



Department for
Business, Energy
& Industrial Strategy

Heat Networks Delivery Unit

Round 10 Guidance



OGL

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Any enquiries regarding this publication should be sent to us at: 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 10.

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 250 schemes across over 150 Local Authorities in England and Wales, including £23 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 10 opens for applications on Friday 01 May 2020, and will close no later than 31 December 2020

HEAT NETWORK DELIVERY UNIT (HNDU) ROUND 10

Grant Funding

HNDU grant funding can provide up to 67% of the estimated eligible external costs of heat network development studies (where ‘eligible external costs’ means the money paid by the Local Authority to third parties to deliver the heat network development stages). The Local Authority will need to demonstrate in their application that it has secured at least 33% in match funding.

HNDU grant funding can also provide up to 100% of the cost of estimated externally procured project management support.

In the event that the Local Authority has determined a preferred option for supplying heat to non-public sector customers as an economic undertaking (e.g. incorporating a wholly owned Special Purpose Vehicle for the generation and distribution of heat to private customers) and is applying for funding from HNDU to further develop such an option, the HNDU grant will be reduced to 50%. The Local Authority will need to demonstrate in their application that it has secured at least 50% match funding. This is to comply with our interpretation of obligations under State Aid.

There is no upper or lower limit for bids; however, each application is assessed on its own merits and any potential award will be subject to HNDU budget availability. Where funding is oversubscribed HNDU will prioritise awards based on a project’s stage of development and the potential scale of carbon saving opportunity. Where a project has not been prioritised for funding due to budget constraints it is eligible to reapply once funding reopens.

We aim to batch Round 10 applications on the basis of the following Waves with no lower limit on the number of applications being assessed:

Table 1: HNDU Round 10 Funding Waves

| Wave | Final submission date for inclusion in wave |
|--------|---|
| Wave 1 | Friday 29 th May 2020 – 12.00pm |
| Wave 2 | Friday 3 rd July 2020 – 12.00pm |
| Wave 3 | Friday 31 st July 2020 – 12.00pm |
| Wave 4 | Friday 28 th August 2020 – 12.00pm |
| Wave 5 | Friday 2 nd October 2020 – 12.00pm |

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| Wave 6 | Friday 30 th October 2020 – 12.00pm |
| Wave 7 | Friday 27 th November 2020 – 12.00pm |
| Wave 8 | Thursday 31 st December 2020 – 12.00pm |

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.

(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).

Local Authorities will be required to maintain regular monthly contact with their allocated HNDU project lead, ensure they are invited to key project meetings, and provide HNDU@beis.gov.uk with monthly highlight reports and project outputs for review prior to sign off with consultants.

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 covers:

- Project scoping and management
- 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 10

HNDU Round 10 offers grant funding and guidance to Local Authorities in England and Wales 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. It also provides indicative cost ranges to guide your application, however it may also be useful to undertake some soft market testing to inform the value of work being applied for. Please note the HNDU evaluation process will ultimately determine an appropriate level of costs for each project.

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.

Figure 1: Heat Network Development Stages

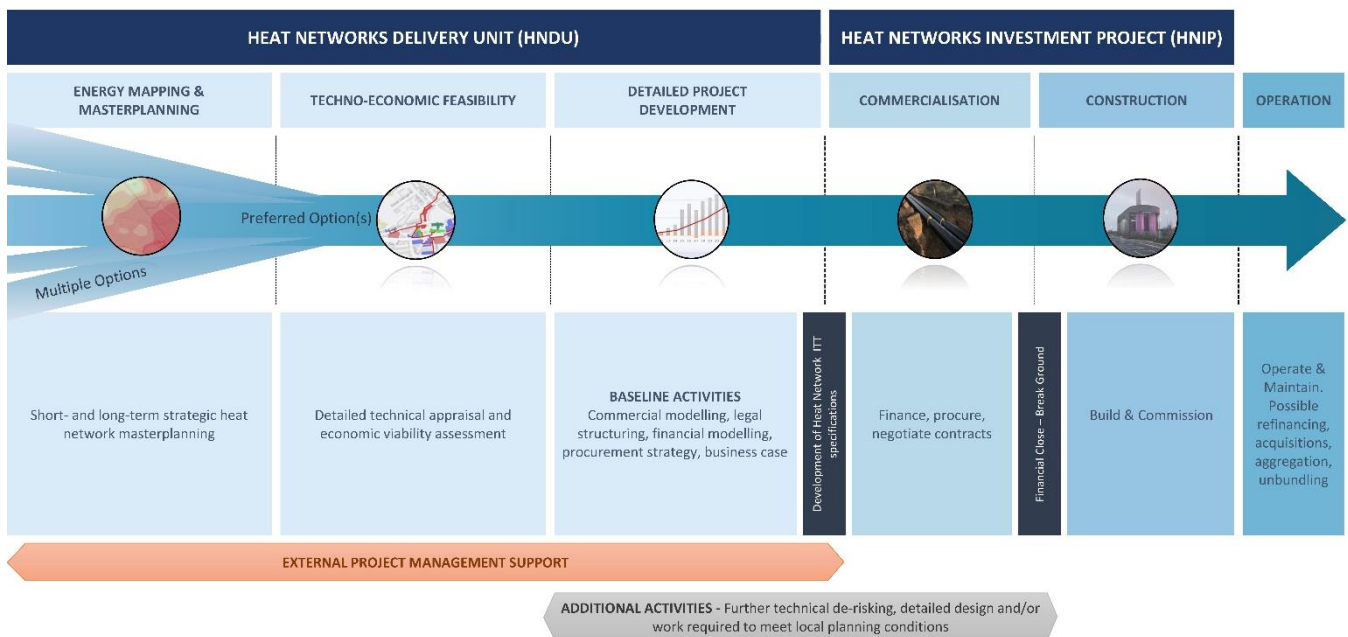


Table 2: HNDU Funding Stages

| Overview | Support and Evidence |
|---|---|
| <p>Energy Mapping and Masterplanning</p> <p>This stage covers activities in relation to the development of a strategic heat network masterplan. This will identify the extent of both short- and long-term potential heat network schemes through an area wide exploration, identification and prioritisation of heat network opportunities and how they might interrelate. It will also include a high level technical and economic assessment.</p> | <p><i>For examples of the range of indicative costs please contact hndu@beis.gov.uk</i></p> <p>Costs will vary for carrying out a heat mapping and master planning exercise depending largely on the scale and nature of the area being considered, and the number of clusters likely to be identified.</p> <p>Up to a maximum of 67% support</p> <p>Supporting evidence to be provided with the application:</p> <ul style="list-style-type: none"> • letters in support of the project from an appropriate Council member, project sponsor (director level) and email from a named procurement officer confirming the proposed timescales of the project. Explicit reference to the level of matched funding that will be made available should be made in the director level letter; |
| <p>Techno-economic Feasibility</p> <p>This stage covers technical and economic activities in relation to:</p> <ul style="list-style-type: none"> • energy centre location; • heat demand; • heat supply; • heat and power distribution; • cash flow modelling; • risk; • Analysis of project economics with a strong focus on energy balance and cost economics (capex, fuel, and opex); and • Assessment of the “do nothing” case and the carbon equivalent savings | <p><i>For examples of the range of indicative costs please contact hndu@beis.gov.uk</i></p> <p>Costs will vary depending largely on the complexity of the options being considered and the level of stakeholder engagement required.</p> <p>Up to a maximum of 67% support</p> <p>Supporting evidence to be provided with application:</p> <ul style="list-style-type: none"> • 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; |

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| <p>relative to that case of the options considered.</p> | <ul style="list-style-type: none"> • Email from a named procurement officer confirming the proposed timescales for procuring the study; • Previous stage Mapping and Master Planning study with accompanying high-level cash flow model; • If a previous study exploring the heat network potential of an area has not been undertaken, then a rationale for why funding should be awarded directly to this stage. |
| <p>Detailed Project Development</p> <p>This stage covers further technical, financial, legal, and commercial project development beyond techno-economic feasibility through to completion of ITT specifications for the delivery of heat network infrastructure (Capital Scheme ITT specifications). This includes</p> <p>(i) Baseline activities that HNDU deems necessary to move projects from feasibility to completion of Outline Business Case (OBC).</p> <p>(ii) Potential additional activities that HNDU agrees would be necessary for the Local Authority to progress a project from OBC to the Capital Scheme ITT specifications. The extent of additional activities will be dependent on the procurement approach to be adopted or other local circumstances. If additional activities are known or highly likely to be required at the time of initial DPD application, they can be included in this initial application; however, an accompanying explaining and itemising why the work is essential to the project’s success must be provided. If the position is uncertain a further DPD application following OBC and procurement strategy sign off can be made.</p> <p>Baseline DPD Activities: Development of the OBC</p> | <p><i>For examples of the range of Indicative costs for individual additional DPD activities please contact hndu@beis.gov.uk</i></p> <p>Up to a maximum of 67% support</p> <p>Supporting evidence in relation to baseline DPD activities, to be provided with application:</p> <ul style="list-style-type: none"> • 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. • Email from a named procurement officer confirming the proposed timescales for procuring the study; • previous techno-economic feasibility study with accompanying cash flow model; • Breakdown of budget assumptions. At a minimum these should be split across technical, financial and legal. The source of such assumptions should also be provided where possible. <p>Supporting evidence in relation to additional DPD activities, to be provided with application:</p> |

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| <p>Development of business/commercial model, financing options and procurement strategy within an OBC (typically HMT Green Book compliant depending on scheme size):</p> <ul style="list-style-type: none"> • concept design to review and update the findings of the techno-economic feasibility study (RIBA 2 for energy centre design & layout and equivalent for pipework); • development of detailed financial model including commercial structuring, tax and commercial sensitivity analysis (e.g. tariff structure, indexation risk etc.); • development of procurement strategy; • costing reviews to improve cost certainty; • initial scoping and development of commercial agreements; • soft market testing; • legal advice including public sector procurement law, utility regulations, state aid etc. <p>Additional DPD Activities: Necessary for Development of ITT Specifications –</p> <p><i>NOTE: if it is assessed that additional DPD activities are required and funding is being sought for this, the applicant must provide supporting evidence why this work needs to be done now and provide cost estimates based on soft market testing.</i></p> <p>Examples might include</p> <ul style="list-style-type: none"> • Technical and legal support to develop the Invitation to Tender (ITT) for works and services. • Professional services to assist the project achieve planning permission; • Further detailed design work e.g.. RIBA 3 for energy centre design & | <ul style="list-style-type: none"> • Written justification for additional activities proposed as necessary for the development of the Capital Scheme ITT specifications and an accompanying memo to confirm the LA classes the proposed expenditure as revenue budget. <p>HNDU assessors may request to have a phone or in-person interview with a Senior Responsible Officer listed within the application.</p> |
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| <p>layout and its equivalent for buried pipework</p> <ul style="list-style-type: none"> ○ <i>Ground investigations;</i> ○ <i>Dispersion modelling;</i> ○ <i>Archaeological, ecological, contaminated land and other preconstruction surveys;</i> ○ <i>Shallow geothermal bore hole testing(accounting for any RHI/HNIP implications);</i> <ul style="list-style-type: none"> ● Support for applications to funding sources such as the Heat Network Investment Project (HNIP); | |
| <p>External Project Management Support</p> <p>The Local Authority 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><i>For examples of the range of Indicative costs for individual additional DPD activities please contact hndu@beis.gov.uk</i></p> <p>Up to a maximum of 100% support</p> |
| <p>Commercialisation</p> <p>Please note this stage is no longer supported by HNDU due to the availability of Heat Networks Investment Project (HNIP) commercialisation funding.</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 the Authority 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.

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 Local Authorities will not support costs associated with:

- Work already commissioned or incurred before this application;
- Internal Local Authority staffing or secondment staff or charged agencies within Local Authorities;
- 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 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 10. Also, a Local Authority that has not previously applied for HNDU funding is also eligible to apply for Round 10.

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 10 applications will be accepted from Friday 1st May 2020, and no later than 31st December 2020.

Step 1: Local Authorities submit application

Local Authorities should email HNDU for an application form, and submit the completed form, with appropriate supporting information, to 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. Volume of heat forecast to be supplied by the network to customers connected each year;
2. Local Authority capacity and commitment 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 (not applicable for applications for funding for heat mapping and master planning). 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.).
5. 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 within a month of the final submission date for a given wave. Payment will follow once the required signed paperwork (signed MoU and signed Grant Claim form) has been received from the Local Authority and approvals have been received from both Her Majesty's Treasury (HMT) and the Ministry of Housing, Communities & Local Government (MHCLG). A pro-forma copy of the MoU can be provided on request by an applicant to help better manage back-end Local Authority internal approvals.

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 that support will be state aid compliant.

Working with HNDU

The interaction between successful Local Authorities and HNDU is governed by a non-legally binding Memorandum of Understanding (MoU) which is signed by both parties prior to working together. A pro-forma copy of the MoU can be provided on request by an applicant to help better manage back-end Local Authority internal approvals.

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 (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.

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.

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#round-10

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