



Department
of Energy &
Climate Change

Heat Networks Funding Stream

Application and Guidance Pack for Local Authorities to gain financial assistance from the Heat Networks Delivery Unit

Heat Networks Funding Stream

Application and Guidance Pack

Aim

To encourage and support the development and growth of heat networks in England and Wales through the provision of grant funding and specialist support to Local Authorities¹.

Introduction

DECC is pleased to announce the Heat Networks Funding Stream, a £6 million grant funding programme. This delivers on a major commitment made in the March 2013 document, *The Future of Heating: Meeting the Challenge*. The fund is designed to support local authorities (LAs)² to identify, evaluate and develop new heating and cooling networks and the expansion of existing heating and cooling networks in England and Wales. The fund will be managed by the Heat Networks Delivery Unit (HNDU), a new specialist DECC team.

LAs are invited to bring forward ambitious and innovative proposals to develop and deliver low carbon heat network. Government is particularly keen to support plans for networks that draw their heat energy (immediately or in the future) from renewable, sustainable or recoverable sources as an alternative or complement to gas CHP. Bids which seek to develop low temperature delivery networks are also encouraged.

The fund will meet 67% of the estimated eligible costs of heat mapping, associated master planning, developing technical proposals, financial evaluations, appropriate governance procedures and processes, project management and any other agreed appropriate works to allow the preparation of investment documents, business plans, financial models etc. which facilitate the installation of new heat networks and the improvement and/or expansion of existing heat networks. LAs will be required to provide the other 33% of funding.

The primary purpose of the grant funding is to allow additional projects and developments³ to be progressed to the point where the information delivered

¹ 'Local authority' for the purposes of this document complies with the definition in S.23(1) of the Local Government Act 2003.

² It is recognised that some projects may include heat loads or connections that relate to Local Enterprise Partnerships, ALMOs, housing co-operatives, hospitals and universities etc. In all cases it is assumed the LA will be leading and managing the entire project/development to which the bid relates. Section 31 funding is only available to LAs.

³ A note on terminology: we refer to two kinds of heat networks in this document; area-wide, strategically planned 'developments' and their constituent localised schemes, which we term 'projects'.

forms the basis of a business plan that is sufficiently robust to allow them to attract a range of finance options including commercial investment.

Where applications are submitted that the HNDU considers to meet some of the criteria, but fall short of the threshold for funding, we will endeavour to advise LAs on how to improve their applications within that or subsequent application rounds.

Bids will be invited in six rounds of applications between September 2013 and March 2015. Successful applicants will be notified within four weeks of the closure date for each round.

Applications for the first round of funding may be submitted from now until 15 November 2013.

All Bids should be submitted electronically (using the pro-forma attached at Annex A) to hndu@decc.gov.gsi.co.uk

Background

The Carbon Plan and The Future of Heating: a Strategic Framework for Low Carbon Heat in the UK highlighted that heat networks are likely to be an important part of the move to lower carbon heating, especially in urban areas with high heat densities, and where household-level renewable heating solutions such as heat pumps and biomass boilers will be harder to deploy at scale. In March 2013, DECC published *The Future of Heating: Meeting the Challenge* which announced that DECC would establish a ten-person Heat Networks Delivery Unit to support LAs in overcoming barriers to early stage development.

Research, responses to the *Strategic Framework* and evidence from the Low Carbon Pioneer Cities heat network projects in 2012/13 has identified the following main barriers to heat network delivery, including:⁴

- Local authority capacity and capability;
- A lack of standardised commercial models; and
- Difficulty in attracting development and commercial and/or institutional finance.

These barriers create a level of project risk before commercial, technical or financial viability is established, that is unattractive for the private sector. Consequently, LAs are key actors in establishing this commercial/financial viability.

⁴ For more details see chapter 2 of *The Future of Heating: Meeting the Challenge* and chapter 4 of its Evidence Annex

There are also many potential heat sources for networks in the UK, and various industries (including manufacturers, developers and advisers) competing for work in this space.

Heat Networks Delivery Unit

The Heat Networks Delivery Unit has been established to provide support to, and facilitate, LAs in England and Wales to meet their objectives of urban decarbonisation, local growth, improved energy efficiency and a reduction in fuel poverty through the increased use of heat networks.

The Heat Networks Delivery Unit will provide guidance and support to allow LAs to develop investable heat network projects/developments and to receive the most appropriate engineering, project finance and commercial advice from suitably experienced external consultants.

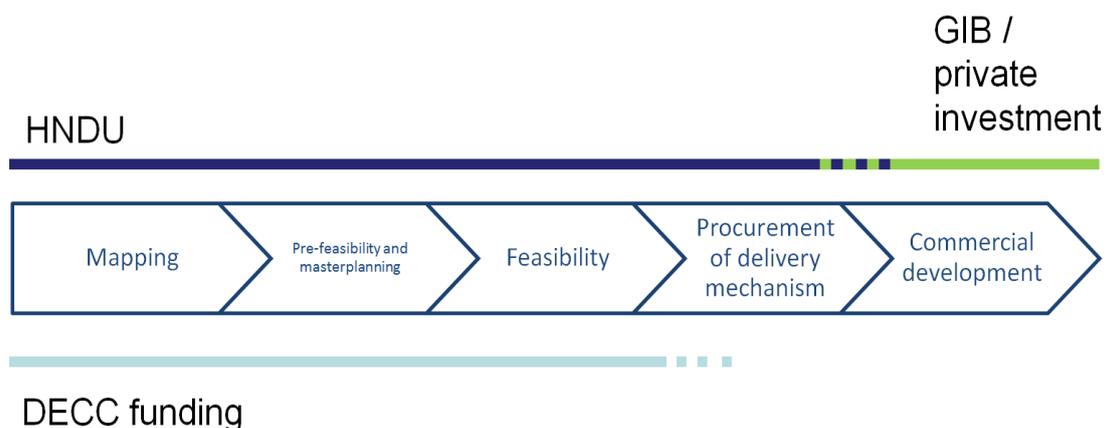
This process will vary across different stages of the heat network development, it might include helping LAs understand possible delivery options; advising on the tendering and appointment of advisers; and providing challenge to ensure they deliver a quality product. HNDU will also manage The Heat Networks Funding Stream, worth six million pounds, over two years.

Technical and funding support will be available from the earliest heat mapping stages of the potential projects and developments, through to the point where the project's or development's business plan and financial models are available for presentation to funding organisations.

At this point, the Green Investment Bank or other commercial funding institutions may become engaged with the project/development.

Funding Application Guidance

Fig 1: Representation of Heat Network Delivery Unit funding and feasibility process



The Heat Networks Funding Stream has been developed to help local authorities (and their partners etc.) to procure the expert external services that they will require to develop heat network projects into investable propositions.

It is intended that the combination of the Heat Network Delivery Unit's support and guidance, together with the external consultants' expert advice, will help local authorities to build their own sustainable knowledge base, capability and capacity for future heat networks projects.

The demands of each project will dictate the nature, extent and costs of the works that will be eligible for grant funding. The following is intended as a guide to the kinds of work towards which the HNDU will, and will not provide technical support and funding. Neither list is exhaustive.

Activities and services that the funding stream will support include:

- Helping LAs to understand the strategic heat picture, both locally and the national context;
- Heat mapping, energy master planning and feasibility work;
- Supporting the preparation of a business case; commercial delivery options and project economics in advance of presentation to commercial and institutional funding bodies;
- Project management of the heat network project and/or development.
- The procurement of specialist advisers to overcome a specific issue or challenge facing a project/development;
- Financial and technical evaluation, by external advisers, of heat generation sources and/or combined heat and power (CHP) systems that may be used to deliver heat into the heat networks as well as the design of mechanical interfaces to allow heat to be taken within the target homes or public sector buildings;
- Development of governance structures for on-going operation of heat networks;

In all cases, these activities and services will be funded through the Heat Networks Funding Stream if they are undertaken by external consultants.

Activities and services that the funding stream will not support include:

- Internal LA or seconded staff costs;
- Accommodation for their own, or their advisers' teams;
- Capital costs of funding the projects/developments;
- Events and workshops held by the LA to manage stakeholders.

Criteria for Funding and Support

DECC recognises that the range and extent of work needed to adequately evaluate a commercial/financial proposition for the development and delivery of heat network projects/developments will vary with each scheme. There will be six bidding rounds for funding, described below. In respect of each round, bids will be assessed against transparent and robust criteria. Those bids which meet the threshold will be awarded grant funding, subject to its availability.

Applications will need to demonstrate:

- That projects/developments are, or are likely to become, **credible prospects or commercial/financial development**, recognising that this will vary according to project circumstances.
- That the project or development's impact contributes to DECC's **low carbon and energy reduction** objectives.
- That the project or development **fits strategically** within a wider low carbon and economic growth agendas locally (where available).
- That projects and developments have **senior-level commitment** from both officers and elected members of the LA. This can be demonstrated by the formation of a project team, and senior level sponsorship. It will also be necessary to demonstrate effective project management, project governance and documentation to ensure effective delivery of the proposed work and a clear auditable account of the expenditure.
- That the funded works relate to pipelines or other assets which are, and will remain, the substantial asset of the applicant LA.

More detail on the criteria can be found at Annex A.

A map, in JPEG format and at an appropriate and legible scale **must** also be included with the application. The map should show the proposed boundaries of the proposed project or development, as well as any key anchor heat/cooling loads, energy generation or extraction sites and any other key components.

Where the proposed project or development is a collaboration or partnership between the LA and any other organisation, the details and respective ownership of the heat/cooling loads, energy generation or recovery facilities should also be clearly marked and defined on the map.

Applications must be accompanied by a letter of support from an LA's Cabinet or the relevant Programme Committee **and** signed by the appropriate Director or Chief Officer.

Bids will also have to comply with all laws, including State Aid and procurement rules.

Master planning

Bidding Process

The bidding process to apply for grant funding for the development of heat networks will commence in September 2013 and continue, through a series of six bidding rounds until March 2015. An indicative timetable for the application rounds is below:

Fig 2: Timetables for funding stream applications to be opened and closed

2013/14	First round	Second round
Invite applications	20 Sept	18 Nov
Application deadline	15 Nov	24 Jan

2014/15	First round	Second round	Third round	Fourth round
Invite applications	April	June	Sept	Mid Nov
Application deadline	End May	End July	End Oct	End Jan

To ensure that transparency in the process, DECC will publish:

- an ongoing list of successful bids and amounts of funding awarded; and
- dates for the 2014 application rounds

on its web pages at: <https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies/supporting-pages/heat-networks>

Assessing the bids

Proposals for funding will be judged by the DECC standing panel against the criteria outlined above and rated as follows:

- A – Satisfactorily meets the criteria.
- B – Could meet the criteria with some clarification/amendment.
- C – Does not meet the criteria.

To be successful bids will need to achieve the A rating.

HNDU will recommend approval internally to the bids that score the highest against the criteria and that are rated 'A', subject to available funding. Where a bid is rated 'B', HNDU will provide written comments for consideration and proposed next steps by email, telephone or in person to the bidder within 10 working days of the day of receipt of the bid. The bid may then be resubmitted into the round if time allows or resubmitted in the following round.

Where a bid is rated 'C', HNDU will provide feedback on how to improve the bid at the end of the application round.

This phased bidding process will allow the opportunity for feedback on bids and the opportunity to develop bids before funding is awarded to the applicant LA.

There will be no limit to how many projects an LA may submit nor how many rounds an LA may apply for.

DECC reserve the right to fund some, but not all component parts, of the bid and/or to divide bids into separate work packages which may be funded through one or more rounds of the application process(es)

Recipients of previous DECC grant support or funding relating to any associated heat or energy programmes are eligible to apply and bid into this Heat Network Funding Stream.

Information that should be included in bids

It is recognised that some projects may be further advanced than others and that some of the following information may not be available at this stage.

Generally bids should include as many of the following elements as possible:

- A brief description, in not more than 500 words, of the proposals to which the bid relates.
- Number and type of dwellings that are will be supplied with heat under this heat network bid.
- Details of any local authority owned or operated buildings that are, or will be, supplied with heat under this heat networks bid. This should include, if available, current boiler capacity and annual fuel consumption information.
- Details of any privately owned or institutional buildings (i.e. hospital, clinics, university etc) or operated buildings that are, or will be, supplied with heat under this heat networks bid. This should include, if available, current boiler capacity and annual fuel consumption information.
- Anticipated approximate pipeline length
- Anticipated energy savings
- Anticipated emissions reductions

- Initial and/or eventual heat source(s) that will, or may, be used to provide heat into the networks
- Opportunities for the use of renewable, sustainable or recovered energy by the heat network
- The nature and extent of any works which may be required within individual dwellings or buildings to allow the off-take of heat
- The area / district to be covered by any proposed master planning exercise and details of any associated or preparatory work already undertaken relating to heat networks in that area.
- A brief statement, not more than 200 words, outlining the opportunities to expand this heat network and/or the linking of this heat network to other heat networks.
- A brief statement, not more than 200 words, outlining any partnership or collaboration upon which the project or development forms part of any agreement between the parties.

Memorandum of Understanding

Once bids have been approved, a Memorandum of Understanding (MoU) between DECC and the LA will be signed at a senior level. Full payment of the grant funding for the stage of the project/development, pursuant to Section 31 of the Local Government Act 2003 will be made upon receipt by DECC of the signed MoU and an undertaking to complete a Section 151 Officer Declaration.

MoUs will be related to the specific details of each project, but are likely to include:

- Arrangements for HNDU to monitor, support and challenge all and any aspects of the funded projects/developments and how they will be given access to all contract and scheme documentation.
- How metering information (where available and subject to data protection law) will be shared with DECC on a confidential basis.
- How project information will be shared with DECC for support/challenge and (internal) evaluation purposes.

Enquiries

Any enquiries should be addressed in the first instance to: hnduenquiries@decc.gsi.gov.uk Further seminars and dissemination events will be announced periodically on www.gov.uk and by email as the grant support programme progresses.

Communication

Following successful allocation of funding, HNDU will be keen to work with the successful LAs to work on communication plans to ensure that there is a cross fertilisation of ideas and problem solving and to assist in the further development of heat networks locally, regionally and nationally.

Further information

State Aid

Bidders will need to satisfy themselves that their bid and use of funds granted to them comply with State Aid and procurement rules. Bidders will need to include a statement in the bid explaining how they will ensure this.

Further guidance on State Aid can be found at <http://www.bis.gov.uk/policies/europe/state-aid>

VAT

Eligible expenditure consists of payments by the grant recipient for the purposes of the project/development. 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.

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