legal drafting, consultations, coordination with Commission services • Assessment of draft and final National Climate Social Action Plans, in synergy with other processes (2023-2024); • The preparation and management of grant agreements and of the related financial operations; • Oversight and monitoring of the implementation of the Fund (2025 onwards) • Budgetary and monitoring procedures with DG BUDG (2025 onwards)
External staff	

3.2.3. Compatibility with the current multiannual financial framework

The proposal/initiative:

- can be fully financed through redeployment within the relevant heading of the multiannual financial framework (MFF).
- requires use of the unallocated margin under the relevant heading of the MFF and/or use of the special instruments as defined in the MFF Regulation.
- requires a revision of the MFF.

The Fund will be financed under Heading 3 ‘Natural Resources and Environment’ of the multiannual financial framework, and in the annual budget nomenclature as part of the ‘Environmental and Climate Action policy’ cluster 9 .

The size of the Social Climate Fund should in principle correspond to 25% of the expected revenues from the inclusion of road transport and buildings into the scope of application of Directive 2003/87/EC.

An equivalent amount to the above mentioned share will be available under the multiannual financial framework to support the Fund. To this end, the Commission will shortly propose a targeted revision of the multiannual financial framework to increase the ceiling in commitment appropriations of Heading 3 ‘Natural Resources and Environment’ by an amount of EUR 2 176 million in 2025, EUR 9 132 million in 2026 and EUR 8 786 million in 2027, in 2018 prices. In light of the fact that the proposed increases in the ceiling in commitments will result in an equivalent increase of payment needs, the Commission thus proposes to revise the payment ceiling for the years 2025, 2026 and 2027 by the same amounts.

3.2.4. Third-party contributions

The proposal/initiative:

- does not provide for co-financing by third parties
- provides for the co-financing by third parties estimated below:

Appropriations in EUR million (to three decimal places)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Specify the co-financing body	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>
TOTAL appropriations co-financed	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>	<i>p.m.</i>

3.3. Estimated impact on revenue

The proposal/initiative has no financial impact on revenue.

The proposal/initiative has the following financial impact:

on own resources

on other revenue

please indicate, if the revenue is assigned to expenditure lines

EUR million (to three decimal places)

Budget revenue line:	Appropriations available for the current financial year	Impact of the proposal/initiative ⁶⁸										
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Article												

For assigned revenue, specify the budget expenditure line(s) affected.

[...]

Other remarks (e.g. method/formula used for calculating the impact on revenue or any other information).[...]

[...]

⁶⁸ As regards traditional own resources (customs duties, sugar levies), the amounts indicated must be net amounts, i.e. gross amounts after deduction of 20 % for collection costs.