



Department
of Energy &
Climate Change

Heat Networks Delivery Unit

HNDU Round 6: Overview

April 2016

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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 6.

A heat network is a set of 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 21,000 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; 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 delivering jobs and growth.

The Heat Networks Delivery Unit (HNDU)

HNDU is part of, and directly funded by, the Department of Energy and Climate Change (DECC). 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 118 local authorities in England and Wales, including over £11 million of grant funding in the first five rounds.

Round 6 opens on 4 April 2016 and will close on 4 May 2016. The amounts allocated in previous rounds 1-4 are available on the website - www.gov.uk/government/publications/heat-networks-funding-stream-application-and-guidance-pack.

HNDU Round 6

Type of support

This HNDU funding Round 6 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 commercialisation). HNDU support is not currently available in Scotland or Northern Ireland.

HNDU can only support heat network projects. HNDU 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: DECC 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 to account when applying for HNDU grant funding for the stages of detailed project development and commercialisation, and consider the match funding required. Guidance on state aid is available online: <https://www.gov.uk/guidance/state-aid>

It is up to the local authority to ensure the match funding (e.g. third-party funding) is not breaching any state aid, or other funding restriction rules in its use of other funding streams. DECC 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 HNDU will also receive some level of guidance. Each successful local authority will be allocated a 'Project Lead' from the HNDU team who will act as a 'critical friend' throughout the local authority's engagement with HNDU.

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.

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

The HNDU Project Lead 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 Project Lead 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 that has experienced the complexities and challenges local authorities face in developing heat networks.

HNDU Project Lead 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 6

In Round 6, HNDU can potentially provide grant funding support to local authorities in the development stages of heat networks, which includes many 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 of business/commercial model and financing

development	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 6

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 DECC 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 that has previously applied for HNDU support in previous rounds is eligible to apply for Round 6. Also, a local authority that has not previously applied for HNDU funding is also eligible to apply for Round 6.

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. Please complete a single application form.
- 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 closing date

Round 6 applications are now accepted at hndu@decc.gsi.gov.uk until:

Wednesday 4th May 2016
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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, by the application deadline.

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. For example, if a local authority applies for grant funding for economic and technical feasibility, then the heat mapping and energy masterplanning work will be assessed, which indicate there is value in further feasibility work (not applicable for applications for funding for heat mapping).
3. Credibility of opportunity (including delivery potential).
4. Consistency with DECC'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, comprising DECC staff, will review all applications and has the opportunity to challenge recommendations. Once the Heat Networks Grant Appraisal Panel has approved all assessment recommendations, the list of recommended grants is submitted to Ministers for approval.

Step 4: Notification of results and grant payment

Local authorities will be notified of the results of their application at the earliest opportunity. A public announcement will be made by DECC setting out the successful local authorities and local authorities are asked not to publicise their success until the official DECC announcement.

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 DECC of a signed MoU, signed Section 151 Officer Declaration, grant claim form and 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 be allocated an HNDU Project Lead, who will be the primary point of contact for the local authority throughout their engagement with HNDU. See the 'Guidance' section on page 5 for further information. As well as access to HNDU experts, HNDU seeks to facilitate knowledge-sharing between local authorities.

The HNDU Project Lead will:

- Attend a kick-off meeting
- Review project milestones and agree scale of HNDU involvement
- Provide telephone and email support as necessary
- Review and comment on key project documentation, including tender specifications, interim and final project outputs and reports

- Attend project meetings at pre-agreed project milestones.

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 their HNDU Project Lead 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 during bid assessment periods, there may be resource constraints.

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.

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