



Llywodraeth Cymru
Welsh Government

FORM, DOCUMENT

Low carbon heat capital grant: guidance

Guidance on applying for the low carbon heat grant, including eligibility and grant conditions.

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Introduction

This guidance has been provided alongside an Application Form for the Low Carbon Heat Grant (LCHG).

The funding is available to all local authorities with projects that are ready for implementation. It is intended for capital works associated with retrofitting low carbon heat solutions in non-domestic, local authority-owned buildings.

The allocated budget is up to £20 million per year, for FY 2024/25 and FY 2025/26. This gives local authorities the support to implement low carbon heat projects as part of their journey towards achieving Net Zero.

Grant objectives

The objectives of the Low Carbon Heat Capital Grant are:

- To reduce carbon emissions as part of the drive towards achieving net zero
- To accelerate the transition away from burning fossil fuels for space heating and hot water
- To provide funding for low carbon heat projects, enabling schemes with challenging financial situations
- To encourage a whole building approach for low carbon heat
- To build capacity and capture learning within the public sector enabling low carbon heat to become business as usual

Timescales

To reflect the size and multi-year nature of the scheme there will be a number of funding rounds:

Round 2 Applications: 25th Oct 2023 to 31st March 2024.

Except applications for financial year 2023 to 2024, for which the deadline is 15th Dec 2023

Round 3 Applications: Oct 2024 to Dec 2024 (subject to remaining available funds)

Funds are allocated on a financial year basis. Funds cannot be rolled over from one year into another.

Round 2 will accept single financial year projects to be delivered by 31st March 2025 and multi-year applications to be delivered by 31st March 2026. Most projects are expected to start in April 2024. In exceptional cases we will accept projects with spend before April 2024, with strong evidence of deliverability.

Round 3 applications will be for spend in FY 2025 to 2026, subject to availability of funds.

Please note that funding will be committed on a start-of-April to end-of-March financial year basis.

Application: approach

Application Types

There is a single application form, which allows for:

- Single year applications for financial year 2024/25: projects are required to complete by 31st March 2025
- Multi-year applications: this option is for projects which are of a scale that will take more than one financial year to deliver and must be completed by 31st March 2026. The funding request will require a definitive value per year. Project spend for financial year 2023 / 2024 can be applied for with strong evidence of deliverability.

It will not be possible to flexibly move allocated funding over from one financial year to the next. We expect single year applications to be completed with that year, and multi-year applications to spend the agreed values in each year.

Upon application, organisations must decide whether each project is a single-year or multi-year project. It will likely not be possible to extend to a multi-year application at a later date as funding commitments will have been made.

Up to 10 buildings can be added to a single application form. If you have more than 10 buildings, they will need to be split across multiple application forms.

Application: assessment

Applications will be reviewed on a 3-4 week basis. While funding will be allocated on a first come, first serve basis in principle, limitations may be imposed on the scale of future year funding commitments, as well as a cap per

organisation, to ensure fair distribution.

We envisage that application review meetings will be needed with applicants.

Application: project maturity

We expect projects to be in an investment ready position.

Our experience from previous low carbon heat projects has shown that the projects with the most success in timely delivery and spend of grant funding start early, and have a clear project plan. Key areas to consider, which will be scrutinised during the assessment process are:

- Planning permission status, if required, or confirmed as a permitted development by the local planning team
- Procurement position, whether suppliers are in contract
- DNO engagement status, or confirmation that DNO upgrades are not required
- Design stage, we expect at least Riba stage 2
- Monthly payment forecasts (when the applicant will expect to be requesting payments from the Energy Service)

Eligibility: organisation

This funding currently is open to all principal local authorities in Wales.

The following entities are excluded

- Town Councils
- Community Councils

- Other public bodies

There may be the opportunity to extend the application process to the remaining public sector in the future.

Eligibility: project type and position

This funding is for capital works for the retrofit of low carbon heat solutions to replace fossil-fuel heating systems in non-domestic, local authority buildings. Eligibility Criteria include the following:

- Buildings must be owned or under a long-term lease (at least 10 years) by the local authority. Buildings subject to grant must be retained for 10 years following the grant award
- Buildings must be part of the local authority's annual carbon reporting to Welsh Government
- Buildings heat must currently be supplied by fossil-fuel heating systems (e.g., natural gas, LPG, or heating oil)
- The proposed works on site must not have started yet

Single-year projects must be delivered within the financial year, multi-year projects must be delivered by 31st March 2026. Funding is committed on a financial year basis and must be spent within the specified financial year.

Approved funds cannot be rolled from one financial year to the next.

Projects should have been the subject of previous feasibility and development work, with the applicant organisation knowing the technology solution and have committed to deliver the future low carbon heat scheme.

Applications can include all necessary building envelope / associated works to complete the installation. Any items included in an application that can be

funded from another source will not be approved for funding from this LCHG fund. The inclusion of an ineligible item will not affect the approval of eligible items, they will just be removed, and where appropriate signposted to other funding sources (e.g. retrofit / Salix funding for energy efficiency measures).

Eligibility: technology and measures

Acceptable inclusions within the capital works:

- Building fabric improvements, including draft proofing where it can't be funded from other sources (e.g. backlog maintenance funding).
- Heat distribution and emitter upgrades (including modifications to air handling unit (AHU) heat batteries)
- Thermal storage upgrades
- Heat pumps (air/ground/water), and Electric Boilers (for top up/back up purposes only)
- Electrical infrastructure capacity upgrades to allow heat pump installation
- Biomass where local air quality is not significantly adversely impacted, and heat pumps are not viable
- Heat Networks around a single site/campus, e.g. a large secondary school campus
- Upgrades to existing district heat networks (low carbon heat generation)*
- Development works – further design and exploration works (e.g. trial boreholes)
- Phased projects

*Note that eligible Heat Network Efficiency Scheme projects will not be supported with this grant.

Eligibility: ineligible costs

The Low Carbon Heat Capital Grant will not support funding for:

- Any primary fossil fuel heating plant e.g., gas boilers, gas CHP
- Replacement of existing low carbon heat systems (the grant is intended for replacing fossil-fuel systems)
- District Heating – both new installations and extensions to existing systems, where there is a financial case and return from heat sales
- Feasibility or concept work
- Internal staff costs
- Contingency costs - additional costs should be managed by the applicant
- Projects where installation has already begun
- Recoverable VAT – applicants will need to manage this cash flow aspect appropriately where VAT is paid in one financial year, but recovered the next
- Operation and maintenance costs

Whole building approach

We expect applicants to adopt a 'whole building approach' towards decarbonising heat and transitioning away from fossil fuels. Applications should propose fully decarbonised solutions, with the removal of fossil fuel provisions.

Heat pump solutions typically require lower temperature systems to operate at their most efficient. Therefore, we expect to see applicants lowering flow temperatures as much as possible (between 35-55 °C) to ensure the optimal performance of their low carbon heating systems. This might necessitate heat emitters and measures to enhance insulation.

Applicants who do not propose to reduce flow temperatures must explain their

approach and demonstrate a fully decarbonised solution.

We expect a minimum heat pump Seasonal Coefficient of Performance (sCOP) of 2.5. Where electrical backup / top-up boilers are included, we would expect them to cover no more than 20% of the total heat demand.

For a whole building approach that includes further electrical efficiency or renewable energy generation, funding can be accessed via the Wales Funding Programme.

Costs for electrical connection upgrades, potentially covering other measures like EV charging or photovoltaic (PV) systems, should be outlined in the applications. We will then consider how grid upgrade costs might be supported.

Available funding

Grant Request

In Round 2, each project can apply for funding up to 90% of the total project capital costs. However, it is important to note that the intervention rate of 90% may decrease in future rounds, depending on demand, to maximise the impact of the fund. We will notify of any change to intervention rates before opening any subsequent round.

One of the ambitions for this grant is to build experience and capacity for low carbon heat implementation across a wide range of building types. We also wish to spread investment across sub-sectors (social care, education, leisure offices, etc.). In round one 75% of the funding was committed for schools so for round two other buildings will be prioritised, though applications for schools will still be considered, funds allowing.

Applicants are required to contribute a minimum of 10% of the total project value.

While we will support multi-year projects, funding will be committed on a year-by-year basis. Applicants are expected to manage their contribution appropriately.

Applicants may submit projects that extend into the following financial year (i.e. multi-year projects). Funding is committed on a financial year basis and must be spent within the specified financial year. Approved funds cannot be rolled from one financial year to the next.

The LCHG will not duplicate any existing or planned pipeline funding, such as Sustainable Communities for Learning projects. We encourage applicants to utilise other funding sources where appropriate, to maximise carbon emission reductions.

Assessment criteria

Key criteria:

- We expect systems to produce heat at less than 100g CO₂e/kWh

While projects will not be directly assessed against the parameters listed below, we will consider them as part of the application to determine suitability for funding.

Metrics considered

- kW heat output installed per £ funding
- kWh/m² existing vs. improved

- £/tCO₂e saved (over technology lifetime)
- Information on financial return/impact
- Expected heat related CO₂e emissions after low carbon heat source installed
- Percentage of heat pump usage vs electric boiler

Qualitative aspects considered

- Deliverability, project maturity, and supporting evidence
- Resilience and forward evolution plan
- Technical options appraisal undertaken, including primary energy use reduction / fabric first approach
- Project governance
- Confirmation of retained estate

Other key requirements

Provision of supporting information

Applications for funding should be accompanied by the following supporting information:

- Feasibility work demonstrating that:
 - The system can technically be installed
 - The system is expected to deliver heat at less than 100g CO₂e/kWh
- Specification sheet for the heat pump or other low carbon heat source
- Evidence of the sCOP of the heat pump
- A risk assessment outlining major risks to project delivery

Please note, plan and elevation drawings illustrating the location and scale of

the plant are not required with the initial application. However, they may be requested as part of the project review.

Conditions

Special conditions, data, information and communication requests

- To receive the grant, applicants must provide the Energy Service with proof of quotation and contractor appointment
- Public bodies are required to provide access to operational staff for interviews/surveys, respond to requests for case studies and press releases, and agree to reasonable requests to share learning and insights. This includes, but is not limited to, sharing design/performance information, supporting site visits, and sharing case study information/photos.
- Please note that the pot is limited, and in the event that application requests exceed the funding available we will consider aspects such as deliverability, potential carbon impact and prior feasibility/options appraisal work to prioritise funding.
- Approved projects will receive a grant approval letter setting out the terms and conditions of the grant. To accept the grant the applicant will need to complete and sign a grant claim form.

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