

Social Housing Decarbonisation Fund (SHDF): Wave 3 – Draft Guidance

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Social Housing Decarbonisation Fund (SHDF): Wave 3 – Draft Guidance

The Social Housing Decarbonisation Fund (SHDF) will upgrade a significant amount of the social housing stock to meet an Energy Performance Certificate (EPC) Band C standard, delivering warm, energy-efficient homes, reducing carbon emissions and fuel bills, tackling fuel poverty, and supporting green jobs.

By improving the energy performance of homes below EPC Band C, the fund will facilitate the subsequent widespread adoption of decarbonised heating systems as part of the social housing landlords' normal asset management strategy.

Lessons learned from the SHDF Demonstrator and SHDF Waves 1, 2.1, and 2.2 have been incorporated into the design of SHDF Wave 3.

The key aims and objectives for SHDF Wave 3 are set out below – bids to evidence:

- **Fuel Poverty:** Reduce the number of households in fuel poverty by improving the energy efficiency rating of social homes below EPC Band C and reducing energy bills. On this basis, tenant energy bills must not increase as a result of the retrofit works, relative to what they would otherwise have been.
- **Carbon:** Deliver **cost effective carbon savings** to contribute to carbon budgets, and progress towards the UK's target for Net Zero by 2050 by reducing CO₂ emissions from social housing.
- **Tenants:** Improve the comfort, health, and wellbeing of social housing tenants by delivering warmer and more energy-efficient homes.
- **Green Economy:** Support economic resilience and a green recovery in response to the economic impacts of Covid-19, supporting thousands of jobs.
- **Develop the Retrofit Sector:** Create the conditions for growth in the retrofit supply chain capacity and capabilities, boosting productivity and innovation in the construction sector. Additionally, upskilling social landlords in retrofit to support future improvements to energy efficiency in the social housing sector.

Low Carbon Heating: DESNZ encourages applications which include low carbon heating, given its vital SHDF Wave 3 - Draft Scheme Guidance 10 role on the journey to Net Zero. Additional cost cap available for low carbon heating measures (off grid), and an additional incentive offer for low carbon heating measures on the gas grid.

Applicants are expected to adopt a least regrets approach to retrofit, meaning that works should minimise the potential of measures installed through SHDF having to be replaced in the future on the journey to Net Zero for the social housing stock. Applicants are expected to take a value for money approach to retrofit.

Social Housing Decarbonisation Fund: Wave 3 – Full DESNZ Draft Guidance



Application Routes - Strategic Partnerships / Challenge Fund

Local Authorities, Combined Authorities, Registered Providers of social housing and Registered Charities that own social housing can apply directly, or as part of a consortium.

Arms-length management organisations (ALMOs) that are not registered providers, can apply as part of a consortium led by an organisation that is eligible to lead an application.

Individual and consortium applications will be permitted through both routes.

Application Submission: via the online application portal (noting that a separate application will be required for each route).

Consortia: For guidance and support in setting up or leading a successful consortium, consortium leads are encouraged to engage with the 'RISE' – Retrofit Information, Support and Expertise service or engage with existing contractors / supply chain partners / procurement providers.

All consortia, both routes, must be coordinated by the consortium lead. Responses must give a more detailed view of the largest consortium member's project, while still giving high level information about the other consortium members.

Consortium lead must have a plan to continue to deliver the same number of homes as in the GFA should a member(s) choose to withdraw. This must be managed as necessary by the consortium, including bringing new organisations into consortia where appropriate.

If additional funding is available, there may be opportunity for successfully delivering projects to increase their grant funding award, where this will be used for delivery of additional homes.



Challenge Fund Route

The vast majority of Grant Recipients are expected to access SHDF Wave 3 funding through the Challenge Fund.

One of the key principles of this model is that all applications which meet the minimum standards of the scheme will be awarded funding. In addition, this model will facilitate the phased approach to delivery taken by many organisations, with detailed information required on the homes included within a phase only once it is ready to start delivery.

Challenge Fund Applicants will not be required to provide information on specific homes to be upgraded or specific measures to be installed.

Where Applicants plan to install measures which are typically less cost effective in making progress towards the SHDF Wave 3 objectives and strategic approach, the proposal must justify why they are a suitable, cost-effective measure for the properties applied with.

Applicants will be required to provide a detailed cost breakdown of the project, along with a justification of these costs and how they contribute towards progress towards SHDF Wave 3 objectives in a way that provides value for money

Detailed information required on the homes included within a phase only once it is ready to start delivery.

Minimum properties: 100 eligible social housing properties (EPC band D-G) per application

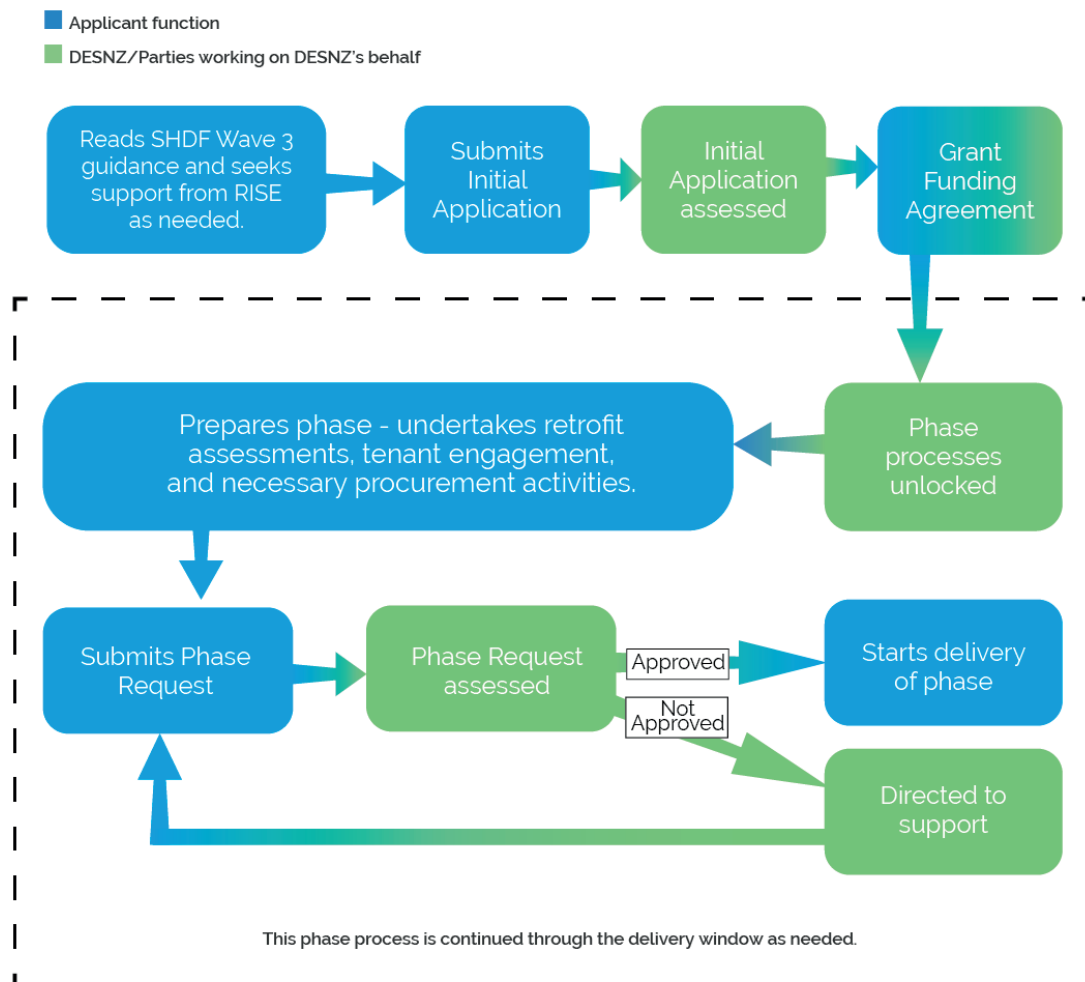
Small social housing landlords (defined for this purpose as those who own or manage fewer than 1000 homes) can apply with fewer than 100 homes but join a consortium where this is not possible.

DESNZ encourages applications from smaller landlords with £30m of funding will be set aside from the Challenge Fund specifically for applications from these landlords.

To support those who are unable to meet the minimum property threshold, support will be offered in forming consortia, with resources available through 'RISE'.



Application Route



The application process has been designed to accommodate this model, comprising an Initial Application stage as well as one or more submissions of a Phase Request during delivery.

A Phase Request will cover all or a proportion of the homes within a project, providing the further detail of retrofit work to be undertaken in that phase. The project will then be delivered on this phased basis – with each phase covering up to the end of installation and lodgement of measures on the homes in that phase.

Projects will not have more than 10 phases or less than 10% of homes in any one phase and Phase Requests will be accepted up until September 2027.

Phases may be delivered concurrently.

Applicants must quantify the mix of measures they are intending to install at Phase Request stage and provide justification as to why they are considered the most appropriate (cost effective) measures for targeted properties; and why they represent good value for money.



The information in each Phase Request should be based on a significant number of completed retrofit assessments. It is suggested that to provide sufficient confidence, around 70% of flats in a block should have had retrofit assessments completed, or around 90% of homes where they are spread around an area.

Phases are permitted to exceed the per property cost cap in individual phases, but will be held responsible for ensuring that the project as a whole averages to be within the cost cap.

Lead Grant Recipients will be able to draw down up to 20% of their total grant funding award for eligible costs incurred in order to put together Phase Requests; made up of 15% A&A and 5% capital.

Assessment of Challenge Fund Initial Applications

- **Strategic fit:** an assessment of how well the proposal fits with the aims, desired outcomes and eligibility criteria of the SHDF Wave 3 Challenge Fund
- **Delivery forecast:** an assessment of the plan for the project, including proposed costs. Commercial assurance: an assessment of the plan for the project, including proposed costs.
- **Delivery assurance:** an assessment of the feasibility and credibility of the project including resource; project management strategies; risk and issues management and confidence in delivery of the project.

Applicants will be required to provide a detailed cost breakdown of the project, along with a justification of these costs and how they contribute towards progress towards SHDF Wave 3 objectives in a way that provides value for money.

Assessment of Phase Requests

- **Strategic fit:** an assessment of how well the proposal fits with the aims, desired outcomes and eligibility criteria of the SHDF Wave 3 Challenge Fund
- **Contractor procurement:** an assessment of the suitability of the contractors that have been procured for delivery of this phase.
- **Delivery assurance and internal resourcing:** an assessment of the feasibility and credibility of the project, including organisational design, fraud management and planning.
- **Delivery forecast:** an assessment of the proposed activities and spend to take place each month.
- **Value for money:** an assessment of the costs of the proposed measures to be installed, a cost breakdown of the phase and a justification for the cost of the phase.



Strategic Partnerships Route

A small number of Social Housing Providers with a proven track record of successful delivery at scale (1000s of properties) can access funding.

To reflect the capability evidenced by these landlords and to support delivery at scale (retrofitting multiple thousands of homes), these Grant Recipients will not be required to provide detail on specific homes and measures until works have been carried out.

Strategic Partnership Applicants will be expected to propose projects of significant scale, retrofitting multiple thousands of homes.

Consortia must not be formed solely to reach the scale expectation set out for Strategic Partnerships.

Strategic Priorities

Applications will be assessed on how well they meet the four, equally weighted, strategic priorities of the fund, with applications which deliver on a greater number of priorities are potentially able to score more highly:

- **Delivery at scale 4000+ homes** - delivery at scale is valuable not only for upgrading a large number of homes but also for making it possible to harness economies of scale and thus to reduce cost per home, increasing value for money.
- **Preparing for the future scale-up of retrofit**
As mature landlords, Strategic Partners can play a role in supporting less mature landlords to upskill themselves in order to start retrofitting their stock and in supporting the development of the retrofit supply chain.
 - **Support less mature landlords** – sharing of knowledge (forums), resources/ products and support as part of a consortia.
 - **Supply Chain development** - Offering apprenticeships, train additional retrofit coordinators or assessors, contractors to become PAS/MCS/TrustMark accredited, installers/contractors to become PAS/MCS/TrustMark accredited and promote the use of SME contractors.
 - **Develop data collection**, analysis and reporting capacity and capability - undertake additional data collection and analysis on topics of interest and further independent evaluation and/or research activity.
 - Attend and/or organising relevant **knowledge sharing forums**.
- **Low carbon heating**
install low carbon heating in a significant number of the homes included in this project and trial different types of low carbon heating. Develop case studies and share innovation and best practice with other households.



- **Innovation**

Innovation in retrofit will be important both to overcome some of the challenges currently facing the sector and to take advantage of the many opportunities.

- **Develop approaches to mixed tenure retrofit** - Delivering blocks/terraces with a significant number of non-social homes and trialling innovative approaches to mixed tenure retrofit projects
- **Take an area-based approach to retrofit** - Taking an area-based approach to procurement, sharing learnings on local archetypes, joint approach to retrofitting estates owned by multiple social landlords, blending government or other funding streams for private homes (e.e. ECO4, GBIS, BUS),
- **Exploring the digitalisation of retrofit** - Using smart technology, sensors and/or monitoring platforms, building information modelling technology to design retrofit solutions and energy efficiency measurement and electricity demand management tools.

- **Private finance solutions**

Explore how they can be leveraged into retrofit projects - Accessing any form of private finance in order to provide part of the cofunding contribution for this retrofit project and trial commercial models which can generate a return on investment for retrofit projects.

Assessment of Strategic Partnership Applications:

- **Strategic fit:** an assessment of how well the proposal fits with the aims, desired outcomes and eligibility criteria of the SHDF Wave 3 Strategic Partnership competition, including how well the proposal delivers against the strategic priorities of the fund
- **Delivery forecast:** an assessment of the plan for the project, including proposed costs.
- **Commercial assurance:** an assessment of the feasibility and credibility of the commercial agreements and procurement strategy.
- **Delivery assurance:** an assessment of the feasibility and credibility of the project, with particular reference to past delivery experience of the applicant.

Applicants will be required to provide a detailed cost breakdown of the project, along with a justification of these costs and how they contribute towards progress towards SHDF Wave 3 objectives in a way that provides value for money.

Special funding agreements special funding agreements.

Any unsuccessful Strategic Partnership Applicants will therefore have the opportunity to submit an application to the Challenge Fund.

Strategic Partnership applicants will be permitted to apply to the Challenge Fund, where applying with different homes. However, Applicants must ensure that this will be deliverable.

Interaction with Devolution Deals: The MCAs and their constituent local authorities will not be permitted to bid into competitive programmes for which the MCAs have already received an allocation through the single settlements. As set out in the trailblazer deals, the MCAs and their constituent local authorities will retain the right to bid into new competitive programmes which are not included in the defined list of funds the MCAs will not be able to access during the SR period. Housing Association projects with stock only in the MCA area should apply to their respective MCA. We will produce guidance for funding housing association projects which have stock in both the MCA area and outside of it.



SHDF Wave 3 – Competition Overview

Key Dates - Delivery Window: 1st April 2025 - 30th September 2028

Application Launch Summer 24 (20 June onwards)	Challenge Fund and Strategic Partnerships. Final documents published (guidance, application form, FAQs) Draft Grant Funding Agreement and Data Sharing Agreement published
Application Close Late Summer 24 (TBC)	Will stagger the closing Challenge Fund and Strategic Partnerships dates so that any unsuccessful bids for Strategic Partnerships can still apply for the Challenge Fund
Successful Projects Notified Late Summer / Early Autumn 24 (TBC)	To be announced

Applicants are asked to submit applications they are confident can meet these deadlines and must develop evidenced project plans showing their ability to complete projects by the dates above, including considering any risks to this plan.

Cost (Funding) Caps

Measures installed must adhere to requirements within PAS 2035

	Maximum grant funding	Minimum co-funding requirement	Total (spend) per home
Energy efficiency cost gap	£7.5k	£7.5	£15k
Off gas grid homes	Additional £7.5k	Additional £7.5k	Additional £715k
On gas grid homes (Up to 10% of homes in the bid)	£20k cannot be used in addition to the £7.5k cost cap	£0	£20k

Applicants will be required to provide a detailed cost breakdown of the project, along with a justification of these costs and how they contribute towards progress towards SHDF Wave 3 objectives in a way that provides value for money.

Inflation: Applicants should allow for inflation in their submission.



Averaging of Cost Caps: Allowable to Averaging of Cost Caps to allow for some homes in the application to spend more to reach the SHDF performance outcomes - this example excludes all Admin & Ancillary (A&A) costs.

Funding accessed through the on gas grid low carbon heating incentive offer cannot be averaged out across other homes, nor can these homes receive leftover grant funding from other homes. These homes sit outside the co-funding and cost cap averaging structure of the wider application.

Key Points

- **Delivery Window:** 1st April 2025 - 30th September 2028
- **SHDF (Grant) Spend Profile:** 40% FY25/26 / 40% FY26/27 / 20% FY27/28

Grant Funding Spend: 31st March 2028 + Financial year the grant funding was allocated (not transferrable between years)

- **Co-Funding:** minimum of 50% co-funding - *does not include grant funding which goes to homes on on-grid low carbon heating incentive offer*

Applicants must also confirm the source of funds for co-funding and are expected to provide evidence of secured co-funding such as board sign off, minutes from meetings or letters of commitment. The co-funding value shown in evidence must match the value input to the application form.

- **A&A costs:** Max 15% (Cost Cap / Co Funding) and expected to be as low as possible
- **Grant Payment:** made on spend incurred following submission (monthly / quarterly) and in line with the agreed per-financial year spend profiles - grant funding must also be spent within the financial year it was allocated
- **Value for Money:** Value for money justification under both application routes, including comparison against cost benchmarks under the Challenge Fund application route.
- **Blended Funding** (other Energy Efficiency Schemes): Funding from other government schemes may be used to support works on the same home provided this is compliant with the individual scheme but cannot be used to fund the same individual measure twice.

Properties will not be eligible for the installation of low carbon heating measures if that property has previously received funding under the Renewable Heat Incentive or Boiler Upgrade Scheme.

- **Resident Engagement:** must outline how works will benefit tenants, with suitable support and information provided both during retrofit and occupancy, so that tenants are able to maximise benefits from installations.



- **Supply Chain:** applicant's encouraged to support and boost local green growth by considering local and small and medium-sized enterprises (SME) installers as part of a contribution to levelling up society whilst investing in the skills and supply chains necessary to meet net zero.
- **Procurement: Supply Chain:** Applicants are also encouraged to consider and implement all relevant Public Procurement Notices in their procurement activity.
- **SMETER technologies:** SAP-eligible technologies which would enable Smart Meter Enabled Thermal Efficiency Ratings (SMETER) (such as smart thermostats) are an eligible measure for SHDF Wave 3. Applicants who intend to install SMETER technologies are encouraged to install these into homes before any other measures, so that the effect of changes to the home can be recorded.

SHDF Wave 3 – Competition Requirements

- **Performance outcomes:** Target EPC C, but may not always be achievable within the cost caps. These should attain the maximum EPC grade achievable within the cost caps.

Space heating demand requirement now removed.

- **Cost Caps (Funding)**

Energy Efficiency Cost (Funding) Caps: £7.5k per property for energy efficiency measures regardless of wall type / existing SAP score.

Can be averaged across homes in an application (including across different consortium members).

Off-grid Cost Cap: separate £7.5k cost cap for low carbon heating measures

On-grid Low Carbon Heating Incentive (10% of Properties – does not require grant funding): can access up to a maximum £20,000 grant fund per home to install low carbon heating measures and energy efficiency measures on the gas grid properties.

Applicable measures: air source heat pumps, ground source heat pumps, shared ground loops, and heat networks.

Any co-funding spent on these homes will also not contribute to the overall application's minimum 50% co-funding requirement.

This grant requires no co-funding, sits outside of the wider co-funding structure of the application, and is additional to what might be included in an application in terms of off the gas grid low carbon heat measures.

- **EPC C+ homes (10% of Properties):** EPC C can also be included in applications where low carbon heating measures are being installed, not just in-fill properties (i.e. block of flats, adjoining property) – max 10%



- **Mixed tenure and non-social homes:** requirement for minimum least 30% social homes in mixed tenure blocks/terraces inclusion in their entirety.

Eligible measures: insulation, ventilation, and communal low carbon heating.

The requirement for owner occupiers and private rented sector landlords/tenants to contribute to measure costs no longer applies. These costs must be incorporated into the application as for any other home. As such, there is now no requirement to establish the low-income status of such tenants.

Homes at or above EPC band C can be included on an infill basis, or where installing low carbon heating measures. An application can include up to 10% of EPC C+ homes and kept to the absolute minimum required.

Home Type	Application Limit
Non-social homes within a bid	30%
Non-social homes within a block/terrace	70%
Homes at or above EPC band C within a bid	10%

- **Eligible measures:** Standard Assessment Procedure (SAP) energy efficiency and heating measures (fossil fuel heating systems excluded).
- **Installations / PAS 2030/35:** All installers must be TrustMark or Microgeneration Certification Scheme (MCS) Registered, and compliant with corresponding requirements.

All projects must be compliant with either "PAS 2035:2019 Retrofitting dwellings for improved energy efficiency Specification and guidance" (PAS 2035:2019) or "PAS 2035:2023 Retrofitting dwellings for improved energy efficiency Specification and guidance" (PAS 2035:2023) – PAS 2035/2030:2023 to be introduced from 30th March 2025 (2019 standards will be withdrawn on 30th March 2025)

PAS 2030/35 Download

All installers will be required to have the appropriate certifications to install under the appropriate standard.

All measures must be lodged on the Trustmark data warehouse. In accordance with Trustmark guidance, works should be lodged within 20 working days of completion.



- **SHDF Demonstrator / Wave 1 Properties:** can be included if meet Wave 3 eligibility requirements + **only where installing low carbon heating measures**. Homes treated in SHDF Wave 2 are not eligible.
- **KPIs / Milestones:** milestones specific to either the Challenge Fund or Strategic Partnerships and validated by evidence.

Social Housing Client Support Service - RISE

Support is available at no cost to Applicants interested in accessing funding under SHDF Wave 3 from the DESNZ-established Technical Assistance Facility under the name of 'RISE' – Retrofit Information, Support and Expertise - www.riseretrofit.org.uk / Email: rise@turntown.co.uk

DESNZ expects that Applicants will inform RISE of their intent to apply for SHDF Wave 3.

Enquiries: There will be a clarification period ending on 3 June 2024 for prospective applicants to ask further questions. All queries should be addressed to shdfwave3enquiries@energysecurity.gov.uk

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