



Department for
Energy Security
& Net Zero

Home Upgrade Grant: Phase 2

Delivery Guidance for Local Authorities

April 2023



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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.

Table 1: Guidance Overview

Section	Overview
Introduction	This Delivery Guidance has been developed to support Grant Recipients during the interim delivery period of the Home Upgrade Grant 2 whilst the Department for Energy Security and Net Zero (DESNZ) is managing the scheme, until scheme management is handed over to a delivery partner. The processes within this document may be subject to change once a delivery partner is fully onboarded, however Grant Recipients will be updated and any changes will be clearly communicated.
Delivery Assurance Check (DAC)	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. Grant Recipients must pass this check to start the delivery of batches.
Batch Application Stage	Grant Recipients will submit actual housing stock data, measure mixes, and costs for a batch of 'ready to retrofit' homes (households signed up, validated, assessed, and costed for measures in line with PAS 2035). If the batch is approved, the Grant Recipient will draw down funds from DESNZ to deliver the upgrades. This final step is repeated throughout the delivery window, with funding released in batches. Grant Recipients are encouraged to submit a first batch application as soon as they are ready to do so.
Change request process	<p>Project level change request: Changes made to a whole project which impacts the overall KPIs or is a project level change.</p> <p>Batch level change request: Changes made to an individual batch.</p>

<p>Eligibility: Further guidance on alternative income methodologies</p>	<p>Tables on the AHC income equivalisation factor can offer further guidance to Grant Recipients on alternative eligibility methodologies to make certain larger households eligible even if they earn beyond £20k after housing costs. These tables represent the highest household income thresholds allowed for various household compositions.</p>
<p>Measures: Energy efficiency and clean heat categorisations</p>	<p>Further guidance has been issued as to which measures and technologies are categorised within the energy efficiency cost cap, and which fall under the low carbon heat cost cap.</p>
<p>Home Upgrade Hub support is available for Grant Recipients</p>	<p>Technical assistance is available to Grant Recipients via the Home Upgrade Hub to provide support to projects preparing to sit the Delivery Assurance Check. Support offered includes a critical friend review of annexed items and a mock DAC with the project representatives.</p>
<p>Fraud prevention</p>	<p>Two fraud management documents are provided by Grant Recipients: The Fraud Risk Assessment and the Fraud Management Plan. The purpose of the Fraud Risk Assessment is to explore the fraud and error risks and how they can be controlled. The second is the Fraud Management Plan, which will need to be provided at the Delivery Assurance Check. This document sets out the approach to identifying, managing and limiting fraud/error risk associated with the delivery of the scheme.</p>
<p>Completed project</p>	<p>A project is considered to have fully delivered 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).</p>

Topics covered in Application Guidance

Key topics where guidance is unchanged or no further details have been added and can therefore be found in the first HUG 2 Guidance published on Gov.UK in September 2022.

Section	Overview where to find in previous Home Upgrade Grant 2 Guidance
Mobilisation payment	Section 3.4 Funding and Eligible Costs (Page 54)
Deposit payment	Section 3.4 Funding and Eligible Costs (Page 55)
VAT	Section 4.2 VAT (Page 66)
Eligible applicants	Section 2.8 Eligible Applicants (Page 34)
Eligible Households	Section 3.1 Eligible Households (Page 37)
Eligible Properties	Section 3.2 Eligible Properties (Page 40)
Eligible Measures	Section 3.3 Eligible Measures (Page 44)
Low Carbon Heating	Section 3.3.5 Low Carbon Heat (Page 49) and Section 3.3.6
Performance Expectations	Section 3.3.1 Performance Expectations (Page 45)
Funding and Eligible Costs	Section 3.4 Funding and Eligible Costs (Page 54)
Eligible Installers	Section 3.6 Eligible Installers (Page 62)
Interaction with Other Schemes	Section 3.7 Interaction with Other Schemes (Page 63)
UK Subsidy Control and Other Legal Requirements	Section 4 Other Information (Page 66)

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 the DESNZ.

Table 2: Key Scheme Dates

Project Milestone	Provisional Date
30% upfront payment for FY 23/24	w/c 24 April 2023
Delivery assurance check	From 1 April 2023 onwards, once a Grant Recipient or a proportion of a consortium is ready to submit evidence of their procurement and resource progress
Batch submissions begin	From 1 April 2023 onwards, once DAC has been successfully passed
30% upfront payment for FY 24/25	April 2024
Batch Window Closes	31 December 2024
Delivery window ends	31 March 2025
Final reports	30 April 2025

1. Introduction

DESNZ is publishing this Delivery Guidance document to supplement the [Home Upgrade Grant Phase 2: Guidance for Local Authorities](#), which was published in September 2022. The initial Guidance opened the invitation to local authorities to apply for Home Upgrade Grant 2 (HUG 2) funding to provide energy efficiency upgrades and low carbon heating to low-income households living in the worst quality, off-gas grid homes in their respective areas.

The previous guidance focussed on an overview of the scheme, the challenge fund allocation model, detail of the HUG 2 policy, and the submission process for the Outline Application Stage.

This document intends to provide supplementary guidance to Grant Recipients as they enter into the delivery phase for HUG 2. This document provides detailed information on aspects of the scheme processes which will become relevant to Grant Recipients as they navigate the Delivery Assurance Check, enter into the Batch Application Stage, and begin delivering measures into eligible homes during the interim period whilst DESNZ is managing the scheme, until scheme management is handed over to a delivery partner. The processes within this document may be subject to change once a delivery partner is fully onboarded, however Grant Recipients will be updated and any changes will be clearly communicated.

1.1 The Home Upgrade Grant 2

Home Upgrade Grant 2 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. The aim of the scheme is to improve the energy performance of EPC F-G homes to at least band D and EPC D-E homes to Band C where possible (or evidence a fabric first and value for money approach has been taken in instances where these aspirations are not possible) 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.

1.2 Application process summary

HUG 2 has allocated grant funding using a challenge fund model. A key principle of the challenge fund model alters the way delivery of HUG 2 will be carried out. Funding will be drawn down in portions throughout the delivery window to upgrade batches of homes deemed 'ready to retrofit' (signed up, validated, assessed, and costed for measures, in line with PAS 2035).

A new application process has been designed to accommodate this model with three distinct stages:

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

The Outline Application Stage is now closed to applications, and successful applicants have been awarded funding.

At the Delivery Assurance Check, Grant Recipients will need to show they have procured and resourced their projects, and have provided the necessary delivery assurance documentation in order to move to the Batch Application Stage. This final stage will allow Local Authorities to submit batches of homes that are ready to retrofit for approval and to draw down the appropriate funding. Please find below detailed sections covering both these stages.

This new challenge fund approach is intended to drive broader coverage of spending, request information of the required level of detail from Grant Recipients 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 Grant Recipients draw down funding in batches over the delivery window only once homes are ready for installation.

1.3 Enquiries and FAQs

This delivery guidance document sets out all relevant detail about delivering HUG 2 which we encourage Grant Recipients to read in full before seeking clarifications from DESNZ.

We would also encourage all Grant Recipients to utilise the [Home Upgrade Hub](https://homeupgradehub.org.uk) as a source of information and support (HomeUpgradeHub.org.uk). Any enquiries, including questions related to the Home Upgrade Hub, should be directed to info@homeupgradehub.org.uk.

2. Delivery Assurance Check

The purpose of the Delivery Assurance Check (DAC) is to monitor plans submitted at the outline application stage to check adequate progress has been made - specifically, whether the project has been sufficiently resourced, if enough contractors have been procured and are in place to begin upgrades immediately, and to evaluate any new/revised annex items and delivery forecasts.

The DAC will be an interview style meeting attended by representatives from the lead Grant Recipient in the project and the DESNZ representatives. In consortia, some other members can also attend if that is beneficial.

Grant recipients will need to submit their DAC form and 9 annex items, along with their availability over the following 5 working days for the DAC meeting in order for a DAC to be successfully arranged. We would also encourage Grant Recipients to get in touch as soon as they have a DAC date in mind that they are working towards to help with planning.

2.1 How and when to apply for a Delivery Assurance Check

To request a DAC, locate the '[HUG 2: Delivery Assurance Check: Local authority](#)' form on the HUG 2 page on gov.uk and submit this to HUG.project@beis.gov.uk along with the 9 required annexed items and the DAC attendees' availability for the following 5 working days.

Once a request has been submitted along with availability, the DAC will take place within 5 working days. Grant Recipients will be informed of the outcome within another 5 working days. DACs can be sat from 1st April 2023 onwards.

DESNZ expects you to sit the Delivery Assurance Check as soon as you are ready in financial year 2023/24, and before your first homes were forecasted to be upgraded in your outline application. If Grant Recipients do not meet their forecasted delivery timelines, their project may fall into a Red RAG, which may lead to various performance triggers. Grant Recipients should therefore apply for a DAC as soon as their procurement and resourcing activities have sufficiently progressed, enabling you to move into the delivery of batches.

In the case of consortia projects where not all members are ready to sit the DAC at once, those members who are ready can sit the DAC in a group as soon as the lead local authority is ready to 'project manage' the project (i.e. the lead local authority has sufficient resource to run the project and is ready to submit the required 9 annex items). DESNZ does not require all members to sit the DAC at the same time, and therefore the consortium does not need to wait for all members to be ready in terms of procurement and resource. Members who require more time may submit their resource and procurement information at a later date in order to be greenlighted for delivery.

Grant Recipients may submit their first batch application as soon as they have passed the DAC. Therefore, we encourage Grant Recipients to start preparing their first batches of 'ready to retrofit' homes before DAC approval, so delivery can begin almost immediately once the greenlight is given. This would involve signing up, validating, assessing, and agreeing a measures package and upgrade costs for a batch of homes, so that Grant Recipients are ready to submit their first batch application for approval. This will speed up the process, however it is important to note that this will not impact the DAC outcome and Grant Recipients are able to pass the DAC without having a batch application ready to submit.

2.2 What will be assessed at the Delivery Assurance Check

The DAC will assess the following elements:

- Resource progress
- Commercial agreements and procurement activities progress
- Delivery Assurance Annexes
- Conditions progress
- Rebaselining

2.3 Resource

The purpose of this element of the DAC is to check that sufficient progress has been made on the resourcing of the project. DESNZ will check that there is adequate resource in place to cover core data reporting and project management requirements.

DESNZ requires grant recipients to list all core staff working on the project – and where there are resource gaps to explain when the roles will be filled and how they will be covered in the interim period.

This update should cover the expected 2 full time equivalent (FTE) members of staff (a project manager and data reporting officer) and any additional staff. Exceptions may be made to the above expectations where the project is extremely small (fewer than 100 homes in total) and the Grant Recipient can evidence that the resource in place can adequately manage the project. Please note that DESNZ does not expect the FTE staff to be working on other schemes in addition to HUG 2.

Grant Recipients are expected to provide an update on the stage of recruitment of these staff members, giving details on whether staff are in place, are being onboarded, are still in the process of being hired, or if the roles are yet to be advertised. Grant Recipients should give a

high-level breakdown of the skillset for each staff member by filling out the resource table in the DAC form.

Grant recipients should also provide information on the wider Retrofit Team to be used to deliver retrofit assessments, coordination, and design, and the stage of readiness of this team (note this section is not scored).

Consortia leads should report on the total FTE number of project managers, data reporting officers, and non-mandatory staff for all Local Authority members included in their project that are entering the DAC.

Grant recipients should be prepared to contextualise their resourcing structure in terms of their delivery model and organisational design, to support understanding and assessment tailored to their circumstances and project structure.

The table below is included in the DAC Form and must be completed with as much detail as possible.

Staff Member	Mandatory	FTE	Recruitment Progress	Skills Covered	Notes (further skills)
1					
2					
3					
4					

Table 2.3.1: The recruitment table in the Delivery Assurance Check form

2.4 Commercial agreements and procurement activities

The purpose of this element of the DAC is to check that sufficient progress has been made on the procurement approach detailed at outline application stage. DESNZ will check that there are enough contractors in place to enable the project to move into batch delivery and draw down further funding.

Grant Recipients will provide two tables listing all primary contractors who have been procured or are in the process of being procured. These tables must be completed with as much detail as possible. Key subcontractors should also be included wherever possible.

The project should provide verifiable information on each of its contractors (such as Companies House details and TrustMark/MCS/PAS certification numbers), and contract start and end dates. Please note that TM/MCS/PAS numbers will be checked by DESNZ.

Grant Recipients should also provide information estimating the overall capacity of the contractor. This information can be provided in the format most applicable to each contractor (for example, an estimated maximum monthly install volume).

For consortia projects, where procurement is not centrally led to cover most/all members, an annex should be provided for each local authority conducting their own procurement.

The table below is the live contractor table included in the Delivery Assurance Check Form which must be completed with as much detail as possible.

Supplier Name (Companies House Name)	Supplier Contract Type	Contract Value (£)	Purpose of Contract	Companies House Registered No.	Companies House Registered	Target Contract Start Date	Target Mobilisation Date	Expected Contract End Date	Estimated average installs/month	SME	TrustMark No. (if applicable)	MCS No. (if applicable)	PAS 2035 Certified (if applicable)

Table 2.2: Live contractor table in the Delivery Assurance Check form

Please note that ‘mobilisation date’ means when the contractor will be fully mobilised and ready to deliver.

2.5 Required Annexed Items

The purpose of this element of the DAC is to check that all key delivery assurance and fraud documentation are place and meet the required standards.

We require grant recipients to submit 9 documents as annexes to their DAC form. Some of these items were previously submitted either at outline application stage or alongside the MoU and will not be assessed again unless the grant recipient was specifically requested to submit an improved version at DAC stage.

The 9 required annexed items are as follows:

- Draft Project Plan (previously submitted at outline application stage)
- Risks & Issues Register (previously submitted at outline application stage)
- Governance Structure & Escalation Contacts (previously submitted at outline application stage)
- Governance Decision-Making Process
- Project Management Methodology (previously submitted at outline application stage)

- Project Team Organisational Design
- Fraud Risk Assessment (submitted with MoU)
- Outline Fraud Management Plan (please see section 12.1 for more details)
- Proof of commercial contracts in place, including signature, value, and date of award

Some Grant Recipients voluntarily submitted their Governance Decision Making Process and Team Organisational Design at Outline Application Stage.

Each of these documents must be submitted in order to pass the DAC, but some may be the same versions submitted at outline application or MoU stage if a green score was given.

If a green score was given, the relevant annex will not be assessed again, but must still be submitted – as these are live documents and may have been updated, we require the latest versions. For example, the fraud risk assessment will only be assessed if it was scored Amber at outline stage, and would not be assessed again if it previously received a green score, however the latest version must be submitted.

2.6 Key points to include for annexed items

Draft Project Plan: This should include a clear project timeline with at least 3-months of delivery, key milestones, dates, and phases of delivery.

Risk & Issues Register: For this item, each risk should be categorised, have an owner, and its impact should be described, along with the mitigations.

Project Team Organisational Design: For this item, an organogram provided, including in-post, vacant and outsourced roles. This should also include key outsourced activities such as your retrofit assessment/coordination team.

Detailed Governance Structure, Decision-making & Escalation Contacts: This should include a clear process for governance across the projects for major internal and external decisions. This should also include a comprehensive list of escalation contacts.

Fraud Risk Assessment: Risks should be identified to cover each of the key thematic risk areas.

Outline Fraud Management Plan: This should include a clear outline FMP that gives details on all essential criteria (see Part C in the template), ahead of completing a full FMP.

Project Management Methodology: This should include an explanation of delivery process with a recognised project management methodology/approach evidenced.

Evidence of Contracts: For this item, we would need to see a signature, date of award, length of contract, and value.

2.7 Conditions

Grant Recipients may have received conditions at the Outline Application Stage, with required actions to have been undertaken by the DAC stage. We will check that all conditions given have been adequately actioned.

2.8 Rebaselining

In the outline application Grant Recipients submitted a forecast of the number of homes they planned to treat under HUG 2. DESNZ expects Grant Recipients to do all they can to deliver against these forecasts set out in their approved HUG 2 outline application and in the MoU. However, Grant Recipients who received an amber score for their delivery forecasts at Outline Application stage may have been required to submit revised versions at DAC as a condition of funding.

Grant Recipients may also wish to rebaseline if they no longer think their plans are deliverable, or this may be requested by DESNZ at DAC. To submit a request to rebaseline, an [Outline Change Request Form](#) must be submitted, along with the DAC Form and annexed items. The form can be found on the [HUG 2 webpage](#).

If you are rebaselining at DAC stage or beforehand, please note you cannot increase the amount of funding awarded (nor total number of homes upgraded) across your project nor can you transfer funding or homes upgraded between financial years. At this stage, you can only reduce the size of your project, or change the profile of delivery for upgrading homes across the same financial year.

You may be given the opportunity to increase the size of your project at a later stage based on strong delivery performance of HUG 2. Under the auspices of MoU, if you are performing strongly in delivery and receive written consent from DESNZ, you may increase the size of your project by up to 20% in capital funding and total homes upgraded.

2.9 How the Delivery Assurance Check is scored

The DAC is scored via a RAG rating (red, amber, green scores). This is the same approach used for the Outline Application Stage.

All green scores mean you successfully pass the DAC without conditions. One or more amber scores means you pass the DAC, but there may be certain conditions attached to resolve flagged issues as you move into delivery. Evidence that the issue has been addressed will need to be provided at a later specified date. A red score means you have been unsuccessful

at DAC and must re-sit the check. There are no restrictions on how soon you can re-sit the check, but we would expect you to have resolved the red issues flagged.

Please see the table below to see how each section will receive a RAG rating (note, the rebaselining section is optional and only applicable if a Grant Recipient is wishing to change the baseline of their project forecasts).

Section	Score
Resource	
Commercial/Procurement	
Annexes	
Conditions	
Rebaselining	N/A

2.10 Going through the Delivery Assurance Check as a consortium

Consortium projects may wish to go through the DAC in phases. Not all members of a consortium need to go through a DAC at the same time. If some members of a consortium are ready before others in terms of their procurement and resourcing, they can enter the DAC as soon as they are ready and the lead Grant Recipient is ready to manage the project. Once the members who sat the DAC have successfully passed, they are able to progress to the Batch Stage and begin delivery.

In this phased approach, members who were not included in the DAC cannot move into delivery until greenlighted by DESNZ. These members do not need to undergo a second DAC but must submit their procurement and resourcing information to be checked before they can move to the Batch Stage.

Those outstanding members only need to submit 1 annexed item out of the 9 required at DAC (unless specifically requested otherwise). The annexed item required is evidence that commercial contracts are in place.

A consortium member is able to sit the DAC if it has procured and is ready for delivery, even if the lead Grant Recipient has not procured for delivery. However, the lead Grant Recipient must be ready to manage the project, with all annexed items ready, and resource in place. This would mean the member Grant Recipient can submit batches, but the lead Grant recipient will need to submit procurement tables in order to deliver itself.

2.11 Additional Delivery Assurance Check information

There is no limit on the number of times Grant Recipients can sit the DAC. They may undertake it as many times as needed to in order to pass successfully.

There is also no required waiting time in between DAC sessions if Grant Recipients were to fail, however it is expected that Grant Recipients will have addressd the red flagged issues in order to successfully pass the next time.

DESNZ encourages Grant Recipients to contact the Home Upgrade Hub to receive support in preparing for the DAC. The Home Upgrade Hub offers services such as critical friend reviews of annexed items and a mock DAC to help you prepare. However, Grant Recipients should ensure that they do not unnecessarily delay their actual DAC and delivery thereafter by building support from the Hub into their timelines.

Grant Recipients cannot increase their forecast number of homes to be upgraded figure at this stage but may wish to submit a change request at a later stage during the funding period once you can show strong delivery on the ground.

Furthermore, we expect that 10% of Grant Recipients will be randomly selected to provide extra supporting evidence as part of a 'spot-check'. Where the evidence does not match the information presented at DAC, or where it raises real concerns about the delivery confidence of a project, this may lead to a project retrospectively failing the DAC.

3. Batch Application Stage

For previous phases of HUG and LAD, DESNZ assessed the strategic fit and value for money of the housing stock, capital costs of upgrading homes, the measure mix & costs, and landlord contributions provided by Grant Recipients in their funding applications. These assessments were based on pre-delivery estimates and assessed at grant application stage for the whole project lifecycle. As project's developed, these estimates increasingly differed to actuals leading to change requests.

HUG 2 has moved to a batch system based on in-flight delivery actuals, assessed on a rolling basis as and when data is known and confirmed by Grant Recipients. Housing stock data, measure mixes, and costs for a batch of homes that are 'ready-to-retrofit' (households signed up, validated, assessed, and costed for measures, in line with PAS 2035) will be submitted within a batch. The Authority will assess the batch, assessing strategic fit, value for money and tolerances. If the batch is approved, the Grant Recipient 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.

The aggregate data for projects will be gradually building up over the delivery period and we must ensure that this ever-growing data does not breach policy rules at any time. Projects must therefore stay within the cost caps for each property type, and the measure mix ratios for the ever-growing data of approved batches. This is known as a cumulative threshold.

3.1 Batch Structure

Grant Recipients are able to submit batches for approval whenever they wish and as frequently as they wish after passing the DAC Stage. There is no cap on the number of batches a Grant Recipient can have in delivery simultaneously. DESNZ will aim to approve batches within 1 working day where no issues are flagged. If a Grant Recipient submits more than one batch per month (e.g. weekly or fortnightly submissions), please note that there will only be one pooled payment for all batches approved within the same month per project. This payment request will be processed at the end of month (for applications received by the third last working day of each month) with a 6-8 week processing period expected before the funding appears in the bank accounts of Grant Recipients (please note the 10% deposit payment may be used to begin delivery of upgrades during the interim period). Please note that if a project only wishes to submit a very small number of batches in total (e.g. 1 or 2 batches only) or submits all batches within a very small period of time, DESNZ reserves the right to set up several milestone payments for those batches across the remaining funding period, with subsequent payments dependent on adequate delivery performance and adherence to policy requirements.

Batches can be of any size, submitted at any frequency, and delivered in parallel. Batch approval is intended to be given in 1 working day. Grant Recipients will have the ability to

iterate batches where they fail. Where a batch fails, the homes/measures/costs that are out of scope should be removed or revised for the batch and it should be resubmitted.

Where delivery stalls to a significant degree, the batch process can be frozen to prevent projects drawing down further funding, until they are back on track. This is based on the forecasted number of homes upgraded and cost of homes upgraded KPIs. Significant deviation from forecasts for three or more months may lead to the batch process being frozen.

DESNZ is not prescriptive about how batches are submitted. Consortium partners may submit their own batches, if this is the approved governance structure by the lead organisation. Lead LAs are responsible for managing the tolerances of batches (e.g. ensuring a fair share of park homes to each member) and so may wish to give final approval before a batch from a member is sent to DESNZ.

A project is considered to have fully delivered 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 in-principle grant amount in the MoU.

The batch process (batch submission, approval, and release of funds) may be frozen temporarily if funding released to a Grant Recipient is not being utilised, due to stall activity. 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 Grant Recipient have been treated in batches. If a project shows strong delivery performance, there may be opportunity to draw down up to 20% more funding than agreed in principle at MoU, but only if there is funding available, such as where forecasted funding has been diverted from projects who forecast underspend, and if DESNZ grants explicit written permission. We encourage LAs to be ambitious and over-perform in delivery to utilise this opportunity to draw down further funding in-flight.

Delivery of all projects funded under HUG 2 must be completed by 31 March 2025 and therefore Grant Recipients should only submit batch applications that they are confident can be fully delivered by the deadline. The final deadline for submitting batches is 31 December 2024, ahead of the delivery window closing on 31 March 2035.

3.2 Submitting batches

Once a Grant Recipient is ready to retrofit a property (they have validated, assessed in line with PAS 2035 processes, agreed a measures package, and fully costed the upgrades), they must submit a batch application to gain approval and draw down the necessary funding.

The Batch Application Form is available to download from the [HUG gov.uk webpage](https://www.hug.gov.uk). Grant Recipients will be required to complete the form with detailed information on the properties in the batch by archetype, fuel type, EPC banding, and tenure. They must also submit detail on the measures to be installed and the costs involved. These applications will be assessed by the Authority and the batch will either be approved or rejected, in line with whether they meet the policy tolerances.

When a batch is submitted, we expect it will be evaluated within 1 working day for approval. It will be accepted if it is within the policy scope ('red lines'), and rejected if it does not meet the policy thresholds. The reason will be communicated to Grant Recipients who will be given the opportunity to correct the batch and resubmit it.

Grant Recipients may submit batches of any size at any frequency that is suitable to them. There is no minimum number of properties for a batch. Batches may be submitted as regularly as the Grant Recipient wishes, with any number of properties.

If a batch submission is approved this is a guarantee of funding, as the approval triggers the release of funding from DESNZ, which is a 6-8 week process from the end of the given month (for applications received by the third last working day of each month). Grant Recipients also receive a 10% Deposit Payment as part of their upfront funding as a further financial safeguard, allowing the Grant Recipient to start delivering upgrades immediately upon notification of batch approval, in advance of funding for the batch being transferred by DESNZ.

3.3 The digital solution

A digital solution is being developed, where it is expected that Grant Recipients may be able to input their batch data, view pending batches, previously approved batches, and communicate with assessors via comments.

Grant Recipients will be notified if and when this becomes available in the coming months. Please note that this solution is subject to testing going well and to internal approvals being given.

The current batch form submission approach will be used until a digital solution becomes available.

3.4 The Batch form

Until the digital solution comes online, Grant recipients should use the [batch application form](#) found on the [HUG 2 webpage](#). The batch application form asks for information relevant to the batch as a whole. It does not ask for individual property level information.

The following property information is requested:

- Breakdown of the housing stock submitted. This needs to be provided by archetype, wall type, fuel type, and EPC band.
- Total capital cost of treating homes within each cost cap bracket. This is including measures cost, additional capital expenditure such as for Trustmark/PAS or scaffolding costs, or additional capital costs that have already been spent upfront. It excludes any costs budgeted as A&A spending.
 - The above costs are split appropriately into the energy efficiency cost cap and clean heat cost cap.
 - The above costs are also split between HUG 2 funding grant and landlord contributions (collectively termed 'overall costs').
- Breakdown of the number, type, and costs of measures for the batch as a whole.
- Breakdown of the other capital costs required for the batch as a whole.
- Breakdown of the capital costs that have already been spent for the batch upfront as a whole.

The below figure shows the housing stock assessment table from the Batch Form. The Grant Recipient will complete this table with the details of the 'ready to retrofit' housing stock which are being submitted within the application. The table should be filled in using actual data which has been gathered via assessments and surveys of the signed up properties.

Property Archetype	Wall Type	Main Fuel Type	EPC	Total homes	Number of Owner Occupied homes	Number of Private Rented Sector homes	Number of Social Housing homes
Flat	Cavity	Electric	D	0			
			E	0			
			FG	0			
		Fossil Fuel	D	0			
			E	0			
			FG	0			
	Solid Wall	Electric	D	0			
			E	0			
			FG	0			
		Fossil Fuel	D	0			
			E	0			
			FG	0			
Mid Terraced	Cavity	Electric	D	0			
			E	0			
			FG	0			
		Fossil Fuel	D	0			
			E	0			
			FG	0			
	Solid Wall	Electric	D	0			
			E	0			
			FG	0			
		Fossil Fuel	D	0			
			E	0			
			FG	0			
End Terraced Semi Detached Detached	Cavity	Electric	D	0			
			E	0			
			FG	0			
		Fossil Fuel	D	0			
			E	0			
			FG	0			
	Solid Wall	Electric	D	0			
			E	0			
			FG	0			
		Fossil Fuel	D	0			
			E	0			
			FG	0			
Park Homes				0			
Total				0	0	0	0
Fossil Fuel Total				0	0	0	0

Figure 3.4.1: Housing stock assessment table from the batch application form.

The below figure shows part of the Measure Mix table from the Batch Form. The Grant Recipient should complete this table with a breakdown of the capital costs related to the batch being submitted. The Grant Recipient should enter the number of measures and total quoted capital costs of installing these measures for homes within this batch. The full table shows the breakdown for measures listed as Grade A, Grade B and Grade C. Grade A measures must represent at least 60% of measures costs per project to date. Grade C measures cannot represent more than 10% of measures costs per project to date. These constraints are for the overall project and therefore individual batches may exceed these constraints. However, the project must remain within the required thresholds across all approved batches to date. Please see more on this in ‘section 3.5 Tolerances and red lines’.

Measure Grade	Measure	Number of Measures	Combined cost of measures in this batch	Average Cost of Measure
A	Loft Insulation			£0.00
	Cavity Wall Insulation			£0.00
	Solid/External Wall Insulation			£0.00
	Internal Wall Insulation			£0.00
	Flat Roof Insulation			£0.00
	Room-in-roof Insulation			£0.00
	Air Source Heat Pump			£0.00
	Ground Source Heat Pump			£0.00
	Communal Heat Networks			£0.00
	Shared Ground Loops			£0.00
	Draughtproofing			£0.00
	Wet Central Heating			£0.00
	Hot Water Cylinder Insulation			£0.00
	Hot Water Cylinder Thermostat			£0.00
	Digital/Smart Controls			£0.00
	Heating Controls			£0.00
	Park Home Insulation			£0.00
	LA to specify			£0.00
LA to specify			£0.00	
LA to specify			£0.00	
Total Grade A measures			£0.00	£0.00

Figure 3.4.1 Measure Mix table from the batch application form

3.5 Tolerances and red lines

Batches are assessed against a set of rules, which are termed ‘red lines’, derived from the scheme’s policy. These rules dictate the types of homes that are submitted, the cost of upgrading those homes, the specific measures to be installed, and the costs of measures to be installed. Projects are entitled to different amounts of each, based on the total number of homes proposed in the Outline Application Form, and how much of their entitlement has been used in previous batches. These entitlements are what we call ‘tolerances.’

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

Figure 3.5.1: Basis of scoring for the batch application

A project’s tolerances are set by the scheme policy and is quantitative; they have been built into the batch system. The batch approval process has been designed to give a result as quickly as possible, to enable Grant Recipients to provide automated and instantaneous approval of batches.

Tolerances operate at different levels of the system:

Cumulative-level (across all batches approved to date – this is a cumulative tolerance)

Project-level (this is a financial year tolerance based on total number of homes agreed)

Batch-level (only for the batch submitted – this is a non-cumulative tolerance)

Each project’s tolerances will be based on the total number of homes the project will upgrade, and how many homes will be upgraded in each financial year.

A project’s tolerances for the first financial year will be based on the number of homes forecast to be upgraded in the first financial year. The tolerances for the second financial year will be based on the number of homes forecast to be upgrades in the second financial year (and any unused tolerance from the first financial year). For example, the 10% social housing cap cannot be exceeded within each financial year, except where sufficient headroom has been made in the previous financial year. Therefore, a project would not be able to upgrade its entire social housing in the first financial year.

Some tolerances are cumulative, which means that previous batches submitted must be below the threshold in order for a new batch to exceed it. For example, in order to have a batch

approved with more than 10% spent on Grade C measures for the given batch, previous batches must have built up sufficient headroom to ensure that overall the project is still spending below 10% on Grade C measures.

Tolerance	Type	Description
Social homes	Project level	10% of a project's homes in a FY (as per the FY forecast) can be for social housing for in-fill purposes only.
Park homes	Project level	10% of a project's homes in a FY (as per the FY forecast) can be for park homes.
Archetype dual cost caps	Cumulative	<p>The cost of all homes for each property type cannot exceed the archetype dual cost caps at the project level to date.</p> <p>Batches can exceed caps only where the project has built up sufficient headroom from previous batches averaging below archetype cost caps.</p> <p>Note, the costs related to low carbon heat in exceptional circumstances can use underspend from energy efficiency cost cap (and only for more costly forms of low carbon heat, e.g. for GSHPs, and will need to be manually approved in batch evaluation).</p> <p>The funding borrowed from the energy efficiency cap for clean heat should still sit in the energy efficiency cost cap.</p>
Landlord contributions	Batch/Property level	<p>Landlords must contribute at least 33% towards the cost of upgrades for PRS properties.</p> <p>Landlords must contribute at least 50% towards the cost of upgrades for social housing properties.</p>
Measure mix	Cumulative	At least 60% of funding on Grade A measures, and no more than 10% on Grade C.
Measure costs	Batch/Cumulative	Measure costs subject to assessment of value for money.

Figure 3.5.1 Table of tolerances

The figure below shows the batch assessment process with the flow of tolerances which will be checked before final batch approval or rejection takes place:

Batch Assessment Process Flow

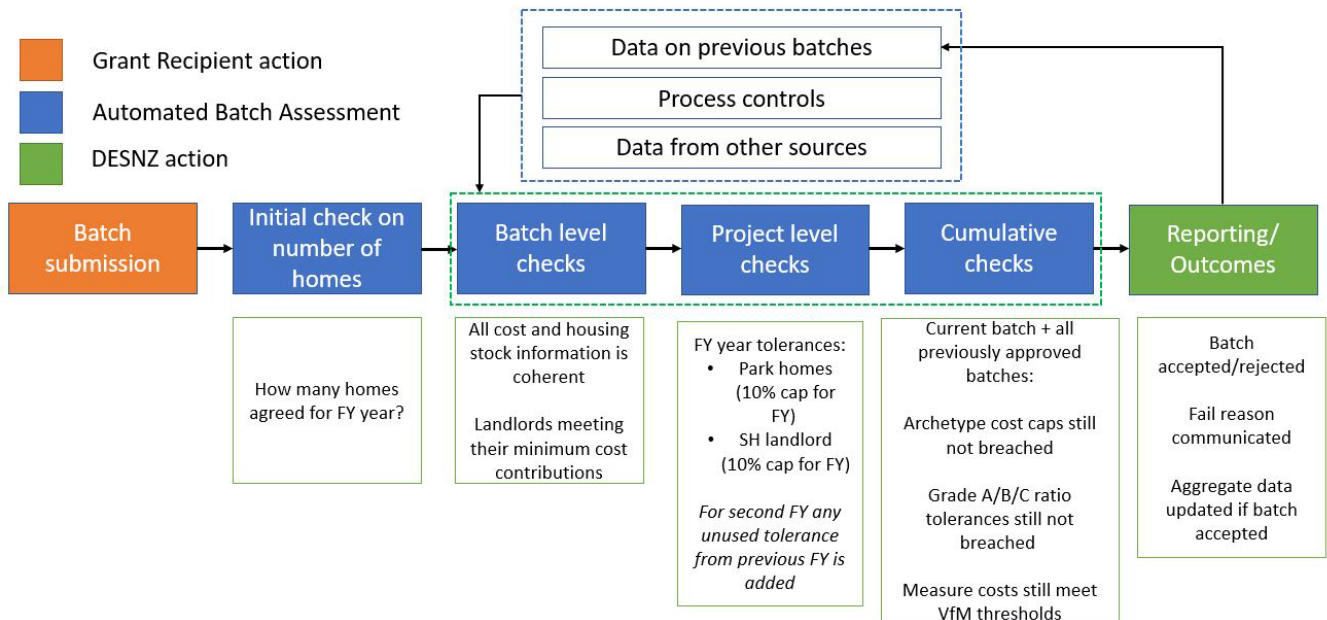


Figure 3.5.3 Batch Assessment Process Flow

3.6 Project level tolerances

A project level tolerance is where the policy rules must not be breached when looking at the overall figures of an individual project. Project level tolerances include tenure type, cost caps, average cost of measure types, and the measure mix funding ratio.

Project level tolerances concerning tenure are that a project must not exceed the 10% cap on park homes, nor exceed the same cap for social housing for in-fill purposes only, against the total homes forecast for the given financial year. Note, any unused tolerance in FY23/24 can be used in FY24/25.

Project level tolerances cost caps and measures consist of the overall cost cap for a specific property archetype (i.e., energy efficiency and low carbon heat), and that the cost cap for energy efficiency for a specific archetype (although low carbon heat may be exceeded for individual properties where there is reasonable justification).

Project level tolerances are also in place to monitor how funding is spent on various measures. These will monitor the overall breakdown of measure grades A, B and C, and will enforce the % of Grade A measures to be greater than or equal to 60% of the total spend to date, and that Grade C measures are less than or equal to 10% of the total spend to date. The second measure-related tolerance at the project level, is that the average cost of an individual measure must not exceed its cost benchmark.

3.7 Batch level tolerances

A batch level tolerance is where the policy rules must not be breached when looking at an individual batch submitted. Batch tolerances monitor policy rules around measure costs and landlord contributions.

Measure type costs must be within an acceptable range to be accepted in the batch. If the measure type cost exceeds the range, it will be manually checked by DESNZ or the delivery partner to see if it is acceptable value for money.

Landlord contributions will also be checked to ensure private landlords are contributing at least 33% towards the costs of upgrades, and social landlords are contributing at least 50%.

Furthermore, for every batch, the sum of all capital costs (measures and additional costs) must be equal to the sum of funding requested in that batch.

3.8 Cumulative batches

Headroom can be built up for cumulative tolerances.

Some tolerances are cumulative. The data received via approved batches must overall remain below the overall threshold for each project. For example, the ever-growing data on cost caps will be collected cumulatively, and for batches to be approved they must combine with all previously batches to fall within the thresholds.

This allows an individual batch to exceed the threshold where there the project is still overall below the cumulative limit. In other words, where sufficient headroom has been built up in previously approved batches.

Cost caps and measure costs are both cumulative thresholds – you must always submit batches below the cost caps for both the properties and measures in question, or you must have built up sufficient headroom across your project to-date to allow you to exceed them for a given batch but still remain below them across your project to-date.

3.9 Batch payments and timelines

If the batch aligns with all tolerances, the system will approve it. It will inform the Grant Recipient that the batch has been approved and delivery can begin using the 10% deposit payment received at the start of the financial year. The Authority will send an instruction to DESNZ Finance to pay out the requested amount for the approved batch.

If the batch does not align with one or more tolerances, we will reject it and inform the Grant Recipient of the outcome. Reason(s) why the batch has been rejected will be identified and

communicated to the Grant Recipient. The Authority will then work with the project to resolve the issues and resubmit the batch. Projects may resubmit batches as many times as they wish.

Initially, the assessment of batches will be handled by DESNZ. However, this support function will soon be taken on by the procured Delivery Partner who will begin administering the scheme on behalf of DESNZ from the summer onwards.

There will be a deadline each month for all batch applications to be submitted in order for your payment to begin to be processed at the end of that month. These batch application deadlines will be communicated with Grant Recipients, and is expected to be the third last working day of each month. If you submit after this deadline, your batch will still be assessed immediately (with an expected 1 working day turnaround), but we cannot guarantee payment will be processed as part of the financial request for that month, and it should be assumed it will be processed in the subsequent month unless you are informed otherwise.

The payment for a successful batch should arrive in the Grant Recipient's bank account approximately 6-8 weeks after the month's submission deadline. However, this will not slow down delivery for Grant Recipients, as the 10% deposit payment ensures there will be funding available to begin delivery immediately upon being notified of batch approval. To note, if a Grant Recipient submits multiple batch applications that are successful, Grant Recipient's will receive the total value of all batch applications approved within the same month, not separate payments for each batch.

The scheme will close to batch applications on 31 December 2024.

3.10 Interim Batch application process

DESNZ has created an interim solution to assess batch applications through the in-house delivery process, ahead of the digital solution being launched (see above).

Grant Recipients should download the [batch application form](#) from Gov.UK and send this to HUG Inbox, hug.project@beis.gov.uk, in order to submit a batch.

4. Change Request Process

If a Grant Recipient wishes to make changes to their project, they should seek to do so by liaising with the allocated Account Manager and submitting a change request. There are two types of change requests which you may submit: a [project level change request](#) (outline) and a batch level change request.

The [Change Request form for project level changes](#) is currently available on the [HUG2 gov.uk website page](#), and the Change Request form for batch level changes will be available there shortly. Grant Recipients wishing to submit a change control should fill in this form and send it to the HUG.project@beis.gov.uk with their Account Manager copied into the correspondence.

To submit a project or batch level change request, please complete the 'Change Request Summary' tab with all relevant details. This tab needs to be completed before submitting. Ensure there is a clear summary of changes detailed within Sections B to D. This will only require a brief explanation. In sections E to F, ensure you have confirmed you are the authorised representative and sign and date this proposal. After completing the Change Request Summary, select the tab that is most relevant to your changes and use this to outline your proposed change. Each tab will have clear instructions on how to complete the form and you will also receive support from your allocated Account Manager.

4.1 Project level change requests

Changes which have an impact at the project level should be submitted via the project level (Outline) change request form. These changes should include any relevant changes made to income verification methodologies, the composition of a consortium, the suppliers procured, and Delivery Forecast Plan – particularly the number and profile of homes upgraded per financial year and the amount of funding awarded to your project.

These types of changes may have a large impact on the overall project, and therefore require higher levels of DESNZ approvals, which will mean a longer turnaround time for a decision to be communicated, particularly compared to a batch level change request. The [Change Request form for project level changes](#) is currently available on the [HUG2 gov.uk website page](#).

4.2 Batch level change requests

The second type of change request is a batch application change request. This allows you make a change to the homes, measures and cost from an approved batch. For example, if a property drops out after a batch has been submitted, you will need to make a batch change request to inform DESNZ that the funding allocated for this property will not be spent, nor the packet of measures installed.

Through the batch change request process, you will be able to remove homes, measures and reduce costs from previously approved batches, along with adding measures and associated costs for those additional measures. Please note, DESNZ recommends additional measures are built in as part of the initial batch application after a medium term improvement plan and measures package has been agreed, wherever possible, as batches should be based on final actuals, not estimates. A separate section below outlines what happens when prices increase.

During the period before the digital solution is in place, you will need to use the batch change request form published on gov.uk. This asks grant recipients to complete two sections for every change - a 'FROM' section, outlining what information in the batch has changed, and a 'TO' section, specifying what outcome is being requested as a result of the change. Once the digital solution is in place, we expect that you will be able to reopen batches that have been previously approved, make changes and resubmit them for approval via the online platforms.

Batch change requests require lower levels of approval as they do not usually impact the overall outcome of the project unless there is an accumulation of changes. Therefore, they can be approved in shorter time scales. The average turn-around time for a batch change proposal will be 1 working day once the digital solution is in place, where no thresholds are breached, as a similar process to the batch assessments will be used. If a policy threshold is breached or costs increase significantly, further information is required, and your change request is escalated to a board for consideration. We expect this may take up to 30 working days maximum.

4.2.1 When prices reported in a batch change

DESNZ expects that homes submitted in batches are ready to retrofit - they have been assessed for measures and recent quotes provided by an installer. However, we recognise that the cost of treating a property may occasionally change between the package of measures being agreed and then installed - for example, where additional ancillary or enabling works are required to install the measure.

In instances where costs decrease, we recommend these are submitted through a batch change. This will ensure any unspent funding is logged as headroom, enabling more expensive measures/batches to be submitted later on.

In the unlikely event where measure costs increase due to unforeseen complications, in the first instance we would recommend overflow costs are marked as A&A. Justification will not be sought for increased measure costs logged as A&A.

If this is not suitable, a batch should be reopened and increased measure costs recorded as a last resort. This can either be logged in the additional capital cost table (for capital, non-measure related costs such as PAS compliance/scaffolding) or in the measure cost itself. Each increased cost in a reopened batch will need to be clearly justified by the GR to be accepted, and in some cases, evidence will be requested to justify the increase in cost. DESNZ may not accept the increased costs if there is not clear justification, or if a pattern is identified of a project frequently increasing its agreed costs. DESNZ also reserves the right to

remove this function to enable an increase in batch costs at any time during the delivery window as batches should be based on final quoted costs.

5. Alternative Eligibility Methodologies

HUG 2 has a £31,000 low-income threshold, and allows household incomes of £20,000 after housing costs in areas where these are demonstrably high. Below, we provide supplementary guidance on an approved methodology that allows larger households to earn more than £20,000 income after housing costs to ensure a greater degree of equivalisation.

The HUG 2 low-income threshold is set at £31,000, to align with the Office of National Statistics estimation that the median household income across the UK in 2021 was £31,400¹. 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.

HUG 2 Guidance also states that DESNZ will accept alternative methodologies for demonstrating that a low-income household is likely to be in fuel poverty, where the Grant Recipient provides clear evidence of the appropriateness of their methodology in their application. We have previously confirmed that Grant Recipients 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.”

DESNZ is providing further guidance as to what may be considered under these alternative methodologies. Below we provide guidance on the After Housing Cost (AHC) Equivalisation Factor, which can be used by Grant Recipients to determine that certain households are likely to be in fuel poverty, and to deem them eligible for HUG 2 even if their income is beyond £20,000 after housing costs.

The AHC income equivalisation factors used are consistent with that used by the DWP in their production of Households Below Average Income statistics. They were first devised by the OECD, and are used widely across Europe, including by Eurostat.

Two key elements are needed to derive an individual household’s equivalisation factor:

- the number of occupants in the household
- and their age (as the OECD scale distinguishes between those under and over 14 years old).

Equivalising effectively increases the incomes of single people, and reduces the incomes of larger households, similarly to fuel costs, with the intention of making them comparable.

This factor was developed to define the number of households living in fuel poverty under the LILEE indicator and calculate the fuel poverty gap. However, DESNZ will allow methodologies of adaptation for use under HUG 2 on an individual household level.

¹<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyear2020>

The AHC income equivalisation factor can be found in the [Poverty Statistics Methodology Handbook](#)².

Grant Recipients can determine whether they choose to use this alternative methodology or produce their own. This has been provided in response to request from Grant Recipients for further guidance and is not mandatory for Grant Recipients to utilise. If a Grant Recipient wishes to use an alternative eligibility methodology, such as this one, they will need to submit a project level change request (see more in section 4) and receive approval from DESNZ. This change request should detail the proposed criteria and the intended steps taken to verify a household as eligible.

5.1 After Housing Costs maximum income tables

DESNZ have produced the following tables according to the AHC equivalisation factor, which can be used to determine household income thresholds for HUG 2 eligibility after housing costs. These tables are based on the ACH equivalisation factor and represent the maximum AHC annual income which a household can be living on after housing costs in order to qualify for HUG 2. This means that if a household with the corresponding composition of adults and dependants has an AHC income below this amount they should be eligible for HUG 2 funding, and if they are above this amount they should not be eligible for HUG 2 funding.

Occupants	Equivalisation factor	Maximum eligible 'after housing costs' income
1 adult	0.58	N/A for household income beyond £20k after housing costs
1 adult + 1 dependent	0.78	N/A (as above)
1 adult + 2 dependents	0.98	N/A (as above)
1 adult + 3 dependants	1.18	£23,600
1 adult + 4 dependents	1.38	£27,600
1 adult + 5 dependents	1.58	£31,600

Figure 5.1.1: Household composition table for 1 adult

² Fuel poverty statistics methodology handbooks, 2016
<https://www.gov.uk/government/publications/fuel-poverty-statistics-methodology-handbook>

Occupants	Equivalisation factor	Maximum eligible 'after housing costs' income
2 adults	1	N/A for household income beyond £20k after housing costs
2 adults + 1 dependent	1.2	£24,000
2 adults + 2 dependents	1.4	£28,000
2 adults + 3 dependents	1.6	£32,000
2 adults + 4 dependents	1.8	£36,000
2 adults + 5 dependents	2	£40,000

Figure 5.1.2: Household composition for 2 adults

This methodology should only be used to justify an increase in income threshold for households with relevant compositions. Therefore the £31,000 income threshold will still allow for households shown in these tables which are under £31,000. These tables show which household compositions would become eligible under this methodology. Households are already eligible because these are under the £20,000 after housing costs income cap, and therefore this methodology only expands eligibility, and it does not exclude households who would otherwise be eligible using traditional methodologies.

5.2 Income equivalisation fraud prevention

Grant Recipients who choose to adopt this alternative methodology, must ensure that risks of fraud are minimised, by taking proactive precautions to prevent gaming and ensure that the people claimed to live within the household do in fact live there. Grant Recipients are encouraged to obtain documentation which proves the residences of household members. For example, the household may provide proof of child benefit to ascertain that a dependent lives in the household, or other documentation, such as names of adults on household bills, council tax or bank statements to ascertain the residence of an adult. Grant Recipients should only adopt this methodology if they are confident that they can reasonably reduce risk of fraud and gaming.

To confirm the residence of an adult, please consider obtaining documentation which clearly states the name and relevant address. The following documentation could be considered as proof of address for an adult:

- Bank statements
- Council tax letters

- Proof of being in receipt of benefits
- Utility bills
- Tenancy agreement
- Mortgage paperwork

To confirm the residence of a child, please consider obtaining documentation which clearly states the name and relevant address of the individual. The following documentation could be considered as proof of address for a child:

- Proof of Child benefit
- A letter from your child's GP, dentist, hospital, or optician.
- Headed letter from the school stating the child's name
- Letter from a bank or building society in the child's name

5.3 Private Rented Sector charity exemption to the 4-property cap

An exemption to the 4-property cap has been introduced for private rented sector properties owned by charitable organisations. The intent of the 4-property cap is to prevent government funding being awarded to large commercial landlords who can afford the upgrades themselves. However, not for profit charities which are privately renting properties and are unlikely to be able to afford upgrading their properties without support, are currently unable to benefit from HUG2 due to the property cap.

Therefore, this exemption removes the cap on the number of properties which a charity can own and still be eligible for HUG funding.

To qualify for this exemption, Grant Recipients must firstly obtain proof that the charity has Charitable Status and is a Registered Charity. Charities may provide a Registration Certificate to evidence their status or provide evidence of their HM Revenue & Customs charitable tax-exempt status with the relevant local authority.

Secondly, the charity must also identify as PRS, not social housing. This must be verified by the Grant Recipient, who cannot use this exemption if the charity is a Registered Provider of social housing. Those who are registered providers of social housing should be applying to SHDF for funding.

6. Eligible Measures

Grant Recipients 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.

6.1 Eligible Measure categories

HUG 2 cost caps have been split into two distinct categories: energy efficiency measures and low carbon heat. The below table shows the breakdown of measures by the cost cap they fall under, as well as the measure grading.

Measure Grade	Energy Efficiency Measure	Low Carbon Heat Measure
A	Loft Insulation	Air Source Heat Pump
	Cavity Wall Insulation	Ground Source Heat Pump
	Solid/External Wall Insulation	Communal Heat Networks
	Internal Wall Insulation	Shared Ground Loops
	Flat Roof Insulation	Wet Central Heating
	Room-in-roof Insulation	
	Draughtproofing	
	Hot Water Cylinder Insulation	
	Hot Water Cylinder Thermostat	
	Digital/Smart Controls	
	Heating Controls	
	Park Home Insulation	

	Battery Storage (only eligible when complimenting Solar PV)	
	Solar PV	
B	Low energy lighting	High Temperature Heat Pumps
	Underfloor Insulation	Low Carbon District Heating
	Double Glazing (only when required to compliment External Wall Insulation to comply with PAS2035 standards)	
C	Solar Thermal	Biomass room heater with boiler
	Double Glazing (only when not required to compliment External Wall Insulation to comply with PAS2035 standards)	Biomass
		Direct Electric Heaters
High Retention Storage Heaters		

6.2 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 winter 23/24. 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.

Battery storage can only be installed once RdSAP has been updated to align with SAP 10.2, and once it is fully integrated into the PAS 2035 process. Proposals for the updated PAS 2035 are currently out to public consultation, so inclusion as an eligible measure in HUG 2 is dependent on the approval of these proposals.

6.3 Solar PV (updated guidance)

From 1st November 2023, Solar PV will be re-graded from measure category B to category A. This is due to new analysis on the value for money of Solar PV. This will apply to Solar PV in batches submitted from 1st November 2023 and cannot be applied retrospectively. Any Solar PV that is approved before this date will remain a grade B measure.

7. Performance Management

7.1 KPIs, escalation and triggers

The HUG 2 Performance Management triggers and escalation strategy is documented within the Memorandum of understanding (MoU). The strategy has been developed to award Grant Recipients that are well performing, including in some circumstances for additional funding to be provided to overperforming Grant Recipient(s) to deliver more than initially forecast. Additionally, the strategy is able to intervene when a Grant Recipient has consistent underperformance, to help improve performance and bring Grant Recipient back on track. Triggers can be implemented if it is deemed by the Authority that delivery performance is irregular or erratic, even if performance has not breached underperformance definition in MoU. DESNZ reserves the right to modify the HUG 2 trigger and escalation strategy at any time. This will communicate any change to at least one month prior to any change coming into effect.

If the DCA and/or KPIs indicate underperformance, the Grant Recipient will be required to discuss the reasons for the underperformance in subsequent monthly meeting and provide proposals for improvement. Consistent underperformance may result in triggers, which may include a request of Remediation plan and/or Recovery Plan.

Grant Recipient non-attendance at 2 consecutive monthly check-in meetings will result in an escalation by the Authority and may result in a request for a remediation plan. Remediation and recovery plans will be assessed on a specific and case by case basis and will be agreed between both Parties. The Authority reserves the right to allocate a consultant, selected by the Authority, to support the Grant Recipient during, or during part of, the scheme, if required. Under certain circumstances, the forecasted batch payments may be diverted, and/or the batch submissions, approvals, and payments may be frozen and/or the Grant Recipient will work with the Authority on recovery of funds to identify any resulting underspend or misuse of funds and facilitate the prompt return of funds to the Authority.

In any instances whereby the Grant Recipient is achieving the minimum performance standards, it may be appropriate to consider whether the Grant Recipient can deliver more than the current forecast. In-year spend rules mean that a Grant Recipient must return underspend to the Authority at the end of the financial year. To ensure that Grant Recipients performance management is reflective of current delivery, the Authority will institute the following procedure:

DCA rating(s) of the last three months of the previous FY will be considered by in creation of the DCA in the first two months of the next FY.

DCA rating will be based on performance for the first month of the financial year, but no triggers will be attached to that month's performance. However, as standard, the Authority is expected to consider past performance as part of this assessment.

From the second month of the financial year thereafter, triggers will restart and will be based around the performance in that financial year. But past performance will be considered by the Authority.

7.2 Delivery Confidence Assessment

The Delivery Confidence Assessment (DCA) is a rating that illustrates the level of confidence the Delivery Partner has in a Project.

The aim of the DCA is to help the Delivery Partner understand all aspects of a Project's delivery. This includes but is not limited to:

- Preparing recommendations to improve or ensure delivery remains consistent with the Project Baseline,
- Advising and feeding in any lessons learned across the Schemes; and
- Reflecting on and communicating potential Remediation Plans if delivery does not improve.

The Grant Recipient will receive a completed DCA after each monthly meeting has been held, using the meeting information and monthly data submission information to score the Grant recipient on the following aspects of the project:

- KPI delivery
- Commercial assurance
- Internal resourcing
- Risk
- Stakeholder relationship established

These will then generate an overall DCA score. This will allow the Authority to address any concerns with the Grant Recipient and help them understand what they need to review to get back on the 'path to green'.

8. Where to go for support

8.1 Check-in meetings

During the initial period whilst DESNZ is managing the scheme, check-in meetings will regularly take place between DESNZ and the Grant Recipient. The objective of the interim DESNZ check-in meetings is to establish a two-way, relationship between the Department and the Grant Recipient and provide the latter with support and improvement opportunities to achieve the grant scheme objectives during the interim delivery period.

The main stakeholder assurance & reporting team will include a lead contact at DESNZ. These Leads will be responsible for the day-to-day monitoring and administration of a Grant Recipient. They will be the Grant Recipient's primary contact with the Authority.

Each Grant Recipient will also be paired with a DESNZ single point of contact. This point of contact will provide critical friend assurance and assistance for the project.

If a delivery partner is onboarded by the summer as expected, they will take the place of DESNZ in these regular meetings. Grant Recipients will be kept updated and any changes will be clearly communicated.

8.2 Home Upgrade Hub

DESNZ has established the Home Upgrade Hub to provide technical support for all Grant Recipients in their preparation for sitting the Delivery Assurance Check. Grant Recipients will be able to access active support via the Home Upgrade Hub until completion of the delivery assurance checks. Support may include a critical friend review of all submitted forms and annexed items and a mock Delivery Assurance Check. Grant Recipients are encouraged to engage with the Home Upgrade Hub for support if they do not successfully pass the Delivery Assurance Check. The Home Upgrade Hub will be available to provide support to Grant Recipients until the Delivery Assurance Check has been passed.

During the batch application stage, Grant Recipients will be able to access passive resources which will remain on the website and be available for the duration of the scheme. Although the Home Upgrade Hub will not provide active support to Grant Recipients after they have passed into the batch application stage, resources developed for the Home Upgrade Hub will continue to be available to Grant Recipients.

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

8.3 Delivery Partner

After an interim period, a Delivery Partner may be managing the HUG 2 scheme in the place of DESNZ and will be available to offer support to Grant Recipients after the Delivery Assurance Check and throughout the delivery period. They can provide support in any instances of rejection of a batch submission. Grant Recipients will be informed if and when a Delivery Partner is in place and contact details will be clearly communicated.

9. Monitoring and Evaluation

From April 2023, all Grant Recipients will provide their monthly report to the Authority via the secure Data Capture Portal. The Data Collection Template and Data Dictionary can be found on the [HUG 2 gov.UK page](#).

Grant Recipients must submit their monthly reports between the 1st and 10th (inclusive) working days of the month. For example, the report covering the delivery period of 1 - 31 May 2023 will be required to be submitted by the 10th working day of June 2023.

Grant Recipients are expected to meet the reporting deadlines. If there are any issues with this, the Grant Recipient should inform their lead point of contact as soon as possible with the reasoning behind why the report is late and when it will be submitted (ideally the team should be informed if a report will be late prior to the deadline). Submitting a report later than the 10th working day of the month will affect a project's monthly reporting KPI and the Grant Recipient in question will be performance managed.

If a Grant Recipient fails to provide report within 10 working days of reporting month end, reminders will be sent and escalated.

Submitting a report later than the 10th working day of the month will affect the rating of the Stakeholder Relationship section in the delivery confidence assessment (DCA).

If there is an issue with access/the reporting tool, the lead point of contact should be notified immediately so that they can inform the DESNZ Digital team.

Having learnt lessons from Sustainable Warmth, the size of the dataset asked for has been considerably decreased. The dataset is broken down into:

- KPI Forecasts (submitted once after agreed at project start, only altered if successful change request lodged)
- Performance Monitoring (1 month reporting lag, reported for the length of the scheme)
- Fraud and error (1 month reporting lag, reported for the length of the scheme)
- Risks (1 month reporting lag, reported for the length of the scheme)
- Homes in Progress per batch (1 month reporting lag, reported after the grant recipient passes its Delivery Assurance Check of the scheme)
- Application and Property Details (2 month reporting lag, reported during Batch Delivery Only)
- Installed Measures (2 month reporting lag, reported during Batch Delivery Only)

- Installer Details (2 month reporting lag, reported during Batch Delivery Only)

Given the volume of data in the last three tabs, DESNZ allows a 2 month time lag for them, meaning a report submitted in June would contain the data covering April, not May. KPIs, HIPs, risks and fraud should continue to be reported with a 1 month time lag, regardless of what stage the project is in.

This information is reflected in the guidance tab of the [Data Collection Template](#), which can be found on the [HUG 2 webpage](#) on gov.uk.

9.1 Homes in Progress

The 'Homes in Progress' measure asks for the number of homes that work has started on per batch. We ask you to report this alongside your KPIs to give DESNZ visibility of the number of homes that currently have work taking place on them.

"Homes in Progress" means the number of homes where onsite work has begun. A home is defined as being in progress when the first piece of physical work done onsite to install the first of the planned measures occurs e.g. when the scaffolding goes up in order to install external wall insulation, or when a trench is first dug in order to install a ground source heat pump.

It is essential that this is broken down by batch, and not reported at project level, like the KPIs.

9.2 Quality Assurance

Reports are subject to two forms of QA: Data validation in the web portal and Delivery Partner QA.

Data Validation in the web portal:

The spreadsheet will be checked on submission, and will be rejected if mandatory fields have been filled or data has been entered incorrectly. It is your responsibility to correct these errors, then resubmit the template. If you are unsure of what fields are mandatory, or how to complete certain fields, consult the guidance tab of the template or the data dictionary.

Delivery Partner QA:

If a delivery partner is appointed for the scheme, account managers may QA aspects of the reports to ensure that they are of sufficient quality before they are viewed by DESNZ. If the DP were to flag issues, they would contact the grant recipient in question via the account manager. The grant recipient would then resubmit its corrected report.

10. Contract management

10.1 TrustMark Lodgement

There are two affirmations for all batch applications which are new to previous net zero building schemes.

Firstly, the Grant Recipient must ensure that a Trustmark PAS2035 Project is created in the Trustmark Data Warehouse for each household included within an approved batch application. These projects must only be created after batch approval, and within 4 weeks of the batch approval date.

Secondly, the Grant Recipient must ensure that final lodgements in the Trustmark Data Warehouse to close a Trustmark PAS2035 Project are actioned within 6 weeks of works being completed for the household.

Although the Grant Recipient is not currently able to access the TrustMark Data Warehouse, it is important to be aware of the expectations on installers and the benefits to ensuring that lodgements are completed in a timely manner to ensure that there is no snagging at the end of the project.

TrustMark recommends that lodgements are completed in a timely manner throughout the lifetime of the scheme, rather than in a bulk completion at the end of the project. Lodgements can be completed in stages, as the installation progresses through its journey, starting from after the batch application is approved.

Lessons learned from previous schemes has shown that, where lodgements have been completed in bulk at the end of the scheme lifetime, non-compliant measures are flagged late, with little time to rectify issues. Had lodgements been completed throughout the customer journey, issues may have been flagged sooner and before the end of the scheme. Issues therefore may have been raised or prevented prior to instalment of measures/ completion. Lodgements made as outlined above throughout the customer journey are therefore critical for consumer protection.

10.2 Suggested KPIs for contracts

Key Performance Indicators (KPIs) are a group of quantifiable measurements that enable effective long-term performance tracking. Setting KPIs is important to be able to measure performance and then subsequently manage it effectively. Ultimately, what does not get measured will not get managed. Ideally, you should publish an indicative list of KPIs/SLAs when you tender the contract. This minimises “haggling” regarding KPIs when the contract has been awarded, which could delay contract signature.

KPIs are a contractual performance measure, which can be linked to service credits, that is used to manage the performance of a third party supplier and are best applied when output / outcome focused and clearly defined. They should also be key targets.

Key benefits of KPIs include: performance incentivisation, compliance or improvement; benchmarking; evaluation and assessment of performance issues.

Key issues of KPIs include: KPIs set may be too generic or ambiguous; KPIs may be too numerous; KPIs set may not be relevant or useful.

The KPIs selected when designing your procurements should be individualised to the contract and are up to the discretion of the contracting authority. DESNZ have flagged some KPI areas to consider utilising when setting up your procurements. The below list is a selection of suggested KPI topics that may be useful for contracts under this scheme:

- Fraud reporting – submission of monthly fraud (or error) reporting
- Lead times – submission of management information detailing the lead times associated with various points of the retrofit journey (e.g. from household contact to retrofit assessment, assessment to coordination, coordination to installation of measurements) and the lead times associated with the installation of specific measures (e.g. how long it takes to install external wall insulation vs cavity wall insulation). This should act as a leading indicator on the progress of homes.
- Trustmark lodgement - KPI for monitoring % of successful TrustMark lodgements within 20 days – this may have an associated SLA. We would suggest an indicative level that $\geq 95\%$ of measures are lodged successfully within 20 days.
- Quality / Rectification – KPI tracking the % of households that require remedial works each month. This may have an associated SLA such that $<5\%$ of households require remedial works performed, and a service credit associated with breaches of that.
- Run rate – monthly monitoring of the amount of money spent and the allocation of their spend between the different budget allocations (A&A vs Capital).
- Homes upgraded – monthly monitoring of the number of homes completed.
- Household attrition – KPI monitoring the attrition at various stages of the household journey (e.g. retrofit assessment, coordination and installation). This should allow for the identification of pinch points in the customer journey.
- Cost caps / tolerances - KPIs reporting average spend per tenure type (cost cap category), and appropriate penalties for material breaches. This should ensure the Grant Recipient is tracking grant condition compliance and that cost increases can be tracked and monitored.

- Delivery to time – KPI monitoring delivery of works to agreed timescales (such as X% of retrofit assessments in 3 weeks).

10.3 Indicative Service Level Agreements

Service Level Agreements are the part of a contract which defines exactly what services a service provider will provide and the required level or standard for those services.

The SLAs selected when designing your procurements should be individualised to the contract and are up to the discretion of the contracting authority. DESNZ have flagged some suggested SLA areas to consider utilising when setting up your procurements. Some example SLA topic areas are below:

- Quality – defined quality standards for installation (e.g. PAS, MCS, Trustmark)
- Reporting – defined agreements for reporting times, methods, requirements etc
- Trustmark lodgement - SLA tracking % of measures lodged successfully within 20 days of the completion of works, with a KPI for monitoring. We would suggest an indicative level that $\geq 95\%$ of measures are lodged successfully within 20 days, with the option to apply a service credit for $\leq 90\%$ of measures being successfully installed.
- Quality / Rectification – SLA tracking the % of households that require remedial works such that $< 5\%$ of households require remedial works performed, and a service credit associated with that.
- Contract management / reporting – SLA for prompt reporting/compliance with contract management procedures (e.g. attendance at all relevant meetings etc).

10.4 Indicative Contractual clauses

DESNZ would encourage all grant recipients to ensure that the contractual terms selected are appropriate for the nature of work intended and have appropriate risk allocation, such that they incentivise delivery of their contractors.

This could include considering if they are using the correct form of contract: for instance, multiple variants of the JCT form of contract could be appropriate depending on your delivery model, as could the Framework Alliance Contract or a NEC3/4, whereas a contract used for procuring low-value goods or a contract designed for services, may not be appropriate. Frameworks or DPS' may have their own standard contract terms – these should be reviewed prior to use to ensure that they meet the needs of the contracting authority.

At a minimum we would expect contracts to have clear terms regarding the following:

- Exit Management (Data) - clauses that outline what will happen at the end of contract especially regarding the transfer of data (e.g. householder leads that are “in the pipeline”) and mandate that they will comply with reasonable requests to support any re-procurement of services.
- Termination – clauses outlining that the contracts may be terminated with appropriate notice including ‘Termination for Convenience’.
- Open Book Contract Management – Clauses giving the Local Authority the right to investigate the costs with their contractors (more guidance is available from the CCS at this link [here](#)) and potentially explore cost optimisation (this may require the inclusion of gain-share clauses or step-in rights).
- Data reporting - Within your specification and terms we would expect there will be clauses surrounding prompt reporting that support the Grant Recipient in meeting the DESNZ reporting guidance and management information needs.
- Retention - clauses that retain part of the payment to contractors for ‘defective’, or non-Trustmark compliant work, or to make part of the payment for capital works conditional on the completion of TM registration. These incentives the contractor to complete works promptly to the relevant quality.
- Key Subcontractors (Transparency) - clauses that outline that subcontractors who will deliver >10% of the contract value should be notified to the LA. This ensures that LAs have clear mapping of the supply chains used by their prime contractor/delivery partner.
- Supply chain visibility – clauses to require the provision of timely and accurate information on supply chain and SME management reports to the contracting authority.
- Prompt payment - clauses that mandate the contractor will pay in line with PPN 08/21: 90% of valid invoices with 30 days and 50% of valid SME invoices in 5 days. This ensures there is appropriate cashflow throughout the supply chain and supports the growth of SMEs and other local businesses.
- Modern slavery – Clauses to address modern slavery requirements and/or to provide timely reporting into modern slavery. Clauses to require completion of up-to-date modern slavery assessments. Available online tools for assessment of Modern Slavery risk include the [Modern Slavery Assessment Tool \(MSAT\)](#).
- Good faith clauses - a clause outlining both parties shall act in good faith

10.5 Due Diligence / Evaluating Financial Standing

When selecting suppliers a key consideration is ability to deliver the contract. Evaluating the economic and financial standing of supplier is one aspect of due diligence that will indicate the risk of the contractor defaulting.

The Cabinet Office has produced a specific guidance note detailing the importance of economic and financial standing in supplier selection and contract management – linked [here](#). The purpose of this evaluation is to understand the supplier's capability to perform a contract, and to safeguard public money.

Housing Retrofit is an expanding market – which leads to risk of overextension for suppliers. Where a supplier has grown substantially or expect to continue to do so, we would expect you to undertake due diligence regarding this. This might involve asking to inspect their 'order book' to see how much the supplier has grown within your region and gaining assurance on the supply chain capacity they have access to locally.

Assessing the financial standing supports risk understanding and delivery confidence in the chosen supplier. Flagged delivery risks at the award and pre-award stages will help to inform decisions about whether dual sourcing is necessary or recommended to ensure scheme delivery.

One of the tools to assist in the assessment of the economic and financial standing of suppliers is the financial viability risk assessment tool developed by the Cabinet Office – linked [here](#). This uses standard accounting ratios to assess amongst other factors the liquidity of the business.

Where it is indicated or likely that a sub-contractor is delivering a substantial component of the works (>10% is our advisory level), we would suggest that their financial standing is also assessed and monitored throughout the lifetime of the contract to ensure continuity and security of supply.

10.6 Supply Chain Management

Information related to the supply chain model of your contractors is vital for the successful management of your contract. To help you understand the detail of your providers proposed model as part of the tender procedure we would encourage you to ask your tender provider to outline::

- The current supply chain capacity they have access to in your region and how they will be able to deliver the contract
- Explain what they will do to grow the supply or gain access to more of the market
- The supply chain management model including known key sub-contractors

For example, you may work with a turnkey provider who does not employ anyone directly who retrofits properties. In that scenario, you may want to understand who they subcontract to, whether it is to other aggregators in addition to SMEs, and how they intend to successfully monitor and manage this supply chain.

This will help to provide a greater understanding of your underlying supply chain model, understand risks and gaps, and provide information for successful management of the contract with the main supplier.

10.7 Post Award Contract Management

Strong contract management is a fundamental necessity for the successful delivery of contracts. The below provides some guidance on available contract management training from Cabinet Office, as well as some additional information on lessons learned from previous schemes. This training is not yet available to all Local Authorities – but we are working with the relevant Departments to get access. We expect that further guidance will be sent out when this is available. Please check in with your L&D departments to see if your organisation is already registered and able to access this training.

10.8 Contract Management Capability Programme

The Contract Management Capability Programme has been designed to raise contract management capability across the Public Sector.

The training is not just for those who are contract managers, it is for anyone involved in the management of contracts, suppliers, grants, and memoranda of understanding (MoU). The programme is based on the Contract Management Professional Standards and accreditation is offered at three levels: Foundation, Practitioner and Expert.

There are three pathways to accreditation: foundation, practitioner, and expert. The Foundation is comprised of 6 short modules and the course is free to all .gov organisations who register through Government Commercial College. Additional courses are available – though these will need to be paid for. The Foundation course provides a basic overview for all contract managers into various topics. Once you have completed this accreditation you should ‘unlock’ Foundation Beyond – which contains optional additional modules to provide further information deep dives.

Register at the Government Commercial College to complete your accreditation.

10.9 Capitalisation

In past schemes there have been multiple questions in response to queries surrounding capitalisation of costs. Therefore, we are reminding Grant Recipients that expenses can be

capitalised in line with the guidance provided in the MoU, this delivery guidance document, and the HUG 2 Guidance Document. The relevant accounting standard is IAS 16 and we would expect Grant Recipients to recognise expenditure considering paragraphs 16 through to 22. Therefore, expenses may generally only be capitalised if they were directly attributable to a measure/household and necessary for “bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended”.

As per the HUG 2 Guidance, Grant Recipients have flexibility to budget PAS costs as A&A or capital. Abortive PAS costs must be A&A if they do not lead to a completed retrofit (properties that have had eligible measures installed).

10.10 Monitoring and Information Management

The above sections in the pre-award guidance outline some key considerations for management of the contract. The need for prompt and accurate reporting, the need for considered and effective KPIs and utilisation of available information. Lack of information for contract managers may lead to issues in monitoring contract performance, breakdown in effective communication with suppliers, and may contribute to issues with the delivery of the contract and its aims. Contract managers should consider what information they need to effectively manage and monitor the contract, and to hold supplier to account for the agreed delivery.

10.11 Open Book Contract Management

Under an Open-book contract management approach the supplier is required to provide transparency into the contract charges and costs and other non-financial elements of the contract to the contracting authority. This includes the margins applied to the cost elements. This allows the buyer to have greater insight into the actual costs of the works or services being charged and enables an understanding of the charging and profit mechanisms applied. In volatile/inflationary environments, or contracts with a long duration, it is often used successfully as a tool to optimise delivery.

Open-book contract management may be a beneficial approach to take to ensure that charges are being applied at a fair rate. Further guidance on open-book management can be found [here](#).

11. Managing Potential Fraud

We encourage Grant Recipients to adopt a proactive, structured and targeted approach to managing the risk of fraud. It is mandated in the MoU that Grant Recipients provide monthly reports of current and emerging fraud risks. Grant Recipients will have completed a Fraud Risk Assessment as part of the MoU submission process, identifying potential fraud risks to the project. The purpose of the Fraud Risk Assessment is to explore the fraud and error risks and how they can be controlled. The second Fraud Management document which will need to be provided at the Delivery Assurance Check is the Fraud Management Plan (FMP). This document explores how is fraud and error managed by examining controls, sanctions, and resourcing, among others. The Fraud Management Plan sets out the approach to identifying, managing and limiting fraud/error risk associated with the delivery of the scheme.

11.1 Updating the Fraud Risk Assessment

Grant Recipients should update the FRA on at least a monthly basis, and additionally in instances of significant detection or prevention.

Grant Recipients are expected to regularly review and maintain the FRA and implement changes to fraud controls as needed to address our evolving understanding of the fraud risk, e.g., from operational findings, shared insights, intelligence received, etc. Grant Recipients will be expected to produce monthly fraud/error management performance reports including number and types of cases raised; levels of fraud/error prevented, fraud/error detected; debt raised/recovered; administrative/corrective action taken and prosecution initiated.

11.2 Fraud Management Plan

Grant Recipients should produce a Fraud Management Plan (FMP). In the DAC form, we only ask for an outline of your FMP with a focus on the essential criteria (See Part C of the template), **before requesting a fuller version within three months of passing the DAC.**

The final Fraud Management Plan should include the following:

1. Overall Approach: Include governance structures, named individuals, escalation routes, how the FRA will be managed, and how performance will be managed.
2. Deterrence of fraud and non-compliance: Listing what visible controls are going to be put in place to deter people from committing fraud.
3. Prevention and detection of fraud/error: List what will be done to prevent fraud from occurring.

4. Resolution of detected fraud, error and non-compliance: If fraud/error does occur what steps will the Grant Recipient take to manage this situation.
5. Resourcing and operations: What will the team consist of and what roles will they undertake.
6. Annexes: The Fraud Risk Assessment will need to be included as an annex to the FMP.

In the DAC request form, we only ask for an outline of your FMP with a focus on the essential criteria (See Part C of the template), **before requesting a fuller version within three months of passing the DAC.**

The guidance for the FMP template is split into three sections covering:

High Value/Complexity projects	Greater than £50m
Medium Value/Complexity projects	Between £10m - £50m
Low Value/Complexity projects	Less than £10m

11.3 Fraud Reporting Process

Grant Recipients should make the Authority aware of any suspected fraudulent or erroneous activity at the earliest opportunity via their lead point of contact and in the relevant section of the Data Collection Template. Grant Recipients should ensure that they are reporting all cases of fraud and error, large and small, including preventions, detections, losses, and recoveries.

Each instance of suspected fraud or error will be dealt with on a case-by-case basis through liaison with the Authority the relevant Grant Recipient's own internal fraud/audit mechanisms, and DESNZ counter fraud teams where appropriate. Lead points of contact will also request additional information on the case to fulfil our fraud and error reporting requirements.

Grant Recipients will be responsible for carrying out the reasonable ongoing due diligence, controlling, monitoring, and reporting of fraud and error, as well as managing and investigating any specific cases of suspected or identified fraud. This includes providing the Authority with an up-to-date Fraud Risk Assessment upon request and maintaining robust fraud management plans.

12. 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, have a package of measures agreed by a Retrofit Coordinator, with quotes from an installer.

Batch application – means an application to DESNZ for approval and release of funds to upgrade a group of ‘ready to retrofit’ homes. If the batch application is successful, the Grant Recipient 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 DESNZ.

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 DESNZ 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 – DESNZ 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. 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.

This publication is available from: www.gov.uk/government/publications/home-upgrade-grant-phase-2

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