



## **Audit Report**

**20/05**

### **Promoting Energy Savings for Public Buildings**

The audit was included in the audit plan of the Supreme Audit Office (hereinafter also “SAO”) for 2020 under number 20/05. 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 funds intended to promote energy savings for public buildings were spent in accordance with the law and whether they contributed to meeting the objectives set by European and national regulations.

The audit at the audited entities was carried out in the period from February to November 2020.

The audited period was 2017 to 2019, for factual context also the previous and subsequent periods.

Audited entities:

Ministry of Finance (hereinafter also “MoF”);

Ministry of Industry and Trade (hereinafter also “MoIT”);

Ministry of the Environment (hereinafter also “MoE”);

State Environmental Fund of the Czech Republic (hereinafter also “SEF”).

The **Board of the SAO** in its 4<sup>th</sup> session held on 22 February 2021,

**approved** by Resolution No 9/IV/2021

**this Audit Report** in the following wording:

## Energy savings for public buildings

**CZK 2.97bn**

Funds spent from the Operational Programme  
*Environment 2014–2020*  
(OP Environment, OPE)

**CZK 0.53bn**

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

**2,436**

Number of projects to reduce final energy  
consumption in public buildings registered in the OP  
Environment

**17%**

409 physically completed projects aimed at reducing  
final energy consumption in public buildings

**305,580 GJ/year**

Ongoing reported value of the indicator:  
*Reduction in final energy consumption in public  
buildings*

**6,872 CZK/GJ/year**

Average amount of aid (EU contribution) per unit of  
energy savings in final consumption

## Fulfilment of the obligation by central government institutions



**Between 2014 and 2019, the binding target was met to 71%. For 2020, 29% of the overall binding target remained to be met.**

*Notes: Records from the MS2014+ monitoring system as at 30 June 2020; the total number of projects registered in the OP Environment includes active aid applications, projects with a legal act issued, projects in progress and completed projects.*

## I. Summary and Evaluation

The SAO audit verified whether the funds intended to support energy savings for public buildings were spent in accordance with the law and whether they contributed to meeting the set objectives. These were funds for Priority Axis 5 (hereinafter also “PA 5”) of the 2014–2020 Operational Programme *Environment* (hereinafter also “OP Environment”) and funds for the *New Green Savings Programme* and its *Public Sector Buildings Subprogramme* (hereinafter also “NGS - *Public Sector Buildings*”). The audit also examined the funding of the NGS Programme.

**Funds spent from the OP Environment and NGS help reduce final energy consumption in public buildings,<sup>1</sup> but they have only made a small contribution towards meeting the targets set by 2020 by European and national regulations. The reported reduction in final energy consumption amounted to approximately one fifth of the energy savings to be achieved through the OP Environment. From the announcement of the first call in 2015 until mid-2020, approximately 17% of the projects were physically completed.**

The aid is also intended for the reduction of final energy consumption in buildings owned by the Czech state and used by central government institutions (hereinafter also “central institutions”)<sup>2</sup>, which are to set an example in the field of energy savings. According to documents of the MoIT by 2019, approximately 76% of the total number of 774 structures owned by the Czech state and used by central institutions still did not meet the requirements for energy performance. These institutions do not use the option of drawing funds from the OP Environment and NGS to reduce the final energy consumption of these buildings. In mid-2020, only 13 projects of central institutions were registered as under implementation, none of which was completed.

Through the NGS Programme, the only source of funding of which are revenues from the auctioning of emission allowances, no expenditures corresponding to the legally designated part of the revenues from the auctioning of emission allowances were implemented. Despite the available amounts of revenues of the Czech Republic from the auctioning of emission allowances (CZK 36 billion in the audited period) and the requirement of the law for their use, the available funds were not used to meet the energy efficiency targets for public buildings in the Czech Republic. The Ministry of the Environment made it possible to draw funds from the NGS Programme for the public buildings sector only as late as during 2017, which is 4 years after launch of the NGS Programme and almost 5 years after Directive 2012/27/EU was issued<sup>3</sup>, and only for projects financed from the OP Environment as a so-called “boost to own resources”.

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<sup>1</sup> Eligible applicants are organisational units of the state, contributory organizations, self-governing territorial units and their subordinate organizations, public research institutions, universities, schools and school facilities, school legal entities, non-governmental non-profit organizations (public benefit organizations, foundations, endowment funds, institutes, associations) and others.

<sup>2</sup> An overview of central government institutions in the Czech Republic is given in Annex 1 to this Audit Report.

<sup>3</sup> 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 (hereinafter also “Directive 2012/27/EU” or “EED”).

**The audit of selected projects did not reveal any ineffective or uneconomical provision of funds.**

The evaluation is based on the following identified shortcomings:

**1. The funds spent from the OP Environment and the NGS Programme to reduce final energy consumption in public buildings contributed to meeting the targets set until 2020 by European and national regulations to a small extent**

Under the OP Environment and NGS, more than CZK 20 billion is available to public institutions for investment projects aimed at energy savings in public buildings. By mid-2020, only CZK 3.5 billion had been spent on these projects. The reported reduction in final energy consumption in public buildings amounted to 305,580 GJ/year, which is about one fifth of the energy savings to be achieved through the OP Environment by 2023. From the announcement of the first call in 2015 until mid-2020, a total of 2,436 active aid applications for reducing final energy consumption in public buildings were registered, of which by the records,<sup>4</sup> 409 projects, i.e. approximately 17%, were physically completed.

For central institutions, 34 active aid applications were registered as at mid-2020, of which 13 projects were under implementation and none of their projects was completed. In 2019, among other things, a call was announced intended exclusively for central institutions with a total allocation of CZK 2 billion,<sup>5</sup> however they only applied for 20% of this allocation. Central institutions show very little interest in aid from the OP Environment and NGS - *Public Sector Buildings* and finance projects to achieve energy savings mainly from their own investment funds. As at 31 December 2019, a total of 585 buildings owned by the Czech state and used by central institutions did not meet the requirements for energy performance.

**2. There is a risk that the Czech Republic might not have achieved the required energy savings in buildings of central institutions by 31 December 2020<sup>6</sup>**

The EU set energy efficiency targets for 2020, including a target for buildings of central institutions with a view to their role of leading by example in energy savings. For the Czech Republic, the target is set at achieving in buildings owned by the Czech state and used by central institutions energy savings of 98.7 TJ/year. By the end of 2019, this commitment was met to 71% (70.1 TJ/year). Thus to meet the target, further energy savings for buildings of central institutions of at least 28.6 TJ/year would have to be achieved in 2020. As at 21 July 2020, the planned new energy savings according to MoIT data in 2020 amounted to 5.7 TJ/year.<sup>7</sup>

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<sup>4</sup> Monitoring system of the European Structural and Investment Funds for the programming period of 2014–2020 (hereinafter also “MS2014+”).

<sup>5</sup> The receipt of applications under call No 135 ended on 3 February 2020. In 2019, further also call No 152 was announced with a total allocation of CZK 0.5 billion, for which the receipt of applications will end on 31 May 2021.

<sup>6</sup> The audit at the MoIT was concluded on 20 October 2020. The energy savings values for central institutions for 2020 will be known by the end of April 2021.

<sup>7</sup> The MoIT maintains the *Energy Consumption Monitoring System*. The *Energy Consumption Monitoring System* is a Non-Public Administration Information System, which serves to keep data on buildings owned and used by central institutions with a total energy reference area over 250 m<sup>2</sup> and their energy consumption (provisions of Section 9b (3) and Section 11 (1) of Act No 406/2000 Coll., on energy management).

### **3. Through the NGS Programme, no expenditures in the amount corresponding to the legally designated part of the revenues from the auctioning of emission allowances were implemented**

Revenues from the auctioning of emission allowances are state budget revenues and their use is governed by Act No 383/2012 Coll. In the audited period, revenues from auctions of emission allowances amounted to more than CZK 36 billion, of which, pursuant to Act No 383/2012 Coll., CZK 14.6 billion was to be invested through the State Environmental Fund (NGS Programme). The actually budgeted funds of the NGS Programme in the audited period were CZK 7.4 billion. As at 30 June 2020, however, expenditures in the amount of CZK 5.3 billion were implemented through the NGS Programme, of which only approximately CZK 0.5 billion (NGS Subprogramme - *Public Sector Buildings*) was spent on public buildings.

For the audited period, the amount of unused expenditures reached CZK 2.1 billion (sc. claims from unused expenditures). The amount of unused expenditures under the NGS Programme from its approval in 2013 until 20 October 2020 totalled CZK 6.4 billion. The NGS Programme exhibited a high amount of claims from unused expenditures. The SAO has been repeatedly warning about the risks associated with the creation of claims from unused expenditures.<sup>8</sup>

### **4. The length of the approval process for projects exceeds the set time limit**

The limit length for the process of approving aid applications under the OP Environment,<sup>9</sup> which is provided by the State Environmental Fund, is set at 7 months.<sup>10</sup> The application approval process occurred within the set time limit for only 60% of the supported projects. For projects using the boost to own resources from the NGS Subprogramme - *Public Sector Buildings*, the time limit for the process of administration of the aid applications was always exceeded.

### **5. The audit did not find any ineffective or uneconomical provision of funds; in the area of project administration, procedural shortcomings were identified which did not trigger penalties for breach of obligations**

On a sample of 15 projects (13 of which were concluded at the time of the audit), the SAO found the following shortcomings:

- For 7 projects, the beneficiaries did not submit energy assessments in accordance with the rules of the OP Environment;
- For 4 projects, the SEF and the MoE did not proceed in the change procedures according to the rules for the OP Environment, although the beneficiaries supplied the relevant documents on time and in full;

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<sup>8</sup> SAO audit No 16/09 - *Claims from Unused Expenditures Reported by Organisational Units of the State*.

<sup>9</sup> Projects using the boost to own resources from the NGS Subprogramme - *Public Sector Buildings* are administered according to the rules of the OP Environment.

<sup>10</sup> The time limit runs for call rounds from the final date of receipt of aid applications, and for ongoing calls from the date of submission of the aid application concerned in the MS2014+ until a legal act is issued.

- For 6 projects, the SEF and the MoE did not proceed in the aspect of issuing the final evaluation of the action in accordance with Decree No 560/2006 Coll.<sup>11</sup> and with the rules of the OP Environment.

## II. Information on the Audited Area

### *Legal and Conceptual Framework*

The central state administration body for the energy sector is the MoIT, which coordinates the preparation of legislation and the implementation of EU law in its area of responsibility, including also Directive 2012/27/EU. The MoIT is in charge of setting energy efficiency improvement strategies, coordinating the activities of the ministries concerned, reporting to the European Commission and the Czech Government, and also for implementing energy efficiency improvement tools.

In accordance with Act No 406/2000 Coll.<sup>12</sup>, the MoIT elaborates a strategic document with a 25-year outlook, which is the *State Energy Policy*. The key strategic goals of the Czech energy sector are security, competitiveness and sustainability. The updated version of the *State Energy Policy* was approved in 2015.<sup>13</sup> The MoIT also draws up the *National Energy Efficiency Action Plan* of the Czech Republic (hereinafter also “NAPEE”),<sup>14</sup> which includes measures aimed at increasing energy efficiency in the Czech Republic, including increasing the energy efficiency of buildings of public entities.

The MoE is a central state administration body that coordinates actions of all ministries and other central state administration bodies of the Czech Republic in matters of the environment. The MoE is the managing authority of the OP Environment and the administrator of the NGS Programme. Administration of both Programmes is assigned to the State Environmental Fund.

Increasing energy efficiency, including reducing final energy consumption for public buildings, are among the EU's goals. The *Europe 2020 strategy- A strategy for smart, sustainable and inclusive growth* has been since 2010 the principal economic reform agenda of the European Union. One of its five main objectives is to “*reduce greenhouse gas emissions by at least 20% compared to 1990 levels (...), increase the share of renewable energy sources in our final energy consumption to 20%; and a 20% increase in energy efficiency*”.

Directive 2012/27/EU, which entered into force on 4 December 2012, introduced a common framework of measures for the promotion of energy efficiency in the EU in order to achieve the Union's target of 20 % primary energy savings by 2020. Among other things, Member States were to adopt a long-term strategy for mobilising investments in renovation of their national pools of residential and commercial buildings, both public and private. Under the principle that *the state is to lead by example* stipulated in Article 5 of the EED, Member States are imposed an obligation to renovate each year 3% of the total floor area of heated or cooled buildings owned and used by central institutions with an energy reference area of more than

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<sup>11</sup> Decree No 560/2006 Coll., on the involvement of the state budget in the financing of asset reproduction programmes.

<sup>12</sup> Provisions of Section (3) of Act No 406/2000 Coll., on energy management.

<sup>13</sup> Resolution of the Government of the Czech Republic No 362 of 18 May 2015, *on the State Energy Policy of the Czech Republic*.

<sup>14</sup> In the audited period, versions 4 and 5 of the NAPEE were valid.

250 m<sup>2</sup>. The Czech Republic has opted for the *variant of an alternative approach*, which makes it possible to combine various ways of reducing energy consumption in buildings of central institutions.<sup>15</sup>

For the purposes of meeting Article 5 of the EED, a list of buildings<sup>16</sup> has been created that do not meet the energy performance requirements for buildings and that are subject to the requirement to reduce final energy consumption. Following the rejection of an exemption for buildings of the Prison Service of the Czech Republic by the European Commission, the *Renovation Plan for Buildings Caught by Article 5 of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency* (hereinafter also “Renovation Plan for Buildings Caught by Art. 5 EED”) was *updated*.<sup>17</sup>

Member States report to the European Commission (hereinafter also “Commission”) by 30 April each year on the progress made towards meeting national energy efficiency targets. Information on the fulfilment of national targets for 2020 is contained in the *Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic Pursuant to Article 24 of Directive 2012/27/EU on energy efficiency* (hereinafter also “Progress Report”).

Promoting energy savings in buildings is also one of the goals of the *Strategic Framework Czech Republic 2030*<sup>18</sup>, which implements in the context of the Czech Republic the sc. Sustainable Development Goals (SDGs)<sup>19</sup> adopted by the United Nations in 2015 and to be achieved by 2030. One of the 17 Sustainable Development Goals also is affordable and clean energy (Goal 7).<sup>20</sup>

#### *Aid Intended for Energy Savings*

Funds intended for the support of energy savings for public buildings in the Czech Republic are provided from the OP Environment (PA 5) and NGS (NGS Subprogramme - *Public Sector Buildings*).

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<sup>15</sup> Member States that have opted for the alternative approach must achieve by 2020 savings in the volume that at least equals the volume achieved by meeting the 3% renovation share under the “standard” approach, that is why a surplus of savings achieved in previous years can be included in the target value for a given year.

<sup>16</sup> Resolution of the Government of the Czech Republic No 185 of 16 March 2015, on the renovation plan for buildings caught by Article 5 of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency for 2015 with a view to 2020, and Resolution of the Government of the Czech Republic No 1035 of 14 December 2015, on the Renovation Plan for Buildings Caught by Article 5 of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, for 2016 with a view to 2020.

<sup>17</sup> Resolution of the Government of the Czech Republic No 430 of 5 June 2017, *on the update to the Renovation Plan for Buildings Caught by Article 5 of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency*.

<sup>18</sup> Resolution of the Government of the Czech Republic No 669 of 17 October 2018, *on the Implementation Plan for the Strategic Framework Czech Republic 2030*.

<sup>19</sup> Sustainable Development Goals.

<sup>20</sup> Goal 7 – Ensure access to affordable, reliable, sustainable and modern energy for all.

## *OP Environment*

The OP Environment focuses strictly on interventions in the area of public buildings; measures implemented in residential buildings and family homes cannot be supported.

PA 5 of the OP Environment is financed from the *Cohesion Fund* and the *European Regional Development Fund*. National co-financing is set at 15%. As at the end of 2019, the allocation for PA 5 was one fifth of the total allocation of the OP Environment, or € 0.55 billion, specifically about CZK 14.84 billion.

PA 5 - *Energy Savings* breaks down into three specific objectives:

- Reduce the energy intensity of public buildings and increase the use of renewable energy sources (hereinafter also “SO 5.1”);
- Achieve a high energy standard for new public buildings (hereinafter also “SO 5.2”);
- Reduce energy intensity and increase the use of renewable energy sources in buildings of central government institutions (hereinafter also “SO 5.3”).<sup>21</sup>

## *New Green Savings*

The NGS Programme is financed from the state budget, however, the source of these funds is the share of revenues from the auctioning of EUA<sup>22</sup> and EUAA<sup>23</sup> emission allowances under the EU ETS<sup>24</sup> over the 2013 to 2020 period defined in accordance with Act No 383/2012 Coll.

The main goal of the NGS Programme<sup>25</sup> approved by the Czech government in 2013 is to increase the energy efficiency of buildings (reduction of energy intensity, including the replacement of unsuitable heating sources and support for the use of renewable energy sources).<sup>26</sup> The Programme is conceived as one of the main alternative policy measures of the Czech Republic to meet the targets in the field of energy savings on the final consumption side in accordance with the EED. The NGS Subprogramme - *Public Sector Buildings* was approved by the Czech Government in November 2016 and aims, among other things, to contribute to the fulfilment of the obligation pursuant to Article 5 of the EED.

The original allocation of the NGS Programme was CZK 27 billion, of which the share of the NGS Subprogramme - *Public Sector Buildings* was 30%, but was additionally reduced by the state's administrative costs. The share was therefore CZK 7.75 billion. Since July 2019, the

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<sup>21</sup> SO 5.3 was newly included in the OP Environment programming document in December 2018. This new specific objective directly relates to the fulfilment of the Czech Republic's obligation under Article 5 of the EED. Until then, projects of central institutions were financed under SO 5.1.

<sup>22</sup> EUA - European Union Allowance; emission allowance for stationary pollution sources.

<sup>23</sup> EUAA - European Union Aviation Allowance; emission allowance for air traffic.

<sup>24</sup> EU ETS - European Union Emission Trading Scheme; emissions trading system in which the Czech Republic participates as an EU member.

<sup>25</sup> The NGS Subprogrammes in the audited period were: New Green Savings - Family Homes, New Green Savings - Residential Buildings, New Green Savings - Public Sector Buildings, New Green Savings - State's Administrative Costs.

<sup>26</sup> Resolution of the Government of the Czech Republic No 848 of 6 November 2013, on the New Green Savings Programme Documentation, Programme identification number 115 280.

Programme's allocation has been CZK 23 billion, of which the share of the NGS Subprogramme - *Public Sector Buildings* has been 24%, i.e., CZK 5.51 billion.<sup>27</sup>

### *Relationship between PA 5 of the OP Environment and the NGS Subprogramme - Public Sector Buildings*

Only a limited group of beneficiaries can apply for aid from the NGS Subprogramme - *Public Sector Buildings* in the form of the so-called boost to own resources on the provision of submitting the project under SO 5.1 and SO 5.3 of PA 5 of the OP Environment. Projects approved under the NGS Subprogramme - *Public Sector Buildings* are always implemented in accordance with the rules of the OP Environment.

Aid from the funds of the NGS Subprogramme - *Public Sector Buildings* can be applied for by central institutions for energy saving measures in public buildings listed in the *Renovation Plan for Buildings Caught by Article 5 of the EED* and further also by all other organisational units of the state, state contributory organisations and public research institutions *outside the scope of Article 5 EED*.<sup>28</sup>

### **III. Scope of Audit**

The aim of the audit was to verify whether the funds intended to promote energy savings for public buildings were spent in accordance with the law and whether they contributed to meeting the objectives set by European and national regulations. The audited entities were the Ministry of Finance, Ministry of Industry and Trade, Ministry of the Environment and the State Environmental Fund of the Czech Republic.

The audit focused on fulfilment of tasks of the managing authority (MoE) and the intermediate body (SEF) in the administration, implementation and evaluation of OP Environment and NGS projects, and on fulfilment of the Czech Republic's obligations under Directive 2012/27/EU with a view to increasing energy savings for public buildings. It was verified whether the funds provided from the OP Environment and NGS to support energy savings in public buildings were spent efficiently, economically and in accordance with the law.

At the systemic level, the audit focused, among other things, on examining the provision of funds for specific projects from the level of aid providers. For the audit, 14 projects were selected that aimed at reducing final energy consumption in public buildings and were financed from the specific objective 5.1 of Priority Axis 5 of the OP Environment, of which one project was co-funded from the NGS Subprogramme - *Public Sector Buildings*.

The audited funds in the audit sample amounted to CZK 63.7 million (of which CZK 61.1 million was provided from the EU funds and CZK 2.6 million from the state budget). The audit also focused on securing funding sources for measures to meet the obligations pursuant to Article 5 of the EED, on meeting the obligations pursuant to Act No 218/2000 Coll.<sup>29</sup>, on fulfilling the

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<sup>27</sup> The allocation of the NGS Programme depends on the Czech Republic's revenues from the auctioning of emission allowances. The price per emission allowance was repeatedly raised over the 2017 to 2020 period, see Part IV, Point 3 of this Audit Report.

<sup>28</sup> Resolution of the Government of the Czech Republic No 955 of 2 November 2016, *on the 2<sup>nd</sup> amendment to the New Green Savings Programme Documentation identification number 115 280*, and Resolution of the Government of the Czech Republic No 554 of 30 July 2019, *on the 3<sup>rd</sup> amendment to the New Green Savings Programme Documentation identification number 115 280*.

<sup>29</sup> Act No 218/2000 Coll., on budgetary rules and amending certain related acts (Budgetary Rules).

obligations of the MoIT under Act No 406/2000 Coll. (inter alia drafting and preparing building renovation plans), on the MoIT project for reducing energy intensity of administrative buildings of the MoIT (audited funds from the state budget in the amount of CZK 2.3bn) and on verifying the system of funding the NGS Programme.

The audited period were the years 2017 to 2019.

The law is applied in this Audit Report in its versions effective for the audited period.

#### IV. Detailed Facts Ascertained by the Audit

##### 1. The funds spent from the OP Environment and the NGS Programme to reduce final energy consumption in public buildings contributed to meeting the targets set by 2020 by European and national regulations to a small extent

Support in the area of increasing energy savings for public buildings is provided from the OP Environment under Priority Axis 5 - *Energy Savings*, and from the *New Green Savings* Programme, specifically from its Subprogramme *Public Sector Buildings*. The funds spent from these Programmes in the period from 1 January 2016 to 30 June 2020 are shown in the following Table 1.

**Table 1:** Funds spent on energy savings of public buildings (in CZK)

Programme	2016	2017	2018	2019	2020	Sum total
PA 5, OP Environment	982,361	337,052,992	1,057,533,223	1,327,840,790	248,409,464	2,971,818,830
SO 5.1	982,361	337,052,992	1,034,468,595	1,252,218,559	232,953,937	2,857,676,445
SO 5.2	x	x	23,064,628	75,622,231	15,455,526	114,142,384
NGS - <i>Public Sector Buildings</i> *	x	24,001,487	138,933,411	236,937,731	133,799,425	533,672,054
<b>Sum total</b>	<b>982,361</b>	<b>361,054,479</b>	<b>1,196,466,634</b>	<b>1,564,778,521</b>	<b>382,208,889</b>	<b>3,505,490,884</b>

Sources: Ministry of the Environment, State Environmental Fund, MS2014+.

\* The first disbursement of funds from the NGS Subprogramme - *Public Sector Buildings* took place on 30 October 2017.

Explanation: As at 30 June 2020, no funds were disbursed under SO 5.3.

##### 1.1 Funds Provided from PA 5 of the OP Environment

In the programming period 2014 to 2020, the total allocation under PA 5 of the OP Environment as at 30 June 2020 was CZK 14.8 billion. According to the list of registered applications, as at 30 June 2020 SO 5.1 reported almost 100% interest in the allocated funds (CZK 12.2 billion) and within SO 5.2, interest significantly exceeded the available funds (CZK 0.54 billion). In contrast, since 2018, these institutions have shown little interest in funds under SO 5.3 allocated exclusively to reduce final energy consumption in buildings owned by the Czech state and used by central institutions (corresponding to 18.5% of the available funds of CZK 2.1 billion).

As at 30 June 2020, a total of 1,747 projects with an issued legal act on the provision of aid in the total amount of CZK 5.2 billion were registered under SO 5.1 that features the highest share of the PA 5 allocation within the OP Environment. Although the interest of applicants according to the list of registered applications covers almost 100% of the allocated amount, only 42.5% of the available funds were contractually secured in legal acts for the provision of aid.

As at 30 June 2020, a legal act was issued for 20 projects under SO 5.2, thus exhausting the allocated funds for this SO, while to the same date no legal act was issued on the provision of

aid under SO 5.3. Table 2 provides information on the course of drawing funds under PA 5 of the OP Environment.

**Table 2:** Summary data on the drawing of funds under PA 5 of the OP Environment as at 30 June 2020

Specific objective	EU contribution								
	Total allocation	Funds in registered aid applications			Funds in legal acts on the provision/transfer of aid			Funds in granted applications for payment	
	CZK million	CZK million	% to total allocation	Number of projects	CZK million	% to total allocation	Number of projects	CZK million	% to total allocation
5.1	12,173	12,139	99.7	3,073	5,175	42.5	1,747	2,858	23.5
5.2	540	1,218	225.5	41	544	100.7	20	114	21.1
5.3	2,127	393	18.5	32					
<b>Total PA 5</b>	<b>14,840</b>	<b>13,750</b>	<b>92.7</b>	<b>3,146</b>	<b>5,719</b>	<b>38.5</b>	<b>1,767</b>	<b>2,972</b>	<b>20.0</b>

Sources: Ministry of the Environment, State Environmental Fund, MS2014+.

As for SO 5.1 to which the highest share is allocated under PA 5 of the OP Environment, only 42.5% of the available funds were contractually secured.

Under SO 5.3, which directly relates to fulfilment of Article 5 of the EED, applicants expressed interest in only 18.5% of the available funds.

## 1.2 Funds Provided from the NGS Subprogramme - *Public Sector Buildings*

The NGS Subprogramme - *Public Sector Buildings* was approved by the Government of the Czech Republic in November 2016,<sup>30</sup> the implementation documentation<sup>31</sup> was issued by the MoE in April and May 2017. The first funds to reduce the energy intensity of public buildings from the *New Green Savings* Programme were not provided until the end of October 2017, which is four years from launch of the NGS Programme and almost 5 years from the publication of Directive 2012/27/EU, which set the energy efficiency targets by 2020.

As at 30 June 2020, funds in the total amount of CZK 534 million (of which CZK 400 million in the audited period 2017 to 2019) were transferred from the NGS Subprogramme - *Public Sector Buildings* through the state budget chapter of the MoE (administrator of the NGS Programme) for the implementation of projects aimed at energy savings in public buildings, see Table 1.

An overview of budgetary measures of the Ministry of Finance by which funds were transferred from the NGS Programme (state budget chapter 315 - MoE) to other chapters of the state budget in the audited period 2017 to 2019 is provided in Annex 2 to this Audit Report.

<sup>30</sup> By Resolution of the Government of the Czech Republic No 955 of 2 November 2016, *on the 2nd amendment to the New Green Savings Programme Documentation identification number 115 280*.

<sup>31</sup> Directive of the MoE No 7/2017, *on the provision of funds from the New Green Savings Subprogramme - Public Sector Buildings in the form of boost to the applicant's own resources for approved aid applications from the Operational Programme Environment (first version April 2017), and Methodological Instruction of the Dedicated Department for the New Green Savings Programme of the Ministry of the Environment for the Administration of Aid Applications under the New Green Savings Subprogramme - Public Sector Buildings by Boosting the Applicant's Own Resources for Approved Applications in Calls under Specific Objectives 5.1 and 5.3 of the Operational Programme Environment (first version May 2017)*.

However, in the audited period 2017 to 2019, only CZK 235 million was actually invested, which amounts to 59% of the transferred funds. The difference between the funds transferred from the NGS Subprogramme - *Public Sector Buildings* and the value of the investments made constitutes unused expenditures of individual chapters of the state budget, or the sc. claims from unused expenditures.

In the audited period 2017 to 2019 from the NGS Programme, funds totalling CZK 235 million were actually invested on projects in the public buildings sector, which corresponds to four percent of the funds that should be spent from the NGS Programme on energy savings for public buildings.<sup>32</sup>

### **1.3 Benefits of the OP Environment and the NGS Subprogramme - *Public Sector Buildings***

A key indicator in the field of energy savings for public buildings is the *"reduction in final energy consumption in public buildings"*. According to the current version 7 of the OP Environment programming document, an overall reduction in final energy consumption in public buildings is to be achieved of 1,592,754 GJ/year.

Monitoring of benefits is set so that the beneficiary is obliged to submit after the project completion within the project sustainability period and by the date set in the legal act on the provision of aid an energy assessment proving the achieved savings compared to the status before the project implementation. Indicator 32701 does not apply to SO 5.2, which is aimed at promoting the construction of new public buildings. As at 30 June 2020, no project was being implemented under SO 5.3. At the time the audit was carried out, assessment of the reduction in final energy consumption in public buildings only was possible for projects implemented by then under SO 5.1, see Table 3.

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<sup>32</sup> By Resolution of the Government of the Czech Republic No 229 of 30 March 2015, *on the amendment to the New Green Savings Programme Documentation*, the NGS Programme was extended until 31 August 2024. The current allocation of funds intended for public sector buildings by the valid documentation of the NGS Programme amounts to CZK 5.5 billion. The volume of available funds under NGS depends on revenues of the Czech Republic from the auctioning of emission allowances.

**Table 3:** Preliminarily reported benefits of projects under SO 5.1 and SO 5.3 of PA 5 of the OP Environment

Specific objective	Project status/phase	Number of projects	Total eligible expenditures (CZK)	Reduction in final energy consumption (GJ/year)	
				Target value	Achieved value
5.1	Negative state	648	5,176,398,328	290,100	2,303
	Projects before the issue of legal act	658	8,527,250,886	423,834	0
	Projects under implementation	1,747	11,951,053,517	787,936	305,580
5.3	Negative state	1	15,666,692	1,042	0
	Projects before the issue of legal act	31	785,926,021	44,077	0
	Projects under implementation	0	0	0	0
<b>Total registered projects</b>		<b>3,085</b>	<b>26,456,295,444</b>	<b>1,546,989</b>	<b>307,883</b>
<b>Of which active projects</b>		<b>2,436</b>	<b>21,264,230,424</b>	<b>1,255,847</b>	<b>305,580</b>

Sources: State Environmental Fund, MS2014+.

Note: According to the submitted reference documents of the SEF, as at 30 June 2020, a total of 3,146 projects were registered under PA 5 of the OP Environment. The target value of the indicator “reduction in final energy consumption in public buildings” was registered for 3,085 projects, of which 2,436 projects were active, i.e., in the phase before the issue of legal act, under implementation or were physically or financially completed.

According to the data registered in MS2014+ for active projects as at 30 June 2020, the achieved value of reduction in final energy consumption was 305,580 GJ/year, i.e., so far about 20% of the expected target reduction in final energy consumption in public buildings.

The audit of the reported project indicators in MS2014+ revealed that the achieved value of the indicator “reduction in final energy consumption in public buildings” in the amount of 172,039 GJ/year was also reported for projects the status of which was under implementation, were not physically completed and, by the set system of monitoring benefits, could not yet exhibit the energy savings achieved. At the same time, the achieved value in indicator 32701 *Reduction in final energy consumption in public buildings* in the amount of 2,303 GJ/year was also reported for a project that was registered with a negative status, i.e. was not successfully completed.

According to records of the MoE, as at 30 June 2020, 198 OP Environment projects, thereof 34 projects concerning facilities owned by the Czech state and used by central institutions, were also supported from the NGS Subprogramme - *Public Sector Buildings* by way of the so-called “boost to own resources”. None of these supported projects has been completed yet, see Table 4.

**Table 4:** Benefits of active projects of central institutions using aid from the NGS Subprogramme - *Public Sector Buildings*

	Project status/phase	Number of projects	Total eligible expenditures (CZK)	Target value (GJ/year)	Achieved value (GJ/year)
Central institutions	Negative state	1	48,752,015	1,073	0
	Projects before the issue of legal act	21	930,686,115	59,737	0
	Projects under implementation	13	215,807,964	40,715	0
Other institutions	Negative state	3	11,037,554	1,457	0
	Projects before the issue of legal act	62	1,619,600,896	111,190	0
	Projects under implementation	102	993,523,853	88,238	32,763
<b>Total registered projects</b>		<b>202</b>	<b>3,819,408,397</b>	<b>302,410</b>	<b>32,763</b>
<b>Of which active projects</b>		<b>198</b>	<b>3,759,618,828</b>	<b>299,880</b>	<b>32,763</b>
<b>Of which active projects of central institutions</b>		<b>34</b>	<b>1,146,494,079</b>	<b>100,452</b>	<b>0</b>

Sources: State Environmental Fund, MS2014+.

At least until mid-2020, projects implemented under PA 5 of the OP Environment and NGS - *Public Sector Buildings* did not contribute towards fulfilment of Art. 5 EED. The share of supported projects of central institutions (13 projects) in the total number of supported projects aimed at reducing final energy consumption in public buildings (1,747 projects) was only at 0.7%.

The audit examined the expected cost ratio of reducing final energy consumption in public buildings. The cost ratio during the aid provision is affected by the prices of construction works and supplies, but also by changes in the aid settings, i.e. for example, changes in supported activities and eligible expenditures. Table 5 shows the average cost ratio, including the amount of average amount of aid (EU contribution) per unit of energy savings in final consumption, calculated from active projects as at 30 June 2020 with the reported achieved value of energy savings in MS2014+ (848 projects).

**Table 5:** Average amount of aid (EU contribution) per unit of energy savings

	Number of projects	Savings (in GJ/year)	EU contribution (in CZK)	Cost ratio (in CZK/GJ/year)
Projects with a reported value of indicator 32701	848	305,580	2,100,049,844	6,872

Sources: State Environmental Fund, MS2014+.

Based on the data reported in MS2014+, the audit determined and recalculated the amounts of expected total funds, total eligible expenditures, EU contribution and contribution from the NGS Subprogramme - *Public Sector Buildings* per unit of expected energy savings achieved through projects implemented in public buildings (1 GJ/year) by individual announced calls, see Annex 3 to this Audit Report. Between individual calls, the average amount of aid (EU contribution) per unit of energy savings ranged from CZK 5,066 / GJ / year to CZK 11,784 / GJ / year. The average amount of aid (EU contribution) per unit of energy savings for projects with already reported achieved value of reduction in final energy consumption in public buildings was CZK 6,872 / GJ / year.

The measure of intensity of aid under SO 5.1 and SO 5.3 was based on the percentage value of total energy savings through implementation of the supported measure concerned and ranged from 35% to 50% of eligible project expenditure. Applicants could also receive,

depending on the method of project implementation, two partial bonuses of 5% of the project's total eligible expenditure. Where the boost to own resources was used for projects of organisational units of the state, state contributory organisations and public research institutions, the aid intensity increases by up to 45% of total eligible expenditure (from the NGS Subprogramme - *Public Sector Buildings*).

At least by mid-2020, projects implemented under PA 5 of the OP Environment and the NGS Subprogramme - *Public Sector Buildings* did not contribute towards fulfilment of Art. 5 EED. The share of supported projects of central institutions in the total number of supported projects was only at 0.7%.

## 2. There is a risk that the Czech Republic might not have achieved the required energy savings in buildings of central institutions by 31 December 2020

The EU set energy efficiency targets for 2020, including a target for buildings of central institutions, with a view to their role of leading by example in energy savings. For the Czech Republic, the target of energy savings to be achieved is set at 98.7 TJ/year.

The MoIT publishes annually the status of fulfilment of obligations arising from Article 5 of the EED in progress reports<sup>33</sup>. According to the last *8<sup>th</sup> Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic Pursuant to Article 24 of Directive 2012/27/EU on energy efficiency* as at 31 December 2019, final energy consumption in buildings of central institutions was cut by 70.1 TJ/year and for 2020 this report states that for the period 2014 to 2020, there will be in meeting the commitment of annual energy savings a deficit of 1.3 TJ/year despite the plan for 2020 under which there are 79 projects split among 11 central institutions that are to bring savings of 27.3 TJ/year.

Fulfilment of obligations of the Czech Republic is evaluated on the basis of data entered into the *Energy Consumption Monitoring System*, which is maintained by the MoIT pursuant to Act No 406/2000 Coll.<sup>7</sup> However for the accuracy and timeliness of the data, central institutions are responsible. By the audit findings, the following data had been entered into the *Energy Consumption Monitoring System* for 2020:

**Table 6:** Projects planned for 2020 according to the *Energy Consumption Monitoring System*

Phase	Number of projects	Annual savings (MWh)	Annual savings – conversion (GJ/year)
Idea	22	263	947
Plan	53	2,209	7,952
Project	11	3,804	13,694
Implementation	10	1,405	5,058
Fully implemented	4	160	576
<b>Total</b>	<b>100</b>	<b>7,841</b>	<b>28,227</b>

Sources: MoIT - *Energy Consumption Monitoring System*.

Note: Out of the total number of 100 projects, as at 21 July 2020, only 15 projects had the “current project” attribute set to “YES” (estimated annual savings of 5,674 GJ/year).

<sup>33</sup> Relevant to the audited period are the 5<sup>th</sup> to 8<sup>th</sup> progress reports on the fulfilment of national energy efficiency targets in the Czech Republic pursuant to Article 24 of 2012/27/EU on energy efficiency.

According to Annex 7 of Decree No 118/2013 Coll.<sup>34</sup>, the *Energy Consumption Monitoring System* should contain separately data on the expected and on the actually achieved average annual savings respectively. According to the audit findings, energy savings data are reported under a single attribute “annual savings in MWh”, and additionally the attribute “project phase” is reported<sup>35</sup>. As actually achieved savings by the monitoring system set up in this way, only the energy savings values reported for projects in the “fully implemented” phase can be considered. Due to the structure of the *Energy Consumption Monitoring System* set up by the Ministry of Industry and Trade and how responsibilities for entering data are assigned to individual central institutions, there is a risk of incomplete data or their inaccurate presentation.

For projects with a planned implementation date in 2020, expected annual savings of 28,227 GJ/year were registered in the *Energy Consumption Monitoring System* as at 21 July 2020, of which for projects in the implementation phase and in the “fully implemented” phase in the amount of 5,634 GJ/year.

**Table 7:** History of how the commitment under Article 5 of the EED was met in the period 2014 to 2019

	2014	2015	2016	2017	2018	2019
<b>Annual energy savings commitment (in TJ)</b>	5.3	5.3	5.3	20.7	20.7	20.7
	<b>Implemented</b>					
<b>Annual energy savings (in TJ)</b>	4.1	12.3	7.8	25.2	8.5	12.1

Sources: 8<sup>th</sup> Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic Pursuant to Article 24 of Directive 2012/27/EU on energy efficiency.

Note: According to data from the 8<sup>th</sup> Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic Pursuant to Article 24 of Directive 2012/27/EU on energy efficiency, a deficit of 1.3 TJ in meeting the commitment to annual energy savings can be expected for the period 2014-2020.

According to Article 5 of the EED in the annual share of energy savings, a surplus may be included from any of the three previous or following annual periods. Thanks to this rule, the commitment to annual energy savings between 2014 and 2018 was successfully met, although in 2014 and 2018 the required energy savings for the year concerned were not actually achieved.

In 2019, 37 central institutions owned by the Czech state used a total of 774 buildings with an energy reference area<sup>36</sup> of more than 250 m<sup>2</sup> and with a total energy reference area of 2,405,273 m<sup>2</sup>. Of these, 585 buildings with a total non-conforming energy reference area of 1,600,494 m<sup>2</sup> did not meet the requirements for energy performance of buildings as of 2019.

<sup>34</sup> Decree No 118/2013 Coll., on energy specialists.

<sup>35</sup> The *Energy Consumption Monitoring System* distinguishes five phases of a project: “idea”, “plan”, “project”, “implementation” and “fully implemented”.

<sup>36</sup> The energy reference area is defined in Section 2 (1) of Act No 406/2000 Coll.

**Table 8:** State of the pool of buildings of central institutions in 2019

Number of central institutions	Number of facilities owned by the Czech state and used by central institutions	Number of conforming facilities	Energy reference area of conforming facilities (in m <sup>2</sup> )	Number of non-conforming facilities	Energy reference area of non-conforming facilities (in m <sup>2</sup> )	Annual obligation resulting from the non-conforming energy reference area (in TJ)
37	774	189	804,779	585	1,600,494	13.33

Sources: 8<sup>th</sup> Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic Pursuant to Article 24 of Directive 2012/27/EU on energy efficiency.

Until 31 December 2019 in connection with the commitment under Article 5 of the EED, energy savings projects were implemented in the Czech Republic in the amount of 70.1 TJ, which amounts to fulfilment of the binding target by 2020 to 71%. Hence, to meet the target, further energy savings in buildings of central institutions of at least 28.6 TJ/year would have to be achieved in 2020. According to MoIT data for 2020, the improvement in energy savings for these buildings is 5.7 TJ/year.

### **3. Through the NGS Programme, no expenditures in the amount corresponding to the legally designated part of the revenues from the auctioning of emission allowances were implemented**

Revenues from the auctioning of emission allowances, which are the only source of funding for the NGS Programme, are, according to Act No 383/2012 Coll.<sup>37</sup>, state budget revenues and their use is tied to specific purposes<sup>38</sup>, including for measures aimed at increasing energy efficiency and reducing the energy intensity of buildings. By law, revenues from the auctioning of emission allowances were earmarked up to a maximum of CZK 12 billion (from 1 January 2021 up to the amount of CZK 8 billion)<sup>39</sup> annually, and expenditures corresponding to the earmarked revenues from the auctioning of emission allowances are to be spent by law to 50% through the MoIT budget chapter and to 50% through the SEF.

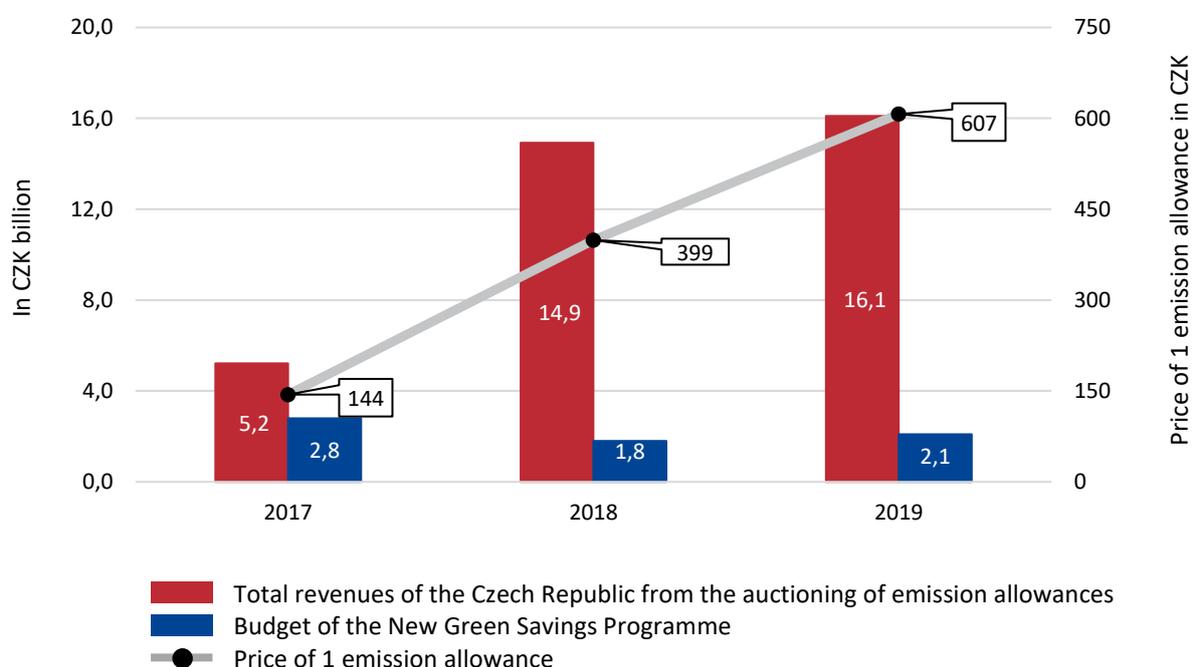
<sup>37</sup> Section 7 of Act No 383/2012 Coll., on the conditions for trading in greenhouse gas emission allowances.

<sup>38</sup> Revenues from the auctioning of emission allowances, unless otherwise specified, are earmarked for additional funding of activities to reduce greenhouse gas emissions and to support innovation in industry, for measures to increase energy efficiency, including the construction and renovations of heat supply systems, reducing energy intensity of buildings and increasing the efficiency of energy use in industry and energy, to support science and research in the field of efficient use of resources, to support energy savings on the part of consumers, for adaptation measures, for measures to meet the Czech Republic's international obligations and development aid in the field of climate protection, and for costs associated with the operation and administration of the European Trading System and administration of the register, and to support research, development, production and implementation of suitable technologies and science and technology initiatives in the field of reducing greenhouse gas emissions from traffic, in particular civil aviation.

<sup>39</sup> Act No 1/2020 Coll., amending Act No 383/2012 Coll., on the conditions for trading in greenhouse gas emission allowances, as amended, and Act No 458/2000 Coll., on the conditions of business and on the performance of state administration in energy sectors and on the amendment of certain acts of law (Energy Act), as amended.

The price of emission allowances increased between 2017 and 2019 by CZK 463.45/t CO<sub>2</sub> in a price rise by 322%.

**Chart 1:** Revenues from the auctioning of emission allowances and share of the NGS Programme



Sources: Ministry of Finance, Ministry of the Environment, Energy Regulatory Office; own scheme by the SAO.  
 Explanation: The data of the NGS Programme are adjusted budget, i.e., approved budget after changes.  
 Note: The mean price per emission allowance for 2020 grew to CZK 654.12/t CO<sub>2</sub>.

In the audited period, the Czech Republic's revenues from the auctioning of emission allowances amounted to more than CZK 36 billion.

**Table 9:** Overview of revenues of the Czech Republic from the auctioning of emission allowances (in CZK million)

Period	Total revenues from the auctioning of emission allowances	Fulfilment outlook pursuant to Section 7 (7) of Act No 383/2012 Coll.	
		SEF and/or MoE	MoIT
	Revenues from the auctioning of emission allowances (according to budget item 3114*)	50% up to CZK 12 billion	50% up to CZK 12 billion
2017	5,220	2,610	2,610
2018	14,935	6,000	6,000
2019	16,098	6,000	6,000

Sources: Ministry of Finance, Ministry of the Environment, Section 7 (7) of Act No 383/2012 Coll.

\* Budget item 3114 - Revenues from the sale of intangible fixed assets. This includes, inter alia, revenues of the Ministry of the Environment from the sale of emission allowances pursuant to the provisions of Section 7 (5), Sentence 1, and Section 17 of Act No 383/2012 Coll.

The volume of funds for the NGS Programme set by the expenditure limit for the state budget chapter 315 - Ministry of the Environment amounted in the audited period to CZK 7.4 billion. The budget of the NGS Programme is listed in Annex 4 to this Audit Report.

**Table 10:** Limit of expenditures of the NGS Programme within state budget chapter 315 - MoE (in CZK)

Period	Limit of NGS expenditures within the budget chapter of the Ministry of the Environment
2017	2,827,150,000
2018	2,203,392,116
2019	2,380,510,000
<b>Total</b>	<b>7,411,052,116</b>

Sources: Ministry of Finance, Ministry of the Environment.

Note: This is the approved budget of the NGS Programme.

The volume of funds intended for the implementation of the NGS Programme expressed by the limit of expenditures within the state budget chapter 315 - MoE was lower in 2018 and 2019 than the volume of funds from the auctioning of emission allowances, which was designated according to Act No 383/2012 Coll. for the implementation of expenditures through the SEF. At the same time, the set limit of expenditures for the implementation of the NGS Programme was not even fully used.

The amount of the final budget of the NGS Programme is affected by the amount of unused expenditures since the start of the implementation of this Programme (2013), or the sc. claims from unused expenditures (see Annex 4 to this Audit Report). The amount of claims from unused expenditures under this Programme reported as of 1 January of each year grew continuously over the audited period. The amount of unused expenditures under the NGS Programme from its approval until 20 October 2020 reached a total of CZK 6.4 billion. The steady growth in claims from unused expenditures entails risks in that, inter alia, in the event of an additional implementation of expenditures through the NGS Programme in the amount of the unused expenditures, the Ministry of Finance would have to secure financing from the state budget.

The audit revealed a discrepancy in the legal regulation of the implementation of expenditures corresponding to the earmarked revenues from the auctioning of emission allowances. By law, revenues from the auctioning of emission allowances are state budget revenues; at the same time by law, expenditures corresponding to the revenues from the auctioning of emission allowances were to be implemented *inter alia* through the State Environmental Fund for purposes defined by law. However, according to Act No 218/2000 Coll., the SEF budget is not part of the state budget. The SEF revenues are defined by Act No 388/1991 Coll.<sup>40</sup> The expenditures were actually implemented through the Ministry of the Environment (the NGS Programme), which was added to the law effective from 1 January 2021<sup>40</sup>.

The audit also examined whether energy savings in public buildings are sustained by expenditures made by the MoIT from the proceeds of auctioning emission allowances. According to the audit findings, these proceeds, which are meant to be allocated to the MoIT, were spent in the period 2017 to 2019 directly on operational support of renewable energy sources, which is also provided from the MoIT budget chapter. In the audited period, the revenues from the auctioning of emission allowances that are channelled according to Act No 383/2012 Coll. to the MoIT totalled CZK 14.6 billion, and operational support for renewable sources provided in the same period from the MoIT budget chapter totalled CZK 75.5 billion.

<sup>40</sup> Section 2 (1) of Act No 388/1991 Coll., on the State Environmental Fund of the Czech Republic.

The Czech Republic, through the Ministry of the Environment, informs the Commission annually about the use of revenues from the auctioning of emission allowances<sup>41</sup> via the *Eionet* application<sup>42</sup>. Annex 5 to this Audit Report provides an overview of the revenues from the auctioning of emission allowances and their reporting for the Czech Republic.

The funds of the NGS Programme budgeted within the state budget chapter 315 - MoE (the sc. expenditure limit) were lower in 2018 and 2019 than the amount set by law (50% of the revenues from the auctioning of emission allowances, but no more than CZK 6 billion).

The SAO found a discrepancy in Act No 383/2012 Coll. The Act provides that revenues from the auctioning of emission allowances are state budget revenues, and further also imposes an obligation on the SEF to implement expenditures corresponding to a part of these revenues, although the SEF is not part of the state budget.

#### **4. The length of the approval process for projects exceeds the set time limit**

The audit verified the duration of the project approval process on the basis of data on registered applications/projects as at 30 June 2020.<sup>43</sup> The project approval process is a set of activities that are performed in the period from the submission of an aid application until the issue/signing of a legal act on the provision/transfer of the aid, or until the completion of administration of the aid application. The aim of the process is to select a transparent manner quality projects that will meet both the material and financial objectives of the OP Environment. For this process, the sc. "process duration limit" is set at 7 months.

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<sup>41</sup> Directive (EU) 2018/410 of the European Parliament and of the Council of 14 March 2018 amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision (EU) 2015/1814. Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

<sup>42</sup> Refer to [https://cdr.eionet.europa.eu/cz/eu/mmr/art17\\_auctioning](https://cdr.eionet.europa.eu/cz/eu/mmr/art17_auctioning).

<sup>43</sup> The examined group of projects only included active projects (2,487 projects) registered under SO 5.1, SO 5.2 and SO 5.3 of PA 5 of the OP Environment. The group further was netted of projects that were in the approval process with a duration of less than 7 months as of 30 June 2020 (547 projects). The final set of audited data thus contained data on 1,940 projects, of which 1,767 projects (91%) had a legal act released.

**Table 11:** Length of the administrative process of approving projects under PA 5 of the OP Environment

Legal form of the aid applicant	1 to 7 months		8 to 12 months		More than a year	
	Number of projects	Share in%	Number of projects	Share in%	Number of projects	Share in%
OUS, SPO, VVI	1	0.05	12	0.62	192	9.90
Self-governing territorial units and their subordinate organizations	1,118	57.63	491	25.31	73	3.76
Other	30	1.55	22	1.13	1	0.05
<b>Total</b>	<b>1,149</b>	<b>59.23</b>	<b>525</b>	<b>27.06</b>	<b>266</b>	<b>13.71</b>

Sources: State Environmental Fund, MS2014+.

Explanatory notes: OUS - organisational units of the state; SPO - state contributory organisations; VVI - public research institutions.

Note: The month in which the aid application was submitted is not included in the length of the administration period.

Projects with a negative status are not included and the data is netted of projects that were as at 30 June 2020 in the approval process with a duration of less than 7 months.

For more than 40% of the projects (791) under PA 5 of the OP Environment, the seven-month time limit for the administrative process of approving aid applications was exceeded. For 14% of the projects (266), the approval period for the aid application took or was taking more than one year. Table 12 further provides an overview of the length of the approval process for aid applications co-financed from the NGS Subprogramme - *Public Sector Buildings*, including aid applications submitted by central institutions.

**Table 12:** Length of the administrative process of approval of projects using the NGS Subprogramme - *Public Sector Buildings*

Legal form of the aid applicant	1 to 7 months		8 to 12 months		More than a year	
	Number of projects	Share in%	Number of projects	Share in%	Number of projects	Share in%
Organisational unit of the state	0	0.00	4	2.06	149	76.80
<i>Of which central institutions</i>	<i>0</i>		<i>0</i>		<i>31</i>	
Statutory state contributory organisation	0	0.00	3	1.55	33	17.01
Other state contributory organisation	0	0.00	0	0.00	4	2.06
Public research institution	0	0.00	1	0.52	0	0.00
<b>Total</b>	<b>0</b>	<b>0.00</b>	<b>8</b>	<b>4.13</b>	<b>186</b>	<b>95.87</b>

Sources: State Environmental Fund, MS2014+.

Note: The month in which the aid application was submitted is not included.

For aid applicants using the so-called “boost to own resources” from the NGS Subprogramme - *Public Sector Buildings*, the set time limit for the project approval process (from the submission of the application until the issue of legal act) was always exceeded; in almost all the cases (96%), the legal act was issued more than one year after the first aid application.

For projects of central institutions, the time limit set for the administrative process of approving the provision of aid was always exceeded. The length of administration of the aid applications submitted by these entities was always in excess of 1 year.

## **5. The audit did not find any inexpedient or uneconomical provision of funds; in the area of project administration, procedural shortcomings were identified which did not trigger penalties for breach of obligations**

For the audit, 15 projects were selected that aimed at reducing final energy consumption in public buildings and received aid from the OP Environment. Two of these projects are implemented by central institutions (MoIT and the Ministry of Agriculture) and also include a requirement to boost own resources with funds from the NGS Subprogramme - *Public Sector Buildings*. As at 30 June 2020, the MoIT project was in the phase before the issue of legal act and the Ministry of Agriculture project was under physical and financial implementation (see Annex 6 to this Audit Report). The audit of the administrative process of aid provision revealed in the selected sample of projects the following shortcomings, which did not trigger penalties for breach of obligations.

Energy assessment is submitted by the aid applicant and is meant to document energy consumption over the past 3 years. The audit of documented energy assessments revealed that for seven projects, energy assessments were not submitted by the beneficiaries in accordance with the requirements for their preparation pursuant to the methodology of the OP Environment, or the initial status of energy performance of the buildings concerned was not processed from data on energy consumption over the past three years, but was based on older data instead.<sup>44</sup>

The subsidy decision, a decision amending the conditions for the provision of subsidy and the final evaluation of the action are made by the subsidy provider (Ministry of the Environment) based on documents of the intermediate body (State Environmental Fund). In four cases, the Ministry of the Environment, in conjunction with the SEF, issued amending subsidy decisions only as late as after expiry of the original deadlines for the beneficiary to submit documentation for final evaluation, although the beneficiaries submitted the relevant documents in full and within the set deadlines.

Additionally, it was found in six cases that the MoE, in conjunction with the SEF, did not issue a final evaluation of the action, and thus failed to proceed in accordance with Section 6 (2) of Decree No 560/2006 Coll. The projects concerned were completed and for each, the five-year project sustainability monitoring period commenced.

For the 13 completed projects in the audit sample, it was verified whether the projects were bringing the originally expected target effects (fulfilment of target values of indicators). The acceptable level of fulfilment of the values of the indicator "*reduction in final energy consumption in public buildings*" was defined according to the rules of the OP Environment by legal acts on aid provision as in the range of at least 80% up to 100% of the target value of expected energy savings. Of the completed 13 projects, three projects met or exceeded the target value of energy savings, while the remaining 10 projects met the target value within the set range.

For the projects verified in the audit, no ineffective or uneconomical provision of funds was found.

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<sup>44</sup> The binding model and methodological procedure of the OP Environment, which actually stipulates for the preparation of energy assessments the same requirements as imposed by Decree No 480/2012 Coll., on energy audit and energy review, for the processing of energy reviews.

**List of abbreviations:**

315 – MoE	State budget chapter 315 – <i>Ministry of the Environment</i>
BIS (Czech acronym)	Security Information Service
CZV (Czech acronym)	Total eligible expenditures
ČBÚ (Czech acronym)	Czech Mining Authority
CR	Czech Republic
CSO	Czech Statistical Office
DH (Czech acronym)	Achieved value
EED Directive 2012/27/EU	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
Commission	European Commission
EC	European Communities
EU	European Union
EUA	European Union Allowance; emission allowance for stationary pollution sources
EUAA	European Union Aviation Allowance; emission allowance for air traffic
EU ETS	European Union Emission Trading Scheme; emissions trading system
Indicator 32701	Indicator <i>32701, Reduction in final energy consumption in public buildings</i>
IROP	<i>Integrated Regional Operational Programme</i>
MoT	Ministry of Transport
MoF	Ministry of Finance
MoRD	Ministry of Regional Development
MoD	Ministry of Defence
MoIT	Ministry of Industry and Trade
MoLSA	Ministry of Labour and Social Affairs
MS2014+	Monitoring system of the European Structural and Investment Funds for the programming period of 2014–2020
MoJ	Ministry of Justice
MoI	Ministry of the Interior
MoH	Ministry of Health
MoA	Ministry of Agriculture
MoE	Ministry of the Environment
NAPEE	National Energy Efficiency Action Plan of the Czech Republic
SAO	Supreme Audit Office
NNV	Claims from unused expenditures (Czech acronym)
NGS	<i>New Green Savings Programme</i>
NGS - <i>Public Sector Buildings</i>	Subprogramme <i>New Green Savings - Public Sector Buildings</i>
OPE, OP Environment	Operational Programme <i>Environment 2014–2020</i>
OUS	Organisational unit of the state

Renovation Plan for Buildings Caught by Article 5 of the EED	<i>Renovation Plan for Buildings Caught by Article 5 of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency</i>
PA 5	Priority Axis 5 of the OP Environment
SO	Specific objective
SO 5.1	Specific objective 5.1, “Reduce the energy intensity of public buildings and increase the use of renewable energy sources” of Priority Axis 5 of the OP Environment
SO 5.2	Specific objective 5.2, “Achieve a high energy standard for new public buildings” of Priority Axis 5 of the OP Environment
SO 5.3	Specific objective 5.3, “Reduce energy intensity and increase the use of renewable energy sources in buildings of central government institutions” of Priority Axis 5 of the OP Environment
SPO (Czech acronym)	State contributory organisation
SEF	State Environmental Fund of the Czech Republic
ÚSTR (Czech acronym)	Institute for the Study of Totalitarian Regimes
Central institutions	Central government institutions caught by Article 5 of the EED
VH (Czech acronym)	Initial value
VVI (Czech acronym)	Public research institutions
Progress report	<i>Progress Report on the Fulfilment of National Energy Efficiency Targets in the Czech Republic Pursuant to Article 24 of Directive 2012/27/EU on energy efficiency</i>

## Annex 1: Central Government Institutions Caught by Article 5 of the EED

*	Security Information Service	17	Ministry of Foreign Affairs
*	Academy of Sciences of the Czech Republic	18	Ministry of Health
1	Czech National Bank	19	Ministry of Agriculture
2	Czech Mining Authority	20	Ministry of the Environment
3	Czech Statistical Office	21	National Security Authority
4	Czech Telecommunication Office	22	Supreme Audit Office
5	State Administration of Land Surveying and Cadastre	23	Supreme Court
6	Energy Regulatory Office	24	Supreme Administrative Court
*	Czech Science Foundation	25	Prosecutor General's Office
*	Office of the President of the Republic	26	Chamber of Deputies of the Parliament of the Czech Republic
7	Office of the Ombudsman	27	Senate of the Parliament of the Czech Republic
8	Ministry of Transport	28	State Material Reserves Administration
9	Ministry of Finance	29	State Office of Labour Inspection
10	Ministry of Culture	30	State Office for Nuclear Safety
11	Ministry of Defence	31	Office for the Protection of Competition
12	Ministry of Labour and Social Affairs	32	Office for Personal Data Protection
13	Ministry of Regional Development	33	Office for Government Representation in Property Affairs
14	Ministry of Industry and Trade	34	Industrial Property Office
15	Ministry of Justice	35	Office of the Government of the Czech Republic
16	Ministry of Education, Youth and Sports	36	Constitutional Court
*	Ministry of the Interior	37	Prison Service of the Czech Republic

Sources: Update to the Renovation Plan for Buildings Caught by Article 5 of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency.

Explanation: \* From the list of 42 statutory institutions, 37 central institutions meet both the conditions (or the use is made of an exception pursuant to Article 5 (2) of Directive 2012/27/EU), 4 institutions have no buildings of their own (Office of the President of the Republic, Academy of Sciences of the Czech Republic, Czech Science Foundation, Ministry of the Interior), and BIS facilities were, due to their nature, excluded at the request of BIS.

## Annex 2: Summary of budgetary measures of the Ministry of Finance - the NGS Programme in the period 2017 to 2019 (in CZK)

Year	Budget chapter	Amount	Number of projects
	MoI	20,781,510.00	11
	ÚSTR	3,219,977.00	1
<b>2017</b>		<b>24,001,487.00</b>	<b>12</b>
	MoI	116,991,216.00	42
	MoT	108,000,000.00	0
	MoD	10,584,765.00	1
	MoLSA	6,898,582.00	3
	MoH	3,115,020.00	1
	MoA	176,000,000.00	0
	ÚSTR	6,511,604.00*	1
<b>2018</b>		<b>428,101,187.00</b>	<b>48</b>
	ČBÚ	2,403,122.00	1
	MoD	14,947,455.00	1
	MoIT	1,202,869.00	2
	MoLSA	9,642,540.00	2
	MoJ	9,843,517.00	3
	MoI	140,447,269.00	44
	MoH	52,110,637.00	7
	MoA	6,340,322.00	3
<b>2019</b>		<b>236,937,731.00</b>	<b>63</b>
<b>TOTAL</b>		<b>689,040,405.00</b>	

Sources: Ministry of Finance.

Explanatory notes: ČBÚ - Czech Mining Authority, MoT - Ministry of Transport, MoA - Ministry of Agriculture, MoD - Ministry of Defence, MoLSA - Ministry of Labour and Social Affairs, MoJ - Ministry of Justice, MoI - Ministry of the Interior, MoH - Ministry of Health, ÚSTR - Institute for the Study of Totalitarian Regimes.

\* Funds in the amount of CZK 6,511,604 were returned by the ÚSTR to the budget of the MoE chapter.

In 2018, the Ministry of Finance transferred from the budget of the MoE chapter to the NGS Programme a total of CZK 428 million, of which CZK 284 million overall was not related to the implementation of NGS projects. In 2018, in accordance with resolutions of the Government of the Czech Republic, the Ministry of Finance transferred funds from the NGS Programme to the state budget chapter 329 - *Ministry of Agriculture* in the amount of CZK 176 million to compensate for damage caused by spring frosts and drought in 2017 and to the state budget chapter 327 - *Ministry of Transport* in the amount of CZK 108 million to co-finance a new discount on fares in trains and buses.<sup>45</sup>

<sup>45</sup> Resolution of the Government of the Czech Republic No 242 of 18 April 2018, *on securing funds to compensate for damage caused by spring frosts and drought in 2017*, and Resolution of the Government of the Czech Republic No 352 of 6 June 2018, *on additional funding of the regional education budget and on aid to medical schools in 2018 and amending Government Resolution No 206 of 27 March 2018, on the introduction of a new discount on fares in trains and buses for seniors, children, pupils and students.*

### Annex 3: Expected cost ratio of reducing final energy consumption in public buildings

(in CZK/GJ/year)

Specific objective	Call	Registered projects under SO 5.1 and SO 5.3 as at 30 June 2020				Of which projects using the NGS - Public Sector Buildings	
		Number of projects	Total resources / estimated target value (reduction in final energy consumption)	Total eligible expenditure / estimated target value (reduction in final energy consumption)	EU contribution / estimated target value (reduction in final energy consumption)	Number of projects	NGS contribution / estimated target value (reduction in final energy consumption)
SO 5.1	19	375	22,063	13,476	5,387	28	4,285
	39	306	21,723	12,744	5,066	35	4,315
	70	598	23,505	15,288	6,936	70	7,622
	100	481	24,735	17,318	7,603	54	8,385
	121	607	35,516	24,064	11,784	3	2,819
	146	38	25,507	18,906	10,368	0	-
SO 5.3	135	31	37,690	17,831	8,777	8	5,220
<b>Total</b>		<b>2,436</b>	-	-	-	<b>198</b>	-

Sources: MS2014+, State Environmental Fund.

Note: The analysis of the cost ratio of reducing final energy consumption in public buildings through projects implemented under specific objectives 5.1 and 5.3 of PA 5 of the OP Environment is based on the submitted records of projects as at 30 June 2020 and on data taken from the MS2014+ information system. The total number of projects equals the number of projects according to the SEF reference documents for which the target value of the indicator "Reduction in final energy consumption in public buildings" was registered in the MS2014+ system. Of the total number of 3,146 registered projects, the target value of indicator 32701 was recorded in MS2014+ for 3,085 projects, of which 2,436 projects were active, i.e., in the phase before the issue of legal act, under implementation or were already physically or financially completed as at 30 June 2020.

**Annex 4: NGS Programme Budget**
**(in CZK)**

	2017	2018	2019
Approved budget	2,827,150,000	2,203,392,116	2,380,510,000
Adjusted budget	2,803,148,513	1,781,802,533	2,143,572,269
Final budget	7,796,954,254	7,942,923,135	8,290,017,319
Actual	1,635,833,653	1,796,478,085	1,884,116,066

Sources: Ministry of Finance, Ministry of the Environment.

Explanation: **adjusted budget** - approved budget after changes and/or budgetary measures; **final budget** - adjusted budget including claims from unused expenditures.

**Annex 5: Overview of revenues from the auctioning of emission allowances and their reporting for the Czech Republic (in CZK thousand)**

	Total revenues from the auctioning of emission allowances		SEF and/or MoE		MoIT	
	According to the report for the Czech Republic (Total amount of revenues generated from auctioning of allowances)	Revenues from the auctioning of emission allowances according to budget item 3114	According to the report for the Czech Republic (Use of revenues from auctioning of allowances (committed))	50% pursuant to Section 7 (7) of Act No 383/2012 Coll.	According to the report for the Czech Republic (Use of revenues from auctioning of allowances (committed))	50% pursuant to Section 7 (7) of Act No 383/2012 Coll.
2017	5,220,326	5,220,325	2,610,163	2,610,163	2,610,163	2,610,163
2018	14,934,783	14,934,783	1,919,392	6,000,000	7,467,392	6,000,000
2019	16,098,489	16,098,489	2,380,510	6,000,000	8,049,245	6,000,000

Sources: Reporting on the use of auctioning revenues pursuant to Article 24 (2017, 2018 and 2019), Table 1: Revenues generated from auctioning of allowances in year 2017, 2018, 2019, Table 2: Use of revenues from auctioning of allowances for domestic and Union purposes pursuant to Article 3d and 10 of Directive 2003/87/EC (2017, 2018 and 2019), MoE.

The Czech Republic, through the Ministry of the Environment, informs the Commission annually about the use of revenues from the auctioning of emission allowances via the *Eionet* application.

The reports distinguish between "committed" and "disbursed" funds. As committed, funds are reported that were registered in the given year as revenues of the NGS Programme, and as disbursed, the amount that was summarily paid in the reported period.

## Annex 6: Projects selected for the audit sample

Serial No.	Project Registration Number	Applicant	Total eligible expenditures of the project (in CZK)	EU contribution (in CZK)
<b>SEF LEVEL</b>				
1	CZ.05.5.18/0.0/0.0/15_019/0001600	Vysočina Region	13,283,138.00	5,313,255.20
2	CZ.05.5.18/0.0/0.0/15_019/0001874	Technical University of Liberec	12,933,400.00	5,173,360.00
3	CZ.05.5.18/0.0/0.0/15_019/0001918	Statutory City of Jablonec nad Nisou	8,860,805.30	3,544,322.12
4	CZ.05.5.18/0.0/0.0/15_019/0001741	Olomouc Region	7,254,172.00	2,901,668.80
5	CZ.05.5.18/0.0/0.0/16_039/0004376	Liberec Region	7,524,627.00	3,009,850.80
6	CZ.05.5.18/0.0/0.0/16_039/0004527	Municipality of Osek nad Bečvou	12,958,223.96	5,183,289.58
7	CZ.05.5.18/0.0/0.0/16_039/0004381	City of Humpolec	3,856,179.60	1,542,471.84
8	CZ.05.5.18/0.0/0.0/16_039/0004452	City of Roudnice nad Labem	24,939,001.67	9,975,600.66
9	CZ.05.5.18/0.0/0.0/17_070/0005186	Municipality of Markvartovice	13,707,336.00	5,482,934.40
10	CZ.05.5.18/0.0/0.0/17_070/0005187	City of Neratovice	8,846,283.00	3,538,513.20
11	CZ.05.5.18/0.0/0.0/17_070/0005230	Olomouc Region	14,265,689.19	5,706,275.67
12	CZ.05.5.18/0.0/0.0/17_070/0006259	Moravian-Silesian Region	10,318,126.31	4,127,250.52
13	CZ.05.5.18/0.0/0.0/17_070/0006542	Statutory City of Jablonec nad Nisou	8,887,934.00	3,555,173.60
14	CZ.05.5.18/0.0/0.0/17_070/00065541*	Ministry of Agriculture	5,755,535.96	2,014,437.58
				2,589,991.20**
<b>MOIT LEVEL</b>				
Serial No.	Project Registration Number	Applicant	Total eligible expenditures of the project (in CZK)	Funds from the state budget (in CZK)
15	CZ.05.5.18/0.0/0.0/17_070/0006459*	Ministry of Industry and Trade	82,326,192.99	2,286,924.20
<b>Selected SO 5.1 projects in total</b>			<b>235,716,644.98</b>	<b>65,945,319.37</b>

Sources: MS2014+, Ministry of the Environment, State Environmental Fund.

\* Project co-financed from the NGS Subprogramme - Public Sector Buildings.

\*\* Funds from the state budget.