



EUROPE & SCOTLAND

European Regional Development Fund Investing in a Smart, Sustainable and Inclusive Future







Low Carbon Infrastructure Transition Programme Scotland's Development Unit for Low Carbon Projects Guidance to Support Applicants

Guidance

Contents

- 1. Project Partners
- 2. Who can apply?
- 3. Description of FTEs
- 4. Guidance on the anticipated qualities that eligible projects should be able to demonstrate
- 5. The aims of the Low Carbon Infrastructure Transition Programme
- 6. Guidance on the areas where the LCITP will consider providing support to projects
- 7. Project stages
- 8. Guidance on measuring the overall project's success to demonstrate the project will successfully develop a (pre-due diligence) Investment Grade Proposal
- 9. Anticipated CAPEX of the project
- 10. Guidance on completing development costs table
- 11. State Aid
- 12. Guidance on what support is available
- 13. LCITP intervention levels
- 14. Guidance for Carbon Impact of Projects
- 15. <u>Guidance note on identifying direct beneficiaries of the project and any subsequent indirect impacts</u>
- 16. Guidance for Demonstrating Economic Impact of Projects
- 17. Guidance note on effective Community Engagement
- 18. Project Programme
- 19. Guidance note on relevant skills and any gaps within the project team
- 20. <u>Guidance note on investment, financial planning, business model and financial due</u> diligence for the project
- 21. <u>Guidance note on risks associated with the project and how the risks be managed and mitigated</u>
- 22. Rules of the programme
- 23. Information to help you apply
- 24. Help with identifying the right support for your project
- 25. How will my application be assessed?
- 26. What happens next?
- 27. Changes in circumstances
- 28. LCITP process (flowchart)

1. Project Partners

LCITP expect project partners to be in a cooperative relationship between people or groups who are prepared to contribute resources to their shared projects, share in development risks and or anticipated benefits, profits and losses, and are individually liable for the entity's (projects) actions in relation to any support ultimately offered from LCITP.

2. Who can apply?

Applications for project support are accepted from organisations such as:

SMEs
Non SMEs
Community groups
Registered charities
Social Enterprises/Development Trusts
Community Benefit Societies
Community Interest Companies
Local Authorities
Public sector organisations
Registered Social Landlords
Academic institutions

3. Description of FTEs

- Full-time Equivalent (FTE) jobs this is a count of employment to adjust for part time
 working. It is the number of full time equivalent hours worked divided by the average weekly
 hours in a full time job
- Full-time jobs a member of staff working a minimum of 35 hours per week (though the definition on this can vary across companies)
- Part-time jobs a member of staff contracted for less than 35 hours per week (though, again, the definition can vary across companies)

4. Guidance on the anticipated qualities that eligible projects should be able to demonstrate

It is anticipated that eligible projects will demonstrate a number of the following qualities:

- they fall within the agreed subject/topic areas outlined in Guidance Note no. 6 below
- an innovative approach to cross sector collaboration to ensure successful project delivery
- the potential to deliver significant reductions of greenhouse gas emissions (MtCO2e); and/or energy Consumption
- the ability to attract and have secured, or be in the process of securing, other sources of funding that will make a significant contribution towards the cost of the project
- have a positive social and economic and social impact for Scotland
- community involvement and/or potential for community investment; and
- the ability to demonstrate directly the added benefits that can be delivered through LCITP support

5. Aims of LCITP

The aims of the LCITP are to:

- 1. contribute to the Scottish Government's long-term target of reducing greenhouse gas emissions by 42% by 2020 part of <u>Action on Energy in Scotland</u>
- 2. achieve a positive and significant economic impact to Scotland
- 3. achieve wider social benefits for local communities
- 4. develop investment grade business cases that allow low carbon projects to secure existing streams of public and private capital finance; and

5. collate evidence on recurring barriers and challenges to low carbon projects and share this intelligence with investment communities

The purpose of question 3.2 in the application form is to understand what positive difference/contribution you envisage that the delivery of the overall project will make to aims 1, 2 & 3 above

- 6. LCITP focuses exclusively on specific capital projects. All projects applying must therefore have an identified location, an identified technology and an identified energy user/demand. Only projects that can evidence meeting these 3 key criteria will be considered for LCITP support, according to the following broad areas:
 - low carbon and/or renewable electricity and heat generation
 - local energy economies
 - heat recovery (e.g. district heating)
 - energy storage and distributed energy systems
 - hydrogen
 - demand side management and active network management
 - innovative/local finance solutions and investor readiness for low carbon projects
 - energy efficiency (e.g. non domestic building retrofit)

What will not be supported?

LCITP will not generally support:

Projects which can already access existing full support and/or funding. The LCITP works jointly with sector partners that deliver support in other areas and will endeavour to signpost applicants to an alternative source of project support where possible.

Specific exclusions are listed below as they have existing support mechanisms available:

- research and development of technology
- marine/offshore wind energy
- sustainable transport
- domestic energy efficiency
- capital investment into commercial renewable development (except where it has a community focus)
- established technologies

7. Project stages

We have defined three broad stages in the development of a low carbon project: the catalyst, development and demonstrator stages, as set out below. **Direct applications for Demonstrator will not be considered unless accompanied by a full investment grade business proposal.**

Catalyst

 Initial strategy development and feasibility work

Development

 Outline business case, investment options and investment propositions

Demonstrator

 Where a technology is not proven in Scotland, capital support may be available to demonstrate its commercial viability

Applications can be made at any of the above stages by a single organisation or by a consortium/partnership with a project lead organisation, which, if funded, will agree and sign the grant or contract agreement. Supported projects will not automatically progress through all of the stages of the programme, and will be reassessed for support upon successful completion of stages 1 and/or 2.

8. Measuring Project Success Towards Developing an Investment Grade Proposal

Applicants should be able to identify the expected benefits that a project will deliver. These should be expressed in measurable terms against the situation prior to the project being delivered. Where possible it would be preferable if quantitative benefits can be estimated e.g. CO2 reduction, quantum of energy supply and/or energy demand reduction in kw/h, and economic benefits in £ and jobs created. It is acknowledged however that in some cases, particularly at Catalyst stage, benefits may be primarily qualitative e.g. a decentralised energy network may lead to a more sustainable and empowered community.

At Development and Demonstrator stage we would expect some of the qualitative benefits to be redefined on a quantitative basis. Business cases provided with LCITP support should include the benefits that would be achieved by the project's successful outcome, whilst also defining how the measurement of the improvement can be made.

LCITP has produced high level guidance on the probable content of a business case and proposition to prospective investors. The Developing a Business Grade Proposal guide is an organised list of information that projects can consult to determine if they have sufficient information available to produce an investment grade proposal, or what they may be required to produce to reach such a stage.

9. Anticipated CAPEX of the overall project

CAPEX is an abbreviation for "capital expenditure". In relation to low carbon projects this is the overall build cost, which is intended to be the anticipated spend to acquire, upgrade or maintain depreciable and tangible long-term physical assets over the construction period of the project. If this figure is unknown, please provide your best estimate (this could be a value or a range).

10. Guidance on completing development costs table

The total development costs for your project are likely to be far greater than those being applied for under LCITP for your specific project stage. In order to provide the wider context and to enable LCITP to provide the comprehensive advice and guidance to your project, details of development costs to date and anticipated future development costs are requested.

11. State Aid

State Aid is a European term which refers to forms of public assistance, given to undertakings on a discretionary basis, which has the potential to distort competition and affect trade between Member States of the European Union.

The State Aid rules are set by the EC and comprise various articles of the Treaty on the Functioning of the European Union (TFEU), Regulations, Frameworks and Guidelines - which set out what aid *can* be given and under which circumstances. The EC governs Member States' compliance with these rules and many aid measures must be notified to the Commission for approval.

All financial support provided under LCITP will be in compliance with State Aid rules. Financial support may be provided within the limits set out in the following scheme notified to the European Commission under Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the common market in application of Articles 107 and 108 of the Treaty – General Block Exemption Regulation (GBER).

Appropriate cover for LCITP has been provisioned for under the General Block Exemption Regulation [GBER] and a registered scheme has been approved by the Commission - SCHEME REFERENCE NUMBER: SA.41844. This allows for public funding to be given to successful applicants under the specific articles we have cover for using the attached aid intensities. For some of these articles there are special uplifts depending on company size, and whether it is located in an assisted area [Regional Aid map]. The remainder of the funding for successful applicants must then come from private resources.

The European Commission have sole competence on the presence of State Aid however it is the responsibility of the Member State to ensure compliance of this. Any queries on this topic must be made to the funding body (Low Carbon Infrastructure Transition Programme - Email: LCITP@gov.scot / Postal address: LCITP Project Team, 4th Floor, 5 Atlantic Quay, 150 Broomielaw, Glasgow G2 8LU) in the first instance who will then liaise with State Aid colleagues where appropriate.

12. What can I apply for?

What type of support is available?

A range of support mechanisms including project development, expert technical and financial advice and funding where appropriate are available through the LCITP to support the development of substantive private, public and community low-carbon projects across Scotland.

The support agencies working in partnership through LCITP include Scottish Enterprise, Highlands and Islands Enterprise, Scottish Futures Trust and technical & financial sector experts.

The preferred delivery model will be through the procurement route using an appropriate framework. Only in exceptional circumstances will LCITP provide grant to the lead partner organisation for it to directly procure support.

LCITP funding is not available to support internal staff costs of the project applicant.

13. LCITP intervention levels

LCITP support will be provided on a co-funded basis. We would expect the project lead to provide or source funding for the project. The LCITP has considered appropriate levels of co-funding and would advise that for public and/or private sector led projects we expect the co-funding model to represent a minimum ratio of 50% (LCITP):50%(Project) of the total project costs and for community projects a ratio of 80%(LCITP):20%(Project). For further information on an appropriate funding ratio for your project you should consult with your LCITP project contact.

This approach aims to encourage the growth of co-funding and allow for risk-sharing between LCITP and low carbon projects. It also supports our ambition to accelerate the development of projects. A shared approach to project investment and development will also enhance the quality and delivery of the ultimate output.

It should be noted that historic/previous project spend will not be considered as part of the cofunding arrangements.

Community groups are required to demonstrate that they have fully exhausted all CARES support, including for example, the CARES Infrastructure and Innovation Fund (IIF), which provides grant funding for communities to investigate and develop projects that link local energy generation with local energy use, or projects that wish to develop innovative distribution and storage solutions.

In kind-support

In kind-support is only applicable to the project contribution to co-funding.

Providing in-kind support, where there is no call for direct financial donations but rather you evidence the work and services that will be undertaken by your organisation to support the development of the low carbon project, will be considered by LCITP particularly, but not exclusively, in the case of community led projects. Project owners should be able to demonstrate the time commitment that they will be contributing to developing the project over the period of LCITP support. This may include activities such as general project management, community engagement, relationship management or the completion of certain designated activities from the wider project plan.

In kind-support / staff time cannot be funded through the LCITP contribution to costs.

The eligible costs

The eligible costs for which LCITP funding can be used to cover are:

- The costs of the Project up to the total stipulated in the contract offer letter, which directly add value to the project;
- Receipted essential subsistence costs only including essential travel and reasonable accommodation costs – will be considered in line with European Regional Development Fund (ERDF) requirements and associated National Rules, which includes the requirement that all costs directly relate to the capital development specified for funding in the contract offer letter.

The specific conditions of LCITP support in line with, for example, the SGTC (Scottish Government Terms and Conditions), should be referred to for reference to any ineligible costs associated with your funding; however, in general, it should be noted that costs associated with purchase fees for necessary licenses or other consultancy fees not a part of the funding, will not be refundable. Also, Statutory Activities including Grants In Aid (GIAs), consents and planning activities, will not be

covered by LCITP funding. The LCITP is also aiming to set precedence against providing funding to cover for any associated staff costs that are not directly of added value to delivery of the project in question. This refers specifically to those staff already on an organisation's payroll – i.e. core staff members who have not been brought in specifically to contribute to delivery of the project.

14. LCITP Guidance for Carbon Impact of Projects

The application should contain robust evidence of the potential of the project to contribute to the reduction of greenhouse gas emissions in Scotland. This generally means an estimate of reduction in carbon dioxide equivalent for the project.

Carbon Dioxide Equivalent

The use of fuels leads to emissions of carbon dioxide (CO_2) and small quantities of other greenhouse gases—including methane (CH_4) and nitrous oxide (N_2O) . For a given quantity of a gas, the equivalent quantity of CO_2 that would be needed to give the same greenhouse effect can be calculated using its 'global warming potential'. This quantity is quoted in units of kilograms carbon dioxide equivalent $(kgCO_{2e})$ and factors are published on Defra's Greenhouse Gas Conversion Factor Repository http://www.ukconversionfactorscarbonsmart.co.uk. The energy conversion factors are quoted as total direct per unit of fuel.

These factors are used to calculate the carbon footprint of the Business as Usual (BaU) case or conventional fuel source/s and the Low Carbon project proposal. The applications should clearly show the potential savings or carbon footprint reduction.

This can be calculated using the method below:

- 1. Business as Usual energy use (kWh) x energy conversion factor for fuel source = Business as Usual $kgCO_{2e}$ emissions
- 2. Low Carbon Project energy use (kWh) x energy conversion factor for fuel source = Low Carbon Project kgCO2e emissions
- 3. Business as Usual $kgCO_{2e}$ emissions Low Carbon Project $kgCO_{2e}$ emissions = Savings in $kgCO_{2e}$ emissions resulting from Low Carbon Project.

This is shown in the worked example below:

The energy conversion factors used in this example are listed in the table below:

Fuel Source	Energy conversion factor
Burning Oil	0.24936
Grid Electricity	0.46213
Biomass (Pellets)	0.0132

A district heating scheme is proposed for an area serving a mixture of social housing and public buildings that are off gas grid and currently heated by oil fired boilers. The annual heat consumption for the properties is 18,000MWh and the proposal is to serve these properties via a district heating network fed by a combination of a biomass boiler and a water source heat pump. The carbon benefit estimate is presented in the table below.

Fuel Source	Conventional -	Energy	Conventional -	Proposed	Proposed
	Current/existing	conversion	Current/existing	kWh	kgCO _{2e}
	kWh	factor	kgCO _{2e}		_

			(A)		(B)
Burning Oil	18,000,000	0.24936	4,488,480		
Grid Electricity		0.46213		4,400,000	2,033,372
Biomass (Pellets)		0.0132		7,000,000	92,400
Total	18,000,000		4,488,480	11,400,000	2,125,772
Saving (A-B)			2,362,708		

15. Guidance on Identifying Direct Beneficiaries of the Project and any Subsequent Indirect Impacts

Applicants should list the direct beneficiaries of the project, including relevant project partners and other individuals and organisations that stand to gain from the project's objectives. Also consider indirect beneficiaries resulting from the project, for example wider impacts upon the local area (including businesses, local groups and individuals in the community), the scope for knowledge sharing with stakeholder groups, any benefits to Scotland at a national level, or any other resulting benefits as appropriate.

16. Guidance for Demonstrating Economic and Social Impact of Projects

The application should, where possible, quantify the economic impact of the overall project to Scotland. Details of positive economic impact should seek to cover:

- Capital investment and Scottish supply chain impact (e.g. proportion of capital expenditure expected to be retained in Scotland, key Scottish suppliers)
- Number of full-time equivalent (FTE) jobs to be safeguarded (split by direct employees and contracted workers)
- Number of additional FTE jobs to be created (split by direct employees and contracted workers)
- Expected increase in sales/turnover as a result of the project
- Expected savings related to improved infrastructure, e.g. per annum reduction in energy costs

The application should also provide details of any wider economic benefits associated with the project. Where it isn't possible to quantify the economic impact of the project, the application should clearly articulate in qualitative terms how the project is expected to deliver a positive and significant economic impact to Scotland.

LCITP wishes to maximise the social impact from projects – positive benefits felt by the wider community and social fabric of an area. Such impacts may include local regeneration, culture and heritage, social care, social inclusion, poverty mitigation, local services, and recreation. Identify any non-financial benefits which may be realised through the project and how these may improve quality of life or encourage behaviour change etc. For example, this may cover the number of beneficiaries, volunteers, learners, trainees, participants, or the impact upon local services or amenities. Consider any further qualitative benefits and list these as appropriate.

See http://www.hie.co.uk/common/handlers/download-document.ashx?id=83fb11e0-2884-4715-bca7-400c2f31557c for more information.

17. Guidance on Effective Community Engagement

LCITP looks for applicants to demonstrate that community engagement is being undertaken. The degree of community engagement should be appropriate to the particular stage of the project is at the time of making an application.

Ideally, engagement should start as early as possible and should continue throughout the development phase of the project.

When planning initial community consultation, it may be helpful to consider:

- a) What should be the geographical area to engage?
- b) Within that area, who should be the appropriate contacts and communities of interest for consultation?

For more information on identifying stakeholders, see Scottish Government Good Practice for Community Benefits available at www.localenergyscotland.org/goodpractice

Community Investment and Shared Ownership (taken from the Scottish Government Shared Ownership Principles)

There are now a variety of ways in which local people can engage with the low carbon sector. Shared ownership projects, where the community is involved as a partner rather than a passive recipient of funds, can have mutual benefits for both local people and commercial developers. We believe shared ownership of energy projects offer Scotland the opportunity for improved community empowerment, a leading and respected low carbon industry and increased local economic and social benefits.

18. Project Programme

The Project Programme is used to forecast, track and monitor the progress and delivery of the project and resulting outcomes. This should include:

- timescales and sequences
- key dates for approvals and deliverables
- inter-dependency relationships

At Catalyst stage we anticipate this will be a high level document, grouping tasks to provide an overview and highlighting key dates.

At Development and Demonstrator stages this will include more detail, breaking tasks down into sub tasks and highlighting interdependencies.

19. Relevant Skills and any Gaps within the Project Team

The purpose of this question is to understand what skills currently exist within the project team/consortium and the role of partners. Also, the skills and resource gaps that require to be filled in order to successfully deliver the project. This will help LCITP understand the nature of the required support and how LCITP may be able to provide it.

The skills will vary depending upon the nature of the project however some examples are:

- financial expertise
- technical expertise (which may be general or in relation to a specific technology)
- legal expertise
- project management

20. Guidance on Investment, Financial Planning, Business Model and Financial Due Diligence for the Project

The purpose of this section is to both better understand the commercial aspects of the project and to get an overview of the extent to which financial and funding matters have been considered to date. We would anticipate that at the Catalyst stage the information provided will be both high level and appropriately caveated. At Development and Demonstrator stages we would expect more information to be available.

Catalyst Stage

At Catalyst stage we would expect this to include:

- an overview of the potential sources of revenue
- an overview of the underlying costs
- an overview of the funding options
- a qualitative assessment of how all of the above will be progressed; and
- an overview of the associated risks

Development and Demonstrator stages

At Development and Demonstrator stages we would expect:

- a robust financial modelling may be available
- sensitivity analysis may have been undertaken on the key project risks
- funding matters to have been progressed with, where appropriate, early engagement with funders to have taken place

21. Guidance on Project Risks, Risk Management and Mitigation

The purpose of this section is to understand the risks associated with the project and understand how LCITP support can help manage and mitigate these risks. The applicant should highlight key risks associated with the project.

At Catalyst stage this may be a narrative or a risk register but at a minimum should include:

- an overview of the key risks,
- an indication of the likelihood that these will occur
- the potential impact on the project and
- an indication of how these will be managed and mitigated.

At Development and Demonstrator stages this will include more detail. Please provide a copy of the project risk register. The items the risk register should include as a minimum are:

- a unique reference
- a description of the risk
- probability of the risk occurring
- impact on the project should the risk materialise
- overall score (which will incorporate probability and risk)
- an indication of how these will be managed and mitigated
- score post mitigation
- risk actionee
- risk owner
- · current status of the risk

22. LCITP Programme Rules

The following rules form part of the agreement between your business and the Low Carbon Infrastructure Transition Programme, therefore, please ensure that you fully understand and accept the following:

- the lead organisation must ensure that proper and early warning is provided to the LCITP Project Team of any major problems that may be developing with the organisation/project;
- the lead organisation must agree with the LCITP Project Team the nature and frequency of returns needed to keep it adequately informed of the project's situation;
- the lead organisation will retain ownership of the Intellectual Property Rights of any feasibility study that receives procured support through LCITP but agree to license, where necessary, use of the information and findings from the study to the LCITP with the exception of any material that would be deemed commercially sensitive;
- the lead organisation agrees to confirm in writing acceptance of any offer to procure a service by the LCITP and agrees that the offer will expire after a 6 month period.

23. Information to help you apply

How do I apply?

To apply for support from the Low Carbon Infrastructure Transition Programme you should follow these steps:

- read the <u>eligibility guide</u>
- if you have any queries about whether your project is eligible you can complete the short initial contact form on the LCITP web page at How to Apply www.gov.scot/lowcarbon or send an email to: LCITP@gov.scot and we'll get back to you (if the project is not eligible to apply we will endeavour to suggest alternative potential support for your project)
- if the project is eligible the Project Team will contact you by email or telephone
- a meeting or telephone call will be held with your assigned LCITP contact to help build up a
 picture about your project and identify the most appropriate support that LCITP can provide
 to drive your project forward
- with support from your assigned LCITP contact, complete all sections of the LCITP application form - applicants are expected to fully engage with their LCITP contact in this process
- ensure you have read and understood the privacy policy
- ensure a senior member of the lead organisation, such as Chief Executive or Director, also supports the application by signing the application and providing his/her name and position in the form at page 6
- use the checklist to ensure you have provided the required documentation
- submit the application form to <u>LCITP@gov.scot</u> or by post to: LCITP Project Team, 4th Floor,
 5 Atlantic Quay, 150 Broomielaw, Glasgow G2 8LU

24. Help with Identifying the Right Support for Your Project

The LCITP is a working partnership between Scottish Government, Scottish Enterprise, Highlands & Islands Enterprise, Scottish Futures Trust and sector specialists. Each applicant will be contacted by the LCITP Team within 20 days of submitting an initial contact form. The assigned LCITP contact will support the applicant to develop their full application. It is expected that information about supported projects will be shared as required on a confidential basis between the partners without affecting applicants' commercial sensitivity. When completing your application form, you will have to identify any gaps within the project team and describe any risks associated with this project and how these risks will be managed and mitigated. Your LCITP contact will assist you in this, helping us to identify the most appropriate potential support or alternative mechanism of support to drive your project forward.

25. How will my LCITP Application be assessed?

Your completed application will be assessed at a case conference by the programme partners who will agree whether your application satisfies the requirements for project support under the LCITP.

Scoring

The LCITP's key aim is to contribute to the Scottish Government's long-term target of reducing greenhouse gas emissions by 42% by 2020. Therefore, the score for the applicant producing robust evidence of the potential of the project to contribute to the anticipated reduction of greenhouse gas emissions in Scotland is double weighted (**Application form - Part 4, Question 4.1**). The proposal must score a minimum of 3, or Satisfactory, against these criteria.

The scoring system is:

Quality of evidence provided	Scoring Methodology for Quality Criteria
1 Unacceptable	Inadequate response. Fails to demonstrate an ability to meet the requirement.
2 Poor	Response is generally poor. The response addresses some elements of the requirement but contains insufficient/limited detail or explanation to demonstrate how the requirement will be fulfilled.
3 Satisfactory	Response is relevant and acceptable. The response addresses a broad understanding of the requirement but may lack details on how the requirement will be fulfilled in certain areas.
4 Good	Response is relevant and good. The response is sufficiently detailed to demonstrate a good understanding and provides details on how the requirements will be fulfilled.
5 Excellent	Response is completely relevant and excellent overall. The response is comprehensive, unambiguous and demonstrates a thorough understanding of the requirement and provides details of how the requirement will be met in full.

Applicants that score between 50% and 69% may be offered support from LCITP on how best to progress their project application, including provision of further clarification/documentation as requested. Projects that score 70% or more are likely to be offered support subject to agreeing a Memorandum of Understanding or signed acceptance of a Grant Offer Letter. Please note that achieving the aforementioned scores does not automatically constitute a formal offer of support and should not be regarded as such. Any offer will be subject to the conclusion of formal legal missives. Further Scottish Ministers reserve the right not to award any support at all under this programme.

26. What Happens Next?

- Once your completed application has been received it will be assessed by the LCITP Project Team at a case conference
- If your application is successful you will be contacted by the LCITP Team to agree a support plan to develop your project
- If your application is unsuccessful you will receive feedback from the Project Team and all
 possible efforts will be made to direct your project towards a more appropriate support
 mechanism.

27. Changes in Circumstances

Any changes in circumstances, which would affect your project's eligibility to apply to be supported through LCITP, must be reported to the LCITP Project Team immediately. Failure to do so may lead to the application being rendered invalid and support to be withdrawn.

28. LCITP process (flowchart)

