



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

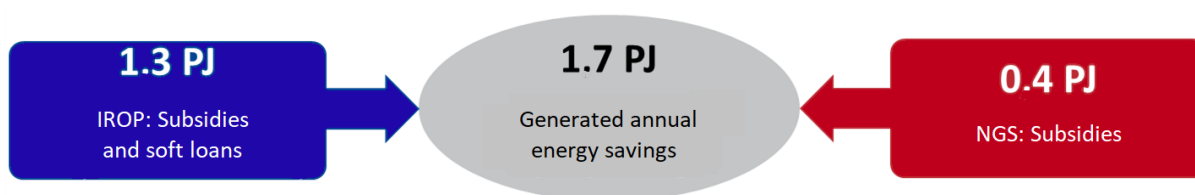
Funds provided from the *New Green Savings* (NGS) Programme

CZK 2,681/GJ

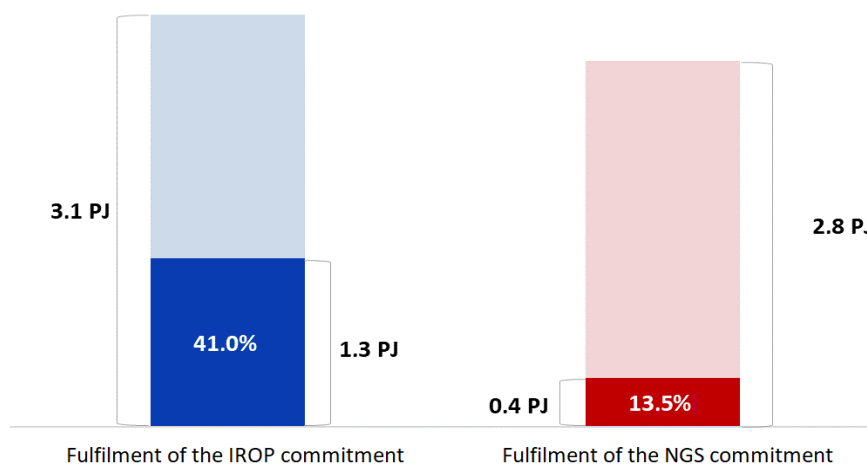
Mean amount of actual specific subsidy² for projects supported from the IROP (3 calls for residential buildings)

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.

II. Information on the Audited Area

The EE Directive implemented a common framework for EU energy efficiency measures to ensure that energy and climate protection targets, i.e. reducing greenhouse gas emissions by 20%, achieving a 20% share of renewables and a 20% reduction in end-use energy consumption compared to 1990, are met by 2020. The individual measures to improve energy efficiency and the setting of partial targets of the Czech Republic (hereinafter also “CR”) are described in the *National Energy Efficiency Action Plan of the Czech Republic* (hereinafter also “NEEAP”), which was last updated in 2017. The NEEAP lists the planned measures to achieve the projected energy savings in the industrial sectors¹⁹, the household sector, the services sector and the transport sector.

The binding target of the Czech Republic according to Article 7 of the EE Directive was set based on analyses carried out to 28 February 2017²⁰ at 51.1 PJ of new energy savings, i.e., a total of 204.4 PJ of cumulative energy savings in 2020. The cumulative energy savings in the period 2014-2020 correspond to an annual reduction in end-use energy consumption by 1.5% of energy purchased for end use (the expectation is 7.3 PJ of new energy savings annually).

Measures aimed at the household sector, including those for residential buildings, should also contribute to the Czech Republic’s fulfilment of its obligations under the EE Directive and the Energy Performance of Buildings²¹ Directive²². Energy consumption in the household sector has been affected in the long term by the rising number of new housing units and the decline in the number of persons living in a single housing unit. Despite support from public funds for energy efficiency improvement measures, the reduction in end-use energy consumption in the household sector is not significant. *“This is also due to the high proportion of completed flats in family homes, which are the most energy-intensive form of housing. In contrast, only 30% of all dwellings have been completed in the past twenty years in residential buildings, which are a more environmentally friendly and economical form of housing,”*²³ The level of consumption is also shaped by population growth and rising living standards, which affects the behaviour of the population and impacts energy consumption.

Measures to reduce energy consumption in the household sector currently receive the most significant support from the IROP and the NGS Programme. Both the Programmes are part of the sc. alternative policy measures to meet the energy savings targets on the end-use side under the EE Directive, and for both the Programmes, the NEEAP sets out the projected values

¹⁹ The SAO examined fulfilment of the energy saving targets in the industry by means of Audit No. 17/23 - *Energy Efficiency Improvement Measures Implemented under Priority Axis 3 of the Operational Programme Enterprise and Innovation for Competitiveness 2014-2020*.

²⁰ The energy efficiency target of the Czech Republic was set in accordance with the *State Energy Policy of the Czech Republic* document, which was approved by Resolution of the Government of the CR No. 362 of 18 May 2015.

²¹ Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings.

²² The definition of a residential building is based on Decree No. 501/2006 Coll., on general requirements for the use of land, and in the IROP and the NGS Programme as a residential building, a housing structure is referred to that contains four or more flats and in which more than half of the floor area meets the requirements for permanent housing and is designated and used for this purpose.

²³ The *Housing Concept of the Czech Republic 2021+*, published by the Ministry of Regional Development in March 2021, ISBN 978-80-7538-343-3.

of annual savings in end-use energy consumption until 2020 as well as estimates of the average amount of subsidy per unit of energy savings (gigajoules), i.e. the estimated specific subsidy. To quantify energy savings, the subsidy providers use both in the IROP and in the NGS Programme the expected savings method with an ex-ante approach. Back monitoring of supported projects is performed neither under the IROP nor under the NGS Programme, which is in line with the NEEAP²⁴.

IROP supports measures for existing residential buildings in regions of the Czech Republic outside the capital Prague; the NGS Programme supports measures for existing residential buildings exclusively in the territory of the capital city of Prague. Construction of new low-energy-intensity residential buildings is supported only by the NGS Programme, throughout the Czech Republic.

For both the Programmes, IROP and NGS, eligible applicants or beneficiaries of aid in projects that can be subsidised are always owners of residential buildings (associations of unit owners, housing associations, cities and city districts, municipalities and other legal and natural persons).

Support from the IROP

Within the IROP, Priority Axis 2 through Specific Objective 2.5 (hereinafter also “SO 2.5”) serves to implement thematic objective 4 - *Supporting the shift towards a low-carbon economy in all sectors*. SO 2.5 should contribute to fulfilment of the Czech Republic’s commitment under the EE Directive and the Energy Performance of Buildings Directive to create a long-term and stable framework for meeting global targets and for promoting energy-efficient construction in the Czech Republic. The aim of SO 2.5 is to improve the energy efficiency of residential buildings to cost-optimal levels and to increase the share of renewable energy sources.

Under SO 2.5, the following support areas are covered throughout the whole territory of the Czech Republic except the capital Prague through subsidies and the IROP financial instrument (hereinafter also “FI IROP”) - the *Thermal Insulation Programme*:

- Reducing energy consumption by improving the thermal performance of buildings;
- Equipment for heating and hot water preparation;
- Switch to economical and environmentally friendly resources.

Support through subsidies from the IROP is defined as a share of total eligible project expenditure. Details of the scope of aid provided are always given in annex of the respective call.

²⁴ The reporting of energy savings for residential buildings only on the basis of calculated values is stipulated for the IROP and the NGS Programme in the fifth update of *the National Energy Efficiency Action Plan of the Czech Republic (NEEAP-V)* approved by Resolution of the Government of the Czech Republic No. 215 of 16 March 2016. NEEAP-V states for both the IROP and the NGS Programme that the evaluation of energy savings will be carried out by the public authority using the ex-ante expected savings method in reference to documents according to Act No. 406/2000 Coll., on energy management. The calculated figures concerning the expected savings are based on energy performance certificates of buildings or Energy Reviews prepared in accordance with the procedures set out in Decree No. 264/2020 Coll., on energy performance of buildings.

The aid provider is the Ministry of Regional Development in its capacity as the IROP managing authority; the administration of aid from the IROP is with the CRD²⁵, which thus acts as intermediate body.

Audit by the European Court of Auditors

Improving the energy efficiency of buildings was the subject of audit carried out for the IROP by the European Court of Auditors (ECA) in 2019. The ECA assessed whether investments co-funded by the EU in energy efficiency of buildings contributed in a cost-effective way to meeting the EU's 2020 energy savings target and concluded that in selecting projects, the Operational Programmes did not follow the rationale of cost-effectiveness.²⁶

Support from the NGS Programme

The NGS Programme builds on the *Green Savings* and *New Green Savings 2013* Programmes and is financed from a share of proceeds from the auctioning of emission allowances under the EU ETS²⁷, with the amount of the share being defined by law²⁸; consequently, allocations to the NGS Programme are dependent on the amount of these proceeds. The original allocation to the NGS Programme was CZK 27 billion, since July 2019 this allocation amounts to CZK 23 billion, of which the share for the *Residential Buildings* Sub-Programme is 24%, or CZK 5.51 billion.

The key aim of the NGS Programme is to improve the energy efficiency of buildings²⁹ and achieve energy savings in final consumption. Each billion crowns invested from the NGS Programme in projects to support energy saving measures should bring on average end-use energy savings of 590 TJ/year. Improvement in energy efficiency of buildings is supported mainly in the Sub-Programmes *Residential Buildings*, *Family Homes* and *Public Sector Buildings*. The *Residential Buildings* Sub-Programme, which was the focus of the SAO's audit, was included in the NGS Programme already in 2013, however its implementation was delayed until 2015.

The following areas are supported from the NGS *Residential Buildings* Sub-Programme:

- A - Improving the energy efficiency of existing residential buildings;
- B - Construction of residential buildings with very low energy intensity, or conversion to passive residential buildings (throughout the whole territory of the CR);
- C - Efficient use of energy resources.

Support from the NGS Programme is defined as a fixed amount according to the type of the measure being implemented. At the same time, the total amount of subsidy per aid

²⁵ Based on *Public Law Contract for the Performance of Certain tasks of the Managing Authority by the Intermediate Body within the Implementation of the Integrated Regional Operational Programme*.

²⁶ In Special Report 11/2020 "*Energy efficiency in buildings: greater focus on cost-effectiveness still needed*", the ECA commented on the approach of the audited Member States to selecting projects for funding with the best cost-effectiveness: "*In most cases, they allocated the budget to projects on a first-come first-served basis, which did not allow them to assess their relative costs and benefits. This meant they rarely prioritised projects delivering energy savings or other benefits at lower costs.*"

²⁷ European Union Emissions Trading System.

²⁸ Section 7 of Act No. 383/2012 Coll., on the conditions for trading in greenhouse gas emission allowances.

²⁹ Reducing energy intensity including the replacement of inadequate heating sources and promoting the use of renewable energy sources.

application is limited to the maximum rate of duly documented eligible expenditure set out in the relevant call.

The aid provider is the Ministry of the Environment as administrator of the NGS Programme; the administration of aid is entrusted to SEF³⁰, which acts as administrator.

III. Scope of Audit

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 SAO focused on calls under the IROP and the NGS Programme that both support measures aimed at improving the energy efficiency of existing residential buildings. The audit sample included three IROP calls announced under Specific Objective 2.5 and two calls in the NGS Programme announced under the *Residential Buildings* Sub-Programme. The calls listed in Table 1 were the pool for the selection of projects for the audit sample.

Table 1: IROP and NGS Programme calls examined in the audit (as at 31 December 2020)

Call No.	Allocation (EU share for SO 2.5 IROP, or SB share for NGS) (in CZK)	Number of registered applications	Paid to beneficiaries (in CZK)
IROP No. 16	1,350,000,000	177	84,356,612
IROP No. 37	3,500,000,000	1,329	1,841,711,602
IROP No. 78	5,500,000,000	2,610	1,476,202,295
FI IROP	1,000,000,000	118	90,401,109
NGS No. RB1	500,000,000	290	20,675,932
NGS No. RB2	1,000,000,000	894	420,103,742
Total	12,850,000,000	5,418	3,933,451,292

Source: MS2014+, IS NGS 2015+.

The effectiveness in providing and using funds from the IROP and the NGS Programme was examined by the SAO through audit focusing on whether the projects selected under the respective calls were likely to meet the set objectives and thus contribute to the planned energy savings, and whether the supported projects actually contributed to meeting the energy savings objectives. Beneficiaries were examined for compliance with project objectives and parameters. The SAO also examined whether the aid applicants were informed in a transparent and comprehensible manner about the conditions of the support provided, and further examined the measures taken by the subsidy providers to increase the absorption capacity of selected calls.

The efficiency of the funds provided and used was examined in particular in the area of actual monitoring and evaluation of the effects of the funds provided at the level of providers and beneficiaries. The SAO verified whether the NEEAP projections of new energy savings were met for the IROP and the NGS Programme and whether appropriate level of actual specific subsidy per 1 GJ of energy savings achieved was observed for each of the audited Programmes.

³⁰ Based on *Agreement on the Delegation of Certain Activities and Powers of the Ministry of the Environment as Administrator of the New Green Savings Programme to the State Environmental Fund of the Czech Republic.*

All audited entities were examined for compliance with the legislation, the provisions of agreements on delegation of selected activities and with the rules of the relevant Programme in relation to the activities they carried out in the administration and implementation of projects.

The audited period was from 2015 to 2021, and the preceding period(s) where materially relevant.

The Supreme Audit Office examined the following:

- Performance of the duties of the Ministry of Regional Development as the IROP managing authority and of the duties of the Ministry of the Environment as administrator of the NGS Programme - in particular in the area of planning and announcing calls, monitoring and evaluation of aid, and also in the field of audit activities;
- Fulfilment of the obligations set out in the contract or agreement on the delegation of certain activities to the intermediate body (CRD), or the body entrusted with administration of the respective Programme (SEF) - in particular in the area of evaluation of projects/applications, control of the material and financial aspects of implementation of projects and in the field of monitoring;
- Fourteen projects³¹ for the implementation of which the MoRD and the MoE provided a total of CZK 46.38 million. Among these were six projects from the IROP and eight projects supported by the NGS Programme. The SAO reviewed the projects at 14 beneficiaries.

The audited volume of funds at the level of the support delivery system³² of the IROP amounted to CZK 6,541.3 million³³ and for the NGS Programme to CZK 3,213.4 million.

The funds provided from the IROP reached CZK 3.4 billion as at 31 December 2020, and the funds provided as at the same date from the *Residential Buildings* Sub-Programme of the *New Green Savings* Programme amounted to CZK 0.5 billion. Table 2 provides information on the number of all residential building-related projects for which funds were provided:

Table 2: Projects paid from the IROP and the NGS Programme as at 31 December 2020

1,836	542
Number of projects to reduce end-use energy consumption for residential buildings - paid from the IROP in the form of subsidies or soft loans	Number of projects to reduce end-use energy consumption for residential buildings - paid from the NGS Programme in the form of subsidies

Source: MS2014+, IS NGS 2015+.

The audited funds in the audit sample of 14 projects amounted to CZK 46.4 million (of which CZK 20.9 million was provided from the IROP and CZK 25.5 million from the NGS Programme).

For beneficiaries of aid/subsidies, the following was examined:

- Adherence to the purpose, objective and parameters of the project;

³¹ An overview of the projects with basic data on the support provided is included in Annex 1 of this audit report.

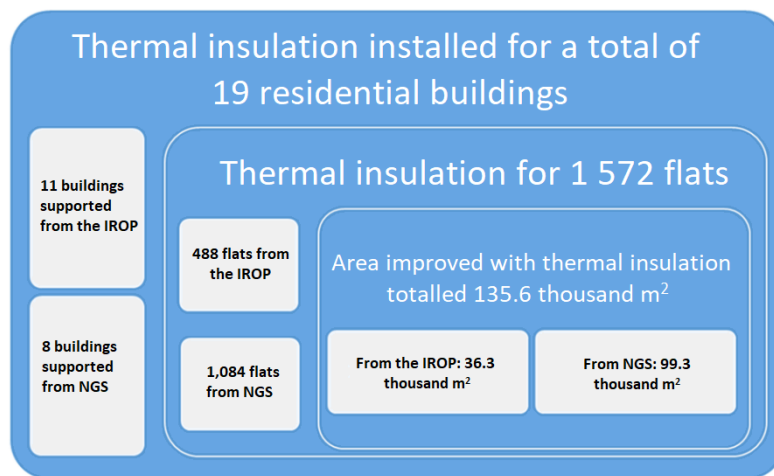
³² The volume of funds at the level of the support delivery system refers to all funds allocated in the IROP calls and in the *Residential Buildings* Sub-Programme of the *New Green Savings* Programme.

³³ Of these, CZK 6,391,316,144 was earmarked for financing projects from the audited subsidy calls and the endowment of the FI IROP amounted to CZK 150,000,000.

- Achievement of the declared improvement in energy efficiency of buildings with the implemented measures while also quantifying the value of actual specific subsidy per unit of energy savings (CZK/1 GJ of savings);
- The fields of supplier selection/awarding of public contracts;
- The area of eligibility of expenditure;
- Fulfilment of other conditions and obligations of the beneficiaries imposed by the rules of the respective Programme.

Within the measures implemented in the projects selected by the SAO for the audit sample, mainly thermal insulation of residential buildings was carried out with aid funds of CZK 46.4 million provided from the IROP and the NGS Programme.³⁴ More detailed data are provided in Figure 1.

Figure 1: Data on the measures implemented in audited projects



Source: Compiled by the SAO based on technical data from energy performance certificates of buildings.

The law is applied in this audit report in its versions effective for the audited period.

IV. Detailed Facts Found in the Audit

IV.1 Provision and Use of Funds from the IROP

IV.1.1 Activities of the Ministry of Regional Development as the IROP Managing Authority

Planning and Announcing Calls

- The Ministry of Regional Development allocated for energy savings in residential building 13.4% of the EU resources earmarked for the IROP (EUR 622.8 million). However, this allocation was gradually reduced to 7.04% of the total IROP allocation (EUR 335.1 million) during the programming period. The overall reduction by EUR 338,443,243 compared to the original allocation of EU resources means 46.19% less EU funding for energy saving measures. The reason for cutting the

³⁴ The subsidies were provided most often for thermal insulation of external walls, roof, ceiling, floors, and for replacement of doors and windows. Apart from insulation, the subsidies further related to replacement of solid fossil fuel heat sources with efficient, environmentally friendly resources, replacement of electric or gas heating with heat pump systems, photovoltaic systems, and controlled ventilation with heat recovery.

resources allocated for the implementation of these measures was the low demand for aid on part of eligible applicants.

- The last downward adjustment was made in July 2020. The main reason for this was to secure funds for the financing of digitisation projects for construction proceedings under SO 3.2 of the IROP focused on eGovernment. The resources for funding these projects were originally to be secured by external reallocation from the Operational Programme *Enterprise and Innovation for Competitiveness*. However, this transfer of resources between Operational Programmes did not take place. The resources considered were used to respond to the impact of the covid-19 pandemic. The MoRD proceeded to internal reallocation, specifically from SO 2.5, as according to the MoRD these were the only available resources within the IROP.
- In the audited subsidy calls, the MoRD set specific and feasible conditions with attached deadlines for the implementation of projects, except for the area of eligibility of expenditure.

Evaluation and Selection of Projects

- The selection of projects was not carried out by the Ministry of Regional Development on the basis of a cost effectiveness assessment, meaning with the best ratio between the expected energy savings and the funds used (e.g., in relation to the project budget or the requested amount of subsidy). For the sample of audited projects, it was found that due to the absence of a criterion assessing the cost effectiveness of projects, projects exceeding the amount of the estimated specific subsidy specified in NEEAP-V by up to 32.57% were also supported (see Part IV.4 for details).
- In none of the audited calls, the deadline for the assessment of formal details and acceptability set by the MoRD for itself was met on average, although in the third (last) call, the difference was minimal (2 business days). Based on analysis of compliance with deadlines for the assessment of formal details and acceptability according to set rules, the SAO found that the process was delayed by 17 business days on average. On average, successful applications were processed, i.e., the legal act granting the subsidy was issued, in 104 business days. In the longest case, the application took 748 business days to administer³⁵.
- The financial instrument was launched late due to failed tender for a financial intermediary. The State Housing Development Fund, later renamed to the State Investment Support Fund³⁶ became the administrator of the financial instrument. The acceptance of applications for interest-free loans started in March 2020.
- Until 18 February 2021, no amendments or modification subsidy decision to the concluded *Financing Agreement* were entered in the *Financial Instruments* module of the MS2014+ information system³⁷. The MoRD did not proceed in accordance with the procedures it set for itself. The documents concerned were entered by the Ministry of

³⁵ For the application registered on 5 May 2017, the MoRD issued a subsidy decision on 27 April 2020.

³⁶ Effective from 1 June 2020, the name was changed to the State Investment Support Fund on the basis of Act No. 113/2020 Coll. amending Act No. 211/2000 Coll., on the State Housing Development Fund, and amending Act No. 171/1991 Coll., on the competence of the authorities of the Czech Republic in matters of transfers of state property to other persons and on the National Property Fund of the Czech Republic, as amended, and other related acts.

³⁷ Which would consider the increase in the contribution to the FI IROP from CZK 600 million to CZK 1 billion.

Regional Development into MS2014+ on the basis of the SAO's findings and the lack of an audit trail thus was corrected by the MoRD during the SAO audit.

Audit Activities

- The temporal eligibility of expenditure is not explained in specific, clear and understandable terms in the rules governing applicants and beneficiaries. Concepts are used that are not explained either at the IROP level or in the Methodological Guidelines (hereinafter also "MG"), which should ensure a uniform approach of all managing authorities, in particular the MG for eligibility of expenditure and reporting in the 2014-2020 programming period.
- The Ministry of Regional Development, in its role as the managing authority (hereinafter also "MA") of the IROP, did not proceed in accordance with the MG for the performance of controls under the responsibility of managing authorities in the implementation of the ESIF for the period 2014-2020. Specifically, it did not ensure as part of administrative reviews that only expenditure eligible for funding from the *European Regional Development Fund* (ERDF) was approved according to the rules based on the *Methodological Guideline for the Eligibility of Expenditure and Its Reporting in the 2014-2020 Programming Period* and further elaborated in the rules for applicants and beneficiaries.
- In the IROP management documentation, the Ministry of Regional Development allowed the rules set out in the MG for public contracts³⁸ to be applied retroactively, which contradicts the MG for the performance of controls under the responsibility of managing authorities in the implementation of the ESIF for the period 2014-2020. As a result of the retroactive application of the changes to the rules for control of small-scale contracts awarded under the MG for public contracts, 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.

Monitoring

- The aim of interventions under SO 2.5 is to improve the energy efficiency of residential buildings to cost-optimal levels and to increase the share of renewable energy sources. However, it is not possible to verify whether the objective will be achieved. All projects will contribute to this target, nevertheless it is not clear whether the target will be achieved by the end of 2023 as it is not quantified in any way.
- The Ministry of Regional Development allowed the subsidy and the interest-free loan to be provided simultaneously to one and the same beneficiary. Applicants thus preferentially used the option to apply for non-repayable support, i.e., subsidies. The total savings achieved in projects supported only by repayable aid are lower because they do not include energy savings generated in projects that are financed simultaneously by both the types of support. The reason for not including savings figures from projects where a combination of both types of aid is used is to eliminate redundant figures.

³⁸ *Methodological Guideline for Awarding Public Contracts in the 2014-2020 Programming Period* prepared by the National Coordination Authority (MoRD).

IV.1.2 Activities of the CRD as Intermediate Body of the IROP

The CRD contributes in performing the administrative tasks delegated to it to efficient and effective use of aid from the IROP.

However, in some cases the CRD did not proceed in accordance with the IROP rules.

Evaluation and Selection of Projects

The SAO audit did not find any deficiencies in the setup of the project evaluation and selection system in terms of effectiveness. Deficiencies were found in compliance with administrative deadlines, i.e. the procedure set out in the IROP Operational Manual was not observed:

- In four projects, the CRD exceeded the total administrative deadline of 35 business days for checking admissibility and formal details;
- In two projects, the CRD exceeded the deadline of 15 business days for recommending the award of a subsidy when processing the list of evaluated projects;
- In one project, the CRD exceeded the deadline of 8 business days for compiling the ex-ante risk analysis.

Audit Activities

- On the basis of contract for the delegation of activities, the CRD carries out administrative verifications of implementation reports and applications for payment and performs on-site public audits. In this area, shortcomings were identified concerning the assessment of the eligibility of expenditure.
- The CRD did not identify for a project ineligible expenditure claimed by the beneficiary under expenditure for construction works; the expenditure did not meet the material eligibility criterion set out in the rules for applicants and beneficiaries.

IV.1.3 Beneficiaries of the IROP

The audited entities, as beneficiaries of the IROP, used the funds for the designated purpose and in accordance with the approved project, and most of them compliant with the legislation. The SAO found irregularities in one project where:

- The beneficiary did not follow the *specific rules for applicants and beneficiaries* when it claimed from the provider ineligible expenditure of CZK 40,724 for construction works that did not directly relate to achieving better energy effectiveness;
- The beneficiary used the funds for the implementation of the project in an inefficient and ineffective manner in that higher amounts were paid as a difference between the originally budgeted costs for the replacement of windows and the actual expenses incurred for better than standard and larger windows in the newly constructed non-residential space on the 14th floor of the building supported in the project.

An expenditure of subsidy funds to cover ineligible expenditure is a breach of budgetary discipline. The SAO reported these irregularities to the competent tax authority.³⁹

³⁹ Breach of budgetary discipline pursuant to Section 44 (1) (b) of Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts (Budgetary Rules).

IV.2 Provision and Use of Funds from the NGS Programme

IV.2.1 Activities of the MoE as Administrator of the NGS Programme

Setup of the NGS Programme, Planning Calls

- The Ministry of the Environment made changes in allocations for the calls under individual Sub-Programmes following the unfavourable development in the use of funds under the *Residential Buildings* Sub-Programme, which was due to the late launch of this Sub-Programme and the subsidy rate being set low at 10-15% and hence not very attractive for potential applicants; this was increased to the level of 25-30% and finally to 40% effective from 30 July 2019. By the end of the implementation period of the *Residential Buildings* Sub-Programme, i.e., until 31 August 2024, the use of funds was to reach only CZK 1.1 billion by the MoE projections.
- The MoE intends to transfer the still unused funds of CZK 2.1 billion to the *Family Homes* Sub-Programme, where though the generated savings per CZK 1 billion are on average 303 TJ lower than for residential buildings⁴⁰. Due to the transfer of the CZK 2.1 billion from the *Residential Buildings* Sub-Programme, energy savings will be 636 TJ lower than if the original target of the *Residential Buildings* Sub-Programme had been met.

Audit Activities

- In the period from 2016 to 2020, the Ministry of the Environment carried out only two audits at the SEF focusing on the performance of tasks delegated to the SEF as the administering body.
- The MoE did not act in accordance with the legal regulation⁴¹ in the field of auditing of delegated activities at the SEF, as it did not evaluate in these audits whether the funds paid were used in an economical, efficient and effective manner.
- In the field of compliance with the conditions for the provision of public aid, the MoE delegated the activities related to the assessment and registration of public aid in full to the SEF, but the performance of these activities was not verified by the MoE at the SEF. As a result, the MoE did not detect the errors committed by the SEF in six cases when entering the aid in RDM.⁴²
- In the binding documentation of the NGS Programme, the MoE obliged the beneficiaries to proceed in the selection of suppliers in accordance with the law, but did not elaborate any rules for the beneficiaries on how to select suppliers. The MoE has not carried out and has not ensured any control of the beneficiaries' compliance with the principles stipulated by law. Thus, there is a risk of violating the principles of transparency, equal treatment and non-discrimination in cases where beneficiaries do not follow the rules provided in the NGS Programme documentation.

⁴⁰ Source: *Information on the status of the New Green Savings Programme for 2019*.

⁴¹ Section 39 (3) of Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts (Budgetary Rules).

⁴² According to the provisions of Section 2 (d) of Act No. 215/2004 Coll., on the Regulation of Certain Relations in the Field of Public Aid and Amending the R&D Support Act, responsibility for proper registration of provided small-scale (de minimis) aid is always with the aid provider, which in this case is the Ministry of the Environment.

- In several cases, the MoE paid subsidies to beneficiaries before the beneficiaries had confirmed in the prescribed manner their acceptance of the conditions set out in the legal act, although this does not constitute a breach of legal provisions by the MoE. During the audit, the SAO did not find any actual instance of violation of the conditions.

Monitoring

- The MoE has not set in the legal act any action/project objectives and it monitors fulfilment of the objectives of the NGS Programme via indicators and project parameters.
- The only target that has been met, and is currently exceeded by 50% already, is the number of new very low energy residential buildings. For the other indicative targets, there is no expectation that they will be met.

IV.2.2 Activities of the SEF as Administrator of the NGS Programme

The State Environmental Fund performs the assigned administrative tasks and contributes to efficient and effective use of aid from the NGS Programme.

In the administration of the *Residential Buildings* Sub-Programme, the SEF did not always proceed in carrying out the assigned tasks in accordance with the rules of the *New Green Savings* Programme.

Evaluation (Review) of Aid Applications

- In the process of reviewing aid applications, in one case it was found that the SEF did not apply equal treatment to applicants/beneficiaries in that for one project application, aid was provided under block exemption scheme for sub-area A.3⁴³, while another project was found by the SEF as ineligible for block exemption support for the same sub-area.
- In the area of the provision of information on the NGS Programme, the SEF did not act in accordance with the delegation agreement, as it did not continuously update for calls concerning residential buildings the NGS Programme's website⁴⁴ with summaries of applicant data and aid actually paid; the data had not been updated for more than 9 months⁴⁵.

Support Monitoring

The State Environmental Fund carries out monitoring activities within the scope of the Delegation Agreement. The SEF does not perform follow-up monitoring for the buildings for which aid was provided as to benefits in terms of actual energy savings, as the reporting of energy savings under the NGS Programme takes place using the ex-ante method, where the aid beneficiary undertakes to implement energy savings according to the approved project.

⁴³ Sub-area A.3 *Support for the preparation of expert opinion and provision of expert technical supervision*.

⁴⁴ See: <https://www.novazelenausporam.cz/o-programu/schvalene-zadosti/>.

⁴⁵ The shortcoming was remedied during the SAO audit when the SEF made an update as at 30 April 2021 (update for calls RB2 and RB3).

Audit Activities

In carrying out the assigned tasks in the field of administrative reviews and on-site public audits:

- The SEF does not carry out either as part of administrative reviews or during on-site public audits at beneficiaries' control of the selection of suppliers by the beneficiaries. Due to this lack of control over the selection of suppliers, it cannot be guaranteed that beneficiaries proceed in contracting/tendering in accordance with the provisions of the law⁴⁶, hence there is a risk of violating the principles of transparency, equal treatment and non-discrimination.

Compliance with the Conditions for Providing Public and Small-Scale (de minimis) Aid

In carrying out its assigned tasks in the field of assessment and provision of public and small-scale (de minimis) aid, the State Environmental Fund breached in several instances the rules for the provision of public aid by committing administrative errors in the following activities:

- Failed to correctly meet its information obligation concerning small-scale (de minimis) aid in that it assigned in RDM the financial aid to another entity;
- Made inappropriate adjustments to the amount of subsidy provided so as to meet the EUR 200 000 limit;
- In administration, converted the existing "no public support" aid into small-scale (de minimis) aid;
- Issued to applicants' erroneous affidavits for block exemptions and subsequently accepted their submission⁴⁷ by the applicants when applying for aid;
- Erroneously entered in RDM⁴⁸ five of the six block exemptions granted at the same time as small-scale (de minimis) aid.

IV.2.3 Beneficiaries of the NGS Programme

The audited entities, as beneficiaries of the NGS Programme, used the funds for the designated purpose and in accordance with the approved project, and most of them compliant with the legislation. The SAO did not find for most of the projects any shortcomings, but some minor irregularities were found in the field of selection of contractors, such as:

- For one project, the aid beneficiary did not have any documentation on supplier selection for thermal insulation works, so it could not be verified whether the beneficiary complied with all the principles set out in the NGS Programme documentation. This practice is not in line with the principle of transparency.

⁴⁶ Section 6 of Act No. 134/2016 Coll., on Public Procurement.

⁴⁷ Insufficient verification of affidavits was also found, for example, by the European Commission in its spot checks for Programmes from 2006-2017, where the most significant finding was that providers very often relied on affidavits without verifying whether the statements in them were true or not. The European Commission equates this deficiency to a lack of systemic control.

⁴⁸ The wrong entries were removed by the SEF during the audit at notice from the SAO.

IV.3 Conditions for Using Aid from the IROP and the NGS Programme

Although both the IROP and the NGS Programme are sourced to support the same measures, some conditions for using aid from these Programmes were set differently by the providers for the beneficiaries. The conditions for obtaining a subsidy from the IROP are usually more stringent compared to the NGS Programme and the beneficiaries of IROP support also face greater administrative obstacles.

The framework for cooperation between the Ministry of the Environment as the expert guarantor and administrator of the NGS Programme and the Ministry of Regional Development as the housing policy coordinator and managing authority of the IROP is the *Memorandum on cooperation in the preparation and future implementation of support for energy savings in the housing sector from the ESI Funds and national support programmes for the 2014-2020 period*⁴⁹ (hereinafter also “Memorandum”) signed between the MoE and the MoRD on 31 May 2015. Article 3 of the Memorandum also deals with regulation of the rates of aid provided from the *Residential Buildings* Sub-Programme of the NGS Programme; the amount of such aid should always be in accordance with the conditions of the IROP.

Table 3: Overview of the defined rates of aid for calls for residential buildings

IROP				NGS Programme			
Call number	Date of announcement	Closing date for applications	Maximum rate of aid (%)	Call number	Date of announcement	Closing date for applications	Maximum rate of aid (%)
16	09/12/2015	25/07/2016	32.3	RB1	01/04/2015	31/10/2015	15
37	01/07/2016	12/01/2018	40.0	RB2	15/02/2016	Continues	25.0–30.0/40.0*
78	12/01/2018	30/11/2020	40.0	RB3	09/01/2017	Continues	N/R**

Source IROP and NGS Programme calls.

* As of 1 January 2020, the rate of aid has been increased to 40% in order to mutually align the conditions with the IROP.

** The maximum amount of aid is 200 thousand CZK for the purchase of a housing unit.

The SAO examined for selected IROP and NGS Programme calls all the conditions of each call and the scope of obligations and commitments set by the providers for the applicants/beneficiaries. The results of the verification are presented in Parts IV.3.1 and IV.3.2.

⁴⁹ The Memorandum constitutes the basic framework for interventions that is meant to eliminate overlaps between aid from the IROP and the NGS Programme respectively and establish links between supports. Both the Programmes should be set up to enable combined support for energy savings and for the extension of lifetime and improvements in the quality of housing.

IV.3.1 Comparable Conditions and Obligations for Applicants and Beneficiaries

The SAO found in both the systems of aid provision (IROP and NGS Programme) comparable conditions for applicants and beneficiaries, for example:

- Identical supported measures meant to improve the energy efficiency of residential buildings;
- Identical structure of eligible applicants/beneficiaries;
- Gradually converging rates of aid provided for measures aimed at improving the energy performance of residential buildings;
- Applicants and beneficiaries in both the Programmes are provided with consultations by the administering bodies (CRD and SEF), including organised workshops;
- The aid application can be submitted electronically, though for the NGS Programme this goes only for the application form itself.
- Both the Programmes require the applicant to take into account in the implementation of the measures the needs of wildlife (plants and animals)⁵⁰.
- The energy savings are proven ex-ante, i.e. by quantifications from energy performance certificates of buildings or Energy Reviews.
- Neither the IROP nor the NGS Programme have a set method for beneficiaries to track energy consumption or demonstrate actual energy savings.

IV.3.2 Particularities of Selected Conditions

The key distinctive features of the conditions for the provision of aid from the IROP and the NGS Programme are mainly in the sources by which measures aimed at improving the energy performance of residential buildings are financed. The sources are funds from the ERDF a funds from the state budget.

There are significant differences both in the conditions for obtaining aid and in the scope of the obligations imposed on applicants and beneficiaries. An overview of selected particularities is provided in the comparative Table 4.

Table 4: Overview of the differences in the conditions and obligations set for applicants and beneficiaries

Area	IROP	NGS Programme
Time constraints for submitting an aid application	Only before the implementation of the measures is launched	Before, during and after the implementation of the measures
Support to measures for non-residential (commercial) premises	YES Condition that there must be no reduction in the number of housing units	YES The possibility of reducing the number of housing units in favour of non-residential premises also accepted
Sustainability of measures in projects	5 years	10 years
Setting the project objective	YES	NO
Setting the project parameters	NO	YES

⁵⁰ In the aspect of nature and landscape protection, the expert assessment must include on a mandatory basis measures to protect habitats of specially protected species, such as the common swift and bats.

Area	IROP	NGS Programme
Watching and reporting of monitoring indicators at beneficiary level	YES	NO
Penalty system for breach of the subsidy conditions	YES	NO
Scope of documentation binding on the applicant/beneficiary	5 binding documents (incl. legal act) exceeding 255 pages in volume + annexes	5 binding documents (incl. legal act) exceeding up to 170 pages in volume
Methodological guidance for the selection of suppliers	YES	NO
Reporting obligations to the provider	YES Ongoing, final and sustainability period reporting	NO One-off proof of implementation
Mandatory publicity of project supported by subsidies	YES	NO

Source: Prepared by the SAO on the basis of the IROP and NGS Programme project documents.

Details on selected conditions of provided aid listed in Table 4

In the NGS Programme, the MoE has set up the possibility for beneficiaries to apply for aid before, during and after the implementation of the measure. The IROP does not allow the submission of aid applications after the implementation at all. Beneficiaries of the NGS Programme continued to submit aid applications even after the end of implementation, in both calls concerning residential buildings.

Both the Ministry of Regional Development and the Ministry of the Environment, as providers of the subsidies, allow the implementation of measures also for non-residential (commercial) premises, as far as part of a comprehensive measure for a residential building. However, the MoRD in the IROP does not allow for a reduction in the number of housing units after the implementation of the measure. In contrast, the MoE accepts even a reduction in the number of housing units after the project completion in favour of newly created non-residential premises.

The sustainability of projects, also referred to as sustainability of supported measures, was set in the IROP at 5 years⁵¹ from the last payment made. In contrast for projects supported from the NGS Programme, sustainability of supported measures is set at 10 years⁵² from the date of the legal act (subsidy decision).

⁵¹ The set sustainability period for IROP projects refers to Article 71 *Durability of operations* of Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 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.

⁵² The set sustainability period for the NGS Programme projects is based on the experience with the *Green Savings* Programme and takes into account the technical and, where relevant, moral lifetime of the implemented measures, in particular in the aspect of resources.

Compared to the IROP, the NGS Programme does not provide in the legal act for a range of sanctions for beneficiaries. Breach of any of the conditions of the subsidy decision will result in withdrawal of the subsidy in the full amount of the funds provided. No proceedings in a case of withdrawal of subsidy have been dealt with in the NGS Programme so far.

Obtaining subsidy support and fulfilling all set conditions is more difficult in the IROP, where also the administrative obstacles are higher both for beneficiaries (more obligations imposed on beneficiaries) and in terms of the duties of the provider (in particular as regards audit activities). This is to meet the requirements set out in EU regulations. **The NGS Programme has simpler rules for applicants and simpler control by the provider**, including, for example, the absence of control over the selection of suppliers by beneficiaries.

The providers (MoRD and MoE) proceeded in setting the conditions for granting support to applicants and beneficiaries in accordance with the European and national legislation.

IV.4 Neither the IROP nor the NGS Programme Are Succeeding in Meeting the Projected Savings in the Segment of Residential Buildings

The Czech Republic has achieved a total of 138.1 PJ of cumulative energy savings for the 2014-2020 period, **which is 68% of the planned savings of 204.4 PJ. The Czech Republic does not expect to meet the obligation under Article 7 of the EE Directive in cumulative savings⁵³. In the 2014-2020 period in the Czech Republic, only 44.5 PJ of new energy savings were achieved**, which means an 87% compliance with the national target of 51.1 PJ.

The IROP should contribute to the national target with 3.1 PJ of new savings, while the NGS Programme should contribute with savings of 2.8 PJ for the *Residential Buildings* Sub-Programme, and 8.1 PJ for the whole NGS Programme.

Table 5: Achievement of the new annual energy savings target of the IROP and the NGS Programme for the 2014-2020 period (new actions/projects implemented in each year) (in TJ)

Measure	2014	2015	2016	2017	2018	2019	2020
<i>New Green Savings Programme (MoE)</i>	21.6	233.0	600.4	870.9	862.9	905.8	948.8
<i>Integrated Regional Operational Programme (MoRD)</i>	–	–	17.2	195.7	331.4	394.1	279.0

Source: Ministry of Industry and Trade - 9th Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic.

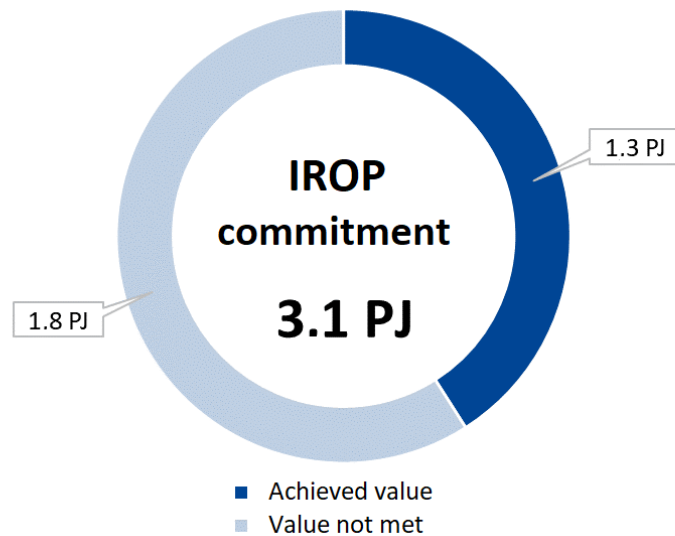
The achieved target as at 31 December 2020 in terms of new annual savings generated amounts for the IROP was 1,217.4 TJ, for the NGS Programme⁵⁴ the new annual savings generated amounted to 4,443.4 TJ. **The projected energy savings in relation to the Czech Republic’s national target according to the EE Directive under the Europe 2020 Strategy were not fulfilled in either the IROP or the NGS Programme as at 31 December 2020.**

The savings generated for residential buildings under all supported projects, reached for the IROP 1.3 petajoules, or 41.0% of the original savings plan as at 31 December 2020.

⁵³ According to information from the 9th Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic.

⁵⁴ The entire NGS Programme, i.e., savings generated in all the three Sub-Programmes - the *Residential Buildings* Sub-Programme, the *Family Homes* Sub-Programme and the *Public Sector Buildings* Sub-Programme.

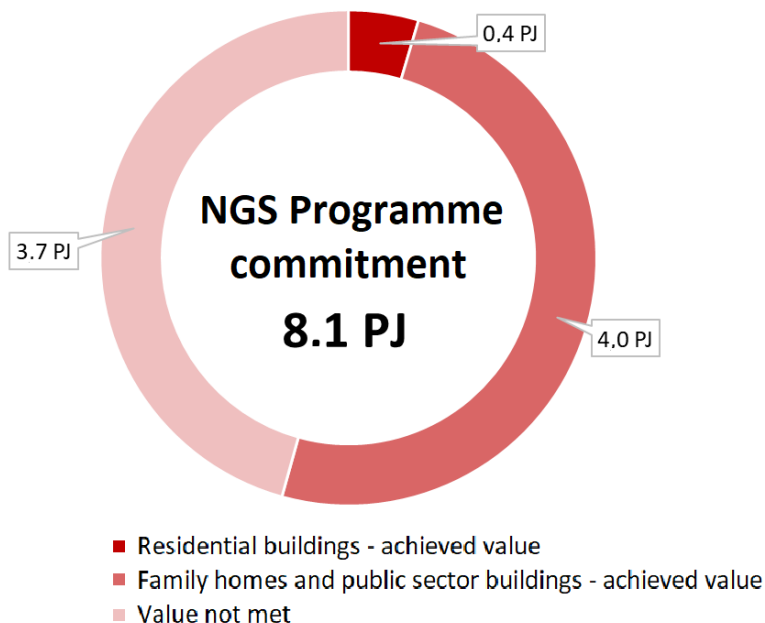
Chart 1: Degree of fulfilment of the IROP commitment



Source: Ministry of Industry and Trade - 9th Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic.

The NGS Programme met the overall commitment of 8.1 PJ with the savings generated to 54%, i.e., 4.4 PJ, for all the Sub-Programmes that generate savings (*Residential Buildings, Family Homes and Public Sector Buildings*). Savings in the *Residential Buildings* Sub-Programme for all supported projects totalled 0.4 PJ out of the planned 2.8 PJ as at 31 December 2020, which is only 13.5% of the original savings plan for this sub-programme.

Chart 2: Degree of fulfilment of the NGS Programme commitment



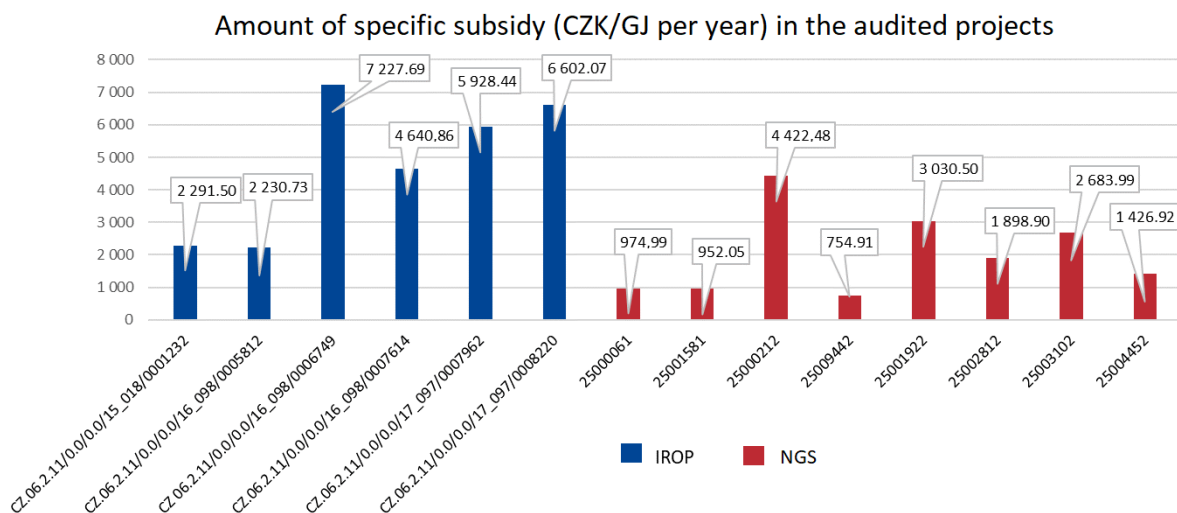
Source: Ministry of Industry and Trade - 9th Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic.

In view of the non-fulfilment of the projected savings for the IROP and the NGS Programme, it cannot be concluded that the aid funds for measures intended to generate energy savings are used in a fully effective manner.

In the segment of residential buildings, all completed projects that received subsidies show a mean actual specific subsidy of 2,681 CZK/GJ for the three calls for existing residential buildings under the IROP, and a mean actual specific subsidy of 1,271 CZK/GJ for the two calls for existing residential buildings under the *Residential Buildings* Sub-Programme of the NGS Programme⁵⁵. For the entire NGS Programme (i.e. within the *Residential Buildings*, *Family Homes* and *Public Sector Buildings* Sub-Programmes that generate savings), the mean amount of actual specific subsidy is CZK 2,046/GJ of savings.

The SAO explored the amount of actual specific subsidy for 14 projects selected for the audit sample. Detailed data on the actual specific subsidy amounts for specific projects examined by the SAO in the audit are presented in Chart 3.

Chart 3: Amounts of actual specific subsidy in the audited IROP and NGS Programme projects



Source: Data from energy performance certificates of buildings for individual projects.

The amount of actual specific subsidy for the projects in the SAO audit sample ranges from CZK 754.91/GJ (an NGS project) to CZK 7,227.69/GJ (an IROP project)⁵⁶, which is almost a tenfold difference per measure. **The mean amount of actual specific subsidy for the six IROP projects in the SAO audit sample is CZK 3,707/GJ, or nearly three times the mean amount of actual specific subsidy for the eight projects of the NGS Programme, which is CZK 1,343/GJ.** The lowest expenditure from subsidy sources per generated unit of savings for the NGS Programme projects was scored for projects supported under call No RB1, in which only thermal insulation measures for buildings were subsidised. The higher cost of the energy savings generated in terms of spending from subsidy sources is associated with measures with more significant positive environmental impacts, such as replacing heat sources and installing solar thermal and photovoltaic systems.

⁵⁵ But for example for the *Family Homes* Sub-Programme, the mean actual specific subsidy is CZK 2,058/GJ.

⁵⁶ The actual specific subsidy for the project exceeds the value projected in NEEAP-V by almost a third, which is due to the evaluation process that did not assess the cost effectiveness of the aid applications. The lack of a cost effectiveness criterion did not allow the MoRD to support projects with higher energy savings at lower costs.

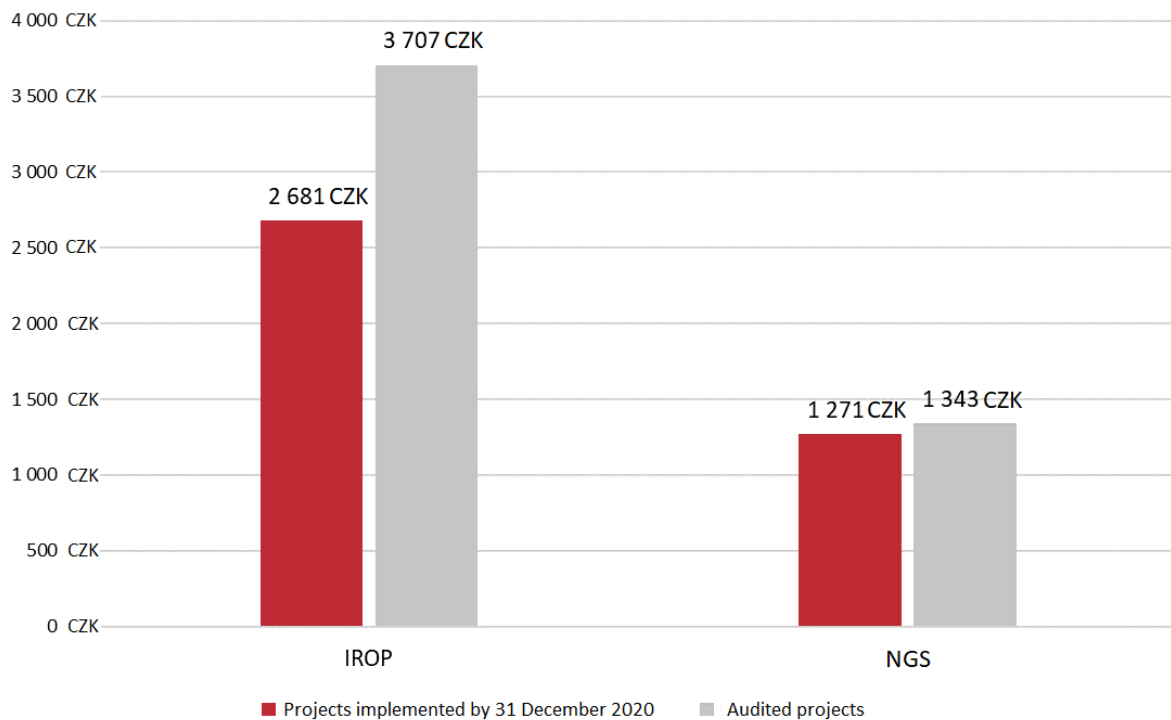
The mean amount of actual specific subsidy for all projects paid from the IROP is twice that of all projects paid from the NGS Programme, which is mainly due to the different method of setting the amount of subsidy provided. Subsidy from the IROP is set as a share of the total eligible project expenditure, while aid from NGS Programme is set as a fixed amount depending on the type of the measure being implemented. At the same time, the total amount of subsidy per aid application is limited by the maximum rate of duly documented eligible expenditure set out in the respective call.⁵⁷ The substantial difference in cost ratio between the two Programmes is already evident from the projections given in the NEEAP, where the mean amount of estimated specific subsidy for the IROP is three times that of the NGS Programme - in NEEAP-V, the specific subsidy for IROP projects was projected at CZK 5,451.62/GJ of savings, while the estimated specific subsidy for the NGS Programme was stated at CZK 1,832/GJ.

A comparison of the mean amounts of actual specific subsidy for all implemented projects and for projects from the SAO audit sample, broken down by the IROP and the NGS, is provided in Chart 4. This comparison shows a substantially higher financial intensity of the IROP⁵⁸ projects compared to the NGS Programme projects for both groups of projects.

⁵⁷ For example, in the area of support for improving the energy performance of residential buildings, the volume of aid in the NGS Programme is determined by the sum of aid for measures implemented on the building envelope and for measures implemented concerning technical systems towards the efficient use of energy sources. The volume of aid for measures on the building envelope is derived from the size of the areas of the measures to be implemented, depending on the level of support achieved. Each level of support is defined by technical parameter thresholds and a minimum percentage of energy savings. Depending on the level of support achieved, a maximum amount of subsidy is set in relation to 1 m² of the measure carried out.

⁵⁸ The IROP does not have a direct predecessor as is the case for the *New Green Savings* Programme, which was able to build on the experience with the implementation of the Programme in previous periods. In periods before 2014, support for residential buildings in the Czech Republic was implemented either by Programmes that provided support for comprehensive overhaul measures of residential buildings administered by the Ministry of Regional Development (i.e., not only measures promoting energy efficiency), or by sub-programme of the *Green Savings* Programme (2009-2012).

Chart 4: Actual specific subsidy per 1 GJ of annual savings for all projects implemented by 31 December 2020 compared to implemented projects in the audit sample



Source: Compiled by the SAO based on data from MS2014+ and IS NGS 2015+.

The types of data tracked in the building energy performance certificates include not only the form of heating, cooling, ventilation, humidity treatment or lighting systems but also the energy carriers used⁵⁹. From the data in energy performance certificates of buildings in the audited IROP and NGS Programme projects, the SAO compared the shares of energy carriers *before* and *after the* implementation of the projects selected for the audit sample. The comparison shows a decrease in the share of solid fuels in energy production in favour of renewable energy sources. An overview of the changes in the shares of energy carriers in the energy supply as a result of the measures implemented is provided in the chart in Annex 2 of this audit report.

⁵⁹ Energy carriers are, for example, natural gas, electricity, district heat, solar heat, photovoltaic electricity, etc. The conversion of the volume of different energy carriers needed to non-renewable primary energy as a common denominator facilitates a simple addition of different types of energy and thus expresses in a simplified way the environmental impact of the need for energy carriers.

List of abbreviations used:

CR	Czech Republic
CRD	Centre for Regional Development of the Czech Republic
Delegation Agreement	<i>Agreement on the Delegation of Certain Activities and Powers of the Ministry of the Environment as Administrator of the New Green Savings Programme to the State Environmental Fund of the Czech Republic</i>
ECA	European Court of Auditors
EE Directive	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
Energy Performance of Buildings Directive	Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings
EPCB	Energy performance certificate of building
ERDF	<i>European Regional Development Fund</i>
ESIF	European Structural and Investment Funds
EU	European Union
FH	Sub-Programme <i>Family Homes</i> of the <i>New Green Savings Programme</i>
FI IROP	Financial instrument of <i>the Integrated Regional Operational Programme</i>
GJ	gigajoule
IROP	<i>Integrated Regional Operational Programme</i>
IS	Information system
LPG	Liquefied Petroleum Gas
MA	Managing authority
Memorandum	<i>Memorandum on cooperation in the preparation and future implementation of support for energy savings in the housing sector from the ESI Funds and national support programmes for the 2014-2020 period, signed between the Ministry of the Environment and the Ministry of Regional Development in 2015</i>
MG	methodological guideline
MoE	Ministry of the Environment
MoRD	Ministry of Regional Development
MS2014+	Monitoring system of the European Structural and Investment Funds
NEEAP	<i>National Energy Efficiency Action Plan of the Czech Republic</i>
NEEAP-V	Fifth update of the <i>National Energy Efficiency Action Plan of the Czech Republic</i>
NGS	The <i>New Green Savings</i> Czech national Programme
PJ	petajoule
PSB	Sub-Programme <i>Public Sector Buildings</i> of the <i>New Green Savings Programme</i>

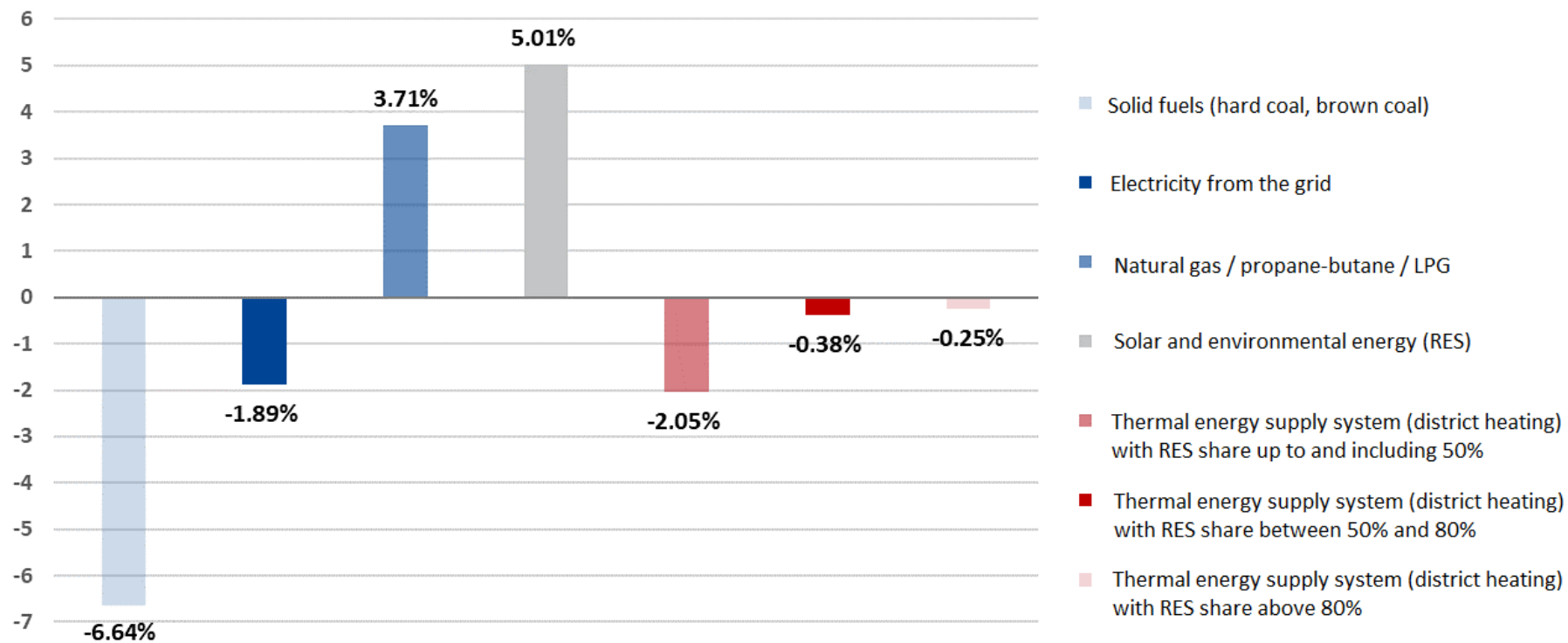
RB	Residential buildings
RB1, RB2, RB3	Calls No 1, 2 and 3 of the NGS Programme announced under the <i>Residential Buildings</i> Sub-Programme
RES	Renewable energy sources
RDM	Central register of small-scale aid (<i>register de minimis</i>)
SAO	Supreme Audit Office
SB	State budget
SEF	State Environmental Fund of the Czech Republic
SO 2.5	Specific Objective under Priority Axis 2 of the IROP
SO 3.2	Specific Objective under Priority Axis 3 of the IROP
TJ	terajoule

Annex 1: IROP and NGS Programme projects selected for the SAO audit sample

Serial number	Project registration number	Applicant/beneficiary	Eligible project expenditure (in CZK)	Contribution from the IROP or the NGS Programme (in CZK)	Amount of actual specific subsidy (in CZK/GJ of energy savings)
IROP projects					
1	CZ.06.2.11/0.0/0.0/16_098/0005812	Společenství vlastníků jednotek Komárov 519	6,724,837	1,563,299	2,230.73
2	CZ.06.2.11/0.0/0.0/16_098/0007614	Společenství vlastníků jednotek Adámkova 4945–4948, Chomutov	10,843,506	4,119,733	4,640.86
3	CZ.06.2.11/0.0/0.0/17_097/0008220	Bytové družstvo Muchova	14,310,117	4,034,651	6,602.07
4	CZ.06.2.11/0.0/0.0/17_097/0007962	Günther Mayer	11,785,454	4,363,026	5,928.44
5	CZ.06.2.11/0.0/0.0/15_018/0001232	Město Bystřice nad Pernštejnem	60,445,842	12,095,298	2,291.50
6	CZ.06.2.11/0.0/0.0/16_098/0006749	Jasná zpráva a.s.	25,431,113	8,778,933	7,227.69
NGS Programme projects					
7	25000061	Společenství vlastníků jednotek Praha 8, Zelenohorská č. p. 496–513	46,365,352	7,772,238	974.99
8	25001581	Městská část Praha 3	14,619,868	1,797,124	952.05
9	25009442	A Property, s.r.o., Prague 5	6,566,459	1,969,937	754.91
10	25003102	Metrostav Nemovitostní, a.s., Prague 8	13,521,945	2,968,203	2,683.99
11	25001922	Společenství vlastníků jednotek Amforová 1922 až 1928, Prague 13	17,399,484	3,826,108	3,030.50
12	25002812	Středisko společných činností AV ČR, v.v.i. , Prague 1	4,756,444	1,238,615	1,898.90
13	25004452	Společenství vlastníků jednotek Taškentská 1413 až 1416, Praha 10	24,703,775	4,534,909	1,426.92
14	25000212	Zdeněk Trojan, Prague 5	5,426,504	1,394,849	4,422.48

Source: MS2014+, IS NGS 2015+, subsidy decisions, approved applications for payment.

Annex 2: Change in the average share of energy carriers after the implementation of measures under the audited projects (percentages)



Source: Energy performance certificates of buildings from projects funded from the IROP and the NGS Programme.