Pre-budget scrutiny on the 2027/28 draft Scottish budget

Scottish Government Heat in Buildings Strategic Advisory Group Member [Scottish Federation of Housing Associations – SFHA]

Introduction

SFHA is the membership body for, and collective voice of, housing associations and co-operatives in Scotland. We exist to represent, support and connect our members. Together, we work to ensure that everyone has a safe, warm and affordable home.

They provide homes for life which are warm, dry and secure, at rents people can afford. Our sector relies on good governance, competent and professional planning and service delivery along with sound financing, both for existing and new housing developments.

Summary

- Retrofit can tackle fuel poverty, reduce energy use and emissions, and improve health. The social housing sector is uniquely placed to deliver these benefits, but a just transition requires investment that protects affordability: tenants must not foot the bill through higher rents.
- Demand for the Social Housing Net Zero Heat Fund will continue into 2027/28 as fuel poverty challenges for tenants persist. Current application levels do not reflect the sector's underlying demand, which can be unlocked by addressing policy uncertainty and structural barriers to accessing the fund.
- Over the longer term, enhanced, multi-year capital programmes would enable a shift from opportunistic projects to strategic retrofit at the scale needed to protect tenants and secure the wider economic, health and emissions benefits of warm, efficient homes.

Role of our members

SFHA's members provide more than 300,000 homes to over half a million people. Alongside building affordable, energy-efficient homes, they invest in energy efficiency and clean heating upgrades across Scotland's existing stock. Despite ongoing uncertainty around standards, sustained investment increased the proportion of housing association homes achieving EPC Band C or above from 68% in 2019 to 79% in 2024, compared with 51% of private sector households (owner-occupied and private rented) and 64% of local authority housing in 2024.[1]

However, the latest figures demonstrate that social tenants still experience the highest fuel poverty rates, with nearly half defined as fuel poor [2]. Consumer

[1] Scottish House Condition Survey: 2024 Key Findings - gov.scot

Scotland's Energy Affordability Tracker[2] suggests they are more likely than other tenures to face energy debt or arrears and be unable to heat their homes comfortably because of financial concerns. Some 79% have cut spending to afford energy bills, while 52% say keeping up with bills harms their mental health. Rural households and those using electric heating face particularly high costs, with research showing rural areas remain disproportionately affected by fuel poverty and extreme fuel poverty.[3]

Housing associations are doing what they can to address the wider drivers of fuel poverty including through energy advice and wider income maximisation programmes. Access to a social tenancy already keeps between 40,000 and 60,000 people in Scotland above the poverty line due to lower rents relative to the private sector[4]. Yet persistently high fuel poverty, despite these measures and improved energy performance, shows that high energy prices are a consistent barrier. Energy efficiency upgrades therefore remain the principal lever within landlords' and the Scottish Government's control, providing lasting protection against price shocks and supporting statutory fuel poverty targets.

Investment in energy efficiency and clean heat also supports Scottish Government's wider objectives on child poverty, climate change and health. Well-designed retrofit delivers warmer, healthier homes, lower bills, reduced pressure on public services and investment in local jobs and supply chains, and while these benefits are well understood, they are not routinely captured. For example, on health, recent economic analysis[5] estimates that poor housing across all tenures in Scotland costs the NHS £530 million annually, with cold indoor temperatures and the presence of damp and mould as key drivers. It subsequently recommends that interventions should focus on expanding retrofit programmes, particularly where this can be targeted to those most at risk.

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Experiences of the Social Housing Net Zero Heat Fund

The Social Housing Net Zero Heat Fund is open to both housing associations and local authorities and provides grants covering 50-60% of eligible costs for energy efficiency and clean heating upgrades, enabling projects that would otherwise be financially unviable. Pre-capital support was also made available as part of two round of 'Development' funding. Previously, most energy efficiency investment came from landlords' own resources and therefore tenants' rents. To date around 50 of our members have received grants covering 79% of the total funding awarded.

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[2] Consumer Scotland (2026), Insights from the 2026 Energy Affordability Tracker. Unpublished analysis produced from the Energy Affordability Tracker survey dataset for respondents in social rented housing (council, housing association or registered social landlord tenure category; n=402). Analysis provided directly by Consumer Scotland.

[3] A Perfect Storm: 2026 Update on Fuel Poverty in Rural Scotland

[4] Tipping the scales: The social and economic harm of poverty in Scotland | IPPR

[5] Housing Quality and Health - an Economic Analysis - UK Collaborative Centre For Housing Evidence

The scheme was introduced in 2021 with an initial commitment of £200 m over five years. To put this figure in context, Scottish Government estimates from 2023 put total costs of around £6 bn (£4.6 bn for clean heating and £1.28 bn for energy efficiency[6]), while Scottish Housing Regulator modelling suggests £4.8 bn–£9.6 bn[7]. These figures have limitations and will need updated in line with revised standards and inflation. However, they suggest the current funding covers only 2-5% of the estimated costs to the sector. Real world data also suggest higher costs and where combinations of fabric improvements, heat pumps and solar PV are being implemented, some recent funded projects had seen costs of around £50,000 per property. This compares with previous Scottish Government estimates of £9,000 for heating and £4,500 for energy efficiency upgrades.

Access also remains challenging, with only £90m spent as of June 2026. Uncertainty over the Social Housing Net Zero Standard, consulted on in 2023, is a key barrier. The Scottish Housing Regulator[7] has reported that most landlords have excluded net zero costs from their latest five-year projections pending the final standard. Confirming the compliance requirements would unlock financial planning and the ability to commit to investment in both retrofit and new homes.

The competitive fund has historically offered sporadic, short application windows that do not align with landlords' budget cycles. Applications are resource-intensive, especially for smaller organisations, with no guarantee of success: only 26 of 62 applications at Checkpoint 10 were taken forward[8]. Recent improvements have however introduced additional support and guidance helping to increase the number of successful applications which is positive.

The annual delivery timescales also remain challenging and conflict with strategic investment and asset management plans. This means landlords miss opportunities to coordinate upgrades with other planned works or carry them out while properties are vacant, when more invasive works or whole-house improvements are most practical. Despite recent changes, applications open in spring, awards are confirmed in autumn, and the grant element must be drawn down by March. This leaves little to mobilise projects including tenant engagement, pre-installation monitoring, procurement and obtaining permissions, often pushing external works and heating replacements into winter. Smaller projects may be achievable, but larger or complex schemes face greater risks from unforeseen delays.

Energy prices also constrain eligibility given projects must demonstrate the ability to deliver fuel cost savings for tenants. High electricity prices relative to gas risk leaving households worse off after switching to clean heating, particularly where fuel-poor households already underheat their homes. Although around 83% of social homes have gas central heating[9], few funded projects have replaced gas with clean alternatives to date. While many projects include solar PV, often with battery storage, to offset electricity costs, these add capital and ongoing maintenance costs borne by landlords and ultimately tenants through rents.

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[6] Social housing net zero standard: consultation - gov.scot
[7] Summary of Registered Social Landlord Financial Projections 2025/26 - 2029/30 | Scottish Housing Regulator
[8] Heat in Buildings Progress Report 2026
[9] Scottish House Condition Survey: 2024 Key Findings - gov.scot

Even in cases where financial savings can be demonstrated, energy bill savings accrue to tenants and unlike new housing developments, offers no additional income stream to the landlord. Combined with policy uncertainty, risks around new technologies and wider economic pressures this can make it difficult to develop robust business cases for retrofit projects[10]. Application numbers and values therefore reflect barriers to delivery, not underlying demand.

Some of the challenges with the Social Housing Net Zero Heat Fund also apply to the other programmes as due to be outlined in a forthcoming report of the Existing Homes Alliance. Difficulties in co-ordinating the different funding schemes in mixed tenure blocks, combined with the broader legislative challenges and backlog of repairs, risks leaving those living in flats behind. Aligning funding schemes and bringing forward the legislation and funding mechanisms proposed by the Tenement Maintenance Working Group[11] would help unlock opportunities for improvements.

Implications for the 2027-28 budget

The Scottish Government has confirmed that the new Social Housing Net Zero Standard will be finalised by spring 2027. This should provide much-needed clarity on the outcomes landlords must deliver and is likely to drive further demand for grant funding. Future budget decisions must therefore anticipate a substantial increase in applications rather than treating historic levels of fund take-up as evidence of limited sector demand.

The case for increased investment is reinforced by the removal of the UK Government's Energy Company Obligation funding, which was an important source of support for housing associations. The Social Housing Net Zero Heat Fund is now the principal retrofit programme available to social landlords, at a time when their financial capacity is already under pressure from building safety requirements, maintenance costs, inflation and the need to keep rents affordable.

Demand for the Social Housing Net Zero Heat Fund will persist into 2027/28 as fuel poverty pressures on tenants continue. Current take-up must not be mistaken for limited need: addressing policy uncertainty and access barriers is essential to unlock the sector's underlying demand.

Implications for future budgets

The current fund supports valuable pilots and smaller schemes, with the latest round expecting to support around 3,000 homes[12]. However, if around 500,000 social homes need clean-heating upgrades by 2045, delivery must rise to more than 25,000 homes a year. Sustained public investment must increase accordingly to provide a credible pathway to statutory climate and fuel poverty ambitions. For context, IPPR research, based on previous Scottish Government cost estimates, indicates government investment requirements of £150–£200 per year.

[10] Making the business case for social housing retrofit: monitoring, evaluation and data availability | CXC
[11] TMWG-Letter-to-Cab-Sec-for-Housing-18-June-2026.pdf
[12] Heat in Buildings Budget Allocations | Scottish Parliament Website

Underinvestment defers and potentially increases costs through inefficient sequencing, higher future construction costs, continued exposure to unaffordable energy bills and greater pressure on health, housing and wider public services. Meeting the shortfall through rental income would shift transition costs onto tenants already facing fuel poverty and affordability pressures. Multi-year funding would also enable investable pipelines, efficient procurement, stronger supply chains, coordination with planned maintenance, meaningful tenant engagement and improved evaluation of outcomes.

The Scottish Futures Trust[13] report that enhanced fund could combine sustained public investment with multidisciplinary project-development and financing support. They also highlight scope to leverage private investment through public capital at a lower overall cost. Together with multi-year certainty, this would support the shift from small pilot schemes to a more strategic approach which can maximise economies of scale and give private investors confidence, ensuring private finance complements rather than replaces essential public grant.

We also welcome the recent introduction of an 'Efficiency Funding' stream within Scotland's Heat Network Fund[14] to identify improvements in existing heat networks. However, unlike the Heat Network Efficiency Scheme in England and Wales, this one-year pilot does not fund capital works. With the new GB wide regulation and technical standards being introduced to heat network, including social landlords with communal heating systems, there should be further support for existing heat networks which serve social tenants, informed the pilot's outcomes.

Over the longer term, enhanced, multi-year capital programmes would enable a shift from opportunistic projects to strategic retrofit at the scale needed to protect tenants and secure the wider economic, health and emissions benefits of warm, efficient homes.

[13] New report highlights investment models to support decarbonisation of Scotland's social housing - SFT
[14] Scotland's Heat Network Fund: optimisation study grant funding - how to apply - gov.scot