

SCOTLAND'S ENERGY EFFICIENCY PROGRAMME

PILOT PROJECTS PATHFINDER FUND

Overview

Heating and cooling Scotland's homes and business costs £2.6 billion a year and accounts for approximately half of the country's greenhouse gas emissions. Energy efficiency is fundamental to Scotland meeting its ambitious climate change targets. In June, the Minister for Environment, Climate Change and Land Reform announced that Scotland's Energy Efficiency Programme (SEEP) will be the cornerstone of the National Infrastructure Priority. Over the next 15 - 20 years, SEEP will offer support to ensure that all buildings (domestic and non-domestic) in Scotland can achieve a good energy efficiency rating.

There are four broad themes at the core of SEEP:

- *Integration* – the need to create an integrated approach to the delivery of energy efficiency and reducing the need for heat across Scotland. Most importantly, this includes the aspiration to integrate delivery across domestic and non-domestic buildings.
- *Innovation & Incentives* – an offer of support to buildings across Scotland to enable improvements to energy efficiency. Innovative approaches in the design and delivery of new incentives and financial mechanisms will be necessary to enable this. This innovation will seek to drive integration (the first broad theme of SEEP) but also to explore new approaches to leveraging private sector funding and the use of loan funding or commercial products designed to maximise the resources available.
- *Advice & Information* – a refresh of existing approaches to the provision of advice. It will also be necessary to consider what new mechanisms may be needed to enable households, businesses, the public and the third sectors to improve the fabric of properties so that they are more energy efficient.
- *Standards & Regulation* - The setting and achievement of appropriate standards is integral to SEEP achieving its stated objective of achieving an 'optimal' energy performance for buildings.

This call, delivered jointly by the Home Energy Efficiency Programmes Scotland: Area Based Schemes (HEEPS: ABS) and the Low Carbon Infrastructure Transition Programme (LCITP), targets the Integration and Innovation & Incentives themes.

Pathfinder Fund

As the first step in preparing for the launch of SEEP in 2018, the Scottish Government is inviting local authorities and their partners to submit proposals for the piloting of new approaches, for delivery by 31 December 2017, of energy efficiency measures in both domestic and non-domestic buildings.

These pilot projects will help the development of SEEP, contribute to the design of future programmes aimed at tackling fuel poverty and reducing greenhouse gas emissions and inform how future SEEP funding is best deployed to achieve

Ministerial objectives. Further analysis is needed to understand what is possible and the necessary mix of funding sources required to meet the commitment to a truly national programme, providing support for buildings across Scotland. The pilot projects will play a key role in informing this. Subject to funding being available, the Scottish Government intends to issue a further call for pilot projects for 2017-18 in advance of the launch of SEEP in 2018.

These pilot projects may involve:

- The extension of existing energy efficiency measures (such as insulation) or renewable heat supply initiatives (such as district heating, thermal storage or microgeneration schemes) to other properties, communities and/or sectors, based on geographic, demographic or socio-economic indicators; or
- Development of tailored approaches to different areas such as mixed tenure areas, where a programme would be developed that integrated treatment of commercial, public sector and industrial buildings with treatment of residential buildings (e.g. on a street-by-street basis, or zoning of areas to ensure systematic action); or
- Development of integrated approaches to mixed-tenure buildings where there is shared use and different ownership structures (e.g. buildings with mixture of commercial offices and shops, public sector offices, or third sector premises; and buildings where there is a mixture of owner occupied, social landlord, commercial landlord, private rented and public sector ownership).

Investment to support these approaches could include:

- Physical measures to reduce the need to heat or cool a building; improve the performance of existing systems or replace with more effective measures or renewable heat supply models; provide more effective control of systems, including internal sensors to monitor and report temperature where energy efficiency measures have been installed as part of the pilot project; and/or
- Education/training measures promoting behavioural change in the use of the building's energy sources and facilities.

In addition, a series of examples and hypothetical scenarios are set out in Annex A to provide an illustration of the range of characteristics which could suggest a project be considered as a SEEP pilot. Please note that Annex A is not intended to represent a definitive range of the approaches to be piloted but is provided as an aid for applicants.

Objectives

- To pilot new and innovative approaches, delivering carbon reductions, scalable and replicable models and testing the mechanisms required to support the delivery of the SEEP themes.
- To accelerate pilot capital projects delivering improvements in energy efficiency to domestic and non-domestic buildings by means of fabric measures or renewable heat supply models; which are developed and delivered in liaison with local stakeholders such as businesses, registered social landlords, public bodies, community groups, financial investors and

regulators; identifying fuel poor areas and prioritising those properties in most need of assistance.

- To promote innovation and diversification in the development and delivery of area-based energy efficiency models intended to encourage investment in measures designed to result in long term savings in energy use; determining an optimal level of energy performance for domestic and non-domestic buildings that fall within the scope of the pilot project and will inform target levels of performance improvement for buildings across Scotland; and subsequently, to inform the establishment of a clear baseline of evidence for the potential improvement in energy efficiency of domestic and non-domestic buildings in the targeted areas.
- To provide capital support to pilot energy efficiency projects which have the potential to have a positive social outcome, helping to reduce fuel poverty and health-related issues, and which have a significant impact on the local economy (job creation and retention, income, skills, training opportunities, use of local installers where possible).
- To measure and evaluate the impact of the pilot approach through: assessing the effectiveness of the range of interventions deployed in influencing consumer responses to energy efficiency and heat demand reduction programmes; establishing clear evidence on the approaches that are most effective in driving lasting behaviour change by households and businesses; and presenting clear recommendations on what overall approach can be replicated, scaled up, delivered and effective in the future SEEP programme.

Eligibility Criteria

- The local authority is expected to be the lead partner, or joint lead partner, in the development and delivery of the pilot projects.
- Only one application should be submitted by each local authority.
- Applications must reflect capital project activity to be conducted in Scotland, targeting domestic and non-domestic buildings, and reflecting any local energy efficiency strategies which have been developed in liaison with local communities and stakeholders.
- Proposed pilot projects must be supported by evidence (such as robust and reliable data in respect of potential reductions in carbon emissions, heat demand reductions, energy efficiency improvements and cost savings) supporting the choice of area and mix of measures being proposed (including evidence of any local community engagement); and including a clear plan for ongoing evaluation of the project and reporting at all key stages, for example on completion of the capital works.
- Must have fully developed partnership agreement and community engagement plan for receipt, administration and distribution of the financial support available; promoting awareness of the support, including any proposed incentives to encourage take-up; and dealing with any enquiries and complaints.
- Have developed strategies to reduce risks of all kinds – procurement, technological, environmental, financial, legal, regulatory etc – to an acceptable level.
- Proposed capital work must be completed and functional by 31 December 2017 with all relevant Scottish Government financial support claimed by

31 January 2018, and include a process for measuring and evaluating the project's outcomes, including whether the project can be scaled up and replicated.

- Schemes should be designed so as to support the local economy and use local installers as far as possible, within the framework of procurement legislation and best practice.
- Budgets and financial models prepared, such as development, capital, operation and maintenance costs. The financial business case should also reflect, where possible, other funding committed or secured to date, or which could be levered in from other sources including private sector investment, and anticipated payback period.

External evaluation of SEEP pilots

Alongside this call, the Scottish Government plans to commission parallel external evaluation of all pilots to assess the wider lessons across all projects on scalability, deliverability, replicability and effectiveness. This evaluation will seek to engage with project leads and partners throughout the duration of the pilot projects, and afterwards. It is therefore a condition of support that the Scottish Government will expect the project lead and its consortium partners to share experience and data with those involved in the external evaluation.

Financial support available

Financial support will be awarded by the Scottish Government. The call will be supported jointly by HEEPS: ABS and LCITP. Applicants must meet the eligibility criteria specific to this call, as set out above, as well as the general criteria for HEEPS:ABS and LCITP applications (more information about these is available in the application form and related guidance note).

Up to £14 million of Scottish Government funding – drawn from a range of budgets – will be available from June 2016 to December 2017 to support the implementation of the integrated energy efficiency projects outlined in those applications successful in securing Pathfinder Funding. Projects may vary in scale and value. Applications are expected for a minimum of £250,000 but there is no maximum limit for individual applications, within the total budget available.

The nature of the financial support may be in the form of grant, loan, guarantee or combination thereof. The nature of the support offered will be discussed with the individual applicants and decided on a case-by-case basis and will reflect relevant State aid rules, where these apply. There is an expectation that projects will maximise leverage from other funding sources, such as private investment, the Energy Company Obligation, SALIX funds, any locally available Central Energy Efficiency Funding, District Heating or SME loans schemes and the Renewable Heat Incentive, i.e. spend-to-save investments by those households and organisations which can afford to pay.

In addition, up to 15% of the support being provided by the Scottish Government can be spent on administrative and enabling costs to assist in building capacity to deliver

the proposed project. Details of any proposed enabling costs should be included in the application form.

In most cases, the local authority, as lead partner or joint lead partner, will be the recipient of Scottish Government financial support for allocation, as appropriate, to third parties engaged in the delivery of the pilot project, in line with the relevant legal authority and State aid rules.

How to Apply

The call is open to local authority-led partnerships/consortia across Scotland. The Scottish Government sees local authorities as providing a key leadership role in the development of SEEP and therefore encourages them to build wider partnerships with private sector organisations, community groups, universities or other public sector organisations which can assist with the delivery of SEEP at local level. As outlined above, the local authority is expected to be the lead partner or joint lead partner in the delivery of the pilot projects and, as such, in most cases, will be the recipient of Scottish Government financial support for allocation, as appropriate, to third parties engaged in the delivery of the pilot project, in line with the relevant legal authority and State aid rules.

Local authorities should ensure that, in targeting areas, they comply with their duties of best value and community planning. Scottish public authorities must have 'due regard' to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations.

The closing date for receipt of applications is 18 March 2016.

Evaluation of Applications

The Pathfinder Fund is initially targeting 2 of the 4 broad SEEP themes: integration (activity which improves the energy performance of domestic and non-domestic buildings) and innovation, including incentives (pilot programmes which will help drive integration). This will be reflected in the scoring methodology for applications. However, the call will also test the mechanisms required to support the delivery of the pilot projects in respect of the other broad SEEP themes, i.e. advice and information, standards and regulation.

The application form sets out the relevant evaluation criteria in respect of HEEPS: ABS and LCITP and includes further guidance on the information required and the scoring methodologies. Part A of the application requests information about the proposed pilot project. Part B should be completed in respect of financial support being sought for capital projects in non-domestic buildings while Part C is for activity targeted at domestic buildings. All applicants will be expected to complete Parts A to C before completing Part D certifying the accuracy of the application form and confirming that it has been formally approved for submission by the local authority.

A workshop will be run on 28 January 2016 to which local authorities and their local energy efficiency partners have been invited to find out more about SEEP and how to apply to the Pathfinder Fund.

Timetable

22 January 2016 – launch of Pathfinder Fund

28 January – workshop

18 March – deadline for applications

21 March to Mid-April - evaluation of applications and following up queries with applicants as necessary

April and May - feedback to applicants in respect of assessment and award offers issued

June – award letters signed and returned

31 December 2017 – completion of all Scottish Government supported capital projects

31 January 2018 - last claim for financial support submitted to the Scottish Government

ILLUSTRATIVE SCENARIOS OF PILOT PROJECTS

Council A – large city neighbourhood (e.g. Govan, Hillhead, Parkhead, Glasgow; Leith, Gorgie, Edinburgh).

Council A has made substantial progress at community level in developing energy infrastructure. A number of district heating systems have been installed and there has been significant investment in insulation via HEEPS. These have not been joined-up however and, to date, have focussed largely on domestic properties. The Council would now like to explore a more fully-integrated energy system which seeks to blend domestic with non-domestic and develop the idea of establishing a local heat plan and city-wide ESCO. They have identified a number of communities and neighbourhoods which they feel would be good testing grounds for this approach.

The neighbourhoods all have a good mix of building types and tenures, and a varied income profile from students through working families to retired people living in a sheltered housing complex managed by the Council. There are a range of owner-occupied buildings, as well as those which are owned by social and private landlords. There are pre-1919 tenements which have shops or offices on their ground floors, and apartments above, plus a 1970s shopping arcade and supermarket that is owned by a single commercial landlord. There are two 1960s schools in the area that have not been refurbished, plus a 1980s hospital, and a small industrial estate of units managed by Scottish Enterprise, that were constructed in the 1990s and are now due for refurbishment.

The Council wants the new city-wide ESCO to coordinate delivery of its local heat plan in the neighbourhood and to ensure that commercial landlords and residential owner occupiers receive the most cost-effective finance to improve their properties. The ESCO will also deliver the Council's grant support to the remaining small numbers of low income households and to social landlords.

Council B – large town (e.g. Motherwell, East Kilbride, Greenock, Dunfermline, Perth, Inverness, Ayr, Stirling, Kirkcaldy).

Council B has made good progress in insulating most of its domestic properties, drawing on HEEPS and ECO funding to assist owners. There remain six multi-storey blocks on the edge of the town centre which have not yet been treated and the council would like to install district heating to these whilst ensuring they are suitably insulated. The town centre itself contains a mixture of historic and post-war buildings, owned by multiple commercial landlords, with retail premises on the ground floor, plus offices and apartments on some upper floors. The council is looking at the potential to link the district heating network into some of the major commercial and public buildings in the town centre.

There is a 1980s shopping centre owned by a single commercial landlord, who has just recently been awarded planning permission to convert some retail premises into licensed restaurants to encourage the night time economy, and a new multiplex

cinema is being constructed on an adjacent car park. The Council itself is headquartered in a 1970s multi-storey office building in the town centre, housing 500 staff which needs to be refurbished and upgraded to meet new building standards.

The wider town centre is suffering from a high vacancy rate and the Council is keen to pursue a regeneration strategy that will attract shoppers and commercial tenants back into the properties. It is considering using its new power to vary business rates to incentivise this, and is also looking at the potential to work with commercial landlords to negotiate an Energy Performance Contract as part of the regeneration work, which could help to pay for energy efficiency improvements in the buildings.

Council C – small town in a rural area (e.g. Oban, Kirkwall, Stornoway, Inverary, Newton Stewart, Langholm).

Council C is sparsely populated, with a dispersed population and a few small market towns. The majority of properties in the town are not on the gas grid and are pre-1919 solid wall construction, mainly a mixture of stone cottages and tenements in the town centre, containing a mixture of shops, offices and some residential accommodation on upper floors. The majority of domestic properties are owner-occupied by afford-to-pay households, and shops and offices are owned by commercial landlords with a high occupancy rate and good rental yields. Public buildings are generally small-scale former Victorian houses that have been converted to offices, plus a library and Edwardian swimming baths. The bulk of the town centre and pre-1919 properties have been designated as a conservation area with many listed buildings. A new supermarket is planned on the outskirts of the town, next to its only secondary school, which is a 1960s low rise building.

The council wants to develop an integrated approach to heat demand reduction which supports both domestic and non-domestic properties at the same time. It is considering a number of options such as the potential to link the heat loads of the major public buildings and the supermarket with supply to residential properties (where treatment options are limited due to the conservation restrictions and solid wall construction). It is also in discussions with a renewable energy developer about the possibility for a biomass CHP plant or small scale wind farm to support the development, with a stake for the local community.

For those properties which could not connect to a heat network, the council is looking at the potential cost savings per building through collective procurement of renewable heat technologies such as heat pumps or biomass boilers for groups of properties. It is keen to develop new financial models to pay for infrastructure and to support owner-occupiers of homes and commercial buildings to invest in energy efficiency improvements or new heating technologies. It is considering new low cost loan mechanisms in the first year after installation of measures to incentivise owner occupiers to improve their properties. It is particularly keen to develop a local supply chain of assessors, advisers and installers to help building owners install measures.

A number of case studies involving businesses, the public sector, local authorities and community groups are available on the Resource Efficient Scotland website. These outline how, with the assistance of Resource Efficient Scotland, energy efficiency improvements to non-domestic buildings have helped save money and reduce the environmental impact of the organisations. Several are included below and more are available at

<http://www.resourceefficientscotland.com/search/node/case%20study> .

Non domestic project A – Scotmid store, Moredun, Edinburgh

<http://www.resourceefficientscotland.com/resource/scotmid-retail-retrofit>

Non-domestic project B – health club, Borders

<http://www.resourceefficientscotland.com/resource/think-fitness-4-less>

Non-domestic project C – Filmhouse, Edinburgh

http://www.resourceefficientscotland.com/sites/default/files/The%20Filmhouse%20Case%20Study_March2014.pdf

REFERENCE MATERIAL

Low Carbon Infrastructure Transition Programme

<http://www.gov.scot/Topics/Business-Industry/Energy/Action/lowcarbon/LCITP>

Home Energy Efficiency Programmes Scotland

<http://www.gov.scot/Topics/Built-Environment/Housing/warmhomes/eap>

Scotland Heat Map

<http://www.gov.scot/Topics/Business-Industry/Energy/Energy-sources/19185/Heat/HeatMap>

Forthcoming regulation on the assessment and improvement of larger non-domestic buildings

<http://www.gov.scot/section63>

Carbon Trust guidance on energy saving techniques to improve the efficiency of buildings

https://www.carbontrust.com/media/19457/ctv014_building_fabric.pdf

Carbon Trust guidance on Low Carbon Buildings – Procurement and Specification

<http://www.carbontrust.com/resources/guides/energy-efficiency/delivering-the-future-today/>

SALIX Loans

<http://www.salixfinance.co.uk/loans/scotland-loans>

SME Loan Scheme

<http://www.energysavingtrust.org.uk/sme-loan-scheme>

District Heating Loan Scheme

<http://www.energysavingtrust.org.uk/district-heating-loan>

User Guidance for the Central Energy Efficiency Fund

<http://www.energy-efficiency.org/ceef/files/CEEF%20-%20User%20Guidance.pdf>

Heat Network Partnership for Scotland

<http://www.districtheatingscotland.com/content/about-us-0>

Heat Trust

www.heattrust.org

CIBSE Heat Networks: Code of Practice

<http://www.cibse.org/knowledge/cibse-other-publications/cp1-heat-networks-code-of-practice-for-the-uk>