Department of Energy & Climate Change

The Central Heating Fund

Guidance for Local Authorities

26 March 2015

URN 15D/142

Any enquiries regarding this publication should be sent to us at
fuelpovertyfeedback@decc.gsigov.uk .

Contents

Executive summary

This document provides detailed guidance to bidding Local Authorities (LAs), and other interested parties on the assessment criteria for the Central Heating Fund (CHF). It should be read in conjunction with the CHF application form to be found at www.gov.uk/government/publications/central-heating-fund-application-form. If LAs have further questions concerning the application form or the guidance, these should be sent to fuelpovertyfeedback@decc.gsi.gov.uk or raised at one of the webchats to be run during the bidding period. The results of these will be published on the scheme website.

Outline of the competition

The Department of Energy and Climate Change (DECC) is inviting LAs (LAs), working with their local partners, to apply for funding to be used to improve the housing of those in fuel poverty living in their area. LAs are asked to come forward with developed proposals that meet the primary aim of the CHF, to **incentivise the installation of first time central heating systems in fuel poor households who do not use mains gas as their primary heating fuel**. A more detailed list of eligibility criteria are set out later in this document.

Applications may be submitted from 25 March up to 5 June 2015. Bids should be submitted electronically (using the proforma available from here to: chf@decc.gsi.gov.uk.

Details on the bidding process are set out in later in this document

For projects that are successful in the bidding process, it is proposed that funding would be allocated by June 30 2015 through grants to the lead LA under s31 of the Local Government Act 2003[1]. Delivery of projects should take place over the next year with completion by April 2016.

The lead LA (or consortia of LAs) for a successful project will be expected to enter into a Memorandum of Understanding (MoU) with DECC before the grant may be paid. DECC reserves the right to terminate the competition at any time, and may decide not to award any grants, or to award grants for less than the total funding available under the CHF. DECC will not be liable for any costs incurred in the preparation or submission of bids.

Enquiries

Any enquiries, including if there are any problems with the application form, should be addressed in the first instance to: fuelpovertyfeedback@decc.gsi.gov.uk

We plan to run two webchats to directly address enquiries during the bidding period. Further details will be made available shortly.

[1] http://www.legislation.gov.uk/ukpga/2003/26/section/31

Introduction

DECC is pleased to launch the Central Heating Fund - a £25m capital funding programme designed to support LAs, in conjunction with their local partners, to deliver first time central heating systems to their fuel poor households. This is an important first step in delivering against the new fuel poverty strategy which set out the approach the government will take in meeting the new statutory target of as many fuel poor homes as reasonably practicable to achieve a minimum energy efficiency rating of a Band C by 2030[2].

What will a successful bid look like:

DECC wish to see the greatest number of fuel poor households reap the benefits that come with installing a central heating system as possible. We do not intend to prescribe particular central heating measures that must be installed so as to allow LAs to tailor bids to local conditions. LAs will have flexibility in what central heating measures they wish to install, within the parameters set out in this document. This may include condensing gas boilers, condensing oil boilers, condensing Liquid Petroleum Gas (LPG) boilers or renewable heating systems.

Proposals will be judged on the following:

- The number of fuel poor households supported
- Strategic fit of the project with the fuel poverty strategy
- Value for money, including the ability to leverage in funding whilst ensuring additionality.
- The benefit created by the intervention (increases in energy efficiency, notional bill savings)
- Strength of delivery plans, project management and assurance of delivery
- Supporting households' use of new central heating

The full list of criteria is set out later in the document.

[2] https://www.gov.uk/government/publications/cutting-the-cost-of-keeping-warm

Detailed guidance notes

Purpose and objectives of the Central Heating Fund

The primary purpose of the Central Heating Fund is to incentivise the installation of first time central heating systems in fuel poor households who do not use mains gas as their primary heating fuel.

The key objectives of the programme are to help cut bills and increase comfort in non-gas fuel poor households who experience some of the most severe levels of fuel poverty. This is in accordance with the objectives set out in the fuel poverty strategy. We expect the scheme to result in the following outcomes.

- **Increased comfort for fuel poor homes**- We aim to see the greatest number of fuel poor households have a central heating system installed for the first time, one of the most cost effective measures in tackling fuel poverty.
- **Lower bills -** Allow these households to keep warm for less by moving away from expensive room heating allowing them to heat their home adequately, whilst still realising bill savings.
- **Improved targeting** – encouraging LAs to utilise innovative ways of identifying and reaching fuel poor households, not only in the central heating fund but for other schemes including the Fuel Poor Network Extension Scheme (FPNES).
- **Improved partnership -** Building partnerships with local supply chains, consumer organisation, and householders themselves.
- **Improved evidence base -** Pilot the delivery of first time central heating systems to fuel poor homes. Learn about the impact and benefits realised by the installation of first time central systems in fuel poor homes.

Parameters for Central Heating Fund bids

To allow LAs as much flexibility as possible to develop proposals that can achieve the objectives set out above, we will set relatively broad criteria for the scheme. There are however, three areas that bids must meet in order to be eligible, these are that:

- Funded measures must be provided to households at risk of fuel poverty (see *eligible households* for detail on how this should be defined)
- Funded measures must be provided to the following eligible property types
  - households that do not currently use mains gas as their primary heating fuel (see *eligible properties*)
  - households that do not currently have a central heating system (see *eligible properties*)
- Funding is available for first time central heating systems only (see *eligible technology*)

Assessing bids & assessment criteria

The bidding process

LAs are able to submit a bid for consideration at any point from the scheme launch on 26 March 2015 up to 5 June 2015. Formal assessment of bids will not take place till after this period. Bids should be submitted to DECC electronically by sending a completed spreadsheet proforma available from here to chf@decc.gsi.gov.uk. DECC will confirm receipt of all bids.

DECC will maintain a set of FAQ, which will be regularly updated in response to any queries sent to the team. We also intend to run two webchats during the scheme to respond direct to potential bidders. Further details on these will be announced shortly.

Bids must have been received by 5 June 2015. Proposals received after this date will not be considered in this round of the competition. If there are insufficient bids that meet the criteria in the first round to exhaust the budget, then an additional bidding process may be undertaken. Bids must be submitted by the relevant LA, or the lead LA on behalf of a consortium.

Bids will first be reviewed through an initial sifting process undertaken by the CHF team in DECC. This will establish a shortlist of projects which will go forward for further review. The findings of this initial review will be quality assured and benchmarked for consistency purposes by officials independent of the CHF team. Bids which make it through the sifting process will then be assessed by a review panel in mid-June 2015.

We intend to notify all the successful and unsuccessful bids by 30 June 2015. In the case of successful bids, DECC will set out the level of funding and a MOU will need to be agreed with the lead LA. The project could then be delivered over a period of time according to the bid. We would expect work undertaken using the fund to be completed by 30 April 2016.

Assessing bids & criteria

Proposals for funding will be judged by the DECC review panel against a set of weighted criteria using the below ratings:

- 0 - does not meet the criteria
- 1 - partially meets the criteria
- 2 - meets the criteria
- 3 - exceeds the criteria/shows innovation.

Criteria and evidence that should be included in bids

The following sets out the broad criteria by which bids will be judged and, where appropriate, the evidence that we would expect bids to provide to support any claims.

Eligible properties

Bids will only be allowed to fund measures in properties that are:

- **Non-gas.** Non-gas is defined as properties that do not currently use mains gas as the primary heating fuel.
- **Does not have a central heating system** currently installed. For the purposes of the competition, a central heating system is defined as a heat generator providing heat to several rooms via a heat distribution system. For clarity the Central heating Fund does not support boiler scrappage - the replacement or repair of existing central heating systems is not permitted.

LAs will need to confirm that these will be the only properties supported in proposed projects as part of the application form.

Eligible households

The funding applies to **England only** as fuel poverty is a devolved issue.

Bids will have to provide evidence for how they will show that households receiving measures meet the criteria for someone **at risk of being in fuel poverty.** The default proposal is that this should be defined as those households in receipt of the benefits that would make them eligible for support under the Energy Companies Obligation Affordable Warmth (AW) obligation, see https://www.ofgem.gov.uk/publications-and-updates/guidance-note-affordable-warmth-group. For clarity, we are not excluding those in social housing, we propose only the benefits that make a household eligible under ECO AW should be used as criteria as opposed to households that are eligible for support under the AW scheme (where social housing is explicitly excluded).

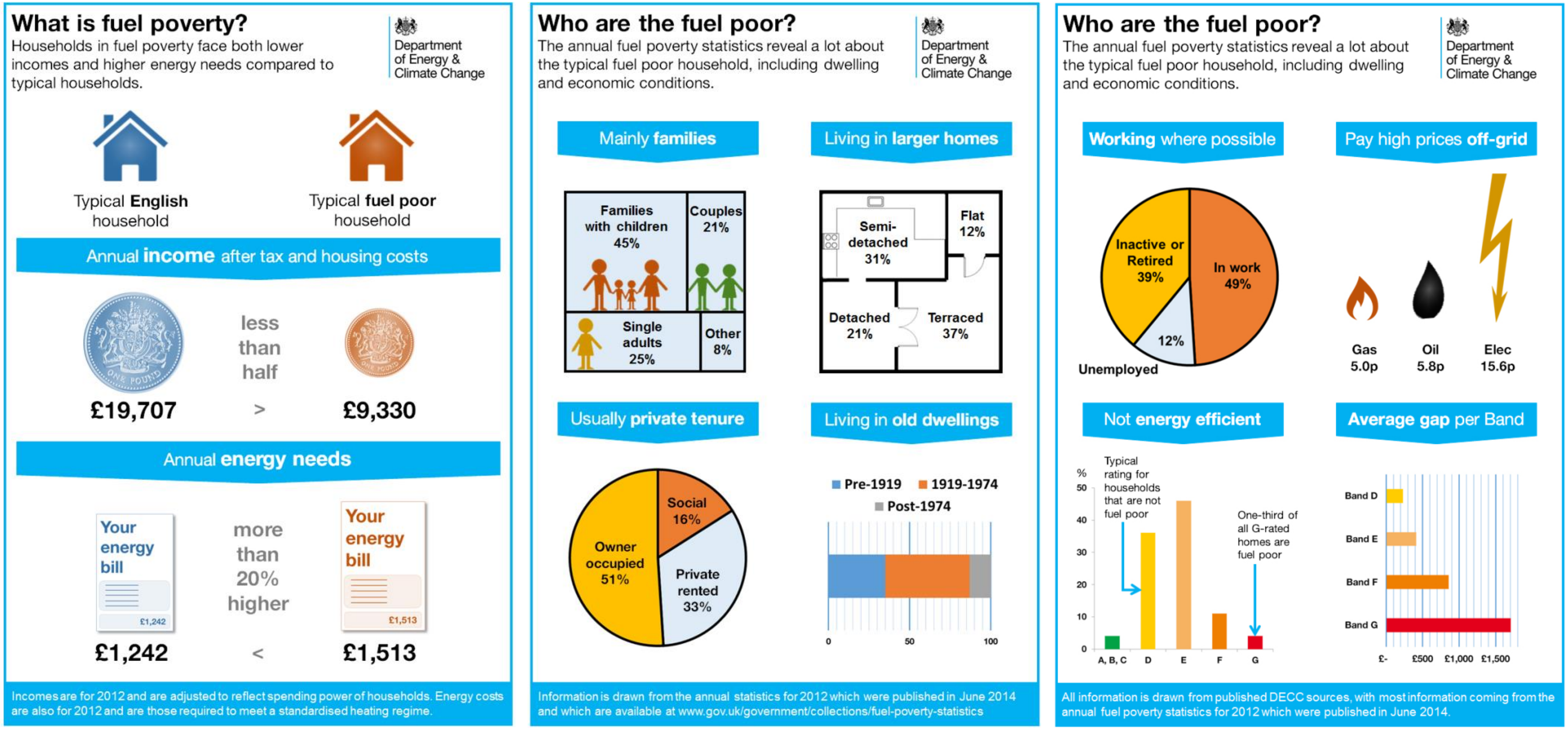
However, we are aware that this may leave a number of households ineligible for funds. We are therefore keen for bids to use more innovative ways of targeting fuel poor households. Bids that intend to use alternative targeting will need to demonstrate how their proposal will target fuel poor households in line with the low income high cost (LIHC) indicator. The LIHC indicator finds a household to be fuel poor if it:

- has an income below the poverty line (including if meeting its required energy bill would push it below the poverty line); and
- has higher than typical energy costs.

For an illustration of the types of household that often qualify as LIHC see Figure 1. We encourage bids that are able to demonstrate a methodology that will mean households targeted will be LIHC. DECC will make an assessment of whether the proposed method meets this criteria and we therefore encourage LAs to engage with DECC early on during the process to discuss whether an alternative approach is likely to be suitable.

Figure 1. What Low Income High Costs tells us about fuel poverty.

The three panels below show some of the key characteristics of properties that are most at risk of being fuel poor. We encourage LAs to use some of this information in designing any alternative targeting methodology.



The fund is designed to support domestic premises (dwellings) only. Successful LAs will need to report on the measures installed, with the production of a domestic Energy Performance Certificate (EPC) created following installation. LAs should only select properties capable of obtaining a domestic EPC, See DCLG dwelling guidance .

The fund is also designed to support the retrofit of heating systems. New Build or self-build properties should not be included.

Eligible measures

Bids will need to show that they are only requesting funding associated with the installation costs of **eligible measures**. All measures must be new; refurbished equipment is not permitted. Installed heating systems must supply space heating and domestic hot water. Within reason, costs associated with installing eligible measures (inc. targeting costs, surveys, heat loss calculation, RdSAP assessments etc.) may be included in the funding bid but bidders should be clear in the application which additional elements are included in the proposed budget.

Eligible technologies:

- condensing gas boiler
- condensing oil boiler
- condensing LPG boiler
- Air Source Heat Pump*
- Ground Source Heat Pump*
- Biomass boiler*
- Heat networks

*Any product from Ofgem's Domestic RHI product eligibility list: https://www.ofgem.gov.uk/publications-and-updates/domestic-renewable-heat-incentive-product-eligibility-list-pel

Electric storage heaters:

Where a household does not have any form of central heating, funding should not be used to install electric storage heaters, as we do not consider storage heaters to be a full central heating system. However, we do understand that they share many of the same characteristics such as increased control over timing of use. Households who currently already have storage heating can therefore see significant cost savings in comparison to other non-centrally heated households which are using more expensive forms of heating such as electric room heaters or solid fuel. Consequently, we do not recommend that bids should plan to use the funding to replace electric storage heaters.

Central heating system:

The eligible heating technology must be installed alongside a new central heating system. The central heating system should include:

- Eligible heat exchanger
- Distribution pipework
- Heat emitters (e.g. radiators)
- Heating controls
- Circulation pump
- Expansion vessel
- Air supply and exhaust

For clarity, the CHF is not intended to be a boiler replacement programme. Therefore the installation of a first time central heating system should incorporate all of the above. We acknowledge that in some cases some existing heating systems may have part of an existing heat distribution network. In these cases to qualify as the installation of a first time central heating system, both a new heat source and new heat distribution (pipework and heat emitter(s)) to at least one additional room) must be installed.

In designing the system to be installed, a judgement should be made on which is the most appropriate for the household in terms of ease of use and reducing cost. We encourage suppliers to think about ways to improve the performance of the technology including the sizing of emitters to improve efficiency and reduce costs. Where bidders are planning to install ground or air source heat pumps, we encourage LAs to target a high minimum seasonal performance factor for their installations (for example an SPF of 3) to ensure bill reductions are realised for the householder. Detail on how projects will go about this should be set out in the application form.

Installers must be competent and qualified for the relevant technology they are installing. On the application form you will be asked to demonstrate what standards you will require of your installers, including qualifications and warranty arrangements.

Non-heating measures:

Other energy efficiency measures such as insulation are encouraged but should be installed using other sources of funding except in rare cases where a very good value for money case can be made for using CHF funds. We encourage LAs to ensure properties are adequately insulated before installing central heating. Likewise funding should be limited to the in-house works, which improve the energy efficiency of the property. CHF funding should not be used to top up gas connection projects to make connection projects meet the economic test.

Eligible bidders

Bids may only come from English **LAs**. We are not prescribing that LAs should be from a particular tier, but where LAs plan to make small bids or are inexperienced in delivering fuel poverty projects, we encourage the formation of consortiums of LAs to improve delivery, share learning and reduce costs. Where a bid is from a consortium, a lead LA should be agreed, and this LA should submit the proposal on behalf of the consortium.

Strategic fit with fuel poverty strategy

Bids will need to set out how their project will help delivery the objectives of the wider fuel poverty strategy and achieve the wider objectives for the CHF set out above. Specifically bids should consider, and set out in the application answers to some of the following questions:

- **Contribute in making progress towards the Fuel Poverty target:** does the proposal target the worst houses (e.g. F and G rated properties?) and does it bring these houses up to a sufficiently improved level (e.g. band E)? Does the project collect sufficient data to demonstrate this?
- **Cost effective***:* are the measures provided the most suitable, cost effective heating system for the households being targetted? Is the intent to target as many households as possible or target fewer households with more expensive measures that reduce the costs for the household to a greater extent?
- **Reflect vulnerability:** does the project consider the needs of vulnerable households? Are specific households prioritised because of health concerns? Does the project

provide training or ongoing support required for particular households given the major behavioural change required from first time central heating?

- **Fuel poor:** to what extent does the scheme effectively target fuel poor households in line with low income/high cost model?
- **Partnerships***:* does the scheme demonstrate working with partners to join efforts and expertise to achieve a common objective?

Delivering value for money and reducing additionality

The value for money of the bid and an assessment of the strategic fit of the project will be the key criteria for judging the success of bids. Projects should ensure that value for money is achieved both in terms of good procurement practices and the measure installed.

In determining the score bids will be evaluated using the following broad measures of value for money as follows:

- **£ per RdSAP point** – DECC will use information provided in bids on the type of houses to be tackled and the proposed measures to be installed and will estimate the likely impact the project will have on the households RdSAP score. We will then calculate the total RdSAP increase per pound of budget bid for.
- **£ per £ of nominal bill saving** – DECC will use information provided in bids on the type of houses to be tackled and the proposed measures to be installed and will model the estimated impact of the project in terms of bill savings in context of the financial size of the bid.
- **£ spent per property** – Simple measure primarily used for bids where the LA has little information on housing stock. Calculated by dividing total bid value by the number of properties to be addressed

There is not an objective score we expect bids to achieve, and although we will use DECC data held on past installation costs to assess whether good value is being achieved, the assessment will be comparative in nature with the best value bids (balancing cost/benefit) that come forwards scoring best.

Bidders should note that where detail is not provided, or is insufficient for calculations purposes, in the bid (e.g. on the likely housing types being delivered to or the cost savings from the measures installed) then calculations used to measure this criteria will use assumptions. When making any assumptions, DECC will use figures on the conservative end of ranges (e.g. if a bid does not set out which measures will be installed then we will assume that they will be at the more expensive end of the spectrum). We therefore encourage bidders to provide as much detail as possible to prevent bids being underscored.

Leveraging of other funding and ensuring additionally

There are a number of government schemes that encourage the installation of measures similar to those covered by the CHF. However, a key rationale for the launch of the CHF is to target those properties that are often hard to find or not quite economical under these schemes, and to provide the additional funds required to make it happen.

We encourage bids to utilise these other schemes where possible to maximise benefit to the householder and to allow a whole house approach. We will therefore weight those bids higher which can cost effectively provide a full package to householders covering heating systems and wider energy efficiency.

There are likely a number of sources that can be accessed including the RHI, ECO and Ofgem gas network extension schemes.

LAs will need to set out in their bids how much funding they intend to use from other funds and what the status of this funding is (is it approved and allocated or are bids clear that they will be eligible for funding). Those with funds in place, where this is possible for scheme in question, will receive stronger scores.

In utilising additional funds, however, bids must ensure there is good additionality in the bid. Where using other sources of funding, bids will need to confirm that this would not have taken place without the additional funds from the CHF and that there are no double subsidy issues arising.

Bidders will also need to ensure that by using funds from the CHF they are not violating the rules of other schemes. Further detail on scheme interaction is set out later in the document.

Strength of delivery plans

LAs will need to provide assurance in their bids that the proposals are deliverable. Good evidence of this will be important in determining funding allocation. Bids will need to provide **detail on their plans for delivery** of their bids including:

- A **project plan** in place with milestones in line with our timelines and **resource** in place to deliver
- A **risk register** with adequate mitigations and plans for ongoing risk monitoring
- Good plans in place for the delivery model including **partners** in place or plans for this – detailing what procurement, if any is necessary.
- Awareness of **legal and financial rules** including state aid compliance.
- How **planning** colleagues have been involved in developing the bid to address any potential planning issues affecting the proposals

Ongoing support provision

The scheme will see the installation of central heating systems in households that may have never lived in a property with central heating before. Therefore bids will also be scored on post installation support being provided. What plans are there for training households to effectively use their new heating system? Is any aftercare or ongoing maintenance support planned? Is there a service the household can contact if they are unsure how to use the heating system, or are experiencing difficulties?

Rural provision

Households without a central heating system are not limited to rural locations, however some of the most severely fuel poor households are those without a mains gas connection in rural locations. Therefore we particularly welcome bids that plan to provide first time central heating systems in rural households. In light of this, delivery to rural properties will be weighted higher than those to non-rural properties when bids are assessed.

Under the scheme we define rural using the Office of National statistics definition; an output area of less than 10,000 properties: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/248666/Rural-Urban_Classification_leaflet__Sept_2013_.pdf

Evaluation plans and contribution to improving the evidence base

Evaluation and building the evidence base is a key part of the fuel poverty strategy and the learning that might be gained from successful projects will be important in the scoring of bids.

Successful bidders will be required to report against a number of performance indicators. These will largely cover basic delivery statistics (number and nature of measures installed, budget spend) as well as wider information around partnerships formed. These KPIs are likely to include:

- Breakdown of spend from CHF funds
- Breakdown of funds leveraged from other sources
- Breakdown of central heating measures installed
- Insulation measures installed
- Rural properties addressed
- Properties newly connected to the gas grid
- Training provided to households
- Partnerships formed
- Effectiveness of targeting mechanism
- Milestones hit

Further detail on the methodology to be used to measure these KPIs will be agreed through the MOU.

We also would expect LAs to undertake a self-evaluation of the project at the end of the scheme with a particular emphasis on the impact on the capacity of the LA to deliver fuel poverty projects of this nature in the future. Funding for this should be included in the CHF bid. We would also look to LAs to commit to sharing learning from the project, including delivering completed case studies showing before, during and after progress of work.

We also will require winning LAs to make data from the project available to DECC on request if required for DECC led evaluation.

Further information

Funding

The primary funding for the Central Heating Fund is capital funding distributed by Section 31 of the Local Government Act 2003. The funding must therefore be used in line with section 11 of the Local Government Act 2003, for example for the creation of an asset or the modification or improvement of an existing asset. However, given the scale of the projects envisaged it is recognised that there will be set up, ongoing and evaluation costs to administer projects and enable the funding to be capitalised. Therefore bids may include up to 10% of the total funding sought for this purpose.

State Aid

We will consider State Aid compliance as part of the bid review process. State Aids or other legal concerns may be grounds on which a bid is rejected. Therefore bidders will need to satisfy themselves and include a statement in the bid how their proposals will comply with State Aid rules, both in terms of direct receipt of funds and intended use/expenditure of those funds. This statement will need to help us identify and assess the state aid risks. For example:

- If an LA is intending to use contractors to install the central heating and other measures, have these been procured through a fair and open competition?
- Will the measures be installed in the private rented sector or in social housing? If so, the bid must set out how the LA will ensure compliance with state aid rules, including de minimis limits.
- How are heating system products going to be selected? Will certain brands be specified? Will the procured partner be responsible for selecting eligible products?

Further guidance on State Aid can be found at http://www.bis.gov.uk/policies/europe/state-aid

VAT

Eligible Expenditure consists of payments by the grant recipient during the Funding Period for the purposes of the Project. Eligible Expenditure is net of VAT recoverable by the grant recipient from HM Revenue & Customs, and gross of irrecoverable VAT. This means that all grants are outside the scope of VAT.

Scheme Interaction

Energy Companies Obligation (ECO)

It is possible to blend CHF with funding provided by energy companies under ECO Affordable Warmth. However, the predominant heating measure provided by suppliers under ECO has been like-for-like heating system replacement (eg replacement gas boilers), rather than first time central heating or fuel switching.

We are not requiring LAs to obtain ECO funding to match CHF with ECO funds. However, ECO suppliers may be able to claim the bill savings from CHF measures against their obligations. We encourage LAs to work with ECO suppliers to obtain funding, to increase the value for money of the bids they are able to submit.

Insulation measures are also an eligible ECO measure. CHF funding should not be used to fund insulation, or other non-heating measures. However, we encourage LAs to ensure properties are adequately insulated before installing central heating, to ensure that the central heating is correctly sized. Under ECO, an uplifted score is awarded for measures installed in non-gas households. See Ofgem’s ECO2 guidance for more information on delivering and scoring measures under ECO Affordable Warmth: https://www.ofgem.gov.uk/ofgem-publications/93714/deliveryguidance-pdf.

Domestic Renewable Heat Incentive (DRHI)

If installing renewable heat in a single domestic property, then the owner (either LA or householder) may be eligible for DRHI tariff payments. For more information see the DRHI Essential Guide for Applicants. Note the requirements for ownership, making a financial contribution and grants from public funds. For clarity the CHF constitutes a grant from public funds, so would be deducted from payments.

If bids intend to provide upfront capital (not using CHF funds) to fund renewable heating measures and then re-coup this funding through tariff payments (again, noting ownership requirements) this should be flagged at application, so that it can be considered in the value for money calculation.

Non-domestic Renewable Heat Incentive (RHI)

If you are proposing installing renewable heat in a district heating system (where one heat exchanger serves more than one property) and claim the non-domestic RHI then you should check the eligibility requirements. Under the non-domestic RHI a grant from public funds cannot be used for the purchase or installation of the heating technology however a grant can be used towards other costs associated with a heat network, for example piping, see Eligibility and how to apply

Fuel Poor Network Extension Scheme (FPNES)

FPNES allows Gas Distribution Networks (GDNs) to subsidise the cost of a gas connection for eligible households. GDNs cannot however use the FPNES mechanism to fund ‘in-house works’ (the new central heating system). We hope that the CHF and FPNES will work in tandem, so that CHF can be used to fund the in-house works of those fuel poor households who are least able to make a contribution under FPNES.

For clarity, CHF must only be used to fund heating measures. CHF should not be used to top-up FPNES voucher values to make the cost of connection viable.

Domestic Load Connection Allowance (DLCA)

All households are eligible for the DLCA if they are within 23 meters of a gas distribution network main. If so, the cost of the first ten meters of connection on public land is borne by the network company. As with FPNES this funding may be used towards the cost of gas connections, but the CHF should only be used to fund in house works.

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URN 15D/142