



Department for
Business, Energy
& Industrial Strategy

HEAT NETWORKS DELIVERY UNIT

HNDU Round 7: Overview

January 2017

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Introduction

As part of the Government's decarbonisation strategy, a delivery unit to support local authorities exploring heat network opportunities was established in 2013. This innovative support unit, the Heat Networks Delivery Unit (HNDU), combines grant funding with guidance from a dedicated team of commercial and technical specialists with a wealth of experience in developing heat networks. All local authorities in England and Wales can apply for support and this document sets out the Unit's offering to local authorities and provides all information a local authority would need to bid for this support in Round 7.

A heat network is a set of insulated pipes that take heat from a central source to supply heating or hot water to a number of domestic or non-domestic buildings. The heat source might be a facility that provides a dedicated supply to the heat network, such as a combined heat and power plant or a water source heat pump; or may utilise heat which is a by-product, such as from a waste incineration plant or heat recovered from a manufacturing facility. This centralised heat production can be more energy efficient, deliver carbon savings and help to reduce fuel bills.

There are approximately 2,000 heat networks in the UK currently, supplying heat to 210,000 dwellings and 1,700 commercial and public buildings. Estimates show that approximately 14% of UK heat demand could be met by heat networks by 2030 and around 43% by 2050, making a cost effective contribution to the UK's decarbonisation targets. Local authorities have a key role to play in making heat networks succeed, by leading projects through development stages, supporting private networks through the planning system, owning or operating heat networks, or being a heat customer. Local authority involvement, particularly in the development stages, can help realise the benefits of heat networks and can retain benefits locally through delivering jobs and growth.

The Heat Networks Delivery Unit (HNDU)

HNDU is part of, and directly funded by, the Department for Business, Energy and Industrial Strategy (BEIS). In order to counter the capability and capacity issues faced by local authorities when developing heat networks, HNDU was set up to provide support (grant funding and guidance) to local authorities in England and Wales to progress the development stages of heat networks projects. HNDU comprises a small team of technical and commercial experts who evaluate applications for approval and provide guidance to successful local authorities.

Since its inception in September 2013, HNDU has awarded support to over 200 unique heat networks projects across 131 local authorities in England and Wales, including over £14 million of grant funding in the first six rounds. A list of local authorities that have received funding in previous rounds can be seen at

www.gov.uk/government/publications/heat-networks-funding-stream-application-and-guidance-pack.

Round 7 will be an open funding round, running from January - December 2017 (subject to budget availability). This means local authorities can apply for grant funding as soon as they are ready, supporting a local authority's natural progression through the heat network development stages.

Round 7 opens on 09 January 2017 and applications will be assessed as they are received, with funding provided to successful projects once assessments are complete and agreed.

HNDU Round 7

Type of support

HNDU Round 7 offers grant funding and guidance to local authorities¹ in England and Wales for the development stages of heat networks projects (namely heat mapping, energy masterplanning, feasibility studies, detailed project development, and early commercialisation). HNDU support is not currently available in Scotland or Northern Ireland.

HNDU can only support heat network projects. It cannot provide support for any other activity, including activity that looks at heat sources only where supplying a heat network is not the primary function of a plant. For example, feasibility for an energy from waste plant (EfW) as a whole would not be eligible for support, whereas a feasibility study to investigate the potential for a specific EfW plant to supply a heat network would be eligible.

Grant funding

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

State aid considerations: BEIS holds the position that funding for projects at the more advanced stages of detailed project development and commercialisation are likely to constitute state aid, unless the local authority can provide evidence otherwise. If the application is successful, funding may be granted in a state aid compliant way under the de minimis or GBER exemptions, the latter of which has a cap of 50% of funding for project costs. Therefore, local authorities should take this into account when applying for HNDU grant funding for the stages of detailed project development and commercialisation, and consider the match funding required. Local authorities undertaking mapping, masterplanning and feasibility studies also have to ensure they are state aid compliant. Guidance on state aid is available online: <https://www.gov.uk/guidance/state-aid>

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

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

There is no upper or lower limit for bids. Applications have varied significantly throughout the earlier rounds due to the variation in the nature and scale of projects and the number of development stages for which the support is sought. Please note that there is not an infinite budget for HNDU and there is much interest from local authorities.

Guidance

All local authorities awarded grant funding from the HNDU will also receive some level of guidance from our commercial and technical specialists. The amount of guidance provided will be project dependent, with latter stage projects requiring more bespoke guidance.

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

HNDU is available to review documents, help identify potential issues and raise pertinent questions as the project progresses. Whilst the local authority will develop all project material and manage all activity, the HNDU will help steer the local authority on the most effective project development path.

The members of the HNDU team bring technical and commercial expertise from developing heat networks. This knowledge is brought to bear on the project, providing a sounding board at all agreed project development milestones from someone who has experienced the complexities and challenges which local authorities face when developing heat networks.

HNDU expertise includes:

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

Development stages and costs HNDU can support in Round 7

In Round 7, HNDU can provide grant funding support to local authorities in the development stages of heat networks, which include activities from heat mapping to commercialisation, as outlined below. Please note that activities such as scheme design, financial modelling, and development of the business case and business model/commercial structure may not strictly fall within any single stage, and, quite commonly, extend across several of the development stages below, depending on project-specific circumstances.

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

business case and associated commercial advice costs where necessary.

Development activities and costs ineligible for HNDU support in Round 7

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

- Work already commissioned or costs incurred before this application
- Internal local authority staffing or secondment staff costs or charged agencies within local authorities
- Funding for accommodation
- Events and workshops held by or on behalf of the local authority to manage stakeholders
- Detailed architectural design costs
- Development of specifications for procurement
- General, pre-construction ground works/intrusive works
- Procurement costs and tender evaluation costs
- Project management and client engineer support post-commercialisation
- Costs associated with the construction, operation and maintenance of a heat network

Please note this list is not exhaustive, and BEIS reserves the right to exclude additional activities or restrict eligible costs as it deems necessary, in its consideration of a funding application and potential award decision.

Local authority and eligibility

- The application must come from the local authority. This does not preclude local authorities from working with partners.
- Whether successful or not, a local authority who has previously applied for HNDU support in previous rounds is eligible to apply for Round 7. Also, a local authority that has not previously applied for HNDU funding is also eligible to apply for Round 7.
- Where HNDU support has been previously awarded for a particular stage, and additional support is being sought for the same project for the same stage,

local authorities will need to demonstrate, through the application form, a strong case that new work will provide additional benefits.

- There will be no limit to how many projects a local authority may submit applications for, but please complete a single application form for each project.
- If a local authority plans to work jointly with neighbouring local authorities on single or multiple projects, then the local authorities must nominate a 'lead' local authority who will be responsible for submitting a joint application on behalf of all the participating authorities. The lead authority will receive, and if necessary distribute, the funding to the other local authorities. The lead local authority will be accountable to HNDU for all reporting and other engagement to do with the applicant local authority projects. Joint applications should be made on the standard application form. HNDU will NOT accept joint applications from multiple local authorities which are made primarily for administrative reasons.

Application process and criteria

Application date

Round 7 applications will be accepted at hndu@decc.gsi.gov.uk from

Monday 9 January 2017

Round 7 will be a continuous funding round, open from January 2017 to December 2017 (subject to budget availability)

Step 1: Local authorities submit application

Local authorities must email hndu@decc.gsi.gov.uk for an application form, and submit the completed form, with appropriate supporting information, as soon as the application form is ready, to hndu@decc.gsi.gov.uk.

We will endeavour to make payment to successful local authorities as soon as possible, but please allow 10-12 weeks. HNDU will assess the applications and agree final funding amounts with the local authority within 6-8 weeks of application receipt, or sooner where possible. Payment will follow once the required signed paperwork (MoU etc.) has been received from the local authority.

Step 2: HNDU review applications

A rigorous and impartial evaluation process has been established to assess all local authority applications submitted to HNDU. Applications are reviewed by engineering, financial and legal/commercial experts with significant experience in heat networks development.

Applications are assessed taking into consideration the following:

1. Local authority capacity and commitment to undertake the project.

2. Quality of work undertaken in previous studies (not applicable for applications for funding for heat mapping). For example, if a local authority applies for grant funding for economic and technical feasibility, then the previous heat mapping and energy masterplanning work will be assessed, which will indicate whether there is value in further feasibility work.
3. Credibility of opportunity (including delivery potential).
4. Consistency with BEIS's carbon objectives.

The assessment of any application may result in a recommendation to support only some, or none, of the work applied for.

Step 3: Heat Networks Grant Appraisal Panel review

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

Step 4: Notification of results and grant payment

HNDU will endeavour to assess applications within 6-8 weeks, informing the local authority of the outcome at the earliest opportunity. Payment of grant funding will follow, normally, within another 3-4 weeks. Public announcements will be made by BEIS, listing the successful local authorities on a quarterly basis. Local authorities can publicise their projects once funding has been received.

Payment of any grant funding will be paid as a single lump sum pursuant to Section 31 of the Local Government Act 2003, and will be made upon receipt by BEIS of a signed MoU, signed Section 151 Officer Declaration and a grant claim form, with the local authority declaring support will be state aid compliant.

Working with HNDU

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

Each successful local authority will work closely with and be offered guidance from HNDU. See the 'Guidance' section on page 6 for further information. As well as access to HNDU experts, HNDU seeks to facilitate knowledge-sharing between local authorities.

The HNDU will:

- Attend meetings as agreed – this will be dependent on the project stage (mapping, feasibility...) that has been applied for
- Help identify potential issues and raise pertinent questions as the project progresses
- Review project milestones and agree scale of HNDU involvement
- Help steer the local authority on the most effective project development path
- Provide telephone and email support as necessary
- Review and comment on project documentation at key points, which will be dependent on project stage.

HNDU support is likely to increase and become more tailored as local authority projects progress towards commercialisation.

HNDU Project Leads cannot:

- Undertake specific pieces of work for the local authority
- Create heat network project documents for the local authority
- Provide financial advice or any other advice
- Participate actively in local authority procurement.

Local authorities must share all critical heat network project documents with the HNDU to enable them to provide tailored guidance and keep records of the work undertaken with HNDU support. Local authorities must also provide adequate notice for deadlines for support required, especially meeting attendance. This will allow HNDU to manage limited

resource requirements in order to give a consistent level of service to all successful local authorities. Please note that there may be resource constraints during certain periods.

More information about how HNDU and local authorities are expected to work together is provided to successful local authorities.

Enquiries and further information

If you have any queries regarding the support HNDU can offer to local authorities or how to apply for this support, please email hndu@decc.gsi.gov.uk.

Further information, including announcement of grant awards, can be found at:
www.gov.uk/government/publications/heat-networks-funding-stream-application-and-guidance-pack.

