



Audit Report

20/19

Measures to Improve the Energy Performance of Residential Buildings Supported by the *Integrated Regional Operational Programme* and the *New Green Savings Programme*

The audit was included in the audit plan of the Supreme Audit Office (the "SAO") for 2020 under number 20/19. The audit was managed and the Audit Report drawn up by SAO member Mr. Petr Neuvirt.

The aim of the audit was to verify whether the audited entities provided and used funds for improving the energy performance of residential buildings effectively and efficiently and in compliance with legal regulations.

The audit for the audited entities was carried out in the period from August 2020 to May 2021.

The audited period was the interval from 2015 until the audit completion and, where materially relevant, the preceding period(s).

Audited entities:

Ministry of Regional Development (hereinafter also "MoRD"); Ministry of the Environment (hereinafter also "MoE"); Centre for Regional Development of the Czech Republic, Prague (hereinafter also "CRD"); State Environmental Fund of the Czech Republic, Prague (hereinafter also "SEF"); Společenství vlastníků jednotek (association of unit owners) Adámkova 4945-4948, Chomutov; Společenství vlastníků jednotek Praha 8, Zelenohorská č. p. 496 - č. p. 513; Společenství vlastníků jednotek Komárov 519; Günther Mayer, Na Ressler 1388, Most; the municipality of Bystřice nad Pernštejnem; Jasná zpráva a.s., Ostrava; Bytové družstvo (housing association) Muchova, Ústí nad Labem; Společenství vlastníků jednotek Taškentská 1413 až 1416, Praha 10; Společenství vlastníků jednotek Amforová 1922 až 1928, Prague; Metrostav Nemovitostní, a.s., Prague; A Property, s.r.o., Prague; City District of Prague 3; Středisko společných činností AV ČR, v.v.i. (Centre of Administration and Operations of the Czech Academy of Sciences), Prague; Ing. Zdeněk Trojan, U Dívčích hradů 2411/9, Prague 5 - Smíchov.

The Board of the SAO in its 14th session held on 30 August 2021,

approved by Resolution No. 8/XIV/2021

this Audit Report with the following wording:

Improving the Energy Efficiency of Existing Residential Buildings for the 2014–2020 Period¹

CZK 3.4bn

Funds provided from the *Integrated Regional Operational Programme (IROP)*

CZK 0.5bn

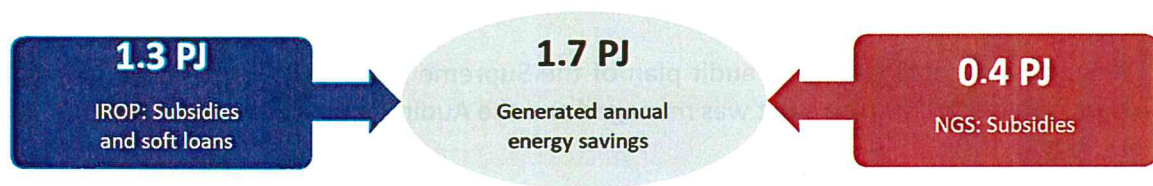
Funds provided from the *New Green Savings (NGS) Programme*

CZK 2,681/GJ

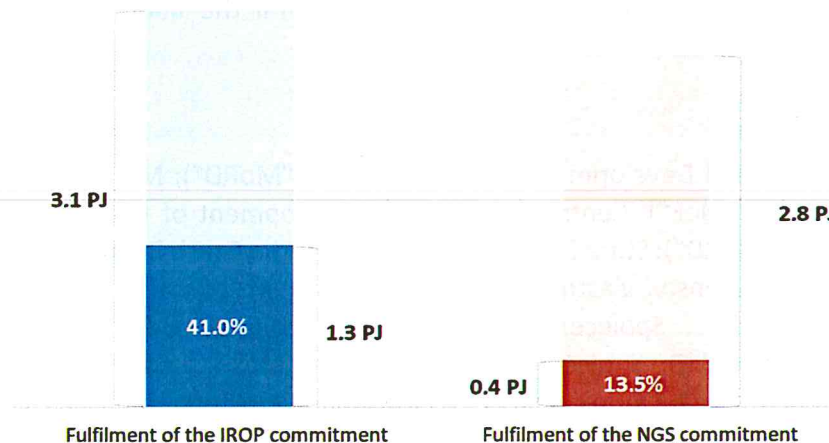
Mean amount of actual specific subsidy² for projects supported from the IROP (3 calls for residential buildings)

CZK 1,271/GJ

Mean amount of actual specific subsidy² for projects supported from NGS (2 calls for residential buildings)



The energy savings generated by the IROP and NGS³ as at 31 December 2020 fulfilled their respective Programme contributions to the achievement of the Czech Republic's annual savings target under the *Europe 2020 Strategy* only to a low extent:



¹ The figures presented are valid as at 31 December 2020, the savings are expressed in gigajoules (GJ) and petajoules (PJ).

² The actual specific subsidy is the amount of subsidy used for energy savings of 1 gigajoule (GJ) for implemented projects. The calculation of the actual specific subsidy for each project involves the total savings achieved in the project in relation to the subsidy funds that contributed to financing the energy efficiency measures. Subject to assessment is the actual efficiency of the subsidy in relation to the total savings generated.

³ For NGS, this concerns only the *Residential Buildings Sub-Programme*. The NGS Programme as a whole has met its commitment to 54%, achieving 4.4 petajoules (PJ) of the planned 8.1 petajoules (PJ) of savings as at 31 December 2020. The savings of 8.1 PJ were meant to be generated in projects that have been implemented and paid for under the Sub-Programmes *Residential Buildings* (target: 2.8 PJ), *Family Homes*, *Public Sector Buildings* and *Adaptation and Mitigation Measures*.

I. Summary and Evaluation

The SAO audited the provision and use of the funds earmarked for measures to improve the energy efficiency of residential buildings. The audit focused on measures in projects supported from the *Integrated Regional Operational Programme* (hereinafter also “IROP”) under Specific Objective 2.5 (existing residential buildings in regions of the Czech Republic outside the capital Prague) and on measures in projects supported from the *New Green Savings Programme* (hereinafter also the “NGS Programme”) under the *Residential Buildings Sub-Programme* (existing residential buildings only in the territory of the capital city of Prague).

The aim of the audit was to verify whether the audited entities provided and used funds for improving the energy efficiency of residential buildings effectively and efficiently and in compliance with legal regulations. To this end, the SAO audited the formal and material correctness of selected activities at the Ministry of Regional Development, the Ministry of the Environment, the Centre for Regional Development of the Czech Republic and the State Environmental Fund of the Czech Republic, and also examined 14 projects at the beneficiaries that were meant to contribute through energy savings to reducing end-use energy consumption in the household sector.

On the basis of the audit carried out for the above entities and on the basis of subsequent evaluation of the findings, the SAO concludes:

The MoRD a MoE in providing funds for measures to improve the energy efficiency of residential buildings did not meet as at 31 December 2020 the projected energy savings in relation to the target⁴ of the Czech Republic under the Energy Efficiency Directive⁵ (hereinafter also “EE Directive”) as part of the *Europe 2020 Strategy*⁶.

The IROP and NGS Programmes used the allocated funds earmarked for the respective calls only partially, i.e., to less than 32% for IROP and 33% for NGS respectively. Although both the Programmes have shown energy savings, these were too low to achieve even the planned Programme commitments as at 31 December 2020⁷.

The failure to meet the IROP commitment was a consequence of the late start of the aid provision and the consequent end date of most projects typically as late as after 2020⁸. It was also affected by cuts to available IROP resources for this measure due to the initial low demand for aid in this area. Also, a key reason for the non-fulfilment of the commitment for the NGS Programme was the late launch of the *Residential Buildings Sub-Programme* and

⁴ This is a binding target in terms of meeting the obligation to generate cumulative energy savings over the 2014-2020 period corresponding to an annual reduction of end-use energy consumption each year by 1.5% of purchased energy for end-use (i.e., the difference between end-use energy consumption *before* and *after* implementation of the measures). The Czech Republic was obliged to meet this target by 2020.

⁵ 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.

⁶ The *Europe 2020 Strategy - A strategy for smart, sustainable and inclusive growth* was the principal economic reform agenda of the European Union with a view to 2020.

⁷ The IROP and NGS Programmes are included in the list of the sc. alternative policy measures of the Czech Republic to meet the targets in the field of energy savings on the end-use side in accordance with Article 7 of the EE Directive. The commitments of individual Programmes as contributions to meeting the Czech Republic’s target are set out in the *National Energy Efficiency Action Plan of the Czech Republic* (5th update), which was approved by Resolution of the Government of the Czech Republic No 215 of 16 March 2016.

⁸ The assessment of the savings achieved under the *Europe 2020 Strategy* is based on the period until 31 December 2020.

the lack of interest on part of applicants due to the low aid amounts set for the first announced call for this Sub-Programme.

The MoRD and the MoE as providers of aid from the IROP and the NGS Programme, and their commissioned entities administering aid from these Programmes, which are for IROP the CRD (Centre for Regional Development) and for NGS the SEF (State Environmental Fund), allocated or provided funds for the implementation of energy savings projects in the period until 31 December 2020:

- Ineffectively in the sense of not meeting the energy savings targets set by the Government of CR for the IROP and the NGS Programmes;
- For the defined purpose in terms of appropriate targeting of the provided aid and its contribution to improving the energy efficiency of residential buildings and to reducing greenhouse gas emissions;
- Efficiently in the sense of achieving the effect of reducing energy consumption through the measures implemented in projects, and also in the sense of observing the mean actual specific subsidy for the aid provided, which corresponds to the estimated specific subsidy amount given in the *National Energy Efficiency Action Plan of the Czech Republic* for energy savings in the household sector;
- Not always in accordance with the legislation and the methodological guidelines for the provision of aid.

The audited entities as beneficiaries of aid - with one exception in IROP - used the funds for the designated purpose and achieved, credit to the implemented measures, a reduction in energy consumption. However, the beneficiaries did not always proceed in the implementation of projects in accordance with the legislation and the IROP and/or NGS Programme rules.

The SAO draws attention to the fact that the mean amount of actual specific subsidy for projects paid from the IROP is twice that of projects paid from the NGS Programme.⁹ In terms of the aid funds used per unit of energy saved (1 gigajoule), the NGS Programme is more efficient than the IROP.¹⁰

The SAO recommends that the MoRD and the MoE assess the feasibility of the set energy saving targets with which the IROP and the NGS Programme are supposed to contribute to meeting the national objective of the Czech Republic under the EE Directive.

The summary and evaluation are based on the following findings:

1. **The Ministry of Regional Development, as the managing authority of the IROP, did not ensure a specific, comprehensible and unambiguous interpretation of the rules governing applicants and beneficiaries for the temporal eligibility of expenditure.** Ambiguous definitions are contained both in the IROP rules and in the methodological

⁹ This is due to, *inter alia*, the different methods of setting the amount of provided subsidies under each Programme (see details in Part II and Part IV.4).

¹⁰ In accordance with its mission, the SAO assessed the volume of subsidy funds that were used to generate the overall energy savings in the project. It did not assess the overall cost-effectiveness of the project, where the calculation takes into account all the funds invested, including the beneficiary's own resources (see details in Part IV.4).

guidelines¹¹ that are meant to ensure a uniform course of procedure for all managing authorities in the 2014-2020 programming period (see also Part IV.1.1).

2. **The Ministry of Regional Development has allowed in the IROP management documentation to apply the rules set out in the methodological guideline retroactively.** As a result of the retroactive application of the changes to the rules for control of small-scale contracts awarded under the *Methodological Guideline for Public Contracts for the 2014-2020 Programming Period*, the possibility cannot be ruled out that the MoRD and the CRD will control contracts awarded at the same time differently, which creates a risk of unequal treatment of beneficiaries (see also Part IV.1.1).
3. **The MoRD did not proceed in setting the conditions and in the implementation of the IROP financial instrument¹² in accordance with the requirements of EU regulations¹³.** The Financing Agreement for this instrument does not define the expected results to be achieved, nor does it set out the leverage effect, which measures the activation effect of finances from the ESIF¹⁴ (see also Part IV.1.1).
4. **By the end of 2020, the IROP financial instrument had made only a small contribution to energy savings in residential buildings.** This was due to its late launch by the Ministry of Regional Development and the fact that applicants preferred aid in subsidies (see also Part IV.1.1).
5. **The CRD, in its role as the IROP intermediate body, did not identify in audits any expenditure ineligible for financing from the subsidy** that, if made by the beneficiary, would suggest a breach of budgetary discipline (see also Part IV.1.2).
6. **The MoE, as administrator of the NGS Programme, did not set up any control over the selection of contractors to verify the use of public funds by beneficiaries,** although it obliged beneficiaries in the NGS Programme documentation to comply in procurement with the basic principles according to the law¹⁵ (see also Part IV.2.1).
7. **The MoE did not carry out audits of delegated activities at the SEF in charge of administration of the NGS Programme in accordance with audit plans.** In the period from 2016 to 2020, the MoE carried out only two audits at the SEF (see also Part IV.2.1).

¹¹ In particular the *Methodological Guideline for the Eligibility of Expenditure and Its Reporting in the 2014-2020 Programming Period* prepared by the National Coordination Authority (MoRD).

¹² As part of SO 2.5 of the IROP in addition to aid funds, repayable financial resources are provided as well in the form of soft loans (financial instrument).

¹³ Regulation (EU) No. 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

¹⁴ European Structural and Investment Funds.

¹⁵ Act No. 134/2016 Coll., on Public Procurement.

8. The SEF, in its role as administrator of the NGS Programme, did not carry out any reviews of the selection of contractors at the beneficiaries - either during administrative reviews¹⁶ or during on-site public audits (see also Part IV.2.2).
9. The SEF committed numerous errors in keeping track in the central register of small-scale aid (*Register de minimis*, hereinafter also "RDM") of aid provided from the NGS Programme, including a failure to record small-scale (de minimis) aid¹⁷ (see also Part IV.2.2).
10. The SAO found at the aid beneficiaries deficiencies concerning materially ineligible expenditure under the IROP project (see also Part IV.1.3), as well as breaches of the principles of transparency, equal treatment and non-discrimination in the selection of suppliers for NGS projects (see also Part IV.2.3).
11. The IROP conditions for obtaining subsidies are more stringent than those of the NGS Programme, especially as regards the scope of duties and obligations for applicants and beneficiaries. Further also under the NGS Programme, beneficiaries may, for example, apply for a subsidy even if implementation of the supported measure has already begun or has been completed,¹⁸ while under the same circumstances, the IROP rules do not allow the provision of aid to beneficiaries (see also Part IV.3.2).
12. The IROP and NGS Programmes differ in the setting of some conditions and rules for applicants and beneficiaries of aid (see also Part IV.3.2).
13. The overall administrative burden for beneficiaries of IROP support is higher than for beneficiaries of support from the NGS Programme (see also Part IV.3.2).
14. The projected energy savings in relation to the Czech Republic's national target according to the EE Directive under the *Europe 2020 Strategy* have not been met in either the IROP or the NGS Programme. The savings generated for residential buildings under the supported projects were fulfilled by the IROP at 1.27 petajoules (hereinafter also "PJ") as at 31 December 2020, or 41.0% of the original savings plan, and the NGS Programme scored with its *Residential Buildings* Sub-Programme the value of 0.4 PJ as at the same date, which is only 13.5% of the original savings plan for the *Housing* Sub-Programme. In the segment of residential buildings, the mean actual specific subsidy for all completed projects with actually paid subsidies is CZK 2,681/gigajoule (hereinafter also "GJ") for the IROP and CZK 1,271/GJ for the NGS Programme (*Residential Buildings* Sub-Programme) respectively, which in both cases represents values that do not deviate substantially from the projections presented in the *National Energy Efficiency Action Plan of the Czech Republic* (see also Part IV.4).

¹⁶ Review of documentation demonstrating completion of the implementation of the supported measures and fulfilment of the conditions of the NGS Programme.

¹⁷ A failure to record small-scale (de minimis) aid is penalised by the Office for the Protection of Competition.

¹⁸ The exception are projects in which aid is granted under the so-called block exemption scheme.