



Department for  
Business, Energy  
& Industrial Strategy

# Heat Networks Delivery Unit

Round 11 Guidance



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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 each project development stage. 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 11.

## The Heat Networks Delivery Unit (HNDU)

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 280 schemes across over 173 Local Authorities in England and Wales, including £25.6 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 11 opens for applications on Friday 01 May 2021, and will close no later than 31 December 2021**

## HNDU Funding Round 11 Updates

The process of applying to HNDU for funding is similar to previous funding rounds. However, there are some key changes to the way in which our support is structured and our assessment of project opportunities. These are designed to accelerate the development process; increase the flexibility of routes to market; and address common clarifications made by our assessment team in previous funding rounds. The main changes are:

- the merging of heat mapping and masterplanning and techno-economic feasibility into a **single stage feasibility study**
- additional funding and guidance to enable local authorities to procure a private sector partner via a **concession model** to deliver local heat network(s)
- the requirement for a **signed letter of co-operation** from key stakeholders
- additional information required for **new build heat networks**
- additional breakdown required for **external project management** funding.

Key changes are highlighted throughout this document.

# Heat Network Delivery Unit (HNDU)

## Round 11

### 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. Applicants will need to demonstrate that the need for this resource and source indicative quotes from the market.

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.

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 11 applications on the basis of the following Waves with no lower limit on the number of applications being assessed:

Table 1: HNDU Round 11 Funding Waves

| Wave   | Final submission date for inclusion in wave   |
|--------|---|
| Wave 1 | Friday 28 <sup>th</sup> May 2021 – 12.00pm    |
| Wave 2 | Friday 2 <sup>nd</sup> July 2021 – 12.00pm    |
| Wave 3 | Friday 30 <sup>th</sup> July 2021 – 12.00pm   |
| Wave 4 | Friday 27 <sup>th</sup> August 2021 – 12.00pm |
| Wave 5 | Friday 1 <sup>st</sup> October 2021 – 12.00pm |

|        |   |
|--------|---|
| Wave 6 | Friday 29 <sup>th</sup> October 2021 – 12.00pm    |
| Wave 7 | Friday 3 <sup>rd</sup> December 2021 – 12.00pm    |
| Wave 8 | Thursday 31 <sup>st</sup> December 2021 – 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](mailto: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 11

HNDU Round 11 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.

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

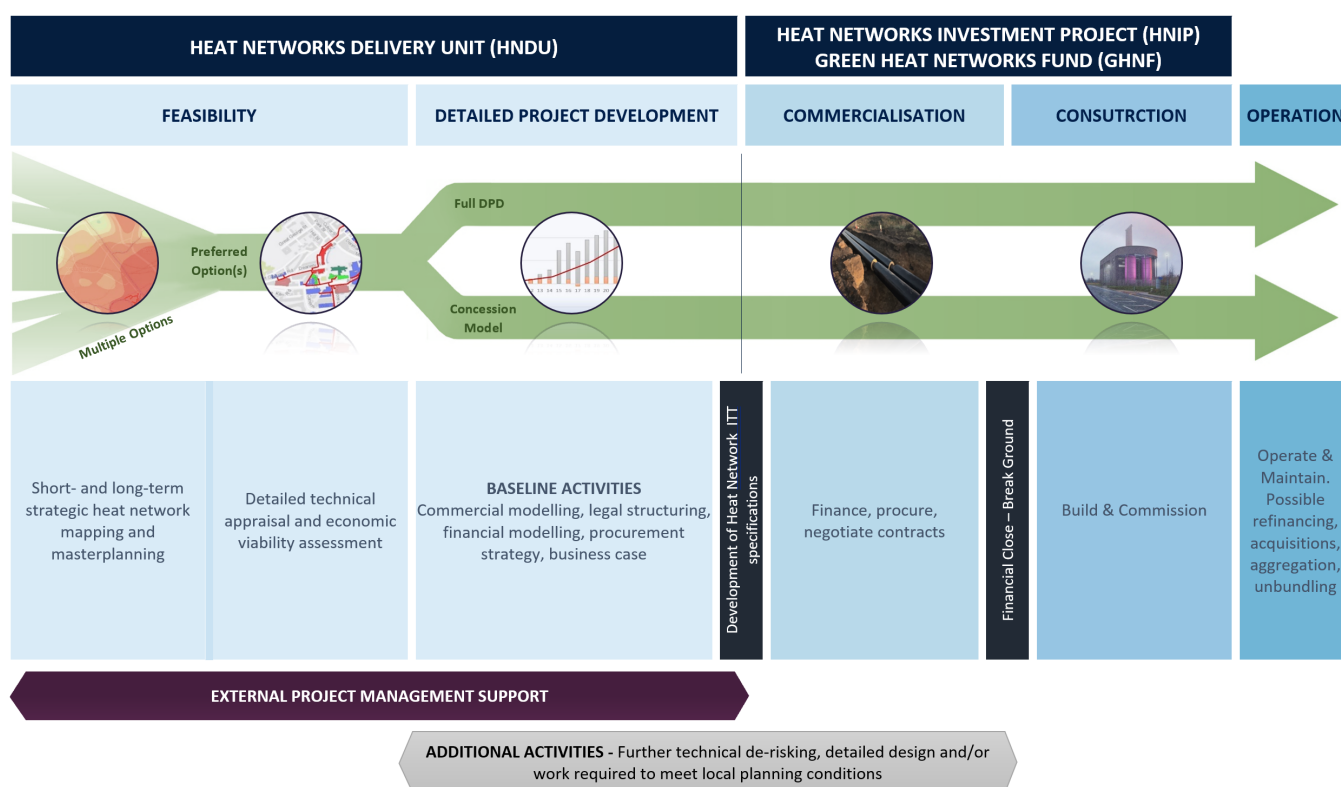


Table 2: HNDU Funding Stages

| Overview   | Support and Evidence  |
|--|---|
| <p><b>Feasibility</b></p> <p>From Round 11 HNDU have merged two development stages into a single stage Feasibility study.</p> <p>Where required, the stage will be split into two key components. The first shall form mapping exercise to identify and prioritise the key heat network opportunities. The second shall involve the undertaking of a detailed techno-economic feasibility study on the most viable opportunities.</p> <p>This stage covers technical and economic activities in relation to:</p> <ul style="list-style-type: none"> <li>• energy centre location;</li> <li>• heat demand;</li> <li>• heat supply;</li> <li>• heat and power distribution;</li> <li>• cash flow modelling;</li> <li>• risk;</li> <li>• Analysis of project economics with a strong focus on energy balance and cost economics (capex, fuel, and opex); and</li> <li>• Assessment of the “do nothing” case and the carbon equivalent savings relative to that case of the options considered.</li> </ul> | <p><i>For examples of the range of indicative costs please contact <a href="mailto:hndu@beis.gov.uk">hndu@beis.gov.uk</a></i></p> <p>Costs will vary depending on the scale of the opportunity area; 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><b>Supporting evidence to be provided with application:</b></p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• An email from a named procurement officer confirming the proposed timescales for procuring the study;</li> <li>• Where relevant, previous stage Mapping and Master Planning study with accompanying high-level cash flow model;</li> <li>• 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. More guidance is provided in the application form.</li> <li>• Signed letters of co-operation from key stakeholders. A template letter is available from <a href="mailto:hndu@beis.gov.uk">hndu@beis.gov.uk</a> and will be made available alongside the application form.</li> </ul> |
| <p><b>Detailed Project Development</b></p> <p>From Round 11, HNDU will provide additional funding and guidance to enable Local Authorities to procure a private sector partner via a concession model to deliver</p>   | <p><i>For examples of the range of indicative costs please contact <a href="mailto:hndu@beis.gov.uk">hndu@beis.gov.uk</a></i></p> <p>Costs will vary depending largely on the complexity of the options being considered</p>  |



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| <p>local heat network(s). We have therefore updated our DPD stage to allow for two development options:</p> <ol style="list-style-type: none"> <li>1) Full DPD; or</li> <li>2) Concession Model</li> </ol> <p>Option 2 should be considered if the Local Authority has a limited role, insufficient financial resources and/or risk appetite to warrant exploring options that would involve their direct investment in a heat network.</p> <p><b>Full DPD</b></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 by 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"> <li>• Technical options;</li> <li>• Tariff structure;</li> <li>• Commercial structure including procurement plan;</li> <li>• Legal structure and ownership;</li> <li>• Sources of finance;</li> </ul> <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 &amp; construction funding.</p> <p><b>Concession Model</b></p> <p>Where the financial resources or appetite for the Local Authority to directly invest in</p> | <p>and the level of stakeholder engagement required.</p> <p>Up to a maximum of 67% support</p> <p><b>Supporting evidence to be provided with application:</b></p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Email from a named procurement officer confirming the proposed timescales for procuring the study;</li> <li>• Previous stage feasibility study and accompany techno-economic cash flow model;</li> <li>• Signed letters of co-operation from key stakeholders. A template letter is available from <a href="mailto:hndu@beis.gov.uk">hndu@beis.gov.uk</a> and will be made available alongside the application form.</li> </ul> <p>For 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 a concession model is unlikely to be successful due to challenging economics the Authority will be asked to consider Full DPD on the basis that the Authority may need to act as an early investor in the scheme until such point that divestment is possible. The Authority will be asked to confirm that this option would be considered and that the Authority would have the means to do so if internal approvals were secured.</p> |
|---|---|

|   |   |
|---|---|
| <p>the heat network is not available then consultants would be procured to undertake a DPD-Lite approach.</p> <p>Technical and commercial consultants would be procured, and with the support of 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><b>External Project Management Support</b></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 <a href="mailto:hndu@beis.gov.uk">hndu@beis.gov.uk</a></i></p> <p>Up to a maximum of 100% support</p> <p>Applicants must provide:</p> <ol style="list-style-type: none"> <li>1. An indicative no. of days per week</li> <li>2. An indicative no. of weeks required</li> <li>3. The indicative day rate (£/day)</li> </ol> |
| <p><b>Commercialisation</b></p> <p>Please note this stage is no longer supported by HNDU due to the availability of funding for commercialisation via the Heat Network Investment Project (HNIP) and 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 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 11. Also, a Local Authority that has not previously applied for HNDU funding is also eligible to apply for Round 11.

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 in doubt please contact [HNDU@beis.gov.uk](mailto:HNDU@beis.gov.uk) and an appropriate team member will be allocated to assist you.

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 11 applications will be accepted from Friday 1<sup>st</sup> May 2021, and no later than 31<sup>st</sup> December 2021.

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