

Subsidies for thermo-modernisation and renovation projects

Because of the rising prices of electricity used to heat water and housing, as well as greater interest among Poles in environmental protection, demand has risen for thermo-modernisation works, i.e. various projects which reduce power consumption needs. In addition thermo-modernisation works, a lot of renovation work is performed in order to bring buildings back to their original condition or to improve them. The owners and administrators of the buildings as well as other entities can secure subsidies for part of the costs incurred for the above works.

The issue of subsidising thermo-modernisation and renovation projects is regulated by the Act on Supporting Thermo-modernisation and Renovation Works, dated 21 November 2008 (“Act”), which as of 19 March 2009 has superseded the Act on Supporting Thermo-insulation Works, dated 18 December 1998.

The Act of 1998, in line with the intentions of its creators, comprised the implementation of plans to rationalize the use of energy in the communal and social segment, as well as one of the elements of the government’s programme of protection against the consequences of the uncapping of prices of heating energy, and as such was only focused on thermo-modernisation projects. The legislator, however, noticed that stimulating residential renovation works is equally important. Because of the years of disinterest in this field, also because of caps imposed on rent, there is a risk that many housing buildings will be demolished, which will shrink the already insufficient national housing resources. As a consequence, the current Act also addresses renovation works.

At the root of the adoption of the Act were also defects in national legislation that curtailed the rights of owners of residential buildings as there were no mechanisms under which owners could cover the losses resulting from the due maintenance of buildings. The decision issued by the European Tribunal of Human Rights comprised a pretext for addressing these issues. The decision issued on

19 June 2006 in the case of Hutten-Czapska versus Poland. As a consequence, the Act implements provisions about a compensation premium as an instrument for offsetting damages incurred by property owners.

Thermo-modernisation, renovation and compensation premium

Pursuant to the definition provided in Art. 2. 2) of the Act, a thermo-modernisation project is a project which comprises:

- an improvement which results in lower demand for energy used to heat water and housing, collective housing, and local government buildings used to perform public tasks,
- an improvement which results in lower losses of primary energy in local heating grids and local heating sources which feed into the grid, if buildings listed under the first bullet, provided heating from the grid meets the energy efficiency requirements formulated in building regulations or if efforts have been undertaken in order to reduce the buildings’ energy consumption,
- technical connection to a centralized heating source, executed in connection with the liquidation of a local heating source, which results in lower costs of supplying heating buildings listed in the first bullet,
- complete or partial replacement of energy sources by renewable or highly efficient co-generation energy sources.

Investor – owner or administrator of the building, local heating grid or local heating source, excluding government budgetary units and institutions – for execution of a thermo-modernisation projects have the right to a **thermo-modernisation premium** to repay part of a loan contracted to finance such a project. The right to the premium is conferred if, based on an energy audit – i.e.

a report defining the scope and technical and economic parameters of a thermo-modernisation project, concludes that the thermo-modernisation project effected lower annual demand for heating or lower annual power losses or lower costs of heat sourcing as defined in Art. 3. 1)-3) of the Act or the replacement of energy sources by a renewable source.

The premium amounts to 20% (from 25% in the Act of 1998) of the drawn down amount of the loan, provided that it cannot amount to more than 16% of the costs incurred on the thermo-modernisation project and two-fold of the foreseen annual savings in energy costs, as specified in the energy audit.

In turn, a renovation project, in line with Art. 2. 3) of the Act, is any thermo-modernisation project, which comprises:

- renovation of multi-family housing,
- replacement of windows or renovation of balconies in multi-family housing, even if these are used exclusively by dwelling owners,
- reconstruction of multi-family housing buildings, which leads to their improvement,
- equipping of multi-family housing buildings in installations and equipment required of residential buildings commissioned for use under the relevant technical and construction regulations.

In the case of renovation projects, an investor can be a natural person, a housing cooperative with majority stakeholders being natural persons, housing cooperative or communal housing association. As in the case of the thermo-modernisation premium, the **renovation premium** is paid for the repayment of part of a loan incurred to execute a renovation project. Detailed terms and conditions for securing a renovation premium are defined in Art. 7 of the Act. It is important to remember that a renovation project that confers the right to a renovation premium can only concern a multi-family housing building, which has been in use since before 14 August 1961 (date of the entry into force of the Polish Construction Law of 31 January 1961).

Here also the maximum amount of the premium is 20% of the drawn down amount of the loan, but not more than 15% of costs incurred for the renovation project. A certain exception to the rule has been provided for if the building that is being renovated also houses non-housing units.

The **compensation premium** is the third type of support, which today is issued to investor that is a natural person which as on 25

April 2005 was the owner or heir to an owner of a residential building, or after this day became the heir to an owner of a residential building with at least one temporary accommodation dwelling. The adopted on 5 May 2010 amendment to the Act (to come into force mid-May) (“Amendment”) changed the provisions of this regulation to encompass a broader group of investors.

Yet, of key importance here is the fact that it has done away with the obligation to contract a loan as the condition precedent for having the right to a premium to finance part or all of the costs of a renovation project or the renovation of a single-family housing building. Thus, the investor will be able to either execute a larger project drawing on the compensation premium as well as renovation works, or a smaller project that can be subsidised from the compensation premium, with also the option to benefit from the renovation premium.

Rules governing premium issuance

The premiums are awarded by National Economy Bank (BGK) from the Thermo-modernisation and Renovation Fund (formerly Thermo-modernisation Fund). The investor applies to be awarded a thermo-modernisation or renovation premium to BGK through the intermediary of the lending bank. In the case of the compensation premium, the application is to be filed directly with BGK for renovation projects or renovation of a single-family home in full or from non-loan financing. Then, BGK will convey the compensation premium directly to the investor unlike the general rule of it conveying the premium to the lending bank.

In Art. 13, 14 and 15 of the Act lists the documents that are to be attached to the application to be awarded the thermo-modernization, renovation and compensation

premiums, as well as data which should be included in the energy and renovation audits.

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