



Department for  
Business, Energy  
& Industrial Strategy

# HEAT NETWORKS DELIVERY UNIT

Round 8 Guidance

May 2018

A decorative blue curved line that starts on the left side of the page, rises to a peak, and then descends to the right, ending with a small blue dot.

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Any enquiries regarding this publication should be sent to us at [hndu@beis.gov.uk](mailto:hndu@beis.gov.uk).

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# Introduction

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 a number of project development stages. All local authorities in England and Wales can apply for support and this document sets out the Unit's offering to local authorities and provides the information a local authority would need to bid for this support in Round 8.

## The Heat Networks Delivery Unit (HNDU)

The Heat Networks Delivery Unit (HNDU) is part of, and directly funded by, the Department for Business, Energy and Industrial Strategy (BEIS). 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 200 schemes across 140 local authorities in England and Wales, including over £17 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 8 opens for applications on **Thursday 17 May 2018**, and will close on 31 December 2018.

# Heat Networks Delivery Unit (HNDU) Round 8

## Grant funding

HNDU grant funding can provide up to 67% of the estimated eligible external costs of these early stage development studies (meaning the money paid by the local authority to third parties to deliver the heat network development stages). The local authority will have to secure at least 33% in match funding.

There is no upper or lower limit for bids. Applications have varied significantly throughout the earlier rounds due to the variation in the nature and scale of projects and the number of development stages for which the support is sought. Please note that HNDU has an agreed budget for 2018/19 and funding is allocated through a competitive process.

## State Aid considerations

It is up to the local authority to ensure the match funding (for example third-party funding) is not breaching any state aid or other funding restriction rules in its use of other funding streams. BEIS is not placing any additional constraints on whether match funding is sourced from the local authority's own reserves or from a third-party funder.

The final version of the BEIS-supported report (redacted by the LA for any commercially sensitive information) should be made public (either on your website or our website).

## Guidance

All local authorities awarded grant funding from HNDU will also receive guidance from our commercial and technical specialists.

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

HNDU will bring technical and commercial knowledge to bear on the project, providing a sounding board at project development milestones. HNDU is available to review documents, help identify potential issues and raise pertinent questions as the project progresses. Whilst the local authority will develop all project material and manage all activity, HNDU will help steer the local authority on the most effective project development path.

HNDU guidance includes:

- Project scoping and management
- Engineering and technical standards
- Consumer protection
- Governance models and contractual structures
- Financial – sources and structuring
- Policy – compliance and opportunities
- Public sector procurement
- Stakeholder engagement
- Risk management

## Development stages and costs HNDU can support in Round 8

HNDU Round 8 offers grant funding and guidance to local authorities<sup>1</sup> in England and Wales for the development stages of heat networks projects, outlined in the table below. HNDU support is not currently available in Scotland or Northern Ireland.

Please note that activities such as scheme design, financial modelling, and development of the business case and business model/commercial structure may not strictly fall within any single stage, and, quite commonly, extend across several of the development stages below, depending on project-specific circumstances.

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<sup>1</sup> Local authority includes any county council, district council, borough council, city council, London borough, metropolitan borough or unitary authority, which also meets the definition set out in s.33(1) of the Local Government Act 2003 and is situated within England or Wales.

Stage	Detail
1. Heat mapping	Area-wide exploration, identification and prioritisation of heat network project opportunities.
2. Energy master planning	Area-wide exploration, identification and prioritisation of heat network project opportunities.
3. Feasibility study	Technical feasibility and options appraisal; scheme definition and concept design; detailed techno-economic modelling; development of financial model; initial scheme-specific business model/commercial structures options identification & evaluation; delivery programme.
4. Detailed project development	Development of business/commercial model and financing options; development of outline business case (typically green book compliant depending on scheme size); development of detailed financial model; development of procurement strategy; further scheme design including development of proposed network route, network sizes, and customer connections, development of proposed energy centre solution and location; costing reviews to improve cost certainty; initial scoping and development of commercial agreements; soft market testing.
5. Commercialisation	Reasonable legal costs such as in relation to developing customer commercial agreements, heat supply contracts, necessary land purchase, land access arrangements, etc.; further development of tariff structure for customer contracts; further development of financial model and business case and associated commercial advice costs where necessary. Potential for preparatory works depending on scheme needs, assessed on a case-by-case basis.

### Additional support

The Local Authority can also request support for an external project management and/or stakeholder engagement resource, alongside support for the project development stages above.

## Development activities and costs ineligible for HNDU support in Round 8

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) in itself would not be eligible for support, whereas a feasibility study to investigate the potential for a specific EfW plant to supply a heat network would be eligible.

HNDU grant funding to local authorities will not support costs associated with:

- Work already commissioned or costs incurred before this application;
- Internal local authority staffing or secondment staff costs or charged agencies within local authorities;
- Funding for accommodation;
- Detailed architectural design costs;
- Development of specifications for procurement;
- General, pre-construction ground works/intrusive works; however, there may be circumstances where we would consider such works where such works are essential for demonstrating technology viability and have a high likelihood of success;
- Procurement costs and tender evaluation costs;
- Project management and client engineer support post-commercialisation;
- Costs associated with the construction, operation and maintenance of a heat network.

Please note this list is not exhaustive, and BEIS 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.



### Local authority and eligibility

- The application must come from the local authority. This does not preclude local authorities from working with partners.
- Whether successful or not, a local authority who has previously applied for HNDU support in previous rounds is eligible to apply for Round 8. Also, a local authority that has not previously applied for HNDU funding is also eligible to apply for Round 8.
- 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, local authorities 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 a local authority may submit applications for, but please complete a single application form for each project.
- If a local authority plans to work jointly with neighbouring local authorities on single or multiple projects, then the local authorities must nominate a 'lead' local authority who will be responsible for submitting a joint application on behalf of all the participating authorities. The lead authority will receive, and if necessary distribute, the funding to the other local authorities. The lead local authority will be accountable to HNDU for all reporting and other engagement to do with the applicant local authority projects. Joint applications should be made on the standard application form. HNDU will NOT accept joint applications from multiple local authorities which are made primarily for administrative reasons.

# Application process and criteria

## Application dates

Round 8 applications will be accepted at [hndu@beis.gov.uk](mailto:hndu@beis.gov.uk) from **Thursday 17 May 2018**

Round 8 will be open from 17 May 2018 to 31 December 2018.

## Step 1: Local authorities submit application

Local authorities should email [hndu@beis.gov.uk](mailto:hndu@beis.gov.uk) for an application form, and submit the completed form, with appropriate supporting information, to [hndu@beis.gov.uk](mailto:hndu@beis.gov.uk).

## Step 2: HNDU review applications

A rigorous and impartial evaluation process has been established to assess all local authority 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. Local authority capacity and commitment to undertake the project.
2. Quality of work undertaken in previous studies (not applicable for applications for funding for heat mapping). For example, if a local authority applies for grant funding for economic and technical feasibility, then the previous heat mapping and energy masterplanning work will be assessed, which will indicate whether there is value in further feasibility work.
3. Credibility of opportunity (including delivery potential).
4. Consistency with BEIS'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 Appraisal Panel review

The Heat Networks Grant Appraisal Panel (GAP), comprising senior BEIS staff, will review all assessments and will be given the opportunity to challenge HNDU recommendations. The GAP has the final decision on what projects are supported and the level of support provided.

### Step 4: Notification of results and grant payment

*We will endeavour to assess your application as soon as possible, but after you have submitted your application please allow up to 12 weeks to hear the final outcome. Payment will follow once the required signed paperwork has been received from the local authority.*

Local authorities can publicise their projects once funding has been received.

Payment of any grant funding will be paid as a single lump sum pursuant to Section 31 of the Local Government Act 2003, and will be made upon receipt by BEIS of a signed MoU and a signed grant claim form, with the local authority declaring support will be state aid compliant.

## Working with HNDU

The interaction between successful local authorities and HNDU is governed by a Memorandum of Understanding (MoU) which is signed by both parties prior to working together.

Each successful local authority 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
- 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.

Local authorities 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 local authorities.

## 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@beis.gov.uk](mailto:hndu@beis.gov.uk).

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

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



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