



Department for
Energy Security
& Net Zero

Heat Networks Delivery Unit

Round 14 Guidance

July 2024



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Introduction

Overview

The Heat Networks Delivery Unit (HNDU) was established as part of the Government's decarbonisation strategy. The Unit provides funding and specialist guidance to Local Authorities who are developing heat network projects, supporting them through each project development stage.

HNDU Round 14 funding is available to the following organisation types:

- Local Authorities in England and Wales,
- Registered Social Landlords,
- Property Developers,
- Universities,
- NHS Trusts and
- Other Government Departments

to apply for the funding of techno-economic feasibility studies and detailed project development support.

With the anticipation of Heat Network Zoning legislation¹, HNDU funding will increasingly be targeted towards projects that align with likely heat network zones within England and Wales. As such heat network opportunities that are within areas that can be identified by the Department as presenting the lowest cost, lowest carbon option for heat decarbonisation will be prioritised.

Key changes in this funding round

Applications that meet the test of being consistent with heat network zoning and/or of strategic significance using the Department's draft National Zoning Model (NZM) may be eligible for funding support on a 100% basis (subject to availability) and will undergo a reduced HNDU assessment for funding. Should the applicant wish to apply for non-standard funding (e.g. additional to either standard Techno-Economic Feasibility or Detailed Project Development stage – as set out in section 4) then this aspect of the funding request will be separately assessed by HNDU specialists. Successful applications will progress on the basis of HNDU funding and commissioning eligible work directly using our DESNZ framework of suppliers and as such DESNZ will act as the contractual client and commissioning organisation. Applicant

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organisations will act in the role of prime stakeholders and will be expected to work closely with DESNZ to ensure the proposed work meets their requirements as far as possible.

The Heat Network Delivery Unit (HNDU)

HNDU is part of, and directly funded by, the Department for Energy Security and Net Zero. HNDU was set up to provide support (grant funding and guidance) to Local Authorities in England and Wales to progress the development stages of heat networks projects. HNDU comprises a small team of technical and commercial experts who evaluate applications for approval and provide guidance to successful Local Authorities.

Since its inception in 2013, HNDU has awarded support to over 300 schemes across 188 Local Authorities in England and Wales, including 37.8 million of grant funding. A list of Local Authorities that have received funding in previous rounds can be seen at <https://www.gov.uk/guidance/heat-networks-delivery-unit>

Round 14 opens for applications on from mid-August 2024 and will close no later than 30 September 2024.

Round 14

Heat Network zoning alignment

The forthcoming proposed Heat Network Zoning primary legislation that is envisaged to come into force in 2025 is designed to address one of the core barriers to the wider adoption of heat networks in England: the risk that large heat loads, material to the economic viability of a heat network, will not connect to the network.

A National Zoning Model (NZM) is being developed by the Department's consultants to geospatially map buildings, heat sources and other relevant topographical factors such as roads, water courses, railway lines etc. to enable a socio-economic appraisal of the viability of a heat network being developed in a given geography. The intention is for the outputs of the NZM to be made available to heat network zone co-ordinators and potentially more widely in advance of zoning regulations coming into force.

The NZM, in its current stage of development, is available to HNDU and will be used to appraise if the study area proposed by a Local Authority applicant is or is not likely to be within a viable heat network zone area, i.e. an area where a heat network is likely to present the lowest cost, lowest carbon option for heat decarbonisation.

If the application refers to a study within such an area, then the HNDU assessment would be limited to a) a review of the outputs of the NZM and b) the total value of the grant requested against the guidance provided in the table on the following page. The application would then be moved to an immediate recommendation for funding to the extent that funds remain available and the grant requested is in line with values set out in section *Grant Funding*.

If the application is outside of such an area, then the HNDU assessment would determine the extent to which the project was strategically significant or in some other way presents a compelling rationale for support aligned with HNDU interests. The application would then be moved to an immediate recommendation for funding to the extent that funds remain available and the grant requested is in line with values set out in section *Grant Funding*. Projects not meeting these criteria would not receive funding.

Grant Funding

HNDU grant funding will fund 100% of the estimated eligible external costs of heat network development studies (where 'eligible external costs' means the money paid by DESNZ to third parties to deliver the agreed heat network development stages on its behalf). There will be no match funding requirement in general as part of the application process although in specific circumstances DESNZ reserves the right to specify a matched funding contribution; for example, we may wish to support equally important projects but costs exceed available HNDU budget.

HNDU grant funding can also provide up to 100% of the cost of estimated externally procured project management support for public sector applicants and registered social landlords only. Applicants will need to demonstrate that they have a need for this resource and source indicative quotes from the market.

There is no upper or lower limit for public sector applications made to HNDU (Local Authorities, NHS Trusts and Other Government Departments); however, where applications are for heat network opportunity areas that align with the Department’s assessment of viable heat network zone areas (i.e. lowest cost, lowest carbon option) and are made by a Local Authority applicant, the following cost estimates should generally be adhered to.

As we transition into heat network zoning legislation it highly likely that the stage ‘Detailed Project Development’ will be highly dependent on the preferred delivery model (Route to Market). As such, it is recommended that any applicants applying for this stage contact their HNDU Project Lead or the HNDU Mailbox for the latest guidance and tailor the scope of their application accordingly.

Stage	Small	Medium	Large
Techno-Economic Feasibility (FES)	£70k	£100k	£130k
FES project management (6 months)	£20k	£30k	£40k
Detailed Project Development (DPD)	£150k	£200k	£250k
DPD project management (12 months)	£40k	£50k	£60k

If applying to HNDU on the expectation of being eligible for automatic funding as a potential heat network zone, the size of the project should align to the scale of the potential zone. For example, a market town would be expected to be classed as “small”. A small city would be expected to be classed as “medium” and larger cities would be expected to be classed as “large”. Please contact HNDU (HNDU@energysecurity.gov.uk) if you are in doubt whether your project would be considered small, medium, or large.

Should a Local Authority applicant wish to apply for amounts greater than those indicated above, such applications will need to undergo a full HNDU assessment.

Other organisations eligible for application to HNDU for funding are as follows:

- Registered Social Landlords,
- Property Developers,
- Universities

Such applicant organisations, and the corporate group within which the organisation resides, may not apply for more than the Special Drawing Rights (SDR) as set out in the UK-EU Trade

and Cooperation Agreement over a three-year rolling period². At the time of writing this was approximately £350,000. All such applications will be subject to a full HNDU assessment.

Each application is assessed on its own merits and any potential award will be subject to HNDU budget availability and, if applicable, compliance with the SDR. Where funding is oversubscribed and/or the volume of applications exceeds a level that HNDU can reasonably resource for their assessment, HNDU will prioritise applications based on a project's stage of development, the potential scale of carbon saving opportunity and its alignment with heat network zoning. Where an application has been rejected due to HNDU resource constraints, HNDU will inform the applicant of the timing of when the application will be assessed.

In Round 14 applications will generally be assessed within a target period of 15 working days. Clarifications may be raised to the applicant within this period and as such the applicant and/or their advisors should be available to respond to any such clarifications.

Following HNDU assessment, recommendations will go through a streamlined internal approvals process would aim for a fully approved turnaround of 3 weeks.

HNDU Project Guidance

All Local Authorities awarded grant funding will be allocated a HNDU Project Lead and will receive guidance from our commercial and technical specialists as deemed appropriate. Non-Local Authority applicants (see section *Grant Funding*) may be allocated a HNDU Project Lead depending on support required; however, relevant HNDU project deliverables will still be required.

(Please Note: Guidance is clearly differentiated from advice, which is not provided by HNDU, and provides points for consideration as opposed to advice which advocates a course of action).

All successful applicants will be required to maintain regular monthly contact with their allocated HNDU project lead (or central mailbox if not allocated a project lead), ensure they are invited to key project meetings, and provide HNDU@energysecurity.gov.uk with monthly highlight reports and project outputs for review prior to sign off with consultants.

Whilst the successful applicant will develop all project material and manage all activity, HNDU, where appropriate, will help guide the successful applicant on the most effective project development path.

HNDU guidance covers:

² <https://www.gov.uk/government/publications/complying-with-the-uks-international-obligations-on-subsidy-control-guidance-for-public-authorities/technical-guidance-on-the-uks-international-subsidy-control-commitments#section-1>

- Project scoping and management
- Procurement specifications
- Engineering and technical standards
- Consumer protection
- Governance models and contractual structures
- HMT business case review
- Policy – compliance and opportunities
- Public sector procurement
- Stakeholder engagement
- Risk management
- Considering and communicating the Value for Money (VfM) case to offtakers and third party heat suppliers connecting to proposed heat networks

Development stages and costs HNDU can support in Round 14

HNDU Round 14 offers funding support and guidance for Local Authorities projects in England & Wales and certain non-Local Authority organisations projects (see the section on Grant Funding) for the development stages of heat networks projects, however this is not currently available in Scotland or Northern Ireland.

The figure below and tables overleaf outline the HNDU funding stages together with a description of the typical activities within each stage; however, depending on project circumstances some activities may extend across several development stages.

All Applicants please note: A detailed specification is available from HNDU for each project stage which should form the basis for your procurement specification unless otherwise agreed with your HNDU project lead. Completed procurement specifications should be provided to HNDU before you undertake procurement to allow time for HNDU feedback comments.

Figure 1: Heat Network Development Stages

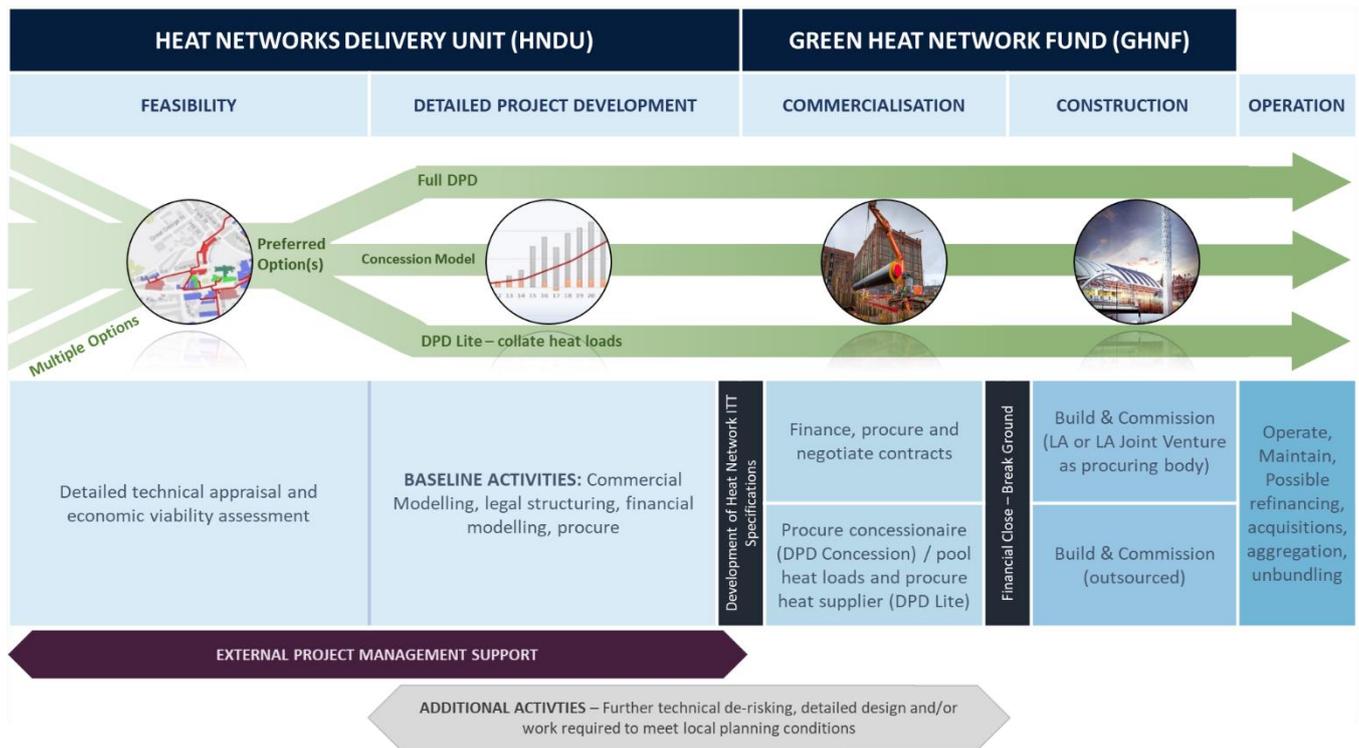


Table 2: HNDU Funding Stages

Overview	Support and Evidence
<p>Techno-Economic Feasibility</p> <p>The work will cover evaluation of:</p> <ul style="list-style-type: none"> • heat demand; • heat supply; • heat and power distribution; • cash flow modelling; • risk; <p>Analysis of project economics with a strong focus on energy balance and cost economics (capex, fuel, and opex); and</p> <p>Assessment of the “do nothing” case and the carbon equivalent savings relative to that case of the options considered.</p>	<p>Supporting evidence to be provided with application:</p> <ul style="list-style-type: none"> • For Local Authority applications, three letters of support from: an appropriate Council member, Head of Services/Director, and senior finance officer. Each of these letters must include explicit reference to the level of matched funding that will be made available. • For non-Local Authority applications a letter of support from the applicant organisation’s Chief Finance Officer, or officer with delegated authority up to or above the value of the applicant’s matched funding and a director or equivalent, is required and must include explicit reference to the level of matched funding that will be made available.

	<ul style="list-style-type: none"> • An email from a named procurement officer, or equivalent for non-LA applicants, confirming the proposed timescales for procuring the study; <p>Applications will need to provide either:</p> <ul style="list-style-type: none"> • a previous Mapping & Masterplanning report and accompanying summary cash flow model that analysed the network being applied for techno-economic feasibility work; or else • a desktop energy analysis (MS Excel) that sets out key heat demands identified for the study ideally using hourly metered data (e.g. adjusted gas meter readings) and an indicative map showing the buildings analysed within the analysis and the map's scale or else • A rationale for the proposed study including a description of the opportunity, location, the key building types, any estimated heat demands if known, potential heat supply opportunities if known, key stakeholders, timeframes, any relevant milestones.
<p>Detailed Project Development</p> <p>The DPD stage follows three development options:</p> <ul style="list-style-type: none"> • Full DPD; • DPD-lite; and • DPD-concession <p>For public sector applicants it is expected that such organisations would move straight to a GHN application (if appropriate) as they would be expected to have the necessary internal resources to develop a business case, engage with identified</p>	<p>Supporting evidence to be provided with application:</p> <ul style="list-style-type: none"> • For Local Authority applications, three letters of support from: an appropriate Council member, Head of Services/Director, and senior finance officer. Each of these letters must include explicit reference to the level of matched funding that will be made available; • For non-Local Authority applications, a letter of support from the applicant organisation's Chief Finance Officer, or officer with delegated authority up

<p>offtakers (to a level sufficient for GHNF) as well as wider stakeholders such as Environment Agency, DNO etc.</p> <p>Full DPD</p> <p>This option aligns with the route taken under previous HNDU funding rounds. It involves procuring consultants across technical, financial, commercial and legal to pull together an outline business case. Ideally the technical consultants would remain the same as those preparing the techno-economic feasibility study to avoid reperforming work already done.</p> <p>Commercial consultants would engage directly with proposed customers with the objective of entering into Memorandums of Understanding and ideally Heads of Terms as the commercial and financial cases are developed.</p> <p>Detailed options appraisals would be undertaken and summarised by the consultants across:</p> <ul style="list-style-type: none"> • Technical options; • Tariff structure; • Commercial structure including procurement plan; • Legal structure and ownership; • Sources of finance; <p>Approvals for the procurement plan set out in the commercial case would be sought as well as approval to apply to HNIP/GHNF for commercialisation & construction funding.</p> <p>All Full DPD projects must consider BHIVE funding as part of the financial case and make themselves known to it.</p> <p>DPD Lite</p>	<p>to or above the value of the applicant’s matched funding and a director or equivalent, is required and must include explicit reference to the level of matched funding that will be made available.</p> <ul style="list-style-type: none"> • An email from a named procurement officer, or equivalent for non-LA applicants, confirming the proposed timescales for procuring the study; • Previous stage feasibility study and accompany techno-economic cash flow model; <p>Signed letters of co-operation from key stakeholders. A template letter is available from hndu@energysecurity.gov.uk and will be made available alongside the application form.</p> <p><i>For DPD-Lite and DPD-concession model applications HNDU will undertake an initial assessment of the commercial viability of the project based on a range of possible tariff structures. If it is found that the heat network opportunity is unlikely to be successful due to challenging economics the applicant will be asked to consider Full DPD on the basis that the applicant may need to act as an early investor in the scheme until such point that divestment is possible. The applicant will be asked to confirm that this option would be considered and that the applicant would have the means to do so if internal approvals were secured.</i></p>
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This approach would be where the applicant organisation has identified a credible heat network opportunity as part of a feasibility study but does not have the resources to procure a concession and/or strategic objective of controlling the future expansion of the network.

DPD lite would therefore procure consultants to assist in the preparation of a short business case that:

- Rationalises buildings owned/occupied by the applicant to connect to a low carbon heat network at a price of heat that (connection, fixed and variable) that is acceptable to the public body

Key accompanying work would be engagement with the other major heat offtakers identified in the original feasibility study to seek to procure low carbon heat in a joint or co-ordinated procurement on similar terms.

It would also support the preparation, issuance and evaluation of an ITT for the procurement of heat from a low carbon heat source with the heat network feasibility study and accompanying work published alongside it.

DPD-concession

Where the financial resources or appetite for the Local Authority to directly invest in the heat network is not available, but there is an aspiration to maintain a long-term influence over the development of the network, then consultants would be procured to undertake a DPD-Concession approach.

Technical and commercial consultants would be procured, and with the support of

<p>HNDU, explore an indicative tariff structure that could support private investment possibly in conjunction with central government capital support.</p> <p>The commercial and technical consultants would focus efforts on engagement with key heat consumers and, if required, heat suppliers. Their objective would be to present value for money analysis based on the tariff explored, the current cost of heat and equivalent cost of heat for LZC heating solutions.</p> <p>If broad agreement can be found and if the investor returns modelled (supported by HNDU) appear to support private investment then the technical, legal and commercial consultants would support the Local Authority in developing an Invitation to Tender (ITT) for a concessionaire to deliver the key outcomes established in the techno-economic feasibility assessment. To the extent that the Local Authority is customer of the heat network, a simultaneous procurement would be initiated for the purchase of heat.</p>	
<p>External Project Management Support</p> <p>Public sector bodies and registered social landlords can also request support for an external project management and/or stakeholder engagement resource, alongside support for the project development stages itemised above.</p>	<p>Up to a maximum of 100% support</p> <p>Applicants must provide:</p> <ul style="list-style-type: none"> • An indicative no. of days per week • An indicative no. of weeks required • The indicative day rate (£/day)
<p>Commercialisation</p> <p>Please note this stage is no longer supported by HNDU due to the availability of funding for commercialisation via Green Heat Network Fund (GHNF)</p>	

Funding of multiple stages

Generally, applications will be awarded for a single stage of funding only (e.g. techno-economic feasibility). In exceptional cases it may be appropriate to fund an opportunity for more than one stage in a single application. If an eligible applicant wishes to make such an application it will be necessary, as part of the application, to rationalise why it is imperative that pre-funding is awarded for subsequent phases in advance of the next phase of work being completed.

Non-Local Authority applicants

Non-Local Authority applicants will be awarded grants under section 98 of the National Environment and Rural Communities Act 2006. This means that grant monies awarded to non-Local Authority applicants must be spent in full in the financial year to which they are allocated. Unspent funds will be lost. As such applications from non-Local Authority applicants need to carefully consider the timing of their projects and the extent to which work will continue into the next financial year (April 2025-March 2026). If this is the case, the applicant must make this clear in the application form and split the award across financial years in line with their forecast spend.

Development activities and costs ineligible for HNDU support

HNDU can only support heat network projects. It cannot provide support for any other activity, including activity that looks at heat sources where supplying a heat network is not its primary function. For example, a feasibility study for an energy from waste plant (EfW) would not be eligible for support, whereas a feasibility study to investigate the potential for a specific EfW plant to supply heat to a heat network would be eligible.

HNDU grant funding to eligible applicants (see section *Grant Funding*) will not support costs associated with:

- Work already commissioned or incurred before this application;
- Internal staffing or secondment staff or charged agencies within the applicant organisation;
- Funding for accommodation;
- Commercialisation stage onwards project management and client engineer support;
- Construction, operation and maintenance of a heat network.

Please note this list is not exhaustive, and the Department reserves the right to exclude additional activities or restrict eligible costs as it deems necessary, in its consideration of a funding application and potential award decision.

Eligibility

The application must come from a Local Authority or an approved organisation (see section *Grant Funding*). This does not preclude such organisations from working with partners.

Whether successful or not, an eligible applicant who has previously applied for HNDU support in previous rounds is eligible to apply for Round 14. However, for non-public sector applicants where cumulative awards plus the award requested in the current funding round exceed the Special Drawing Rights threshold over the past three years (see *Grant Funding*), such applications would not be eligible for funding.

Where HNDU support has been previously awarded for a particular stage, and additional support is being sought for the same project for the same stage, the applicant will need to demonstrate, through the application form, a strong case that new work will provide additional benefits.

There will be no limit to how many projects an eligible applicant may submit applications for, but please complete a single application form for each project. If in doubt please contact HNDU@energysecurity.gov.uk and an appropriate team member will be allocated to assist you.

If an eligible applicant plans to work jointly with neighbouring Local Authorities on single or multiple projects, then the eligible applicant must nominate a 'lead' organisation who will be responsible for submitting a joint application on behalf of all the participating organisations. The lead organisation will receive and, if necessary, distribute the funding to the other organisations. The lead organisation will be accountable to HNDU for all reporting and deliverables. Joint applications should be made on the standard application form.

All successful applicants will be expected to procure consultants in a fair and open manner.

Application process and criteria

Application dates

Round 14 applications will be accepted from Friday 23rd August 2024, and no later than 31st October 2024

Step 1: Formal Application

Eligible organisations should email HNDU for an application form, and submit the completed form, with appropriate supporting information, to hndu@energysecurity.gov.uk.

Step 2: HNDU review applications

A rigorous and impartial evaluation process has been established to assess applications submitted to HNDU. Applications are reviewed by technical, financial and commercial experts with significant experience in heat network development.

Applications are assessed taking into consideration the following:

1. Volume of heat forecast to be supplied by the network to customers connected each year;
2. Capacity and commitment of the organisation to undertake the project. This may additionally involve an interview with the Senior Responsible Officer by phone or in person.
3. Quality of work undertaken in previous studies, where relevant. For example, if a Local Authority applies for grant funding for economic and technical feasibility, then the previous heat mapping and energy master planning work will be assessed, which will indicate whether there is value in further feasibility work.
4. Credibility of opportunity (including delivery potential, forecast returns, programme etc.). In absence of any previous work, applicants should provide a description of major stakeholders in their local area, provide a map to illustrate their proximity to one another and provide a signed letter of co-operation from major stakeholders. Further guidance in advance of an application can be discussed with HNDU via hndu@energysecurity.gov.uk
5. Consistency with the Department's carbon objectives.

The assessment of any application may result in a recommendation to support only some, or none, of the work applied for; and is subject to availability of resource and prioritisation if needed.

Step 3: Heat Networks Grant Approval Panel review

HNDU will recommend funding support for final internal sign off at Deputy Director level.

Step 4: Notification of results and grant payment

We will endeavour to assess your application as previously outlined.

Successful applicants will need to agree an MOU with DESNZ prior to appointment of consultants to undertake the project. Applicants can publicise their projects once agreements have been signed.

Working with HNDU

The interaction between successful applicants and HNDU is governed by a non-legally binding Memorandum of Understanding (MoU)

Each successful Local Authority, and other organisations depending on sector experience, will be assigned an HNDU project lead, who will offer guidance and support.

HNDU will:

- Help identify potential issues and raise pertinent questions as the project progresses.
- Provide guidance on tender specifications.
- Review critical project documentation (we will aim to turn around requests for formal review within a 2-week period).
- Help steer the Local Authority on the most effective project development path.
- Provide telephone and email support as necessary.
- Attend key project meetings.

HNDU will not:

- Undertake specific pieces of work for the Local Authority unless such work is deemed by HNDU to be critical for the project's development. Such work would be undertaken on an exceptional basis and should still be considered as guidance only.
- Create heat network project documents for the Local Authority.
- Participate actively in Local Authority procurement.

Supported projects should:

- Send all critical heat network project documents to HNDU for review (tender specifications, tender returns and interim and final project outputs, along with the appendices which HNDU asks that you require your consultant to complete in your specification).
- Send HNDU monthly highlight reports, so HNDU can document project progress to date (HNDU recommends that Local Authorities require their consultant to complete the highlight reports).
- Send HNDU the final project outputs. This comprises the final report and final appendices which HNDU asks that you require your consultant to complete in your specification.
- Provide adequate notice for deadlines for support required, especially meeting attendance.

More information about how HNDU and Local Authorities are expected to work together is provided to successful applicants in the form of the MoU or GFA as appropriate.

Enquiries and further information

If you have any queries regarding the support HNDU can offer to Local Authorities or how to apply for this support, please email hndu@energysecurity.gov.uk

Further information, including announcement of grant awards, can be found at:

<https://www.gov.uk/guidance/heat-networks-delivery-unit>

This publication is available from: www.gov.uk/guidance/heat-networks-delivery-unit

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