



Department for
Business, Energy
& Industrial Strategy

Home Upgrade Grant: Phase 2

Guidance for local authorities

September 2022



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Any enquiries regarding this publication should be sent to us at: HUG.Project@beis.gov.uk

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Guidance overview

This section provides an overview of the key headlines of the Home Upgrade Grant Phase 2 (HUG 2) policy.

It is not a replacement for the full guidance – which all applicants should read before applying.

Table 1: Guidance Overview

| Section | Overview |
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| <p>Introduction (see Section 1 Introduction)</p> | <p>HUG 2 is a government scheme awarding grants to Local Authorities (LAs) for energy efficiency and clean heating upgrades in owner occupied and private rented sector fuel-poor homes off the gas grid. HUG 2 aims to deliver two main objectives:</p> <ul style="list-style-type: none"> • To deliver progress towards the statutory fuel poverty target for England, by improving as many fuel-poor homes (of energy efficiency rating Band D, E, F and G) as reasonably practicable to Band C by 2030. • To progress the UK’s target to reach Net Zero by 2050, by supporting the phase out of off-gas grid fossil fuels and transition to low-carbon heating systems. <p>HUG 2 funding will be awarded from early 2023 with delivery running from April 2023 until March 2025.</p> <ul style="list-style-type: none"> • HUG 2 will follow on from HUG 1, which is expected to be in delivery until March 2023. |
| <p>Application Process (see Section 2 Applying to HUG Phase 2)</p> | <p>HUG 2 uses a challenge fund model to assess applications against a minimum set of criteria. All applications that pass the minimum requirements of the scheme will be funded to some degree until the total funding available is exhausted.</p> <p>The application process will involve two distinct application stages (outline and batch), with LAs submitting application forms at each stage. Between these two application stages there will be a delivery assurance check to ensure projects are ready to start the delivery of batches. Information requested at each stage will be kept to a minimum.</p> |

Outline application stage: Applicants will be asked about project size, commercial and delivery assurance, and low-income household targeting and verification approach. A Memorandum of Understanding (MoU) will be offered to successful applicants for signature and BEIS will award total funding for the project in principle. The in-principle funding will be drawn down throughout the lifetime of the project, subject to a successful delivery assurance check and batch applications. A 20% mobilisation payment will be released to LAs at the start of each financial year to resource project team(s), procure installers, identify, sign up and verify households, and undertake retrofit assessments of homes (see Upfront Payments section below).

Delivery assurance check: This will check adequate progress has been made against plans submitted in the outline application stage - specifically how the project has been resourced and if contractors have been procured and are in place to deliver upgrades, along with any revised delivery forecasts and project plans. LAs must pass this check to start the delivery of batches.

Batch application stage: LAs will submit actual housing stock data, measure mixes, and costs for a batch of 'ready to retrofit' homes (households signed up, validated, and assessed for measures in line with PAS 2035). If the batch is approved, the LA will draw down funds from BEIS to deliver the upgrades. This final step is repeated throughout the delivery window, with funding released in batches. LAs are encouraged to submit a first batch application as soon as they are ready to do so.

The outline application stage will be open for ~4 months from September 2022 to 27 January 2023. There will be two rounds of assessment where LAs can be awarded funding on a first-come-first-served basis. The submission deadlines for these assessment rounds are 18 November 2022 and 27 January 2023. If BEIS does not allocate all available funding to LAs during these two assessment rounds, BEIS may open a third assessment round thereafter if required.

LAs that submit applications to the first assessment round will benefit from extra months for project mobilisation. We will work with LAs to facilitate early delivery, including

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| | <p>funding for mobilisation in the latter part of this financial year (during February, March 2023) where possible. Early applicants will also benefit from the opportunity to revise their applications and resubmit to the second assessment round if initially unsuccessful. Applicants who wish to apply to the second round cannot be guaranteed that there will still be funding available, and should acknowledge the risk that all funding may be allocated in the first round. Given this, we strongly encourage LAs to apply to the first assessment round if possible.</p> <p>BEIS reserve the right to add a third outline application round, and to reserve this for rural LAs only, if necessary.</p> <p>Re-baselining: In the outline application, LAs will submit a forecast of the number of homes they plan to treat under HUG 2. There will be an opportunity for LAs to revise the original forecast between the outline and batch applications at the delivery assurance check or by submitting change requests to BEIS.</p> |
| <p>Upfront Payments (see Section 3.4 Funding and Eligible Costs)</p> | <p>For HUG 2, 30% of funds will be granted as an upfront payment for each financial year. The upfront payment is split into two purposes: a 20% mobilisation payment and a 10% deposit payment. The payments will be granted together at the start of each financial year.</p> <p>Mobilisation payment: The mobilisation payment can be used for both administrative costs and ancillary works (A&A) and capital expenses each financial year that are necessary ahead of retrofitting homes with measures. This includes resourcing, procurement, specialist advice, searching for eligible homes, signing up households, validating homes, assessing homes, and agreeing a measures package in line with PAS 2035. Essentially this should constitute all A&A expenses plus some capital expenses required pre-delivery, such as PAS assessment costs.</p> <p>The mobilisation payment will constitute 20% of funding for financial years 2023/24 and 2024/25. LAs must comply with the 15% A&A limit across these two years when utilising their mobilisation payments. Any leftover mobilisation funding should be used to substitute an equivalent portion of batch payments later within the financial year to ensure</p> |

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| | <p>in-year spend requirements are met and to prevent underspend being returned to BEIS.</p> <p>We will work with LAs to facilitate early delivery, including funding for mobilisation in the latter part of this Financial Year (during February, March) where possible. This extra mobilisation funding will not count towards your 15% A&A cap across the formal Grant period of April 2023 to March 2025.</p> <p>Deposit payment: A deposit payment of 10% of the grant awarded for financial years 2023/24 and 2024/25 respectively will be transferred at the start of those financial years. The purpose of this upfront payment is for LAs to start upgrading batches of approved homes with measures immediately after a batch application is approved during the weeks whilst BEIS releases the necessary funds. This deposit payment should be spent by end of financial year, and so should be used to substitute a proportionate amount of batch payments in the latter parts of each financial year – or earlier if no further batches are expected to be submitted for approval in the given financial year.</p> |
| <p>Scoring Criteria (see Section 2 Applying to HUG Phase 2)</p> | <p>HUG 2 will have two application stages and a delivery assurance check where the LA project will be evaluated prior to drawing down funds to retrofit homes. These are:</p> <ul style="list-style-type: none"> • Outline application stage • Delivery assurance check • Batch application stage <p>For the outline application stage, the scoring criteria will use red, amber, and green scores. The batch application stage will only use red and green scores.</p> <ul style="list-style-type: none"> • One or more red scores means the application has been unsuccessful, and the LA will need to revise and resubmit their application if possible. • An amber score for one or more questions means the application can be successful if the LA is willing to accept specific conditions. • All green scores mean the application is successful and there are no specific conditions to accept to move to the next stage. |

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| <p>Eligible Applicants (see Section 2.8 Eligible Applicants)</p> | <p>Applications will only be accepted from LAs in England. For applications relating to a consortium, the application must be made by a singular lead LA as part of the consortium.</p> <ul style="list-style-type: none"> • Payments will be made to 'Local Authorities' as defined by Section 31 of the Local Government Act (2003) <p>Applications must meet a minimum funding proposal value of £500,000.</p> |
| <p>Awarding of Funds and Rural Ringfence (see Section 3.5 Rural Funding Ringfence)</p> | <p>60% of HUG 2 funding will be ringfenced for rural LAs (including rural LAs in a consortium led by an urban LA). The remaining 40% will not be ringfenced and so will be available to both rural and urban LAs. If the non-ringfenced pot of funding is exhausted in the first assessment round, the second assessment round may only be open to rural LAs.</p> <p>Rurality of LAs is determined using Defra's Rural-Urban Local Authority Classification. Under this classification, any LA that is categorised as 'Mainly Rural', 'Largely Rural' or 'Urban with Significant Rural' is considered a rural LA for the purpose of this scheme.</p> <p>See Annex B for the rurality classification of each LA on the Home Upgrade Grant Phase 2 page.</p> <p>BEIS reserves the right to offer a successful applicant only a portion of their total bid, or to condition the full portion of funding on strong delivery performance throughout the scheme.</p> <p>In determining funding allocations to qualifying LAs, BEIS reserves the right to review the distribution of HUG funding in support of the levelling up agenda and geographic prevalence of HUG eligible housing stock.</p> <p>Past performance in other large scale energy efficiency projects such as net zero schemes (e.g. Local Authority Delivery, Social Housing Decarbonisation Fund, or HUG Phase 1 schemes) will be considered by BEIS when assessing applications and may impact the amount of funding awarded.</p> |

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| <p>Eligible Households (see Section 3.1 Eligible Households)</p> | <p>Eligible households must either:</p> <p>1) Have a combined gross annual household income of no more than £31,000. Household income must be verified – either through income verification, or other income proxies e.g. means-tested benefits, or low-income council tax reductions; or</p> <p>2) Be located in an eligible area. A new area-based eligibility route has been introduced for HUG 2, using income deprivation data drawn from the Indices of Multiple Deprivation (IMD) 2019. Households living in the most economically deprived neighbourhoods (income deciles 1-3) will be automatically eligible for upgrades, provided they live in off-gas grid properties rated EPC Band D or below. Whilst LAs will not need to verify the income of these households, they should obtain proof of address and verify that the property itself is eligible. For a list of eligible postcodes see the supporting list on gov.uk.</p> |
| <p>Eligible Properties (see Section 3.2 Eligible Properties)</p> | <p>Eligible properties for HUG 2 are subject to the following requirements:</p> <ul style="list-style-type: none"> • Domestic dwellings only; • Off-gas grid dwellings only (electricity, oil, coal, LPG, or solid fuels used for heating purposes rather than mains gas); • Only dwellings with an EPC rating of band D, E, F or G (this is a SAP score of 68 or below); • Owner occupier and private rented sector (PRS) dwellings are only eligible with the following restrictions: <ul style="list-style-type: none"> ○ PRS will be restricted to landlords with a portfolio of four properties or fewer; ○ Landlords will have to declare that they have not received subsidy over the Minimal Financial Assistance limit of £315k. This includes the value of HUG 2 support to be given to the landlord, and includes any previous Minimal Financial assistance or equivalent given to the landlords over the current and previous 2 financial years. |

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| | <ul style="list-style-type: none"> • Social Housing is allowed for in-fill purposes only, up to a maximum of 10% and only as part of area based retrofit of mixed tenure housing; • Park homes are eligible but should make up less than 10% of the total homes treated per project; • Average incomes may be used across a block or row of flats/houses/maisonettes below £31,000 per year to facilitate in-fill area-based upgrades. |
| <p>Eligible Measures (see Section 3.3 Eligible Measures)</p> | <p>Eligible measures are any energy efficiency and heating measures compatible with the Standard Assessment Procedure (SAP) that will help improve the energy performance of homes.</p> <p>Fossil fuel based heating systems are ineligible (including hybrid heat pumps).</p> <p>A fabric first approach (of insulation and heat loss prevention measures) to works is required, in line with the principles of PAS 2035.</p> <p>Measures have been categorised as grade A, B, or C, according to various considerations, including strategic fit, value for money, and the size of the roll out expected under HUG 2 (see table in Section 3.3).</p> <p>Grade A measures must represent at least 60% of measures costs per LA project, whilst grade C measures cannot represent more than 10% of measures costs per LA project.</p> |
| <p>Low Carbon Heating (see Section 3.3.5 Low Carbon Heat and Section 3.3.6 Heat Pumps and Consumer Advice)</p> | <p>When low carbon heating systems are being installed, heat pumps should be the lead technology installed in homes, and consumers should have the final decision about whether a heat pump or other clean heating technology is installed.</p> <p>Alternative low carbon heating technologies should only be installed if a heat pump is deemed technically unsuitable for the home even after energy efficiency measures.</p> <p>It should be made clear to all ‘technically suitable’ households that a heat pump is an available measure.</p> <p>Retrofit Coordinators should ensure close compliance with PAS 2035 regarding determining intended outcomes and appropriate measures for the retrofit with the householder</p> |

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| | <p>to ensure potential unintended or unexpected negative impacts on fuel bills are avoided.</p> <p>For all homes ‘technically suitable’ for a heat pump, we expect households to be given clear and accurate advice about the likely bill impacts the package of measures will have on their household energy bills.</p> <p>The final decision about installing a heat pump should always sit with the consumer. The LA is required to ensure clear consumer advice is given to the consumer by the retrofit co-ordinator on bill impacts of installing a heat pump, and demonstrations on how to use the technology. This will allow the household to make an informed choice about whether a heat pump is suitable for them.</p> |
| <p>Performance Expectations (see Section 3.3.1 Performance Expectations)</p> | <p>EPC band F-G homes should be upgraded to at least band D. EPC band D-E homes should be upgraded to band C. In cases where this is not possible within the cost caps, LAs should evidence that they have taken a fabric first and value for money approach to upgrades.</p> <p>In addition to the above EPC improvements, consideration should be given to the outcome of improving properties to a space heating demand target of 90 kWh/m²/year or better (as per SAP 2012 worksheet box 99 or equivalent), where reasonable and cost effective. This is to help ensure that upgrades are focused on measures that have the greatest impact on reducing the heating demand of the property.</p> |
| <p>Funding and Eligible Costs (see Section 3.4 Funding and Eligible Costs)</p> | <p>As part of the grant, LAs will be given 15% of their total grant value per financial year to fund administrative, delivery and A&A costs. LAs should ensure that they do not overspend on A&A across the grant period of April 23 to March 2025 when using their mobilisation payments. Any extra funding for mobilisation that may be released to LAs before April 23 where possible will not count towards this A&A limit.</p> <p>HUG 2 has introduced new distinct capital cost caps for energy efficiency and low carbon heat. Cost caps are based on property characteristics (archetype and wall type), rather than EPC banding which was the case for HUG 1.</p> |

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| | <p>The energy efficiency cost cap ranges from £3k-24k dependent on property archetype and characteristics. The clean heat cost cap ranges from £5k-14k based on property archetype. The total cost cap for a home will therefore range from £3-38k.</p> <p>All LAs will be allocated an average spend of £18k per home when applying for funding at the outline application stage. This will not prevent them from treating homes which involve a higher or lower spend based on their property characteristics and the specific measures packages once this is known at batch application stage.</p> <p>Given the large variations that could occur between funding in principle and actual funding used to upgrade the same number of homes across a given project, the measurement of delivery performance will primarily be based on the number of homes treated and the quality of upgrades delivered (EPC aspirations being met).</p> <p>For PRS properties, landlords receive up to two-thirds of the subsidy received by an owner occupier in a dwelling of the same type (see cost cap tables in Section 3.4.4). A landlord contribution of at least one third of total capital cost of upgrades is required.</p> <p>For eligible social housing properties, landlords will be required to contribute at least half the capital cost of upgrades.</p> |
| <p>Eligible Installers (see Section 3.6 Eligible Installers)</p> | <p>All installers must be TrustMark registered businesses or equivalent, and compliant with corresponding regulations.</p> <p>All installers must adhere to the most recent version of PAS 2030:2019 standard (by a certification body accredited by UKAS) and work in compliance with the latest PAS 2035 guidance.</p> <p>Installers of low carbon heat must also be MCS certified or equivalent.</p> |
| <p>Technical Assistance Facility (see Section 3.8 Technical Assistance Facility)</p> | <p>BEIS has established a Technical Assistance Facility (TAF) to provide technical support for all applicants interested in accessing funding under HUG 2.</p> <p>Technical assistance for the HUG 2 application process will be delivered under the name of the Home Upgrade Hub</p> |

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| | <p>through our commercial technical support partner Turner & Townsend, which is the same provider as the Social Housing Retrofit Accelerator service available for the Social Housing Decarbonisation Fund Wave 1 and Wave 2.</p> <p>LAs can self-refer to the Home Upgrade Hub (HomeUpgradeHub.org.uk). Alternatively, LAs will be directed by BEIS to its services if they are unsuccessful at either the outline application stage or delivery assurance check.</p> <p>Technical support from the Home Upgrade Hub will not be available once LAs have passed the delivery assurance check. However, the Home Upgrade Hub online materials will still be accessible throughout the delivery window.</p> |
| <p>Interaction with Other Schemes (see Section 3.7 Interaction with Other Schemes)</p> | <p>Homes that received upgrades as part of previous net zero schemes will also be eligible under HUG 2, provided the property and household meet the relevant eligibility criteria.</p> <p>However, HUG 1 treated households will only be eligible to receive low carbon heat under HUG 2, and only if low carbon heat was not received under HUG 1 (i.e. the home only received energy efficiency measures). The LA is required to check that the household did not receive low carbon heating, and that the household still meets all other eligibility requirements.</p> <p>HUG 2 funding cannot be blended with other government funding for the same measure. Where permitted by the rules of other energy efficiency schemes, HUG 2 funding may be used alongside those other schemes to pay for separate measures in the same dwelling. It is the responsibility of the LA to ensure that any blending of funding is compliant with each individual scheme and the respective requirements and objectives for each fund is met.</p> <p>LAs can blend HUG 2 funding with third party finance or LA budget match funding.</p> |
| <p>UK Subsidy Control and Other Legal Requirements (see Section 4 Other Information)</p> | <p>LAs must use the funding in line with the subsidy control requirements, as outlined in the EU-UK Trade and Cooperation Agreement (TCA).</p> |

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| | <p>In the case of private rented properties, landlords will have to declare that they have not received subsidy over the Minimal Financial Assistance limit of £315k.</p> <p>HUG 2 provides funding in line with the UK's obligations and commitments to subsidy control, both internationally and under the domestic Subsidy Control Act 2022.</p> <p>LAs must comply with the requirements of the Equality Act 2010 and avoid any unlawful discrimination.</p> <p>LAs must comply with Public Contract Regulations 2015.</p> <p>LAs should maintain their own policies and procedures to ensure compliance with the Modern Slavery Act 2015 and include anti-slavery and human trafficking provisions in their contracts with suppliers and subcontractors.</p> |
| <p>Upfront VAT (see Section 4 Other Information)</p> | <p>HUG 2 grant funding falls outside of the scope of VAT. This is because the provision of the grant is not a consideration of supply for VAT purposes.</p> <p>As LAs are able to recover VAT from HMRC, BEIS do not expect VAT to be included in their proposals so as to avoid grant payments being used for VAT, which is later recovered by the LA.</p> <p>LAs will be asked to state that they have not included VAT as part of their costs in the application form. If LAs are unable to affirm this statement, they will be asked to explain why VAT has been included and specify the VAT rate.</p> |
| <p>Conditions and Process of Payment (see Section 3.4 Funding and Eligible Costs)</p> | <p>Grant payments will be issued to the LA (or lead LA from a consortium) under Section 31 of the Local Government Act 2003.</p> <p>Payments will be made to 'Local Authorities' as defined by Section 33 of the Local Government Act (2003).</p> <p>LAs will be receive upfront payments comprised of two parts: a 20% mobilisation payment to be used for both A&A and capital spend; and a deposit payment of 10% to be used to start upgrades to homes immediately upon batch approval whilst BEIS releases the funds. These upfront</p> |

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| | <p>payments will be paid in portions at the start of each financial year to ensure in-year spending.</p> <p>The mobilisation payment will constitute 20% of funding requested for financial years 2023/24 and 2024/25.</p> <p>We will work with LAs to facilitate early delivery, including funding for mobilisation in the latter part of this Financial Year (during February, March) where possible. This extra mobilisation funding will not count towards your 15% A&A cap across the formal Grant period of April 2023 to March 2025.</p> <p>LAs will draw down the remaining forecasted funding in portions over the course of the delivery window each time a batch application is approved.</p> <p>LAs will be expected to deliver their total number of homes and total funding by 31 March 2025.</p> <p>LAs must follow in-year spend requirements, and therefore deliver the total number of homes forecasted per financial year. Funding cannot be carried across financial years by the LA, and the LA should therefore not request more funding than can reasonably be spent each financial year. Funding that cannot be spent within the same financial year must be returned to BEIS.</p> |
| <p>Monitoring and Evaluation (see Section 5.2 Monitoring and Evaluation)</p> | <p>LAs are required each month to share the KPI metrics and the monitoring data specified in the MoU (published on Gov.uk in October 2022) with BEIS for the purposes of BEIS's essential monitoring requirements. These requirements include scheme governance, performance management, benefits measurement, audit, fraud, and official statistics.</p> <p>LAs will be required to participate in BEIS' independent evaluation of HUG 2. LAs will be required to collate contact information for participating parties (homeowners, installers, delivery partners) and securely share this with BEIS. Participating parties may be contacted and invited by BEIS or by BEIS' evaluation contractor to participate in the evaluation research.</p> |

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| <p>Managing Potential Fraud (see Section 5.3 Monitoring Potential Fraud)</p> | <p>BEIS has a zero tolerance to fraud, and as such reserves the right to withdraw or claw back funding if the scheme requirements/eligibility criteria are not met.</p> <p>To ensure the safe administration of funding, LAs are expected to have appropriate measures in place to mitigate against the increased risks of both fraud and payment error.</p> <p>Due diligence and fraud checks will also be conducted and overseen by BEIS.</p> <p>LAs must complete a Fraud Risk Assessment as part of the MoU submission process, identifying potential fraud risks to the project.</p> |
| <p>Post Launch Webinars (see Section 2.9 Webinars)</p> | <p>BEIS will host webinars following the launch of HUG 2 to share details of the scheme, outline the application process and answer any questions. Further information about these webinars will be available in due course. There will also be briefings, podcasts, and other promotional activities on the Home Upgrade Hub website (HomeUpgradeHub.org.uk).</p> |
| <p>Submission of the Application (see Section 2 Applying to HUG Phase 2)</p> | <p>The online application form will be available to download from the Home Upgrade Grant Phase 2 page.</p> <p>The batch application form will be available in early 2023.</p> <p>All completed applications and required attachments must be submitted electronically to the HUG.Project@beis.gov.uk within the application windows.</p> |

Key dates

Below the key milestones across the application and delivery of HUG 2. Please note dates are subject to change, at the discretion of BEIS.

Table 2: Key Scheme Dates

| Project Milestone | Provisional Date |
|-----------------------------------|--|
| Outline application window launch | September 2022 |
| Assessment round 1 deadline | 18 November 2022 |
| Assessment Round 2 Deadline | 27 January 2023 |
| 30% upfront payment for 23/24 | April 2023 |
| Delivery assurance checks | From 1 April 2023, once an LA is ready to submit evidence of their procurement and resource progress |
| Batch submissions begin | 1 April 2023 |
| 30% upfront payment for 24/25 | April 2024 |
| Delivery window ends | 31 March 2025 |
| Final reports | 30 April 2025 |

Executive summary

The Home Upgrade Grant (HUG) is a government-funded grant scheme that provides energy efficiency upgrades and low carbon heating to low-income households living in the worst quality, off-gas grid homes in England.

HUG has two key objectives:

- To deliver progress towards the statutory fuel poverty target for England, by improving as many fuel-poor homes as reasonably practicable to a minimum energy efficiency rating of Band C by 2030, with the interim milestone of Band D by 2025.
- To enable the delivery of the wider Net Zero programme to phase out high-carbon heating for homes off the mains gas grid, by growing supply chains and ensuring such policies do not act to the detriment of fuel-poor households.

Due to global factors, many households in the UK are experiencing significant increases to their energy bills, as well as many other household costs. HUG 2 will be offering support to the most vulnerable households at a critical time and will provide financial support to lower energy bills by installing energy saving measures and, where appropriate, low carbon heating. HUG 2 will also support improved household health and wellbeing by reducing the number of cold homes and play a key role in the government's wider programme of green retrofit as set out in the Heat and Buildings Strategy¹ published in October 2021.

HUG 2 is the second phase of the HUG scheme and will build on the policy specification of HUG 1, which has been delivering as part of the Sustainable Warmth Competition from early 2022. Initial grant funding for HUG 2 will be awarded to successful LAs in two stages over an outline application window running from September 2022 to 27 January 2023, with delivery running from April 2023 to March 2025.

LAs that apply early before the first assessment round deadline will have more time for project mobilisation, and opportunities to revise their applications and resubmit later in the outline application window if initially unsuccessful. This is a key lesson learned from HUG 1 and the Local Authority Delivery (LAD) schemes and we therefore strongly encourage LAs to apply as early as possible. We will also work with LAs who apply in November 22 to facilitate early delivery, including funding for mobilisation in the latter part of this Financial Year (during February, March) where possible.

This guidance covers HUG 2 and should be read prior to completing [the HUG 2 online application form which is available to download from the Home Upgrade Grant Phase 2 page](#).

¹ www.gov.uk/government/publications/heat-and-buildings-strategy

Policy summary

The HUG scheme aims to provide energy efficiency upgrades and low-carbon heating to low-income households living in the worst quality, off-gas grid homes in England. This is to tackle fuel poverty and make progress towards Net Zero by 2050.

Government has so far allocated a total of £1.1 billion to HUG. £218m has already been allocated to 42 projects under HUG 1 which cover over 200 LA areas, with delivery expected to conclude by March 2023. HUG 2 will allocate up to £700m, with funding expected to be delivered from early 2023 to 2025. BEIS reserves the right to alter the level of funding allocated to HUG 2 at any stage without prejudice to any grant funding already awarded.

HUG 2 funding will provide continuity for LAs delivering existing HUG 1 projects so they can continue providing HUG upgrades in their areas. This funding will also provide opportunities for LAs not participating in HUG 1 to start delivering upgrades in their areas.

The policy intent for HUG is to raise the energy efficiency rating of off-gas grid homes and help these households transition to clean heat. As a minimum, we expect that EPC band F-G homes should be upgraded to at least band D and band D-E homes to band C. These improvements align with the statutory fuel poverty target of improving the energy performance of fuel-poor homes to energy efficiency rating Band C by 2030, with an interim milestone of band D by 2025. In addition, we are introducing a 90 kWh/m²/year space heating demand (SHD) consideration where reasonable and cost effective for HUG 2 to guide retrofit designs and support a fabric first approach (of insulation and heat loss prevention measures), in line with the principles of PAS 2035.

For HUG 2, we are introducing distinct cost caps for energy efficiency and low carbon heat measures, based on property characteristics rather than EPC banding, as a better indicator of retrofit costs. There is a total combined cost cap range of £3,000-38,000 (see Tables 3 and 4). All LAs will be allocated an average spend of £18k per upgrade when applying for funding at outline application stage. This is an in principal figure as in reality homes treated will vary in cost and will not prevent LAs for spending more or less depending on the types of homes treated so long as spending is within the cost cap rules.

Tables 3 and 4. HUG 2 cost caps

| Energy efficiency cost cap | | |
|----------------------------------|-------------|------------|
| Archetype | Cavity wall | Solid wall |
| Flat | £3k | £9k |
| Mid-terrace | £8k | £15k |
| End of terrace/ semi/detached | £12k | £24k |

| Clean heat cost cap | |
|----------------------------------|--------|
| Archetype | Amount |
| Flat | £5k |
| Mid-terrace | £14k |
| End of terrace/ semi/detached | |

Main changes from Home Upgrade Grant Phase 1

Some key policy changes have been made to the policy specification of HUG 2 compared to HUG 1. The major changes are:

- Transition of grant allocation model from a competition to a challenge fund.
- Ringfencing 60% of funding for rural Local Authorities
- Newly designed cost caps
- Introduction of an additional area-based eligibility route
- Introduction of a space heating demand consideration
- New eligible measures anticipated to be introduced to SAP
- Amended tenure eligibility
- Removal of cap on Energy Performance Certificate Band D homes.

See **Annex A** for specific detail about these changes.

Application process summary

HUG 2 will allocate grant funding using a challenge fund allocation model. There are several key principles of the challenge fund model, which differ from the competition model used to allocate funding for HUG 1:

- LAs will qualify for funding by meeting a minimum set of criteria; all applications that pass the minimum requirements of the scheme will be funded to some degree until the total funding available is exhausted;
- LAs who apply early will have the opportunity to revise their applications and reapply for funding (should their application be initially unsuccessful) over a 4 month application window;
- Funding will be drawn down in portions throughout the delivery window to upgrade batches of homes deemed 'ready to retrofit' (signed up, validated, and assessed in line with PAS 2035).

A new application process has been designed to accommodate the model and will instead involve two application stages and a delivery assurance check. This will involve a form at each stage, and the LA must pass each stage prior to gaining approval and release of funds to deliver upgrades to homes. These are:

- Outline application stage
- Delivery assurance check
- Batch application stage

Across the application stages, LAs will be asked to set out details of their plans to target low-income households, identify the least energy efficient housing stock and deliver value for money upgrades by March 2025. This new challenge fund approach is intended to drive broader coverage of spending, request information of the required level of detail from LAs at the appropriate time in the project life cycle, improve the realisation of scheme benefits, and reduce financial risk associated with 100% upfront grants by ensuring LAs draw down funding in batches over the delivery window only once homes are ready for installation.

Enquiries and FAQs

This guidance document sets out all relevant detail about HUG 2 which we encourage LAs to read in full prior to submitting an application.

We would also encourage all LAs to utilise the Home Upgrade Hub website as a source of information and support (HomeUpgradeHub.org.uk). Any enquiries, including questions related to the Technical Assistance Facility, should be directed to info@homeupgradehub.org.uk.

We will publish a FAQ document in due course, that we intend to update regularly. LAs should review the FAQ document in the first instance, should they have any questions. Any clarifications on the guidance or application form should be sent to HUG.Project@beis.gov.uk

1. Introduction

The Home Upgrade Grant (HUG) is a government-funded grant scheme that provides energy efficiency upgrades and low carbon heating to low-income households living in the worst quality, off-gas grid homes in England.

HUG has two key objectives:

- To deliver progress towards the statutory fuel poverty target for England, by improving as many fuel-poor homes as reasonably practicable to a minimum energy efficiency rating of Band C by 2030, with the interim milestone of Band D by 2025.
- To enable the delivery of the wider Net Zero programme to phase out high-carbon heating for homes off the mains gas grid, by growing supply chains and ensuring such policies do not act to the detriment of fuel-poor households.

Funding has been made available to achieve the following benefits:

- Tackle fuel poverty, particularly in a time when fuel prices have increased due to global factors, by increasing low-income homes' energy efficiency rating and reducing their energy bills – a key principle of the [Fuel Poverty Strategy](#)² (2021);
- Deliver cost effective carbon savings to carbon budgets and make progress towards the UK's target for Net Zero by 2050;
- Ensure homes are thermally comfortable, efficient and well-adapted to climate change;
- Progress the ambition to install 600,000 heat pumps per year by 2028, as part of the [10 Point Plan for a Green Industrial Revolution](#)³;
- Support clean, local growth, while investing in quality living standards and job creation – specified in the [Net Zero Strategy](#)⁴ (2021);
- Support economic resilience and a green recovery in response to the economic impacts of COVID-19, by supporting thousands of jobs.

By focussing on low-income households and areas of high economic deprivation, upgrades made to the housing stock will support deprived communities throughout England, ensuring that they are not left behind in the transition towards Net Zero.

This document sets out detailed guidance for LAs interested in applying, outlining:

²https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/960200/CCS207_CCS0221018682-001_CP_391_Sustainable_Warmth_Print.pdf

³https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936567/10_POINT_PLAN_BOOKLET.pdf

⁴https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033990/net-zero-strategy-beis.pdf

- The application process – a high-level overview of the process, requirements for the application and key dates
- Scoring criteria – a summary of how applications will be assessed
- Eligibility guidance – to be considered for funding, LAs will need to show they have met the eligibility criteria
- **Annex A** Key changes compared to HUG 1
- **Annex B** Rurality classifications
- **Annex C** Defining domestic properties

2. Applying to HUG Phase 2

The Department for Business, Energy and Industrial Strategy (BEIS) is inviting LAs to apply for funding to upgrade the worst quality, off-gas grid homes inhabited by low-income residents living in their area with energy efficiency measures and low carbon heating. This funding is exclusively reserved for off-gas grid homes (homes which are not heated using gas, i.e. dwellings that use oil, liquid petroleum gas (LPG), coal, solid fuels, or electricity for heating purposes). Households connected to the mains gas grid for heating purposes are not eligible, including where the primary heating source of a mains gas boiler is broken and the secondary heating source is electricity. Ahead of their application we encourage LAs to consider their housing stock and assess whether their application will support the main objectives of the scheme. Our goal is to improve the energy performance of these homes to EPC Band C where possible (or at least EPC D if the home is F-G rated) with a space heating demand consideration of 90 kWh/m²/year, to take homes out of fuel poverty and progress towards the UK's legally binding commitment to reach Net Zero by 2050.

HUG 2 will transition its grant allocation model from a competition used in previous phases to a challenge fund. There are several key principles of the challenge fund model, which differ from the competition model used to allocate funding for HUG 1.

Firstly, individual LAs (and consortia) will qualify for funding by meeting a minimum set of criteria rather than by out-competing other bidders at their expense. All applications that pass the minimum requirements of the scheme will be funded to some degree until the total funding available is exhausted.

Secondly, LAs who apply early will have an opportunity to revise their applications and reapply for funding (should their application be initially unsuccessful) over a longer application window spanning 4 months (unless funding is exhausted earlier). This approach will help to drive broader coverage and geographical spread of HUG 2.

Thirdly, grant funding will be drawn down in portions throughout the delivery window to upgrade batches of homes deemed 'ready to retrofit' (signed up, validated, and assessed in line with PAS 2035). This aims to minimise the need for large amounts of allocated capital funding to be returned to BEIS from LAs who have then struggled to deliver projects.

A new application process has been designed to accommodate the model and will instead involve two application stages. This will involve a form at each stage, and the LA must pass each stage prior to gaining approval and release of funds to deliver upgrades to homes. These are:

- Outline Application Stage
- Delivery Assurance Check
- Batch Application Stage

Outline Application Stage

Assesses low income targeting & verification, resourcing strategy, procurement strategy, project delivery forecasts, and use & size of upfront payment

Upfront Payments

BEIS will release a Mobilisation Payment of up to 20% of financial year spend, and a Deposit Payment of 10% at the start of each Financial Year so LAs can mobilise & administer their projects, and begin delivery immediately on approved batches of homes whilst awaiting transfer of funds from BEIS

Delivery Assurance Check

Assesses updates on resource, whether contracts are in place to begin delivery, and any revised delivery forecasts & project plans

Batch Application Stage

The batch of 'ready to retrofit' homes are assessed to ensure measure mix, measure costs, cost expectations per home type, and housing stock mix are within scheme rules

Release of funds

LA is transferred funds to upgrade approved batch of homes. 10% deposit payment can be used to start works immediately in weeks whilst BEIS releases funds



Across the application forms (outline and batch), LAs will be asked to set out details of their plans to target low-income households, identify the least energy efficient housing stock and deliver value for money upgrades by March 2025. Applications for funding can be for an individual LA or for multiple LAs applying together, as part of a consortia.

This new challenge fund approach is intended to drive broader coverage of spending, request information of the required level of detail from LAs at the appropriate time in the project life cycle, improve the realisation of scheme benefits, and reduce financial risk associated with 100% upfront grants by ensuring LAs draw down funding in batches over the delivery window only once homes are ready for installation.

BEIS reserve the right to reduce the number of assessment rounds and to close the outline application stage early if necessary, or to add a third assessment round if there is still funding available after the first two rounds.

[The online application form is available to download from the Home Upgrade Grant Phase 2 page.](#) The batch application form will be published in early 2023.

2.1 Outline Application Stage

At the outline application stage, the level of funding in principle will be determined using a £18k per home average figure across all projects. Applicants will be asked about project size, commercial and delivery assurance, and their low-income household targeting and verification approach. BEIS will award total funding for the project in principle and a Memorandum of Understanding (MoU) will be offered for signature. The in-principle funding will be drawn down on throughout the lifetime of the project, subject to the delivery assurance check and approval of batch applications.

A 20% mobilisation payment will be given at the start of each financial year, which the LA can use for both administrative and ancillary (A&A) and capital expenses, such as to resource, procure, advertise, pay for specialist advice, and to sign up, validate, and assess homes in line with PAS 2035 requirements each financial year. Essentially this should constitute all A&A expenses needed for the set up stage, plus some capital expenses required pre-delivery such as PAS 2035 compliant Retrofit Assessment costs. This mobilisation payment will be 20% of the grant for each year for financial years 2023/24 and 2024/25, subject to continued compliance with the MoU.

LAs must comply with the 15% A&A limit when utilising their mobilisation payments. Provided the application is successful, the first mobilisation payment will be transferred once the LA has returned the signed MoU to BEIS.

We will also work with LAs to facilitate early delivery, including funding for mobilisation in the latter part of this Financial Year (during February, March) where possible. This extra mobilisation funding will not count towards your 15% A&A cap across the formal Grant period of April 2023 to March 2025.

2.2 Delivery Assurance Check

The delivery assurance check will monitor plans submitted at the outline application stage to check adequate progress has been made - specifically, how the project has been resourced, if contractors have been procured and are in place to begin upgrades immediately, and any revised project delivery forecasts or project plans.

2.3 Batch Application Stage

At the batch application stage, LAs will provide housing stock data, measure mixes, and costs for a batch of homes that are 'ready-to-retrofit' (households signed up, validated, and assessed for measures in line with PAS 2035). If the batch is approved, the LA will be able to draw down the requested funds to complete the respective upgrades for that batch. This final step will be repeated numerous times throughout the delivery window, with funding released in batches.

Batch applications must be submitted before 31 December 2024.

2.4 Receiving Funding and Memorandum of Understanding

Successful LAs will receive conditions of funding in principle as part of the MoU. These conditions will be based on the delivery forecasts and milestones proposed as part of the LA's outline application. Successful LAs will then be required to sign and return the MoU, which will include a Privacy Notice, Data Sharing Agreement and Grant Determination Notice, so that BEIS can issue grant payments to the LA (or lead LA from a consortium) under Section 31 of the Local Government Act 2003.

Unlike HUG 1, successful applicants to HUG 2 will not receive a 100% grant payment at the start of the delivery window. For HUG 2, 30% of funds will be given as an upfront payment at the start of each financial year, comprised of two parts: a 20% mobilisation payment (see outline application stage above) and a 10% deposit payment, given together at the start of each financial year. The remaining funds will be drawn down in batches and paid out subject to delivery performance compared to performance indicators and conditions specified in the MoU.

Subject to continued compliance with the MoU, a 10% deposit payment will be given to successful LAs at the start of financial years 23/24 and 24/25 so upgrades can start immediately upon batch approval in the weeks whilst BEIS transfers the remainder of the funding to the LA's bank account. Both the deposit payment and mobilisation payment must be spent by the end of financial year. To avoid upfront payments not being utilised within the financial year, or claw back being required, payments for batches being delivered in quarter 4 of a financial year will in the first instance utilise any remaining upfront payment before providing any additional required costs to deliver the batch.

Where BEIS is not satisfied with performance, BEIS may withhold some of the remaining funds, divert forecasted funds to other higher performing projects, clawback funds that cannot

reasonably be spent within the given financial year, or in extreme cases no further payment will be made. More detail will be provided in the MoU. LAs will be monitored against the performance indicators and conditions specified in the MoU. Failure to comply with these milestones may result in funding being reduced, and in extreme cases being entirely withheld. This will ensure BEIS is confident with the costs of the project to date⁵ and that the applicant has sufficient capability to utilise the full grant allocation.

LAs must follow in-year spend requirements. Funding cannot be carried across financial years by the LA, and the LA should therefore not request more funding than can reasonably be spent each financial year. Funding that cannot be spent within the same financial year must be returned to BEIS.

Funding for HUG 2 will consider past performance in other net zero schemes (such as the Local Authority Delivery scheme, HUG Phase 1 and the Social Housing Decarbonisation Fund) and whether applicants have stayed on track with the delivery milestones specified in their applications to these schemes, and if not what the level of underspend was or is expected to be.

To enable prompt payment, LAs are requested to return completed and signed MoUs within 20 working days. The first grant payment is dependent on timely receipt of MoUs; those received outside the 20 working days may result in a delay to payment of the grant. Where an MoU is not signed and returned within 20 days, the grant offer may be rescinded.

2.5 Re-baselining Forecasts

In the outline application LAs will submit a forecast of the number of homes they plan to treat under HUG 2. There will be an opportunity to re-baseline this forecast between the outline and batch application stages by 10% at the delivery assurance check. If a more substantial reforecast is required, LAs will need to submit a formal change request to BEIS.

BEIS expects the LAs to do all they can to deliver against the forecast set out in their approved HUG 2 outline or (if a revised forecast was submitted and agreed) in the MoU. If the LA is unable to deliver according to the delivery plan, or if there is any other deviation from the LA's MoU, they must notify their account manager and submit a change request as soon as possible. Further details of the process including relevant guidance and templates will be shared with LAs closer to delivery.

⁵ For example, by demonstrating appropriate use of the 15% administrative and ancillary budget.

2.6 Application Scoring Criteria

This section describes the criteria for each stage of the assessment and how they are scored.

LAs will have flexibility in how they design schemes within these eligibility parameters. However, proposals will be assessed against three criteria, ensuring the scheme prioritises bids that:

- Have the closest alignment to supporting government objectives (**strategic fit**)
- Demonstrate robust plans to deliver the project (**delivery and commercial assurance**)
- Represent the best cost effectiveness (**value for money**)

Outline application forms will be assessed using red, amber, green scores in order to evaluate applications and release funds.

- One or more red scores means the application has been unsuccessful, and the LA needs to revise and resubmit their application if possible.
- An amber score for one or more questions means the application will be successful if the LA is willing to accept specific conditions.
- All green scores mean the application is successful and there are no specific conditions to accept to move to the next stage.

The batch application stage will only use red and green scores, as the final release of funding for upgrades must be a yes or no decision without conditions.

Table 5: Application Stages and Scoring

| Application stage | Criteria | Sub-criteria | Application form |
|-------------------------------|--|--|---|
| Outline application | Strategic fit | Income targeting and verification approach | See questions 3a-3d. |
| | | Use of mobilisation payment | See questions 5b and 5c, and questions 7a, 7b, 7f and 7g. |
| | Commercial assurance | Commercial agreements and procurement activities | See questions 4a, 4b, 4e, 4f. |
| | Delivery assurance | Project management plans & past performance | See questions 5a and 5d |
| | | Project level delivery forecasting & milestones | See questions 6a-6c. |
| Batch application * | Strategic fit | Housing stock | |
| | Strategic fit and value for money | Measure mix & costs ratios | |
| | Value for money | Average cost per measure type | |
| | | Average grant costs per home type | |

2.7 Submission of Application

The outline application stage will run from September 2022 to 27 January 2023. There will be two rounds of assessment during the outline application window, with deadlines on 18 November 2022 and 27 January 2023 within this outline application stage. LA application forms should be submitted via email to HUG.Project@beis.gov.uk using the outline application form provided. Where LAs are successful at the outline application stage, BEIS expects to inform applicants if they have been successful within approximately 8 weeks of the application assessment deadline. BEIS will contact LAs individually to inform them of the outcome of outline applications, and this will also be published on gov.uk. BEIS reserves the right to add further outline application rounds if there is still HUG 2 funding available, and to reserve these for rural LAs only, if appropriate.

LAs that submit applications in time for the first round of assessment (18 November 2022) will benefit from several extra months for project mobilisation and will benefit from opportunities to revise their applications and resubmit in the second assessment round if initially unsuccessful. Finally, please note that applicants who wish to apply to the second round cannot be guaranteed that there will still be funding available, as all funding may be allocated in the first round. We therefore strongly encourage LAs to apply early by the first submission deadline on 18 November 2022.

LAs can submit a funding application for consideration until 27 January 2023, subject to funding still being available. Proposals received after this date will not be considered for funding. Applications must be submitted by the relevant LA, or the lead LA on behalf of a consortia.

BEIS officials will first review applications through an initial sift compliance check, followed by a full review of compliant applications. All assessments including the initial compliance sift will be quality assured and moderated for consistency purposes. Through the review process, proposals that are recommended for HUG 2 funding will be required to be approved at the relevant BEIS governance boards, before being sent to the BEIS Secretary of State for final approval.

Delivery of all projects funded under HUG 2 must be completed by 31st March 2025. LAs are asked to submit applications that they are confident can be fully delivered by the end of March 2025.

A project is considered completed if the number of homes proposed have been upgraded, and meet the key requirements on quality set out in the guidance (EPC F-G homes have been improved to at least band D and E-D homes have been improved to band C – or evidence has been provided to show a fabric first and value for money approach has been taken in instances where the EPC aspiration is not possible under the relevant cost caps). Given the grant is calculated using an average cost per home of £18,000, the amount of funding used to complete the project may be above or below the grant amount. If the funding amount is below the grant figure, the above quality requirements must be evidenced and approved for the project to be considered completed.

BEIS reserves the right to terminate the launch of HUG 2 at any time prior to grant funding being awarded, not to award any grants, or award grants for less than the total funding available under the HUG scheme. BEIS also reserves the right to propose a partial grant offer to any application submitted by an LA. BEIS will not be liable for any costs incurred in the preparation or submission of applications.

2.8 Eligible Applicants

Applications may only come from LAs or a 'functional body' (such as a mayoral authority) in England. No other body can apply, as grant funding is awarded under [Section 31 of the Local Government Act 2003](#)⁶. A Local Authority is defined under [Section 33](#)⁷ of the Act.

Applications representing a consortium of LAs should be submitted by a single LA, acting in its capacity as a 'Lead LA'. Lead LAs are expected to be the primary point of contact for consortia applications. Where proposals cross LA boundaries, a consortium application should also be submitted.

LAs can lead, or be included in, multiple applications and each application will be assessed on its own merit. Where a LA is involved in more than one application, BEIS will want to be satisfied that the LA has the capacity to deliver the full funding within the stated delivery window, should all applications for funding be successful. This means each bid submitted must be distinct. The housing stock to be upgraded must be unique and cannot form part of more than one application (even as part of a consortium bid). When drafting the application, the lead LA must list all the LAs included in the proposal, along with the estimated spend of each LA, their region, and their rural or urban classification. [The rurality classification can be found in Annex B on the Home Upgrade Grant Phase 2 page.](#)

LAs should apply with proposals that meet the primary purpose of HUG 2 and support the scheme's desired outcomes, as specified in **Section 3: Eligibility Criteria**.

Organisations providing social housing that are not LAs are not able to apply directly. However, they may support LAs in the preparation of an application and delivery of a project, provided that the registered organisation providing social housing has a commercial agreement in place with the LA as part of an LA's proposal for area-based upgrades of social housing stock for in-fill purposes only. Where a dwelling in the social housing sector is upgraded, the landlord will be required to contribute at least half of the cost of upgrades. Further details on tenure eligibility are specified in **Section 3.1: Eligible Households**.

All applications are subject to a total minimum funding proposal value of £500,000. There is no maximum funding level, however BEIS reserves the right to agree a revision or propose a partial grant offer to any application submitted by an LA.

Applications must be completed in full, even where the LA received HUG 1 funding. Applications which refer to past applications, rather than providing tailored and full information at the point of submission, will not be deemed to have met the application criteria and will not be considered under HUG 2.

⁶ www.legislation.gov.uk/ukpga/2003/26/section/31

⁷ www.legislation.gov.uk/ukpga/2003/26/section/33/2003-09-18

2.9 Webinars

To help LAs prepare for the next phase of HUG, BEIS will be hosting a series of webinars. This will sit separately to the HULA Forum which we expect will continue to take place on a quarterly basis for LAs to share their experiences of the HULA schemes (the Local Authority Delivery Schemes and the Homes Upgrade Grant), as well as best practices.

HUG 2 launch webinars: Webinars will be held following the launch of HUG, led by BEIS. These workshops will focus on the details of the HUG policy, the challenge fund model, application process, and funding available for LAs.

Application mid-point drop-in sessions: Q&A sessions will be held by BEIS to support local authorities with their applications. We expect to conduct at least two of these sessions over the application period.

Successful applicant workshops: Workshops will be held with the successful applicants of HUG 2 who have been awarded funding to launch delivery and outline delivery timeframes and processes.

3. Eligibility criteria

Through HUG, BEIS aims to fund as many projects as possible to upgrade poorly insulated off-gas grid homes of low-income households, which will help tackle fuel poverty, make progress towards Net Zero and support a green economic recovery in response to the economic impacts of COVID-19.

BEIS has specified key eligibility parameters for LAs to operate under HUG 2. This is to ensure proposals are aligned to government objectives and that funding is allocated accordingly. Within these parameters, LAs have the flexibility to deliver projects in accordance with their priorities.

LAs applying must confirm they, and the details of their applications, meet the key eligibility criteria for funding, including the following:

- Only LAs, as defined in section 31 of the Local Government Act 2003, in England will be able to apply for funding.
- Upgrades must be targeted at low-income households who are likely to be in fuel poverty (with an annual gross income of less than £31,000).
- Properties must have an EPC rating between band D-G and be off the gas grid (i.e. not use gas for their heating).
- Off-gas grid homes which have an EPC rating of between band D-G in Indices of Multiple Deprivation (IMD) income decile areas 1-3 are automatically eligible and do not require income verification.
- Properties must be existing domestic dwellings. New build or self-built homes which have not been previously occupied are ineligible.
- The private rented sector are included in the scheme, however, funding will be limited to landlords who have a portfolio of four or fewer properties.
- Energy efficiency and heating measures installed must be compatible with the [Reduced data Standard Assessment Procedure](#)⁸ (RdSAP). Fossil fuel heating systems and hybrid heating systems which are partly fuelled by fossil fuels are ineligible.
- Installers must be TrustMark registered (or registered with a scheme that BEIS is satisfied is equivalent) and install measures in accordance with the most recent version of the PAS2035:2019 standard.
- Installers must be, at a minimum, certified to the most recent version of PAS2030:2019 and able to work to the latest PAS2035 guidance. Where TrustMark Registered Businesses install low carbon technologies they must also be registered with the Microgeneration Certification Scheme (MCS) or a scheme that BEIS is satisfied is equivalent. If any part of the work involved in installing eligible improvements is subcontracted, this must be carried out in accordance with TrustMark's requirements,

⁸ https://www.bregroup.com/wp-content/uploads/2019/09/RdSAP_2012_9.94-20-09-2019.pdf

and the relevant PAS or MCS requirements as applicable. The primary installer must assume full responsibility for any subcontracted work and all measures must be lodged onto TrustMark's data warehouse by a TrustMark Registered Retrofit Coordinator.

Each element of the eligibility criteria will be assessed at different stages of the application process.

3.1 Eligible Households

At outline application stage, LAs will be asked to set out their proposed low-income eligibility criteria, how low-income households will be verified and how eligible households will be targeted.

Funding under HUG 2 is only available to LAs in England, as fuel poverty is a devolved issue.

One of the scheme's key eligibility parameters is that funding must be targeted at low-income households (defined as having an annual gross household income of less than £31,000) likely to be in fuel poverty. Outline applications from LAs should evidence the following:

- How an LA will ensure that households receiving measures have a combined household income of no more than £31,000 gross income (before housing costs but inclusive of benefits⁹).
- How low-income households who are likely to be living in fuel poverty will be verified. Other than means-tested benefits, the use of alternative methodologies, such as locally held data (e.g. Council Tax reductions) and advanced statistics/machine learning (see **Section 3.1.2 Verification and Targeting** for more details) are encouraged.
- We also encourage the use of the new identification route available under HUG 2 for targeting and verification. Income deciles 1-3 of the Indices of Multiple Deprivation can be used to identify areas of high-income deprivation and as an automatic verification tool for a low-income household (see **Section 3.1.3 Indices of Multiple Deprivation – Income Deciles 1-3** for more details).

BEIS strongly encourages applications from LAs that evidence the above. This will be assessed at outline application stage. Applications that only use means tested benefits for verification without detailed proposals on targeting or other verification methods will only score 'amber' for this section.(see **Section 2.6 Application Scoring Criteria** for more details).

3.1.1 Low-income Households – Thresholds

For HUG 1 the low-income threshold was set at £30,000, which aligned with the Office of National Statistics estimation that the median household income across the UK in 2020 was £29,900¹⁰. To reflect changes to the median income in England (recently updated to £31,400)

⁹ Disability Living Allowance (DLA) and Personal Independence Payment (PIP) will not count towards the income threshold.

¹⁰<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyear2020>

and to align with Energy Company Obligation 4¹¹ (ECO4), we have increased the low-income threshold to £31,000. The option for a flat £31,000 household income figure has been set to enable a large group of low-income households to be supported regardless of region.

BEIS will accept alternative methodologies for demonstrating that a low-income household is likely to be in fuel poverty, where the LA provides clear evidence of the appropriateness of their methodology in their application. As an example, LAs may include households with total incomes above the £31,000 threshold in certain areas, where higher housing costs mean the resultant household income after housing costs is likely to be below £20,000.

Furthermore, it may be possible for a household to have income in excess of £31,000 and still be at risk of fuel poverty. A viable way of targeting and verifying low-income households likely to be in fuel poverty would be to use the criteria for Routes 1 and 2 set out in the guidance for the [Energy Company Obligation flexibility guidance for Local Authorities](#)¹².

Additionally, to allow area-based upgrades for in-fill purposes (and where there is strong evidence to do so), BEIS may accept the average income across a block of flats/houses/maisonettes to be below £31,000 per year, or where the majority of households have a combined income of no more than £31,000 per year. For example, a block of flats may contain one resident whose income exceeds £31,000, but other residents have incomes below this threshold. In this instance, an average would allow for the household that exceeds £31,000 to be included in the project and receive subsidised upgrades.

Payments from Personal Independence (PIP), Disability Living Allowance (DLA) and Attendance Allowance (AA) should be excluded from any household income calculation, as these payments should support the necessary costs of care for those in the household rather than being perceived as general income.

3.1.2 Verification and Targeting

BEIS does not prescribe that LAs follow a particular method to ensure that households whose homes will be upgraded as part of the scheme are on a low income. LA proposals should include, alongside their proposed eligibility criteria, the steps taken to verify a household's income is within the permitted threshold.

We expect many LAs to use receipt of means tested benefits as a proxy for low income and would expect LAs using non-means tested benefits to set out additional income verification. For any social housing included in proposals (see Section 3.2 Eligible Properties) we do not require additional information to verify low-income status.

Other methods to verify eligibility may include using LA held data, such as existing processes on council tax reductions for those on lower incomes, or more innovative approaches such as advanced statistics and machine learning (e.g. Experian or CACI Paycheck)¹³, where LAs can demonstrate these will target low-income households. LAs are also encouraged to use their

¹¹ www.gov.uk/government/consultations/design-of-the-energy-company-obligation-eco4-2022-2026

¹² www.ofgem.gov.uk/publications/final-eco4-guidance-local-authority-administration

¹³ Datasets currently utilised by some local authorities to determine the gross annual income of a household.

ECO LA Flex statement of intent criteria and verification process, where these are compatible with the above guidance on income thresholds. Self-declarations will not be acceptable methods of verification under HUG 2. Income threshold or low-income proxy checks as referenced above will need to be carried out in order to ensure a household is low income.

As part of the outline application, LAs will also be asked what additional steps they will take to target potentially eligible households. Such steps include, but are not limited to, use of health-based referrals, charity-based referrals, deprivation statistics, EPC data and local knowledge to target specific areas within their LA boundary. We recognise that some LAs may have already identified their eligible housing stock as part of the previous phase of HUG. In this instance, we advise LAs to inform us of this and explain the targeting approach they have already used.

The criteria proposed to verify eligibility and plans to target low-income households likely to be in fuel poverty will form part of the application. Proposals with clear criteria to verify low-income households and steps to target them will score highly, whereas proposals that set out incomplete detail or rely solely on means-tested benefits will receive an 'amber' score. LAs that rely on self-declarations or provide insufficient detail will receive a 'red' score for this section, which will cause the application to be unsuccessful.

Where additional methods have been used to verify household income beyond the use of means-tested benefits, BEIS does not have preference for the method selected and all will be scored based on the merit of the proposal. LAs that use multiple sources of data to verify incomes will score more highly.

Where possible, BEIS encourages LAs to utilise local charities, non-profit and citizen-focussed organisations to help with targeting and verification. This can enable effective use of community networks, as well as reduce drop-out rates with more resource available for guiding households through the process. LAs can use a portion of their A&A budget to fund this.

3.1.3 Indices of Multiple Deprivation – Income Deciles 1-3

A new area-based eligibility route has been introduced for HUG 2, using income deprivation data drawn from the [Indices of Multiple Deprivation 2019](#)¹⁴.

The IMD is the official measure of relative deprivation in England produced by the Department for Levelling Up, Housing and Communities (DLUHC). IMD brings together seven distinct domains of deprivation, which are then combined and weighted to generate an overall assessment of the deprivation experienced by individuals living in an area. These domains encompass a wide range of deprivation factors, including income, employment, health and crime.

IMD is calculated for every Lower Layer Super Output Area (LSOA), or neighbourhood, in England. All neighbourhoods in England are then ranked according to their level of deprivation, with high ranking LSOAs referred to as 'most' or 'highly deprived'. This ranking is then ordered

¹⁴ www.gov.uk/government/statistics/english-indices-of-deprivation-2019

into 10 groups (or 'deciles') with the top 10% of deprived LSOAs in decile 1, the next 10% of LSOAs in decile 2, and so on.

BEIS statisticians have analysed the income element of the IMD in isolation from the other measures of deprivation in order to explore the link between the lower income deciles and the likelihood of being in fuel poverty. They have found that households which are off the mains gas grid and have a low EPC Banding have a high incidence of fuel poverty within LSOAs ranked in income deciles 1-3. Therefore, BEIS has developed this new route of verification, allowing households within LSOAs ranked in income deciles 1-3 to be eligible for HUG 2 funding without needing an income verification check.

Under HUG 2, households in the most income-deprived neighbourhoods will therefore be automatically eligible for upgrades, provided they live in off-gas grid properties rated EPC band D or below. There will not be a requirement on LAs to verify the income of these households, however we expect that LAs will obtain proof of address. Other eligibility parameters such as tenure type of properties and cost caps will continue to apply to LA applications.

LAs will be encouraged to consider these areas in their applications and to achieve economies of scale by upgrading multiple households in concentrated areas of fuel poverty. Expanding the eligible pool to include area-based eligibility will allow for targeted levelling up on a local level as well as improving housing stock and lowering bills for the poorest areas in England.

Within a proposal, LAs should state if they intend to use income deciles 1-3 as a mechanism to target eligible homes. They should also outline the number of eligible postcodes within their remit, provide the postcodes and information as to how they intend to upgrade homes within these neighbourhoods. [A list of eligible postcodes has been included in a supporting list on the Home Upgrade Grant Phase 2 page.](#)

As this is a new eligibility route there will be a small number of additional questions as part of scheme monitoring and evaluation for successful projects. This will help to determine the take-up of area-based eligibility and whether it is delivering the policy intent of supporting lower income and vulnerable households living in the most economically deprived areas in England.

We are aware that income deciles are not as accurate an indication of income deprivation in rural areas as they are in urban areas. We therefore encourage LAs with a significant rural population to ensure that they are targeting all household types, including those in rural areas.

3.2 Eligible Properties

LAs will be asked at the batch application stage to quantify EPC, fuel and tenure types of homes to be upgraded.

Funding must support the retrofit of existing domestic dwellings only. New build or self-built homes which have not been previously occupied are not eligible for funding. **Annex C** details how a domestic premises is defined for the purposes of the scheme.

Funding must be targeted at households that are off the mains gas grid with an EPC rating of Band D-G (this is a SAP score of 68 or below), except in the case of park homes (which typically do not have an EPC rating). Households with an EPC rating of Band A-C are ineligible for scheme funding in all circumstances (this is a SAP score of 69 or above). Where there is a higher EPC rated property in scope for in-fill purposes, the LA may choose to upgrade this home using alternative sources of funding. A property's EPC rating can be found using via the [published register](#).¹⁵

HUG 1 capped upgrades to EPC Band D homes at 30%. We are removing this cap for HUG 2 to support LAs in delivering the scale up of their projects under the scheme and to support the strategic imperative of phasing out heating oil, which is disproportionately represented in Band D stock in the latest SAP update. This will simplify delivery and better support a whole-street approach, assist in decarbonising the off-gas grid stock and improve delivery confidence in rural areas.

Existing park homes are eligible for support under HUG 2. However, we do not expect park homes to be a prominent part of projects as they account for less than 1% of England's housing stock. Given the typical lifetime of a park home, improvements are not considered as good value for money. Therefore, park homes will be capped at 10% per project.

LAs looking to upgrade park homes will need to ensure the stock is similarly efficient in energy performance to an EPC D-G property and that the homeowner or tenant has high energy bills.

Phasing out fossil fuel heating off the gas grid is a strategic priority for BEIS as this will move us off oil and build our energy independence, save carbon and put us on track for net zero, and protect households from high and volatile fossil fuel prices. Between October 2021 and January 2022, BEIS consulted on proposals to introduce regulations to phase out fossil fuel heating installations off the gas grid from 2026. We are currently analysing the feedback we received to that consultation and will respond in due course.

3.2.1 Tenure Type

HUG 2 is available to upgrade owner occupied and private owned housing occupied by low-income households.

Up to 10% social housing is permitted for 'in-fill' purposes only, as part of area-based delivery. More information can be found in the **Section 3.2.4 Social Tenure** below.

3.2.2 Owner Occupiers

Low-income owner occupiers can access full grant funding and should not contribute towards the cost of upgrades.

The maximum funding each property will receive (the 'cost cap') is detailed in **Section 3.4.4 Cost Caps**.

¹⁵ <https://epc.opendatacommunities.org/>

3.2.3 Private Rented Sector (PRS)

Under HUG 1, landlords who have low-income tenants, who meet the eligibility criteria, can access grant funding. Landlords are required to make a minimum contribution of one third towards the total cost of works, in line with the scheme's cost caps. This means that the maximum subsidy a landlord can receive is equivalent to two thirds of the subsidy received by an owner occupier (in a dwelling of the same heating type and starting EPC).

Funding for landlords under HUG 1 is only available to private rented sector properties rated EPC Band D or E, and only EPC F and G properties that have registered exemptions under the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015¹⁶ are eligible. This is because HUG funding cannot be used to make these properties compliant with existing regulations, but funding may be used in addition to landlord investment to improve the property beyond the minimum legal requirement. When identifying their housing stock, LAs should seek to ensure that landlords letting out EPC rated F or G properties are compliant with the regulations.

For HUG 2, we are retaining the above requirements for the private rented sector, with some additions which ensure we are focusing support on smaller landlords and to ensure no single landlord receives excessive amounts of funding. The first addition is to ask landlords to declare that they have not received subsidy over the Minimal Financial Assistance limit of £315k¹⁷. This includes the value of HUG 2 support to be given to the landlord, and includes any previous Minimal Financial assistance or equivalent given to the landlords over the current and previous 2 financial years.

The second restriction is to introduce a 4-property portfolio cap, meaning that only landlords who own 4 or fewer rental properties will be eligible for HUG 2. This responds to the concern that large 'investment' landlords could use HUG funding to upgrade their stock and improve the value of their assets. This policy change retains private rented sector eligibility for 83% of landlords and represents 52% of tenancies.

The 4-property limit applies to the landlord and their spouse or partner, any companies the landlord (or spouse or partner) owns or controls, and where the landlord is a company, any other companies in that group, and includes any other body or organisation similarly connected to the landlord.

LAs will need to design their own fraud prevention plan to enforce the 4-property portfolio cap. However, the suggestions below are an illustrative example of checks which could be carried out to prevent fraud within this policy area. The A&A budget can be used to pay for this expense.

¹⁶ www.legislation.gov.uk/ukdsi/2015/9780111128350/contents

¹⁷ This limit is set by s.36 of the Subsidy Control Act (2022).

Examples of searches to ensure landlord eligibility:

- Searches on Company's House using a landlord's name will identify any companies associated with this person and therefore any potential property holding companies owned by them. Searches can include multiple variations of the landlord's name, such as John Smith, J. Smith, John Alan Smith, to improve chances of identification.
- Software is available which identifies companies owned by private individuals and other companies, which can expedite this process.
- If companies are identified, searches on Company's House will also identify the name of any other shareholders, such as a spouse.
- Where the landlord is a company, on payment of a fee, [searches of the index of proprietors' names](#) can be carried out at HM Land Registry. You can apply using [form PN1](#) to search against a specific name to see if there are any registered properties owned by or mortgaged a company of that name. If your search is against a private individual landlord, you will need to obtain lawful basis of processing prior to any request to HM Land Registry for a search against a private individual. Lawful basis may include GDPR consent from the individual, including other identified names such as spouses, to identify any further privately owned properties.
- Property descriptions can be checked to ensure they are likely residential properties. Local Authorities can also check to see if the property is registered for Business Rates or Council Tax.
- In the event of extenuating circumstances e.g. landlord owns less than 4 properties privately but is a registered trustee of further properties, the onus is on the applicant to evidence that they fit within the criteria.
- Landlords should sign a self-declaration form to declare that they are eligible within these criteria and own 4 or fewer rental properties. This declaration should also ask for consent to searches carried out at HM Land Registry and provide information about how their data will be processed.

The above is an example of checks which could be carried out to ensure eligibility. Ultimately the LA should carry out sufficient checks to satisfy themselves that the landlord fits within the eligibility criteria.

3.2.4 Social Tenure

The Social Housing Decarbonisation Fund (SHDF) is a scheme available to LAs to upgrade their social housing stock. LAs seeking to upgrade their own social housing stock, or work in partnership with housing associations or arms-length management organisations to upgrade social housing are encouraged to apply for the SHDF. [SHDF Wave 2.1](#), which launched alongside HUG 2, is open to direct applications from Local Authorities, Combined Authorities, registered providers of social housing (including housing associations and arms-length management organisations (ALMOs) that are Registered Providers), and registered charities that own social housing.

Social housing may be included in HUG applications as part of tenure 'in-fill' area-based upgrades – for instance, upgrading a block of flats or adjacent, terraced properties as part of area-based delivery. However, the social housing component of an application should not exceed 10% and clear justification must be provided as to its inclusion. Justification will be assessed on a case-by-case basis. Social housing landlords must contribute at least half of the total cost of upgrades.

If a LA wishes to deliver a mixed tenure project in their area with a significant social housing component, they could complement an owner occupier and private rented focussed proposal under HUG with a social housing proposal under SHDF. However, approval of a HUG 2 application does not automatically mean approval for SHDF (and vice versa).

3.3 Eligible measures

LAs will be asked in the batch assessment stage to quantify the type, number, and average cost of measures they plan to include in that batch of homes.

Any energy efficiency and heating measures compatible with the Reduced data Standard Assessment Procedure (RdSAP) are eligible under HUG 2, with the exception of fossil fuel heating. Hybrid fossil fuel heating is also ineligible.

As the scheme's core objectives are to reduce the number of off-gas grid homes in fuel poverty and decarbonise the off-gas grid housing stock, we expect LAs to focus on measures that lower household energy bills and/or help them to transition to clean heat. This includes, but is not limited to, energy efficiency measures (such as wall, loft and underfloor insulation) and low-carbon heating technologies (excluding those that contain a fossil fuel component). As we progress towards Net Zero by 2050, fossil fuel measures (including hybrid heating systems) are not in scope. Batches that include them will be deemed ineligible. Such fossil fuel measures/upgrades include:

- the installation of a new fossil fuel based system
- the repair of an existing fossil fuel based system
- the replacement of an existing system with a new fossil fuel based system.
- the installation of a renewable or hybrid heating system to work alongside a fossil fuel based system.

More information on eligible heating measures can be found in **section 3.3.5: Low carbon heat** and **section 3.3.8: Hybrid heating** below.

We strongly encourage LAs to focus on energy efficiency measures and low carbon heating technologies in a 'fabric first' approach (of insulation and heat loss prevention measures) approach.¹⁸ The fabric first approach is a core principle of the *PAS 2035 Retrofitting dwelling*

¹⁸ A 'fabric first' approach prioritises the installation of heat loss prevention measures before other energy efficiency upgrades. This is to maximise comfort and bill savings for the consumer and maximise the dwelling's suitability for low carbon heating either now or in the future.

*for improved energy efficiency. Specification and guidance*¹⁹ (PAS 2035) standards, to which all delivery partners and subcontractors must adhere. We expect that adherence to the PAS 2035 standards and a fabric first approach may require improved ventilation systems²⁰.

As part of the batch assessments, LAs are required to detail the mix of measures they intend to install and the costs per measure type. LAs should work with Retrofit Coordinators to design measure mixes that align with the strategic aims of the scheme, are appropriate for the targeted properties and represent good value for money. LAs should only select products and technologies to be installed that will be of a good standard – such as renewable heating measures listed in the MCS Directory.

3.3.1 Performance expectations

Off-gas grid homes with an EPC rating of D-G are eligible for funding under HUG 2. In line with requirements under HUG 1, BEIS expects EPC band F-G homes to be upgraded to at least band D, and D-E homes to band C. Where a home does not reach the expected EPC level, LAs should evidence that a fabric first and value for money approach has been taken.

There are some circumstances, for example when a heat pump is installed in an oil-fuelled home, where the SAP score may reduce compared to when the oil boiler was in place. In line with the heat pump advice in **section 3.3.6 Heat pumps and consumer advice**, BEIS expects a heat pump to be recommended where the overall package of upgrades leads to an improvement in the EER score. BEIS acknowledge that whilst these packages will deliver the greatest societal benefits, it will make the realisation of the EER target more challenging so will take a pragmatic approach, by accepting a package that retains the same overall banding.

In line with the principles of PAS 2035, HUG 2 projects should follow a fabric first approach (of insulation and heat loss prevention measures) to upgrades. The scheme aims to see households have an improvement on the EPC scale and see the energy demand of the property reduce, to help households reduce their energy costs.

In addition to the above, we are introducing a space heating demand consideration to support this fabric first approach. Consideration should be given to improving properties to a space heating demand target²¹ of 90 kWh/m²/year or lower (as per SAP 2012 worksheet box 99 or equivalent), where reasonable and cost effective, as a pathway to net zero that drives fabric first. Unlike our EPC requirements, this is not a hard target but a guide for Retrofit Designers and Coordinators to help support their decision making. LAs should not try to implement a retrofit that achieves 90 kWh/m²/year without considering whether this would be reasonable and cost effective.

¹⁹ <https://shop.bsigroup.com/ProductDetail?pid=000000000030400875>

²⁰ Given that ventilation requirements must comply with PAS 2035, a retrofit assessor will recommend additional ventilation.

²¹ The Space Heat Demand (SHD) is defined as the amount of heat required to heat a building to maintain the inside of a building to a particular heating profile (for a given set of weather conditions). It is an indicator of the thermal performance of a building's fabric.

3.3.2 Grade A, B and C Measures

For HUG 2, measures are categorised as Grade A, B, or C according to several considerations, including strategic fit, value for money, and the expected prevalence of the roll out of each measure type expected across the scheme. These categorisations will determine the allowed proportions of Grade A, B and C measures by cost. The below tables only apply to HUG 2, and do not give indications of how measures might be scored for other schemes. Please note that the proportions outlined below are for the LA project level, not the individual house level.

Table 6: HUG 2 measures categorisation system

| Category | Spending Rules |
|------------------|--|
| Grade A Measures | At least 60% of total measures costs must be spent on Grade A measures per LA project. |
| Grade B Measures | Up to 40% of total measures costs can be spent on Grade B measures per LA project, inclusive of any Grade C measure costs. |
| Grade C Measures | Up to 10% of total measures costs can be spent on Grade C measures per LA project. |

Grade A measures must represent at least 60% of total measures costs across a project. These measures include leading fabric first measures such as insulation, leading low carbon heating measures such as air source heat pumps, and leading smart measures such as smart heating controls. Please see the below for more details.

Grade C measures cannot represent more than 10% of total measures costs, and include measures with substantially less strategic fit, value for money, or where only a low roll out is expected across the scheme to best suit niche cases. Examples include biomass and solar thermal.

Grade B measures must fit within the above rules for Grade A and C measures. Therefore, Grade B measures cannot go above 40% of total measures costs inclusive of any Grade C measures costs. Examples of Grade B measures include Solar PV and double glazing (only when required by PAS 2035 to complement EWI or for the home to be considered PAS compliant).

A full list of Grade A, B and C measures can be found below.

Table 7: HUG 2 measures categorisation

| List of Measures | Grade |
|--|--------------|
| Cavity Wall Insulation | A |
| Loft Insulation | A |
| External Wall Insulation | A |
| Internal Wall Insulation | A |
| Room in Roof Insulation | A |
| Flat Roof Insulation | A |
| Park Home Insulation | A |
| Draught Proofing | A |
| Air Source Heat Pumps | A |
| Ground Source Heat Pumps | A |
| Shared Loop Ground Source Heat Pumps | A |
| Communal Heat Networks | A |
| Wet Central Heating | A |
| Hot Water Cylinder Insulation | A |
| Hot Water Cylinder Thermostat | A |
| Digital/Smart Controls* | A |
| Heating Controls | A |
| Battery Storage* (only eligible when complementing Solar PV) | A |
| Low energy lighting | B |
| Underfloor Insulation | B |
| Solar PV | B |
| High Temperature Heat Pumps | B |

| List of Measures | Grade |
|---|-------|
| Low Carbon District Heating | B |
| Double Glazing (only when required by PAS 2035 to complement EWI or for the home to be PAS compliant) | B |
| Biomass room heater with boiler | C |
| Solar Thermal | C |
| Biomass | C |
| Direct Electric Heaters | C |
| High Retention Storage Heaters | C |
| Double Glazing (when not required by PAS to complement EWI nor for the home to be PAS compliant) | C |

*measures which will become eligible following the RdSAP update.

3.3.3 SAP Changes

The government is committed to increasing the accuracy of the Standard Assessment Procedure (SAP), the methodology that is used by energy assessors to produce EPCs. Currently Reduced data SAP (RdSAP) 2012 is being used to produce EPCs, and an updated version is not yet in place. BEIS are currently working alongside SAP contractor Building Research Establishment (BRE) to consider updates that are required for RdSAP 10.2, the methodology used to assess the energy performance of an existing home. We will update the HUG 2 guidance in early 2023 and provide more detail on RdSAP 10.2 when it is available.

3.3.4 New Eligible Measures

As measures delivered under HUG 2 will be delivered from 2023 to 2025, we are outlining anticipated new measures that will become HUG eligible if they are adopted as anticipated into RdSAP 10.2. Two new measures – battery storage, and smart thermostats (featuring automation and optimisation) – will be eligible for funding under HUG 2 and have been included to futureproof the scheme.

As a more expensive measure, Battery Storage²² can only be installed once RdSAP has been updated to align with SAP 10.2.

²² A number of technologies are covered by the broad definition of Battery Storage under SAP. More information can be found at: <https://www.bregroup.com/>

Battery Storage

Battery storage technologies are set to be recognised as part of the next iteration of RdSAP (10.2), which is currently planned for this winter. They have therefore been included as a HUG 2 eligible measure. The benefits of battery storage can include lower bills, some carbon savings and the ability for households to sell electricity back to the grid.

To be eligible, battery storage must be used with a functioning electricity smart meter (or installed alongside one if one is not present in the property already) and can only be installed when it complements Solar PV. The Retrofit Coordinator should check if there is a preferable half-hourly Time of Use tariff that the consumer should switch to (unless switching tariffs will disbenefit the consumer at that point in time), and in this circumstance we expect proof that the smart meter is enabled, safe and installed in adherence to the required standards.

Battery storage has been categorised as a Grade A measure and can only be installed once RdSAP has been updated to align with SAP 10.2.

Smart Heating Controls

Smart Thermostats controls are a widely available and rapidly evolving technology. Studies have shown central smart thermostats can save 6.7% on householder's heating bills. These savings are especially pronounced for householders who may not adjust temperature settings on traditional programmers.

Smart thermostats are already available under ECO3 via the Alternative Methodology route and are set to be recognised as part of the next iteration of RdSAP. However, these will be eligible under HUG 2 from the outset to futureproof the scheme and ensure policy coherence across government energy efficiency projects.

Smart controls have been categorised as a Grade A measure.

3.3.5 Low Carbon Heat

The installation of low carbon heating technologies is also strongly encouraged. As part of the batch assessment, LAs will be asked to quantify the number of low carbon heating systems they intend to install. LAs are encouraged to install energy efficiency measures alongside low carbon heating, in line with a fabric first approach.

Where low carbon heating is supported, LAs should consider systems that are consistent with Net Zero objectives. Although permitted under ECO, any proposal to use HUG funding to install/repair/replace a heating system with a fossil fuel driven system will be deemed ineligible. LAs should take a variety of factors into consideration when selecting appropriate low carbon heating technology, such as affordability, air quality and sustainability.

We now expect that a low temperature heat pump should be offered to all 'technically suitable' homes under HUG 2. This will contribute to the phasing out of high carbon heating in rural areas which is a key priority for HUG 2. Whether a home is 'technically suited' to a heat pump will be determined by a Retrofit Coordinator and based on existing guidance published by MCS

(MIS 3005). More detail on this is included in **Section 3.3.6 Heat pumps and consumer advice** below.

We expect that LAs will focus on low temperature heat pumps as the lead technology. This measure will therefore be categorised as a Grade A.

In homes where low temperature heat pumps are unsuitable for the dwelling, we expect, in order of priority, connection to low-carbon heat networks (if appropriate for the stock applied with), high temperature hydronic heat pumps, air to air heat pumps, high retention electric storage heaters with at least 0.8+ SAP responsiveness (in electrically heated flats and small dwellings only), or solid biomass to be considered when determining the next best option for deliverability, value for money, affordability, sustainability, and air quality.

Whilst solid biomass is an eligible measure, these are only expected to be installed in exceptional circumstances where heat pumps are unsuitable for the dwelling, and only in rural areas where there are no air quality restrictions. If an LA proposes the use of biomass boilers within their funding application, a justification should be provided as to why biomass is the most appropriate technology and how the LA intends to ensure the ongoing use of sustainable fuels, such as by adhering to the sustainability and air quality requirements from the Domestic Renewable Heat Incentive²³ (now closed to new applicants), and appropriate maintenance of these systems. Solid biomass is categorised as a Grade C measure.

Similarly, if an alternative low carbon heating technology is to be installed, LAs must justify the rationale for their selection in the batch application. As set out above we strongly encourage a 'fabric first' approach to upgrades to maximise bill savings and maximise the number of homes that can install low carbon heating without experiencing bill increases. We acknowledge due to current energy and fuel prices there will be instances where the installation of low carbon heating might result in higher energy bills, even with energy efficiency upgrades. In these situations, the consumer advice steps below should be closely followed to ensure consumer protection.

3.3.6 Heat Pumps and Consumer Advice

We expect that it is made clear in all 'technically suitable' homes that a heat pump is an available option as part of a package of energy efficiency and clean heat measures. Whether a home is 'technically suited' to a heat pump will be determined by a Retrofit Coordinator and based on existing guidance from MCS and a SAP or RdSAP assessment of the property, alongside agreed intended outcomes of the retrofit between the household and the Retrofit Coordinator. The assessment should pay due consideration to MCS Standard MIS 3005, which ensures all regulations (including building regulations, permissions and approvals), space heating and hot water requirements are met. The Retrofit Coordinator should also flag where a more suitable low carbon heating technology should be installed instead of a heat pump in instances where it better suits the home and the agreed intended outcomes.

²³ www.ofgem.gov.uk/environmental-and-social-schemes/domestic-renewable-heat-incentive-domestic-rhi/participants/ongoing-obligations/rules-biomass-fuel-use

The installation of energy efficiency measures will mean most households treated on HUG 2 will see savings to their average annual bills, particularly given the Energy Price Guarantee which covers electrically heated homes. However, energy and fuel prices are currently volatile and rising at varied rates, meaning a small number of HUG eligible homes may experience higher energy bills after a heat pump is installed, even with deep energy efficiency upgrades. Although the increase in price is likely to be small, this could have significant and detrimental impact on low-income and fuel-poor HUG eligible homes, who already struggle to meet their energy needs.

We therefore expect Retrofit Coordinators to ensure close compliance with PAS 2035 regarding determining intended outcomes and appropriate measures for the retrofit with the householder to ensure potential unintended or unexpected negative impacts on fuel bills are avoided.

For all homes ‘technically suitable’ for a heat pump, we expect households to be given clear and accurate advice about the likely bill impacts the package of measures will have on their household energy bills. The advice offered to households should clearly state:

- Whether a heat pump is simply available or being recommended as part of the retrofit measures package, and make clear the distinction between these two;
- The likely bill impacts of the heat pump installation, both immediate implications and longer-term (5-10 years), in comparison to the consumers current energy bills.

Prior to the measures selection, the Retrofit Assessor is required to commission a SAP/RdSAP assessment²⁴ of notional energy bills and impacts on the package of measures offered to determine whether a heat pump will be offered or recommended. The SAP/RdSAP estimate should be used to assess the relative impacts before and after upgrades have been installed and provide the household with an estimate of bill impacts, ahead of accepting the upgrades. This assessment should consider both current prices and future projections, reflective of the household’s current energy tariff, and the household should be provided with information on the initial and potential future changes to energy bills. This assessment should also consider the Energy Price Guarantee which protects electrically heated homes from energy price rises for the next two years. BEIS require that LAs are provided with evidence that the installation is suitable and the household has been provided with adequate information. This is already required within the PAS 2035 process²⁵ so should already be best practice.

This will give households the confidence they need to accept the offer of a free heat pump (or other low carbon heating technology if more suitable for the home and agreed intended outcomes) and protect against heat pumps being installed in cases where they may cause unaffordable bill increases. Because SAP will be updated ahead of an update to RdSAP, we recommend using SAP as part of this bill impact advice, where possible, to ensure the most

²⁴ Such assessments have been shown to reliably predict the average annual improvement in bill savings and are used in other government energy efficiency schemes, such as the Energy Company Obligation. We recognise that full SAP assessments might be conducted as part of whole-house evaluation and so the outputs from these, if they include the impact of the low-carbon heating, can also be used to provide guidance to the household.

²⁵ Section 13.3.3 of PAS2035 relates to retrofit advice after completion of the IOE, and section 9.2.2 and 9.2.3 set out what is required within the IOE.

up-to-date price information is being used. A SAP assessment is likely to be used as part of the retrofit design process. The household should also be advised that the stated impact of the SAP assessment might not be reflected in their EPC until RdSAP is updated.

BEIS mandates that the final decision to install a heat pump rests solely with the household. With access to high quality information and advice we expect households will be able to weigh up multiple factors that may determine their choice to accept a free heat pump, including the opportunity to save carbon and get off fossil fuels, and how switching to a heat pump may affect their energy bills. Last year we consulted on new regulations that would phase out the installation of fossil fuel heating in off-gas grid homes in favour of clean heat from 2026. We are currently analysing the feedback we received to that consultation and will issue our response in due course. The potential for future regulation may be another factor guiding the household's choice whether to accept a free heat pump or other suitable low carbon heating technology.

Given many HUG 2 eligible households may be living in fuel poverty, it is possible that some households will have underheated their home due to the unaffordability of energy. In these cases, Retrofit Coordinators are expected to engage more closely with the householder and provide more tailored advice where they believe this may be the case, so that advice reflects their typical energy use.

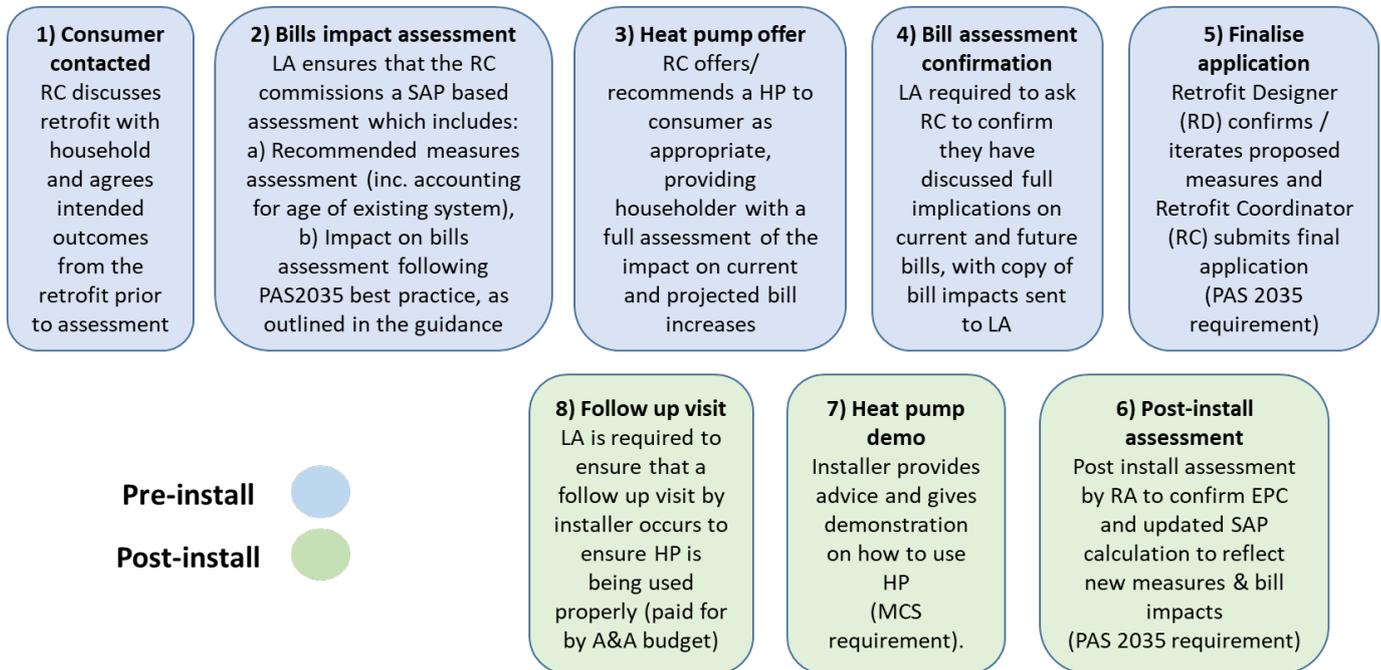
In most cases, we expect households will choose to install a heat pump given the estimated decrease in their energy bills. We also expect that in some cases, even if energy bills are expected to temporarily rise, households may proceed with installation of a heat pump for health, environmental or long-term affordability considerations, such as if a household has an old heating oil boiler and is concerned about the upfront cost of a replacement. For these reasons, it is for the consumer to have the final choice in HUG 2 on whether to switch to low carbon heating.

As part of the installation package, the installer is required to provide advice and support to the household on how to use the heat pump system. This is mandated under MCS guidance and is intended to prevent households incorrectly operating their heat pumps, which can lead to significant cost increases. On top of this, we expect LAs to ensure installers offer a free follow up visit (or arrange for a third-party visit) after the installation has taken place, through the tender specification. BEIS does not mandate when this follow-up should take place, however it is expected that this should be during a period of significant heat pump operation (i.e. during the winter, when heat use is highest). A follow-up should ensure that the heat pump is being used properly and where appropriate, provide the household with advice on how bills could further be reduced through more efficient use. A&A budgets can be used to pay for this follow-up visit.

There is a risk that despite mitigations to prevent this, some households who choose to have a heat pump installed may see bill increases compared to their previous system. LAs are required to monitor households which they deem to be at risk of this, for example households who were not heating their homes previously due to cost, and households which previously had debt arrears.

The full heat pump advice journey is shown in the figure below.

Figure 2: Heat Pump Advice Journey



3.3.7 Low Carbon Communal Heating

Where a communal heat network is to be installed (a single low carbon heat source serving multiple end-consumers within one building), this should be done in accordance with the Heat Trust Consumer Protection Scheme (or an alternative scheme that BEIS is satisfied is equivalent). Low carbon district heat networks are also eligible under HUG 2 (a single low carbon heat source serving multiple buildings and end-consumers) but given their typically higher capital and installation costs and longer lead in times we do not expect these systems to be installed with the funding available. Regarding the deployment of biomass Combined Heat and Power units (CHP) for heating, these are restricted to: dwellings in areas not subject to air quality control restrictions (i.e., rural areas only, not urban); and dwellings that cannot reasonably or practicably accommodate a Heat Pump (low temperature, LT, or high temperature, HT).

There may be an instance where a HUG 2 home could be connected to a pre-existing heat network receiving payments under the Renewable Heat Incentive (RHI). HUG 2 is grant funding from public funds, therefore any funding from HUG 2 for low carbon heating measures would be deducted from RHI's payments as per the RHI rules on grant funding.

3.3.8 Hybrid Heating

Under HUG 2, hybrid heating systems – a system comprising of a heat pump and fossil fuel boiler – are not permitted. With plans to phase out high carbon heating off-gas grid this decade, the government does not see a role for subsidising transitional forms of heat and will only use subsidy to fund low carbon heating that is compatible with our Net Zero future.

BEIS expects that a heat pump installed under HUG must be appropriately sized to provide the full heating and hot water requirements of the home, and the existing fossil fuel system be removed. This is to prevent the installation of unintended hybrid systems.

3.4 Funding and Eligible Costs

Funding available through HUG 2 is capital funding distributed by [Section 31](#) of the Local Government Act 2003. The funding must therefore be used in line with [Section 11](#) of the Act, for example for the creation of an asset or the modification or improvement of an existing asset, and paid in line with [Section 33](#).

3.4.1 Upfront Payments

Unlike HUG 1, successful applicants to HUG 2 will not receive a 100% grant payment at the start of the delivery window. For HUG 2, 30% of funds will be received as an upfront payment for each financial year. There are two types of upfront payments: a 20% mobilisation payment and a 10% deposit payment which will be available at the start of each financial year 2023/24 and 2024/25.

Mobilisation payment

The mobilisation payment can be used for both A&A costs and capital expenses each financial year that are necessary ahead of retrofitting homes with measures. This includes resourcing, procurement, specialist advice, searching for eligible homes, signing up households, validating homes, assessing homes, and agreeing a measures package in line with the PAS 2035 standards. Essentially this should constitute all A&A expenses plus some capital expenses required pre-delivery.

A mobilisation payment will automatically be made to all Local Authorities at the start of financial years 2023/24 and 2024/25, unless the Local Authority has not applied for funding for the given financial year. This mobilisation payment will be 20% of total funding requested for each financial year respectively. LAs must comply with the 15% A&A limit per financial year when utilising this mobilisation funding, with any remaining mobilisation funding spent on pre-delivery capital expenses such as PAS assessment and design costs.

Any leftover mobilisation funding should be used to substitute an equivalent portion of batch payments later within the financial year to ensure in-year spend requirements are met and to prevent underspend being returned to BEIS.

LAs will be required to itemise what their mobilisation payments are likely to be spent on at outline application stage, which will be evaluated. Once an MoU has been signed and returned to BEIS after the outline application stage, LAs will receive their first mobilisation payment to stand up their projects in April 2023.

We will work with LAs to facilitate early delivery, including funding for mobilisation in the latter part of this financial year (during February, March 2023) where possible. This extra

mobilisation funding will not count towards your 15% A&A cap across the formal grant period of April 2023 to March 2025.

Deposit payment

Deposit payments will be transferred at the start of financial years 2023/24 and 2024/25. The purpose of this type of upfront payment is for LAs to start upgrading batches of approved homes with measures immediately after BEIS has approved the batch application whilst BEIS releases the necessary funds (a process that takes BEIS 4-8 weeks to complete). Each deposit payment will be 10% of the grant awarded for financial years 2023/24 and 2024/25 respectively. If LAs require more capital funding to assess homes in line with PAS, they may also use some of their deposit payment for this work. The deposit payment and any remaining mobilisation payment should be spent by end of financial year, and so should be used to substitute a proportionate amount of batch payments in the latter stages of each financial year, or earlier if no further batches are expected to be submitted for approval in the given financial year.

After the two types of upfront payment have been transferred, the remaining funds for each financial year will be drawn down in batches and subject to delivery performance compared to performance indicators and conditions specified in the MoU.

Where a LA is failing to deliver its forecast project milestones, BEIS may withhold some of the remaining funds, divert forecasted funds to other higher performing projects, clawback funds that cannot reasonably be spent within the given financial year, or in extreme cases no further payment will be made. More detail will be provided in the MoU. LAs will be monitored against the performance indicators and conditions specified in the MoU.

LAs must follow in-year spend requirements, and therefore deliver the total number of homes and total funding forecasted per financial year. Funding cannot not be carried across financial years by the LA, and the LA should therefore not request more funding than can reasonably be spent each financial year. Funding that cannot be spent within the same financial year must be returned to BEIS.

Table 8: Upfront payments

| Financial Year | Mobilisation payment | Deposit payment | % FY spend |
|----------------|--|--|-----------------------|
| 23/24 | 20% of FY spend, transferred automatically | 10% of FY spend, transferred automatically | 30% of total FY spend |
| 24/25 | 20% of FY spend, transferred automatically | 10% of FY spend, transferred automatically | 30% of total FY spend |

3.4.2 Batch Funding

Once LAs have signed up, validated, and assessed a group of homes for measures, they will submit a batch application for approval and release of funds. The batch application will be assessed on strategic fit and value for money, and LAs will need to detail the housing stock, measures, and costs involved. If the batch application meets the requirements, BEIS will release funding for the proposed batch within 4-8 weeks, drawing down against the funding agreed at the outline application stage. Delivery will be able to commence immediately via use of the 10% deposit payment.

LAs are able to submit batches for approval whenever they wish and as frequently as they wish. There is no cap on the number of batches a LA can have in delivery simultaneously. If a LA submits more than one batch per month (e.g. weekly or fortnightly submissions), BEIS will aim to approve these batches quickly, but payment will occur for all approved batches as one cumulative release of funds per month.

The batch process (batch submission, approval, and release of funds) may be frozen temporarily if funding released to an LA remains inactive in the bank account and builds up to an unacceptable level due to stalled delivery. The batch process can be unfrozen again once delivery performance improves, and the released funding becomes active for delivery.

The batch process will be repeated throughout the delivery window until all the homes proposed by the LA have been treated in batches. If a project shows strong delivery performance, there may be opportunity to draw down more funding than agreed in principle at MoU, but only if there is funding available, such as where forecasted funding has been diverted from weaker projects. We encourage LAs to be ambitious and over-perform in delivery to utilise this opportunity to draw down further funding in-flight.

3.4.3 Capital and Administrative and Ancillary Costs

We are aware that given the scale of the projects envisaged, LAs will have ongoing costs to administer and evaluate projects and to enable the funding to be capitalised. A&A costs are expected to be as low as possible, therefore, up to 15% of HUG 2 funding can be used to fund administrative, delivery and ancillary works to support delivery to off-gas grid homes.

LAs should consider which costs will be required to ensure that all non-capital costs are accounted for to enable upgrades to be delivered to the required standards. LAs should consider these costs when determining their capital, administration, and ancillary costs.

Examples of what spend could be included in the A&A budget and what counts as capital costs are given below; we accept that for certain activities there is flexibility in whether these are administrative, ancillary or capital. LAs should therefore be clear in their application which of those activities are covered by the capital budget and which are covered by the administration and ancillary budget.

BEIS is not prescriptive about where costs sit and understands the need for flexibility. LAs should work with their accounting officers to ensure that their budgeting and allocations are fit for purpose.

Administrative and ancillary costs may include:

- Project management, reporting and governance costs;
- Project resourcing;
- New pre-installation SAP assessment and EPCs to verify household eligibility and demonstrate starting SAP rating and corresponding EPC band;
- Building works to prepare for install – for example, removal of failed cavity wall insulation;
- Services or products that may be needed to support householders with a disability, and go beyond standard capital costs;
- Search costs associated with resident recruitment, low-income verification and sign-up including communication and marketing activities; and
- After-care services to ensure households know how to use any new technology, and a follow up visit by an installer in any home that has received a heat pump.

Capital costs may include:

- Installer and designer labour costs;
- Costs for scaffolding;
- PAS 2035 on-site costs such as airtightness tests, ventilation upgrades, RdSAP measurements (although this could also be considered A&A);
- PAS 2035 Retrofit Assessor and Coordinator costs (this could also be considered A&A);
- Materials (e.g. insulation, Air Source Heat Pump) and transportation; and
- TrustMark lodgement fees (although this could also be considered an admin cost).

BEIS will work with LAs to facilitate early delivery, including funding for mobilisation in the latter part of this financial year (during February and March 2023) where possible. This extra mobilisation funding will not count towards your 15% A&A cap across the formal Grant period of April 2023 to March 2025.

3.4.4 Cost caps

For HUG 1, the cost caps (the amount spent on each home) were determined by starting fuel type and EPC banding.

The new challenge fund model enables the cost caps to be substantially more bespoke for HUG 2, as LAs will know both the characteristics of the housing to be treated (wall type, archetype, fuel type, and EPC) and the proposed measure mix at the batch application stage. For HUG 2 we are therefore introducing the following amendments to cost caps:

- Introduce distinct cost caps for energy efficiency and low carbon heat;
- Base our cost caps on property characteristics rather than EPC banding, as a better indicator of retrofit costs for the HUG target homes; and
- Introduce ability to make in-flight adjustments to cost caps (both up and down) to respond to market conditions and other evidence provided to BEIS.

Tables 9 and 10. HUG 2 cost caps

| <i>Energy efficiency cost cap</i> | | |
|--|--------------------|-------------------|
| <i>Archetype</i> | <i>Cavity wall</i> | <i>Solid wall</i> |
| <i>Flat</i> | <i>£3k</i> | <i>£9k</i> |
| <i>Mid-terrace</i> | <i>£8k</i> | <i>£15k</i> |
| <i>End of terrace/ semi/detached</i> | <i>£12k</i> | <i>£24k</i> |

| <i>Clean heat cost cap</i> | |
|--|---------------|
| <i>Archetype</i> | <i>Amount</i> |
| <i>Flat</i> | <i>£5k</i> |
| <i>Mid-terrace</i> | <i>£14k</i> |
| <i>End of terrace/ semi/detached</i> | |

BEIS reserve the right to amend cost caps to be responsive to market conditions over the lifetime of HUG 2. Inflation is built into cost caps for 2023/24 and measures proposed to be delivered within these cost parameters will be assessed to ensure they represent good value for money for the taxpayer. BEIS will review costs in 2023 to inform whether cost caps require adjustment for 2024/25.

HUG 2 will have twin cost caps for energy efficiency and low carbon heating to ensure appropriate spending on each and to ensure these dual aims do not compete. The energy efficiency cost cap has a broad range depending on the property characteristics and can be spent on any energy efficiency measure that is not clean heat, including insulation and demand reduction tools. A separate clean heat cost cap will ensure the performance metrics targets for energy efficiency do not clash with or limit the deployment of low carbon heat.

Cost caps have also been scaled by wall type as a sub-criteria to protect against overspend on cavity wall homes, which are typically cheaper to retrofit than solid wall homes. Walls are classified as cavity, brick, stone (granite, sandstone, or whinstone), timber, system build or curtain wall. Brick, stone (granite, sandstone or whinstone), timber, system build, or curtain can be considered as solid walled for the purposes of the cost caps. Value for money is required for all homes: the level of funding applied for should be dependent on the cost of improving the stock to the HUG performance outcomes and should not be dependent on the maximum level of grant funding for retrofit works available.

LAs will be able to make flexible use of any shortfall from the energy efficiency cost cap to cover the extra costs of a more expensive low carbon heating system, such as a ground source heat pump when most technically suitable, so long as clear justification is provided.

In general, park homes do not have an EPC rating. Recognising that the typical lifetime of a park home is much shorter when compared to standard dwellings, the cost of upgrades for park homes, on average, must not exceed £15,000. The distinct cost caps do not apply to park homes, and therefore either energy efficiency measures or low carbon heat can be installed in a park home, as long as the cost of the upgrades, on average, do not exceed £15,000. LAs are encouraged to consider air-to-air heat pumps when installing low carbon heat in park homes.

With the adoption of the challenge fund model, initially successful LAs will be given an upfront payment to sign up households, assess homes and prepare measure mixes, before submitting batches of 'ready-to-retrofit' homes to be approved. Since LAs will not know the housing stock or measure mixes during the outline application stage, they will be assigned an average spend per home figure of £18k to allow a funding in-principle calculation to be made. This figure will then be adjusted according to the bespoke housing stock and measure mixes submitted in batch applications to align with the above cost caps.

As with HUG 1, LAs will be able to average spending across homes that fall within the same cost cap bracket to maximise the number of treatable homes and streamline delivery.

Where housing is owner occupied (by private homeowners), those households should not contribute to the costs of upgrades to the property.

Where a property in the private rented sector meets such criteria, the landlord will be required to contribute at least one third of the cost of upgrades respectively, up to the cost cap for a dwelling type. This means that the maximum level of subsidy a landlord can receive is lower than that of an owner-occupier (and is equivalent to two thirds of the subsidy received by an owner occupier in a dwelling of the same heating type and starting EPC).

Tables 11 and 12. HUG 2 cost cap for PRS homes

| <i>Energy efficiency cost cap</i> | | | | | | |
|--|--------------------|------------------------------|--------------|-------------------|------------------------------|--------------|
| <i>Archetype</i> | <i>Cavity wall</i> | | | <i>Solid wall</i> | | |
| | <i>Grant</i> | <i>Landlord contribution</i> | <i>Total</i> | <i>Grant</i> | <i>Landlord contribution</i> | <i>Total</i> |
| <i>Flat</i> | £2k | £1k | £3k | £6k | £3k | £9k |
| <i>Mid-terrace</i> | £5.33k | £2.67k | £8k | £10k | £5k | £15k |
| <i>End of terrace/ semi/detached</i> | £8k | £4k | £12k | £16k | £8k | £24k |

| <i>Clean heat cost cap</i> | | | |
|--|---------------|------------------------------|--------------|
| <i>Archetype</i> | <i>Amount</i> | | |
| | <i>Grant</i> | <i>Landlord contribution</i> | <i>Total</i> |
| <i>Flat</i> | £3.33k | £1.67k | £5k |
| <i>Mid-terrace</i> | £9.33k | £4.67k | £14k |
| <i>End of terrace/ semi/detached</i> | | | |

For social housing, the contribution must be half of the cost of upgrades to match SHDF Wave 2 (and is equivalent to half of the subsidy received by an owner-occupier of the same heating type and starting EPC).

Tables 13 and 14. HUG 2 cost cap for social housing

| <i>Energy efficiency cost cap</i> | | | | | | |
|--|--------------------|------------------------------|--------------|-------------------|------------------------------|--------------|
| <i>Archetype</i> | <i>Cavity wall</i> | | | <i>Solid wall</i> | | |
| | <i>Grant</i> | <i>Landlord contribution</i> | <i>Total</i> | <i>Grant</i> | <i>Landlord contribution</i> | <i>Total</i> |
| <i>Flat</i> | £1.5 | £1.5 | £3k | £4.5k | £4.5k | £9k |
| <i>Mid-terrace</i> | £4k | £4k | £8k | £7.5k | £7.5k | £15k |
| <i>End of terrace/ semi/detached</i> | £6k | £6k | £12k | £12k | £12k | £24k |

| <i>Clean heat cost cap</i> | | | |
|--|---------------|------------------------------|--------------|
| <i>Archetype</i> | <i>Amount</i> | | |
| | <i>Grant</i> | <i>Landlord contribution</i> | <i>Total</i> |
| <i>Flat</i> | £2.5k | £2.5k | £5k |
| <i>Mid-terrace</i> | £7k | £7k | £14k |
| <i>End of terrace/ semi/detached</i> | | | |

3.5 Rural Funding Ringfence

Under HUG 2, 60% of funding will be ringfenced for LAs defined as Largely Rural, Mainly Rural, and Urban with Significant Rural, according to Defra's Rural Urban Local Authority Classification²⁶ (including rural LAs that receive funding via a consortium led by an urban LA). This categorises LAs into 6 classifications of rurality: Mainly Rural (80% or more of the population resides in rural areas); Largely Rural (between 50% and 79% of the population reside in rural areas); Urban with Significant Rural (between 26% and 49% of the population reside in rural areas); Urban with City and Town; Urban with Minor Conurbation; Urban with Major Conurbation. The first 3 categories classify LAs as rural, and the second 3 categories classify LAs as urban for the purpose of this scheme.

²⁶ www.gov.uk/government/collections/rural-urban-classification

According to 2011 census data, ~90% of oil heated households are in rural LAs, and BEIS analysis suggests that across all fuel types ~60% of HUG-eligible homes are in rural LAs. Decarbonising fossil fuel heating off the gas grid is a key strategic priority for BEIS. Ringfencing 60% of HUG 2 funding to rural LAs is a pragmatic way to focus support to areas that are likely to have a high prevalence of off grid fossil fuel heated homes, whilst retaining support for urban and electrically heated homes.

BEIS encourage both rural and urban LAs to focus their efforts on treating fossil fuel heated homes. LAs will be classified as rural or urban in the outline application form. Consortium applications will classify the rurality of all LAs in the bid, and so mixed rural-urban consortia are welcomed.

BEIS also reserves the right to restrict subsequent rounds of assessment to rural LAs only, if the non-ringfenced funding pot is exhausted in earlier assessment rounds at outline application stage.

See **Annex B** for the rurality classification of LAs for HUG 2.

3.6 Eligible Installers

As part of the application process, LAs will be asked to provide details of the installers and delivery partners they intend to use, and confirm they hold the relevant certifications and TrustMark registration to install measures.

As part of the application process, LAs will be asked for details of their contractors, delivery partners, procurement status and TrustMark registration. For low-carbon heating measures, LAs will also be asked to confirm where applicable that their contractors are also certified under the Microgeneration Certification Scheme (MCS).

All installers are required to be TrustMark registered²⁷ or equivalent, and compliant with the TrustMark requirements for HUG 2. All measures must be lodged onto the TrustMark data warehouse by a retrofit coordinator. [The requirements for installers have been published alongside this guidance document on the Home Upgrade Grant Phase 2 page.](#)

All projects must be compliant with the most up to date PAS 2035 Retrofitting dwellings for improved energy efficiency, specification and guidance (PAS 2035:2019). Installers are required to be appropriately certified to install eligible measures on behalf of the LA, as set out in the LA's application. Under HUG 2, BEIS require that all measures must be delivered by installers who are certified, at a minimum, to the most recent version of the PAS 2030:2019 standard²⁸.

²⁷ Or able to demonstrate registration with a scheme which has been deemed equivalent by the Secretary of State.

²⁸ New versions of the PAS 2030 and 2035:2019 specifications are due for publication in January 2022: PAS2030:2019+A1:2021, PAS2035:2019+A1:2021

All low-carbon heating measures must also be installed by an MCS certified²⁹ installer, who must be certified to the relevant MCS standards for the technology they are installing. MCS certification requires an installation company to be assessed by an affiliated certification body, have consumer code membership, and to have demonstrated suitable competency against relevant technology standards, as well as carry out installations in accordance with MCS installation standards.

Where a communal heat network/district heating scheme is to be installed, this should be done in accordance with the Heat Trust Consumer Protection Scheme³⁰.

BEIS does not take any financial liability for costs incurred for registration or accreditation for businesses that do not receive funding through a HUG 2 application.

Lastly, we recognise that some contractors will no longer meet the robust qualification and accreditation standards required to install measures under HUG 2. We encourage LAs to engage with installers early and run tendering programmes to find contractors within the competition window. We appreciate that some LAs will need to run new procurements to facilitate this, and BEIS will be available to respond to questions about installer requirements across this period.

LAs are encouraged to support and boost local green growth by considering local and SME installers as part of a contribution to levelling up society whilst investing in the skills and supply chains necessary to meet net zero. Applicants should consider the role of SMEs in the supply chain and ensure that barriers to participation are minimised in their procurements.

Applicants are also encouraged to consider and implement all relevant Public Procurement Notices in their procurement activity. A summary of relevant public procurement policy can be found at: www.gov.uk/government/collections/procurement-policy-notes.

3.7 Interaction with Other Schemes

Homes that received upgrades as part of previous net zero schemes such as the Local Authority Delivery (LAD) schemes or the Energy Company Obligation (ECO) scheme, or have previously received funding under the Green Homes Grant Voucher scheme, will also be eligible under HUG 2. In this instance, the household must meet the income eligibility criteria and the property must be both off-gas grid with a starting EPC rating of D, or below.

However, HUG 1 treated households will only be eligible to receive low carbon heat under HUG 2, and only if low carbon heat was not received under HUG 1 (the home only received energy efficiency measures). The LA is required to check that the household did not receive low carbon heating, and that the household still meets all other eligibility requirements.

²⁹ Or able to demonstrate registration with a scheme which has been deemed equivalent by the Secretary of State.

³⁰ Or able to demonstrate registration with a scheme which has been deemed equivalent by the Secretary of State.

Blending of funds from other net zero schemes is permissible and gives owner-occupiers and tenants the flexibility to access different sources of funding. However, different schemes have different rules and LAs will need to ensure any blending of funds with different schemes has been done in accordance with other scheme rules.

Funding received from HUG 2 cannot be blended simultaneously to install the same individual measure with other government energy efficiency schemes such as the Energy Company Obligation (ECO), or the Social Housing Decarbonisation Fund schemes (SHDF). It is possible for installations to be undertaken at the same property, where the measure installed is not the same or where a measure installed under a previous scheme is topped-up by HUG 2. For example, a household may receive funding under HUG 2 to install a heat pump, alongside funding to install solid wall insulation under ECO. Any ECO4 projects should occur wholly after or wholly before the HUG 2 work in the same property.

LAs can also blend funding they receive from HUG 2 with third party finance or LA budgets to deliver additional support to communities. If LAs do plan to blend funding received from the grant with third party finance or LA budgets, proposals will need to evidence this in the application form. Blending of third-party finances will receive higher scores as part of the 'Value for Money' assessment.

LAs must introduce controls to ensure households are not in receipt of funding from the HUG 2 and other government schemes for the same measure.

BEIS intends to utilise data matching between schemes to monitor whether the same measure installed in the same property is not claimed for under different energy efficiency schemes.

It is the LA's responsibility to ensure that any blending of funding is compliant with each individual scheme and the respective requirements and objectives for each fund is met.

Lastly, LAs are entitled to complement HUG 2 funding with other sources, provided the funding is not tied to energy efficiency retrofits. Examples include complementing installation using the Disabled Facilities Grant to make homes more suitable for disabled residents.

3.8 Technical Assistance Facility (TAF)

BEIS has established a Technical Assistance Facility (TAF) to provide technical support for all LAs interested in applying to HUG 2. The Technical Assistance Facility established for this scheme builds on the successes of the Social Housing Retrofit Accelerator (SHRA), available to Applicants as part of the Social Housing Decarbonisation Fund Wave 2.1 competition.

Technical assistance will be delivered under the name of the Home Upgrade Hub through our commercial technical support partner Turner & Townsend. LAs will be able to access active TAF support via the Home Upgrade Hub until completion of the delivery assurance checks. During the batch application stage, LAs will be able to access passive resources which will remain on the website and be available for the duration of the scheme.

Support is available for groups or individuals. Further detail is available on the Home Upgrade Hub website which is accessible via HomeUpgradeHub.org.uk and contactable via info@homeupgradehub.org.uk.

This technical support comprises:

- A comprehensive knowledge hub providing support and information to guide an Applicant through a retrofit project life cycle. The information draws together industry best practice and guidance.
- Workshops, seminars and roundtables on specific focus areas.

Examples of some of the types of support offered:

- Data collection and stock analysis, business case development, developing delivery models, scoping and specification of the project, internal governance, application writing and tenant engagement.
- Particular emphasis will be given to supporting rural LAs to ensure HUG 2 delivers 60% of its funding to rural LAs.

LAs can self-refer to the Home Upgrade Hub from the launch of the scheme. Alternatively, LAs will be directed by BEIS to its services if they are unsuccessful at either the outline application stage or delivery assurance checks. Although the Home Upgrade Hub will not provide active support to LAs after they have passed into the batch application stage, resources developed by Turner & Townsend for the TAF will continue to be available to LAs.

LAs intending on applying to HUG 2 do not need to have applied for or have received support from the Home Upgrade Hub to apply for HUG 2 funding. Receiving support from the Home Upgrade Hub does not guarantee that the application for funding will be successful. The LA remains responsible for ensuring the application meets HUG 2 eligibility requirements.

4. Other Information

4.1 UK Subsidy Control Rules

LAs must use the funding in line with the Subsidy Control requirements, as outlined in the EU-UK Trade and Cooperation Agreement (TCA) and the Subsidy Control Act 2022. It is ultimately the responsibility of LAs applying for funding to ensure their projects will be compliant with Subsidy Control and LAs should work with their legal teams to ensure compliance.

In the case of rented properties, private landlords are required to contribute one third towards the cost of upgrading their property and will have to declare that they have not received subsidy over the Minimal Financial Assistance limit of £315k across three financial years from all public sources. More information on the UK's subsidy control rules can be found [here](#)³¹.

4.2 VAT

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

For clarity, this means that BEIS and LAs will not pay VAT upon the transfer of grant funds, however VAT is applicable on goods purchased with grant funding. As LAs are able to recover VAT from HMRC, BEIS do not expect VAT to be included in their proposals as to avoid grant payments being used for VAT, which is later recovered by the LA.

In some instances, VAT costs will be incurred by a third-party, where materials, goods or services are purchased on behalf of the LA where the nature of these contracts mean that the LA is unable to recover VAT.

As part of the application form, LAs will be asked to affirm that they have not included VAT as part their costs. If LAs are unable to affirm this statement, they will be asked to explain why VAT has been included (as in the case of delivery being outsourced to a third party, as described above), and specify the VAT rate.

This will allow BEIS to compare the true costs of materials, goods and services for the purposes of awarding funds and compare the value for money they offer the HUG.

31
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1088607/draft_statutory_guidance_on_the_subsidy_control_act_2022_for_consultation.pdf

5. Information Management

5.1 Local Authority Contracts

LAs will be required to provide a name and contact details for at least one named person to BEIS. We would suggest one or more contact(s) who is/are the project lead, communications lead, finance lead, legal lead and CEO. We will use this information to communicate scheme updates, training notices, information on future schemes and opportunities and invitations to relevant events. Details of how this information will be held and used will be set out in the HUG 2 Memorandum of Understanding (MoU).

5.2 Monitoring and Evaluation

LAs who are awarded funding are responsible for ensuring installers (or delivery partners) collect and provide the appropriate information to support monitoring and evaluation, as specified by BEIS. Full details of these requirements are set out in the MoU and its Annexes. We expect the MoU to be published on gov.uk in mid-October.

Prior to collecting any data under the scheme, LAs are expected to:

- Include BEIS data collection requirements in all relevant contracts with installers and delivery partners, ensuring they understand and accept them.
- Ensure they display or make available BEIS' standardised Privacy Notice (Annexes 6 or 9 of MoU) to all data subjects, prior to the collection of data, to support compliance with data processing transparency requirements.
- Agree and sign a standardised Data Sharing Agreement; this document establishes the roles, process, scope, and purpose of sharing Management Information data between the LA and BEIS.
- Demonstrate that there is sufficient resource in their applications to manage delivery of the above requirements to an effective level of quality, and to maintain this for the full duration of the project.

Please see the MoU for proposed data collection requirements (Annex 8), BEIS Privacy Notice (Annexes 6 & 9), Privacy Notice Guidance and Data Sharing Agreement.

While delivering the schemes, successful LAs will also be required to:

- Provide monthly progress reports to BEIS against each Key Performance Indicator (as stated in and according to the schedule in the MoU).
- Collect and collate a minimum level of management information (specified in Annex 8 of MoU) across their projects into a simple database, checking it for completeness and accuracy, and rectifying any missing or inappropriate data prior to sharing it with BEIS.

- Share both sets of data with BEIS monthly via the specified secure platform (as specified in the MoU).
- Provide a monthly report on any emerging or current fraud risks.
- Inform BEIS of any reports it has received relating to any suspected fraudulent activity regarding project delivery and include a summary of investigative and/or corrective action.
- Work with BEIS on specific fraud risks throughout the duration of the scheme as needed.

LAs and lead delivery partners (where relevant) will be asked to participate in interviews led by evaluation contractors appointed by BEIS. These interviews will help BEIS capture end-to-end insights on the experience of managing, delivering, and receiving measures funded through HUG 2 for a selected number of delivery models to help inform future scheme design. BEIS intends that individual representatives of LAs and delivery partners will be asked to take part in no more than one interview each.

For the scheme's independent evaluation, BEIS will contact some households and installers. To support this, the proposed data requirements in the MoU includes fields for personal (rather than generic organisation-level) household, landlord and installer contact details. It is the responsibility of LAs to ensure sufficient provisions are in place to supply this data in a complete and usable state, in compliance with GDPR and BEIS's requirements.

Under the terms of the MoU, LAs are required to share following delivery datasets:

- The addresses and corresponding details of properties applying, or being referred, for installation of a measure.
- Contact details for the occupants and owners (if different) of the property where the installation took place, as well as details about how and why they were identified by the Authority for participation in HUG 2 and details about any financial contributions they have made towards the cost of the installation.
- Details of the energy efficiency measure(s) or low carbon heating system installed, including type, size and cost.
- Details of any additional funding used to support the installations, for example from the owners, landlords or other third parties.
- Pre- and post-installation property SAP or RdSAP assessments with scores.
- Details of the installers in relation to each installation of a HUG 2 measure, including their contact details and any relevant accreditation or registration information.

5.3 Managing Potential Fraud

We encourage LAs to adopt a proactive, structured and targeted approach to managing the risk of fraud. As stated above, we mandate in the MoU that LAs provide monthly reports of current and emerging fraud risks.

LAs must complete a Fraud Risk Assessment as part of the MoU submission process, identifying potential fraud risks to the project.

- LAs must inform BEIS of any fraud or losses through its monthly reporting and include further summaries of investigative/corrective action.
- As part of the monthly reports – RAG ratings, investigative actions and mitigation actions must be logged against and updated for individual fraud risks.

To ensure the robust administration of funding, we expect that LAs have appropriate measures in place to mitigate against any increased risks of both fraud and payment error.

Potential fraud risks may include:

- A provider using the funding for purposes outside of the grant conditions,
- Work not carried out, funds diverted, ineligibility not declared,
- False application or payment of grants to any person, agency or organisation,
- Spurious claims based on fiction e.g. claims made for empty properties and funding pocketed or upgrades sold on.

LAs are encouraged to utilise the BEIS-owned Previous Measures Checker to ensure that households submitted have not already received measures from other government schemes and that funding is not being provided for work that has already been carried out. Further information on this will be provided upon successful application for funding.

6. Glossary

Batch – means a group of ‘ready to retrofit’ homes. Before a batch application is submitted, all homes (and households) within the batch must have been validated as eligible, assessed in line with the latest PAS standards, and have a package of measures agreed by a Retrofit Coordinator.

Batch application – means an application to BEIS for approval and release of funds to upgrade a group of ‘ready to retrofit’ homes. If the batch application is successful, the LA will draw down a portion of the funding agreed in principle at the outline application stage. No batch applications can be submitted after December 2024 unless a later final submission deadline is approved by BEIS.

Batch application stage – When LAs submit actual housing stock data, measure mixes, and costs for a batch of ‘ready to retrofit’ homes (households signed up, validated, and assessed for measures in line with PAS).

Batch process – means the process of submitting a batch application, the assessment of that application by the Authority, and the approval and release of funds by the Authority.

Challenge fund model – Applications are assessed against a minimum set of criteria, rather than outcompeting other bidders for a share of the total funds. All applications that pass the minimum requirements of the scheme will be funded to some degree.

Consortium – LAs applying to HUG 2 as part of a group of LAs, with one ‘lead’ LA.

Cost expectation – The maximum spend per home on energy efficiency and clean heating.

Deposit payment – A deposit payment of 10% of the grant awarded for financial years 2023/24 and 2024/25 respectively will be transferred at the start of those financial years. The purpose of this payment is for LAs to start upgrading batches of approved homes with measures immediately after a batch application is approved whilst BEIS releases the necessary funds.

Delivery assurance check – This will check adequate progress has been made against plans submitted in the outline application stage - specifically how the project has been resourced and if contractors have been procured and are in place to deliver upgrades, along with any revised delivery forecasts and project plans. LAs must pass this check to start the delivery of batches.

Eligible Household – means a household which meets the low-income eligibility requirements and to which eligible measures may be delivered. Eligible households must live in a domestic dwelling in England with an EPC Rating of D, E, F, or G that is off gas grid for heating purposes, or live in a park home, where this has been demonstrated as appropriate in terms of energy performance equivalence.

Eligible Measures – This means any energy efficiency and low carbon heating measures compatible with the latest RdSAP that will help improve EPC band D, E, F, or G rated homes. Heating systems fuelled by fossil fuels are not eligible.

Energy performance certificate (EPC) – This measures the energy efficiency of a property and rates it on a sliding scale depending on how efficient it is. Ratings are from A-G with A being the most efficient and G being the least.

Income decile – the income values which divide the United Kingdom population, when ranked by equivalised household income, into ten equal-sized groups.

Indices of Multiple Deprivation – The official measure of relative deprivation in England produced by the Department for Levelling Up, Housing and Communities (DLUHC). IMD brings together seven distinct domains of deprivation, which are then combined and weighted to generate an overall assessment of the deprivation experienced by individuals living in an area. These domains encompass a wide range of deprivation factors, including income, employment, health and crime. IMD is calculated for every LSOA, or neighbourhood, in England.

Mobilisation payment – This will constitute 20% of funding requested for financial years 2023/24 and 2024/25. The payment can be used for both A&A and capital expenses each financial year that are necessary ahead of retrofitting homes with measures. This includes resourcing, procurement, specialist advice, searching for eligible homes, signing up households, validating homes, assessing homes, and agreeing a measures package in line with the PAS standards. LAs must comply with the 15% A&A limit when utilising their mobilisation payments across the formal Grant period of April 2023 to March 2025. This will be paid at the start of each financial year

Outline application stage – When applicants are asked about project size, commercial and delivery assurance questions, and low-income targeting and verification approach.

PAS 2035 – PAS 2035 is a specification for what is called ‘whole-house’ or ‘whole building’ retrofit. This is an approach to the installation of energy efficiency measures which takes into account the requirement of the entire building, both from a technical standpoint and considering factors like occupancy comfort.

Project completion – Means that the number of homes proposed have been upgraded and meet the key requirements on quality set out in the guidance (EPC F-G homes have been improved to at least band D and E-D homes have been improved to band C). Given the grant is calculated using an average cost per home of £18,000, the funding amount to complete the project may be above or below the grant amount. If the funding amount is below the grant figure, the above quality requirements must be evidenced and approved for the project to be considered completed.

Retrofit Assessor – Is the individual who will be responsible to undertake a survey of the dwellings, incorporating RdSAP data collection, a detailed floor plan, condition survey and occupancy assessment.

Retrofit Coordinator – Is the individual who will be responsible for overseeing the assessment of dwellings as well as the subsequent specification, monitoring, and evaluation of energy efficiency measures, in accordance with the latest PAS 2035 standards. Their job is to comply with PAS 2035 and ensure quality is maintained throughout.

Space heating demand – The amount of heat required to heat a building to maintain the inside of a building to a particular heating profile for a given set of weather conditions. It is an indicator of the thermal performance of a building's fabric.

Standard Assessment Procedure – The Standard Assessment Procedure (SAP) is the methodology used by the government to assess and compare the energy and environmental performance of dwellings. Its purpose is to provide accurate and reliable assessments of dwelling energy performances that are needed to underpin energy and environmental policy initiatives.

Technical Assistance Facility – BEIS has established a Technical Assistance Facility (TAF) to provide technical support for all LAs interested in applying to HUG 2. Technical assistance will be delivered under the name of the Home Upgrade Hub through our commercial technical support partner Turner & Townsend. LAs will be able to access active TAF support via the Home Upgrade Hub during the outline application stage and until completion of the delivery assurance checks. During the batch application stage LAs will be able to access passive resources which will remain on the Home Upgrade Hub and available for the duration of the scheme.

Upfront payment – This is an umbrella term for the mobilisation payment and deposit payment.

Annex A – Changes from HUG 1 Summary

Transition to a Challenge Fund Model

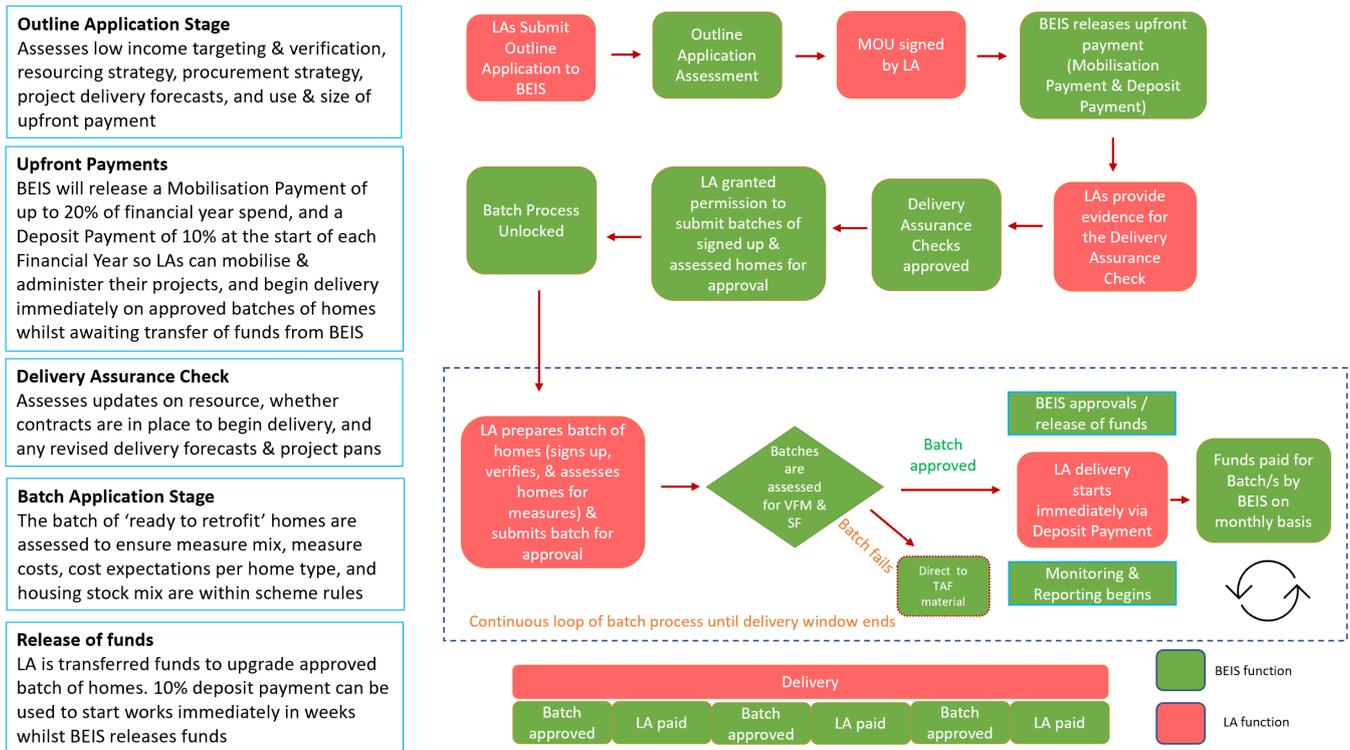


Figure 1: Challenge fund model process

HUG 2 will transition its grant allocation model from a competition used in previous phases to a challenge fund. There are several key principles of the challenge fund model, which differ from the competition model.

Firstly, individual LAs (and Consortia) will qualify for funding by meeting a minimum set of criteria rather than by out-competing other bidders at their expense. All applications that pass the minimum requirements of the scheme will be funded to some degree.

Secondly, LAs who apply early will have an opportunity to revise their applications and reapply for funding (should their application be initially unsuccessful) over a 4 month application window. This approach will help to drive broader coverage and geographical spread of HUG 2.

Thirdly, grant funding will be drawn down in portions throughout the delivery window to upgrade batches of homes deemed 'ready to retrofit' (signed up, validated, and assessed in line with PAS). This aims to minimise the need for BEIS to retrospectively claw back large amounts of allocated capital funding, from LAs who have then struggled to deliver projects.

A new application process has been designed to accommodate the model and will instead involve two application stages and a delivery assurance check.

At outline application stage, the level of funding in principle will be determined using a £18k per home average figure across all projects.

An upfront mobilisation payment will be given at this stage, which the LA can use for both administrative and ancillary (A&A) and capital expenses, such as to resource, procure, advertise, pay for specialist advice, and to sign up, validate, and assess homes in line with PAS requirements each financial year. Essentially this should constitute all A&A expenses, needed for the set up stage, plus some capital expenses required pre-delivery, such as PAS assessment costs. This mobilisation payment will be 20% of the grant for 2023/24 and 2024/25 respectively. LAs must comply with the 15% A&A limit when utilising their mobilisation payments.

Provided the application is successful, the mobilisation payment will be transferred once the LA has returned the signed Memorandum of Understanding to BEIS.

During the delivery assurance check, LAs will be assessed on whether they are ready to begin delivery with a strong focus on their procurement and resourcing progress.

At the batch application stage, LAs will provide housing stock data, measure mixes, and costs for a batch of homes that are 'ready-to-retrofit' (households signed up, validated, and assessed for measures in line with PAS 2035). If the batch is approved, the LA will be able to draw down the requested funds to complete the respective upgrades for that batch. This final step will be repeated numerous times throughout the delivery window, with funding released in batches.

A 10% deposit payment will be given to LAs at the start of financial years 23/24 and 24/25 so upgrades can start immediately upon batch approval in the weeks whilst BEIS transfers the remainder of the funding to the LA's bank account. To avoid upfront payments not being utilised within the financial year, or claw back being required payments for batches being delivered in quarter 4 of a financial year, LAs will in the first instance utilise any remaining upfront payment before BEIS provide any additional required costs to deliver the batch.

This new challenge fund approach is intended to drive broader coverage by funding all suitable applications until the available funding is exhausted, request information of the required level of detail from LAs at the appropriate time in the project life cycle, improve the realisation of scheme benefits, and reduce financial risk associated with 100% upfront grants by ensuring LAs draw down funding in batches over the delivery window only once homes are ready for installation.

Ringfencing 60% HUG 2 Funding for Rural LAs

Phasing out fossil fuel heating is a strategic priority for BEIS, and most fossil fuel heated homes are located in rural areas. For HUG 2, 60% of funding will be ringfenced for rural LAs, using the Department of Environment, Food and Rural Affairs (Defra)'s Rural-Urban Local

Authority Classification³². For the purposes of HUG2, the definition of rural includes the Defra categories of Mainly Rural, Largely Rural, and Urban with Significant Rural. Around 60% of homes eligible for HUG2 funding are situated in these locations.

LAs that apply for HUG 2 funding will either be allocated funding from the ringfenced rural pot, or the remaining funding pot open to all LAs. Mixed consortia formed of both rural and urban LAs will proportionally receive funding from both pots, with the rural LAs receiving funding from the ringfenced pot. BEIS retains the right to review this percentage during scheme delivery to ensure it is best supporting the scheme’s strategic objectives. BEIS also reserves the right to restrict subsequent rounds of assessment to rural LAs only, if the non-ringfenced funding pot is exhausted in earlier assessment rounds at outline application stage.

Newly Designed Cost Caps

The new Challenge Fund Model enables our cost caps to be substantially more bespoke for HUG 2 and a more accurate reflection of real life costs, as LAs will know both the characteristics of the housing to be treated (wall type and archetype) and the proposed measure mix and costings at the batch application stage. We are therefore introducing the following policy iterations:

- Introduce distinct cost caps for energy efficiency and low carbon heat;
- Base our cost caps on property characteristics (archetype and wall type) rather than EPC banding, as a better indicator of retrofit costs.

Tables 1 and 2: HUG 2 cost caps for owner occupied properties

| <i>Energy efficiency cost cap: owner occupied</i> | | |
|---|--------------------|-------------------|
| <i>Archetype</i> | <i>Cavity wall</i> | <i>Solid wall</i> |
| <i>Flat</i> | <i>£3k</i> | <i>£9k</i> |
| <i>Mid-terrace</i> | <i>£8k</i> | <i>£15k</i> |
| <i>End of terrace/ semi/detached</i> | <i>£12k</i> | <i>£24k</i> |

³² www.gov.uk/government/collections/rural-urban-classification This classification divides local authorities into 6 categories: Mainly Rural (80% or more of the population resides in rural areas); Largely Rural (between 50% and 79% of the population reside in rural areas); Urban with Significant Rural (between 26% and 49% of the population reside in rural areas); Urban with City and Town; Urban with Minor Conurbation; Urban with Major Conurbation. For the purposes of this scheme, the first 3 categories classify LAs as rural, and the second 3 categories classify LAs as urban.

| <i>Clean heat cost cap: owner occupied</i> | |
|--|---------------|
| <i>Archetype</i> | <i>Amount</i> |
| <i>Flat</i> | <i>£5k</i> |
| <i>Mid-terrace</i> | <i>£14k</i> |
| <i>End of terrace/ semi/detached</i> | |

For private rented sector properties, the landlord will be required to contribute at least one third of the cost of upgrades, up to the cost cap for a dwelling type. This means that the maximum level of subsidy a landlord can receive is equivalent to two thirds of the subsidy received by an owner occupier in a dwelling of the same building archetype, heating type and starting EPC.

Tables 3 and 4: HUG 2 cost caps for private rented sector properties

| <i>Energy efficiency cost cap: private rented</i> | | | | | | |
|---|--------------------|------------------------------|--------------|-------------------|------------------------------|--------------|
| <i>Archetype</i> | <i>Cavity wall</i> | | | <i>Solid wall</i> | | |
| | <i>Grant</i> | <i>Landlord contribution</i> | <i>Total</i> | <i>Grant</i> | <i>Landlord Contribution</i> | <i>Total</i> |
| <i>Flat</i> | <i>£2k</i> | <i>£1k</i> | <i>£3k</i> | <i>£6k</i> | <i>£3k</i> | <i>£9k</i> |
| <i>Mid-terrace</i> | <i>£5.33k</i> | <i>£2.67k</i> | <i>£8k</i> | <i>£10k</i> | <i>£5k</i> | <i>£15k</i> |
| <i>End of terrace/ semi/detached</i> | <i>£8k</i> | <i>£4k</i> | <i>£12k</i> | <i>£16k</i> | <i>£8k</i> | <i>£24k</i> |

| <i>Clean heat cost cap: private rented</i> | | | |
|--|---------------|------------------------------|--------------|
| <i>Archetype</i> | <i>Amount</i> | | |
| | <i>Grant</i> | <i>Landlord contribution</i> | <i>Total</i> |
| <i>Flat</i> | <i>£3.33k</i> | <i>£1.67k</i> | <i>£5k</i> |
| <i>Mid-terrace</i> | <i>£9.33k</i> | <i>£4.67k</i> | <i>£14k</i> |
| <i>End of terrace/ semi/detached</i> | | | |

Introduction of an Area-based Eligibility Route

A new area-based eligibility route has been introduced for HUG 2, using income deprivation data drawn from the Indices of Multiple Deprivation (IMD) 2019. Households living in the most economically deprived neighbourhoods (income deciles 1-3) will be automatically eligible for upgrades, provided they live in off-gas grid properties rated EPC Band D or below. Whilst LAs will not need to verify the income of these households, they should obtain proof of address and verify that the property itself is eligible.

Introduction of a Space Heating Demand Consideration

In line with the principles of PAS2035, HUG 2 projects should follow a fabric first approach to upgrades. The scheme aims to see households have an improvement on the EPC scale and see the energy demand of the property reduce, to help households reduce their energy costs.

We are retaining our EPC requirements from HUG 1, where we expect EPC band F-G homes to be upgraded to at least band D, and D-E homes to band C. In cases where this is not possible, the LA should clearly evidence a fabric first and value for money approach to the retrofit.

In addition to the above, we are introducing a space heating demand consideration. Consideration should be given to improving properties to a space heating demand target of 90 kWh/m²/year or better (as per SAP 2012 worksheet box 99 or equivalent), where reasonable and cost effective. LAs should not try to implement a retrofit that achieves 90 kWh/m²/year without considering whether this would be reasonable and cost effective.

Unlike our EPC requirements, this is not a hard target but a guide for retrofit designers and coordinators to help support their decision making.

New Eligible Measures

Two new measures – Battery Storage, and Smart Thermostats (featuring automation and optimisation) – will be eligible for funding under HUG 2 and have been included to futureproof the scheme.

Battery Storage³³ can only be installed once RdSAP has been updated to align with SAP 10.2. The HUG 2 guidance will be updated in early 2023 with more details.

³³ A number of technologies are covered by the broad definition of Battery Storage under SAP. More information can be found at: www.bregroup.com/

Removal of Cap on EPC Band D Homes

HUG 1 capped EPC Band D homes at 30% of the total homes treated. We are removing this cap for HUG 2 to support LAs in delivering the scale up of their projects under HUG 2 and to support the strategic imperative of phasing out heating oil, which is disproportionately represented in Band D stock in the latest SAP update. Removing the 30% cap on Band D homes will ensure that barriers to upgrading oil heated homes are reduced, supporting our net zero ambitions to phase out the highest carbon heating systems this decade.

Under HUG 1 park homes also fell under this 30% cap on Band D properties. For HUG 2 park homes will be capped at 10% per project.

See **Section 3.2 Eligible Properties** for more details

Annex B – Rurality Classifications

Rurality classifications for HUG 2

| LA Name | Rural-Urban Classification |
|------------------------------|-----------------------------------|
| Adur | Urban with City and Town |
| Allerdale | Mainly Rural |
| Amber Valley | Urban with Minor Conurbation |
| Arun | Urban with City and Town |
| Ashfield | Urban with City and Town |
| Ashford | Urban with Significant Rural |
| Babergh | Mainly Rural |
| Barking and Dagenham | Urban with Major Conurbation |
| Barnet | Urban with Major Conurbation |
| Barnsley | Urban with Minor Conurbation |
| Barrow-in-Furness | Urban with Significant Rural |
| Basildon | Urban with City and Town |
| Basingstoke and Deane | Urban with Significant Rural |
| Bassetlaw | Largely Rural |
| Bath and North East Somerset | Urban with Significant Rural |
| Bedford | Urban with Significant Rural |
| Bexley | Urban with Major Conurbation |
| Birmingham | Urban with Major Conurbation |
| Blaby | Urban with City and Town |
| Blackburn with Darwen | Urban with City and Town |
| Blackpool | Urban with City and Town |

| LA Name | Rural-Urban Classification |
|-------------------------------------|-----------------------------------|
| Bolsover | Urban with Significant Rural |
| Bolton | Urban with Major Conurbation |
| Boston | Urban with Significant Rural |
| Bournemouth, Christchurch and Poole | Urban with City and Town |
| Bracknell Forest | Urban with City and Town |
| Bradford | Urban with Major Conurbation |
| Braintree | Largely Rural |
| Breckland | Mainly Rural |
| Brent | Urban with Major Conurbation |
| Brentwood | Urban with Significant Rural |
| Brighton and Hove | Urban with City and Town |
| Bristol, City of | Urban with City and Town |
| Broadland | Urban with Significant Rural |
| Bromley | Urban with Major Conurbation |
| Bromsgrove | Urban with City and Town |
| Broxbourne | Urban with Major Conurbation |
| Broxtowe | Urban with Minor Conurbation |
| Buckinghamshire | Urban with Significant Rural |
| Burnley | Urban with City and Town |
| Bury | Urban with Major Conurbation |
| Calderdale | Urban with Major Conurbation |
| Cambridge | Urban with City and Town |
| Camden | Urban with Major Conurbation |

| LA Name | Rural-Urban Classification |
|---------------------------|-----------------------------------|
| Cannock Chase | Urban with Significant Rural |
| Canterbury | Urban with City and Town |
| Carlisle | Urban with Significant Rural |
| Castle Point | Urban with City and Town |
| Central Bedfordshire | Largely Rural |
| Charnwood | Urban with City and Town |
| Chelmsford | Urban with City and Town |
| Cheltenham | Urban with City and Town |
| Cherwell | Urban with Significant Rural |
| Cheshire East | Urban with Significant Rural |
| Cheshire West and Chester | Urban with Significant Rural |
| Chesterfield | Urban with City and Town |
| Chichester | Largely Rural |
| Chorley | Urban with Significant Rural |
| City of London | Urban with Major Conurbation |
| Colchester | Urban with Significant Rural |
| Copeland | Mainly Rural |
| Cornwall | Mainly Rural |
| Cotswold | Mainly Rural |
| County Durham | Largely Rural |
| Coventry | Urban with City and Town |
| Craven | Mainly Rural |
| Crawley | Urban with City and Town |
| Croydon | Urban with Major Conurbation |

| LA Name | Rural-Urban Classification |
|--------------------------|-----------------------------------|
| Dacorum | Urban with Significant Rural |
| Darlington | Urban with City and Town |
| Dartford | Urban with Major Conurbation |
| Derby | Urban with City and Town |
| Derbyshire Dales | Mainly Rural |
| Doncaster | Urban with Minor Conurbation |
| Dorset | Largely Rural |
| Dover | Urban with Significant Rural |
| Dudley | Urban with Major Conurbation |
| Ealing | Urban with Major Conurbation |
| East Cambridgeshire | Mainly Rural |
| East Devon | Largely Rural |
| East Hampshire | Mainly Rural |
| East Hertfordshire | Urban with Significant Rural |
| East Lindsey | Mainly Rural |
| East Riding of Yorkshire | Largely Rural |
| East Staffordshire | Urban with Significant Rural |
| East Suffolk | Largely Rural |
| Eastbourne | Urban with City and Town |
| Eastleigh | Urban with City and Town |
| Eden | Mainly Rural |
| Elmbridge | Urban with Major Conurbation |
| Enfield | Urban with Major Conurbation |
| Epping Forest | Urban with Significant Rural |

| LA Name | Rural-Urban Classification |
|------------------------|-----------------------------------|
| Epsom and Ewell | Urban with Major Conurbation |
| Erewash | Urban with Minor Conurbation |
| Exeter | Urban with City and Town |
| Fareham | Urban with City and Town |
| Fenland | Largely Rural |
| Folkestone and Hythe | Urban with Significant Rural |
| Forest of Dean | Mainly Rural |
| Fylde | Urban with City and Town |
| Gateshead | Urban with Major Conurbation |
| Gedling | Urban with Minor Conurbation |
| Gloucester | Urban with City and Town |
| Gosport | Urban with City and Town |
| Gravesham | Urban with Major Conurbation |
| Great Yarmouth | Urban with Significant Rural |
| Greenwich | Urban with Major Conurbation |
| Guildford | Urban with City and Town |
| Hackney | Urban with Major Conurbation |
| Halton | Urban with City and Town |
| Hambleton | Mainly Rural |
| Hammersmith and Fulham | Urban with Major Conurbation |
| Harborough | Mainly Rural |
| Haringey | Urban with Major Conurbation |
| Harlow | Urban with City and Town |
| Harrogate | Urban with Significant Rural |

| LA Name | Rural-Urban Classification |
|------------------------------|-----------------------------------|
| Harrow | Urban with Major Conurbation |
| Hart | Urban with Significant Rural |
| Hartlepool | Urban with City and Town |
| Hastings | Urban with City and Town |
| Havant | Urban with City and Town |
| Havering | Urban with Major Conurbation |
| Herefordshire, County of | Largely Rural |
| Hertsmere | Urban with Major Conurbation |
| High Peak | Largely Rural |
| Hillingdon | Urban with Major Conurbation |
| Hinckley and Bosworth | Largely Rural |
| Horsham | Largely Rural |
| Hounslow | Urban with Major Conurbation |
| Huntingdonshire | Mainly Rural |
| Hyndburn | Urban with City and Town |
| Ipswich | Urban with City and Town |
| Isle of Wight | Mainly Rural |
| Isles of Scilly | Mainly Rural |
| Islington | Urban with Major Conurbation |
| Kensington and Chelsea | Urban with Major Conurbation |
| King's Lynn and West Norfolk | Largely Rural |
| Kingston upon Hull, City of | Urban with City and Town |
| Kingston upon Thames | Urban with Major Conurbation |
| Kirklees | Urban with Major Conurbation |

| LA Name | Rural-Urban Classification |
|----------------|-----------------------------------|
| Knowsley | Urban with Major Conurbation |
| Lambeth | Urban with Major Conurbation |
| Lancaster | Urban with Significant Rural |
| Leeds | Urban with Major Conurbation |
| Leicester | Urban with City and Town |
| Lewes | Urban with Significant Rural |
| Lewisham | Urban with Major Conurbation |
| Lichfield | Urban with Significant Rural |
| Lincoln | Urban with City and Town |
| Liverpool | Urban with Major Conurbation |
| Luton | Urban with City and Town |
| Maidstone | Urban with Significant Rural |
| Maldon | Mainly Rural |
| Malvern Hills | Largely Rural |
| Manchester | Urban with Major Conurbation |
| Mansfield | Urban with City and Town |
| Medway | Urban with City and Town |
| Melton | Mainly Rural |
| Mendip | Mainly Rural |
| Merton | Urban with Major Conurbation |
| Mid Devon | Mainly Rural |
| Mid Suffolk | Mainly Rural |
| Mid Sussex | Urban with City and Town |
| Middlesbrough | Urban with City and Town |

| LA Name | Rural-Urban Classification |
|---------------------------|-----------------------------------|
| Milton Keynes | Urban with City and Town |
| Mole Valley | Urban with Significant Rural |
| New Forest | Urban with Significant Rural |
| Newark and Sherwood | Largely Rural |
| Newcastle upon Tyne | Urban with Major Conurbation |
| Newcastle-under-Lyme | Urban with City and Town |
| Newham | Urban with Major Conurbation |
| North Devon | Largely Rural |
| North East Derbyshire | Urban with City and Town |
| North East Lincolnshire | Urban with City and Town |
| North Hertfordshire | Urban with Significant Rural |
| North Kesteven | Mainly Rural |
| North Lincolnshire | Urban with Significant Rural |
| North Norfolk | Mainly Rural |
| North Northamptonshire | Urban with Significant Rural |
| North Somerset | Urban with Significant Rural |
| North Tyneside | Urban with Major Conurbation |
| North Warwickshire | Mainly Rural |
| North West Leicestershire | Largely Rural |
| Northumberland | Largely Rural |
| Norwich | Urban with City and Town |
| Nottingham | Urban with Minor Conurbation |
| Nuneaton and Bedworth | Urban with City and Town |
| Oadby and Wigston | Urban with City and Town |

| LA Name | Rural-Urban Classification |
|----------------------|-----------------------------------|
| Oldham | Urban with Major Conurbation |
| Oxford | Urban with City and Town |
| Pendle | Urban with City and Town |
| Peterborough | Urban with City and Town |
| Plymouth | Urban with City and Town |
| Portsmouth | Urban with City and Town |
| Preston | Urban with City and Town |
| Reading | Urban with City and Town |
| Redbridge | Urban with Major Conurbation |
| Redcar and Cleveland | Urban with Significant Rural |
| Redditch | Urban with City and Town |
| Reigate and Banstead | Urban with City and Town |
| Ribble Valley | Mainly Rural |
| Richmond upon Thames | Urban with Major Conurbation |
| Richmondshire | Mainly Rural |
| Rochdale | Urban with Major Conurbation |
| Rochford | Urban with City and Town |
| Rossendale | Urban with City and Town |
| Rother | Largely Rural |
| Rotherham | Urban with Minor Conurbation |
| Rugby | Urban with City and Town |
| Runnymede | Urban with Major Conurbation |
| Rushcliffe | Largely Rural |
| Rushmoor | Urban with City and Town |

| LA Name | Rural-Urban Classification |
|---------------------------|-----------------------------------|
| Rutland | Mainly Rural |
| Ryedale | Mainly Rural |
| Salford | Urban with Major Conurbation |
| Sandwell | Urban with Major Conurbation |
| Scarborough | Urban with Significant Rural |
| Sedgemoor | Largely Rural |
| Sefton | Urban with Major Conurbation |
| Selby | Mainly Rural |
| Sevenoaks | Largely Rural |
| Sheffield | Urban with Minor Conurbation |
| Shropshire | Largely Rural |
| Slough | Urban with City and Town |
| Solihull | Urban with Major Conurbation |
| Somerset West and Taunton | Largely Rural |
| South Cambridgeshire | Largely Rural |
| South Derbyshire | Urban with Significant Rural |
| South Gloucestershire | Urban with City and Town |
| South Hams | Mainly Rural |
| South Holland | Largely Rural |
| South Kesteven | Largely Rural |
| South Lakeland | Mainly Rural |
| South Norfolk | Mainly Rural |
| South Oxfordshire | Mainly Rural |
| South Ribble | Urban with City and Town |

| LA Name | Rural-Urban Classification |
|-------------------------|-----------------------------------|
| South Somerset | Largely Rural |
| South Staffordshire | Urban with Significant Rural |
| South Tyneside | Urban with Major Conurbation |
| Southampton | Urban with City and Town |
| Southend-on-Sea | Urban with City and Town |
| Southwark | Urban with Major Conurbation |
| Spelthorne | Urban with Major Conurbation |
| St Albans | Urban with City and Town |
| St. Helens | Urban with Major Conurbation |
| Stafford | Urban with Significant Rural |
| Staffordshire Moorlands | Largely Rural |
| Stevenage | Urban with City and Town |
| Stockport | Urban with Major Conurbation |
| Stockton-on-Tees | Urban with City and Town |
| Stoke-on-Trent | Urban with City and Town |
| Stratford-on-Avon | Mainly Rural |
| Stroud | Urban with Significant Rural |
| Sunderland | Urban with Major Conurbation |
| Surrey Heath | Urban with City and Town |
| Sutton | Urban with Major Conurbation |
| Swale | Largely Rural |
| Swindon | Urban with City and Town |
| Tameside | Urban with Major Conurbation |
| Tamworth | Urban with City and Town |

| LA Name | Rural-Urban Classification |
|-----------------------|-----------------------------------|
| Tandridge | Urban with Significant Rural |
| Teignbridge | Largely Rural |
| Telford and Wrekin | Urban with City and Town |
| Tendring | Largely Rural |
| Test Valley | Urban with Significant Rural |
| Tewkesbury | Largely Rural |
| Thanet | Urban with City and Town |
| Three Rivers | Urban with Major Conurbation |
| Thurrock | Urban with Major Conurbation |
| Tonbridge and Malling | Urban with Significant Rural |
| Torbay | Urban with City and Town |
| Torridge | Mainly Rural |
| Tower Hamlets | Urban with Major Conurbation |
| Trafford | Urban with Major Conurbation |
| Tunbridge Wells | Urban with Significant Rural |
| Uttlesford | Mainly Rural |
| Vale of White Horse | Largely Rural |
| Wakefield | Urban with City and Town |
| Walsall | Urban with Major Conurbation |
| Waltham Forest | Urban with Major Conurbation |
| Wandsworth | Urban with Major Conurbation |
| Warrington | Urban with City and Town |
| Warwick | Urban with City and Town |
| Watford | Urban with Major Conurbation |

| LA Name | Rural-Urban Classification |
|------------------------|-----------------------------------|
| Waverley | Largely Rural |
| Wealden | Mainly Rural |
| Welwyn Hatfield | Urban with City and Town |
| West Berkshire | Urban with Significant Rural |
| West Devon | Mainly Rural |
| West Lancashire | Urban with Significant Rural |
| West Lindsey | Mainly Rural |
| West Northamptonshire | Urban with Significant Rural |
| West Oxfordshire | Mainly Rural |
| West Suffolk | Largely Rural |
| Westminster | Urban with Major Conurbation |
| Wigan | Urban with Major Conurbation |
| Wiltshire | Largely Rural |
| Winchester | Largely Rural |
| Windsor and Maidenhead | Urban with City and Town |
| Wirral | Urban with Major Conurbation |
| Woking | Urban with Major Conurbation |
| Wokingham | Urban with City and Town |
| Wolverhampton | Urban with Major Conurbation |
| Worcester | Urban with City and Town |
| Worthing | Urban with City and Town |
| Wychavon | Mainly Rural |
| Wyre | Largely Rural |
| Wyre Forest | Urban with Significant Rural |

| LA Name | Rural-Urban Classification |
|----------------|-----------------------------------|
| York | Urban with City and Town |

Annex C – Defining Domestic Properties

Domestic premises test, other than a Park Home/Mobile home

Local Authorities should use a two-part test to determine whether premises, other than a mobile home, are domestic premises by asking:

Test I. are the premises self-contained by containing kitchen facilities for occupants to prepare food?

Test II. are the premises used by the occupants wholly or mainly for domestic purposes (e.g. as a home)?

If the answer to each question is yes, then we consider the premises to be domestic premises. Further information is provided below about each part of this test.

Test I. Are the premises self-contained?

This part of the test is about the physical layout and setup of the building.

Premises may be part of a building (for example, a flat in a tower block) or may be the whole building (for example, a detached bungalow).

Premises will be separate and self-contained if, within the boundaries of the premises, they contain:

- one or more bedrooms, and
- private kitchen facilities, including a kitchen sink and stove, for occupants to prepare food.

Note that a portable microwave or campfire stove would not be considered as a stove for this purpose. Kitchen facilities are private when they are accessible only to the occupants of the bedroom or bedrooms within the part of the building that forms the premises.

Our test does not take account of bathroom facilities.

Bedrooms

A space can function as both a bedroom and a living area – for example, a studio or a bedsit.

Kitchen facilities

Kitchen facilities include a kitchen sink and a stove. Where one of these items is not present in the kitchen, then we do not consider the premises to contain kitchen facilities.

Kitchen facilities may be located in the same space that functions as a bedroom – for example, a studio or bedsit.

Kitchen facilities are private when they are accessible only to the occupants of the bedroom or bedrooms within the part of the building that forms the premises.

Examples of premises that are self-contained (although might fail the domestic purposes test):

- a studio (containing private kitchen and bathroom facilities).
- a bedsit (containing private kitchen facilities, with access to shared bathroom facilities).
- an apartment, including a shared apartment where the occupants of each bedroom share a communal kitchen.
- a house, including a shared house where the occupants of each bedroom share a communal kitchen.

The following are not self-contained premises:

- a bedroom which does not contain private kitchen facilities,
- a bedroom which contains some kitchen facilities, for example a refrigerator and a microwave oven, but does not contain a kitchen sink and/or stove,
- two or more bedrooms with a kitchen that is not for the exclusive use of the occupants of those bedrooms, and
- any facility where the occupants do not have access to kitchen facilities to cook for themselves.

Determining the boundary of premises

The boundaries of the premises are the outermost walls of the total space used exclusively by the occupants of the premises. For example:

- in a shared apartment or house, the total space includes all bedrooms and the common areas (kitchen, bathroom(s) and living area(s), halls and corridors), or
- for a bedsit containing a kitchen, the boundaries of the premises are the walls of that bedsit, or
- for mixed use premises, such as a Bed & Breakfast with both commercial and domestic parts, the premises boundaries of the domestic part would be the outermost walls of the area that is self-contained and used for domestic purposes (e.g., it contains its own kitchen and has one or more bedrooms).

Test II. Are the premises used as a home?

Premises are used wholly or mainly for domestic purposes if the premises are used by the occupants as a home.

This part of the test considers the way in which the building is generally used. In most cases it should be clear that premises are being used as a home, e.g. the premises are used by the occupants for living in on more than a short-term basis (typically more than three months). Suppliers are normally expected to check the length of a lease or licence to occupy in scenarios where you would expect the lease or licence to be short term, e.g. hostels.

The use of premises as a home can be evidenced in the following ways:

- Owner-occupied premises: the receipt by the occupant of utility bills or mortgage statements relating to the premises may indicate that the premises are used as a home. There may be other indicators such as mortgage deeds naming the occupant.
- Premises occupied under a lease or licence to occupy: the receipt by the occupant of 3 months of utility bills relating to the premises, or the existence of a lease or licence of longer than 3 months in the name of the occupant (such as a tenancy agreement) may indicate that the premises are used as a home. There may be other indicators that may be considered acceptable evidence.

Commercial activities

Occupants may carry out some commercial activities at the premises from a room also used for domestic purposes, provided that the primary use of the premises is as a home. Examples of commercial activities include working or running a business from home.

Examples of premises that are not generally used as a home:

- a hotel, or guest houses (including 'bed and breakfast' properties), where guests do not usually stay for periods of longer than a couple of weeks,
- a short-stay apartment or hostel, where occupants usually stay for periods of less than 3 months.

Care homes

Care homes do not meet the domestic premises requirement and are therefore outside of the scope of the Home Upgrade Grant Phase 2 eligibility criteria.

Student halls of residence

Student halls of residence do not meet the domestic premises requirement and are therefore outside of the scope of the Home Upgrade Grant Phase 2 eligibility criteria.

Park Homes/Mobile Homes

For a structure to be considered a park/mobile home, and therefore a domestic premise, it must:

- be a caravan, AND
- be used as a dwelling.

Houses in Multiple Occupation

A house in multiple occupation (HMO) is a property rented out by two or more people who are not from 1 'household' (for example a family) but share one or more basic amenities or the living accommodation is lacking in one or more basic amenities. Therefore, the arrangement of kitchen facilities within an HMO is critical in determining eligibility under HUG 2.

Based on the definition of self-contained premises, we recognise two distinct categories of HMO:

- An HMO with shared cooking facilities (e.g. a shared house).
- An HMO with private cooking facilities in each bedroom (e.g. bedsits).

Generally, an HMO with shared cooking facilities should be treated as if it were a single domestic premise.

An HMO with private cooking facilities is treated differently to other types of domestic premises. This is because individual bedrooms may meet this competition's definition of a self-contained premises.

Each tenant's eligibility only extends to their individual private rooms, not the HMO as a whole. This means that one occupant on less than £31,000 would qualify in their individual household, but not the whole HMO. For the whole HMO to be eligible, all rooms would need to have an eligible resident, or the income across all households meets the average income criteria.

House Boats

At this time the RdSAP (Reduced data Standard Assessment Procedure) assessment method does not support the creation of domestic EPCs for houseboats. Unless this changes, domestic EPCs should not be issued to houseboats and as such they are not eligible for funding through HUG 2.

Shared Ownership Schemes

Shared ownership homes, where a proportion of the properties is still owned by the scheme owner and rented by the leaseholder, should be treated as rental properties and as such the scheme owner is responsible for contributing to the upgrade of the property.

This publication is available from: www.gov.uk/beis

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