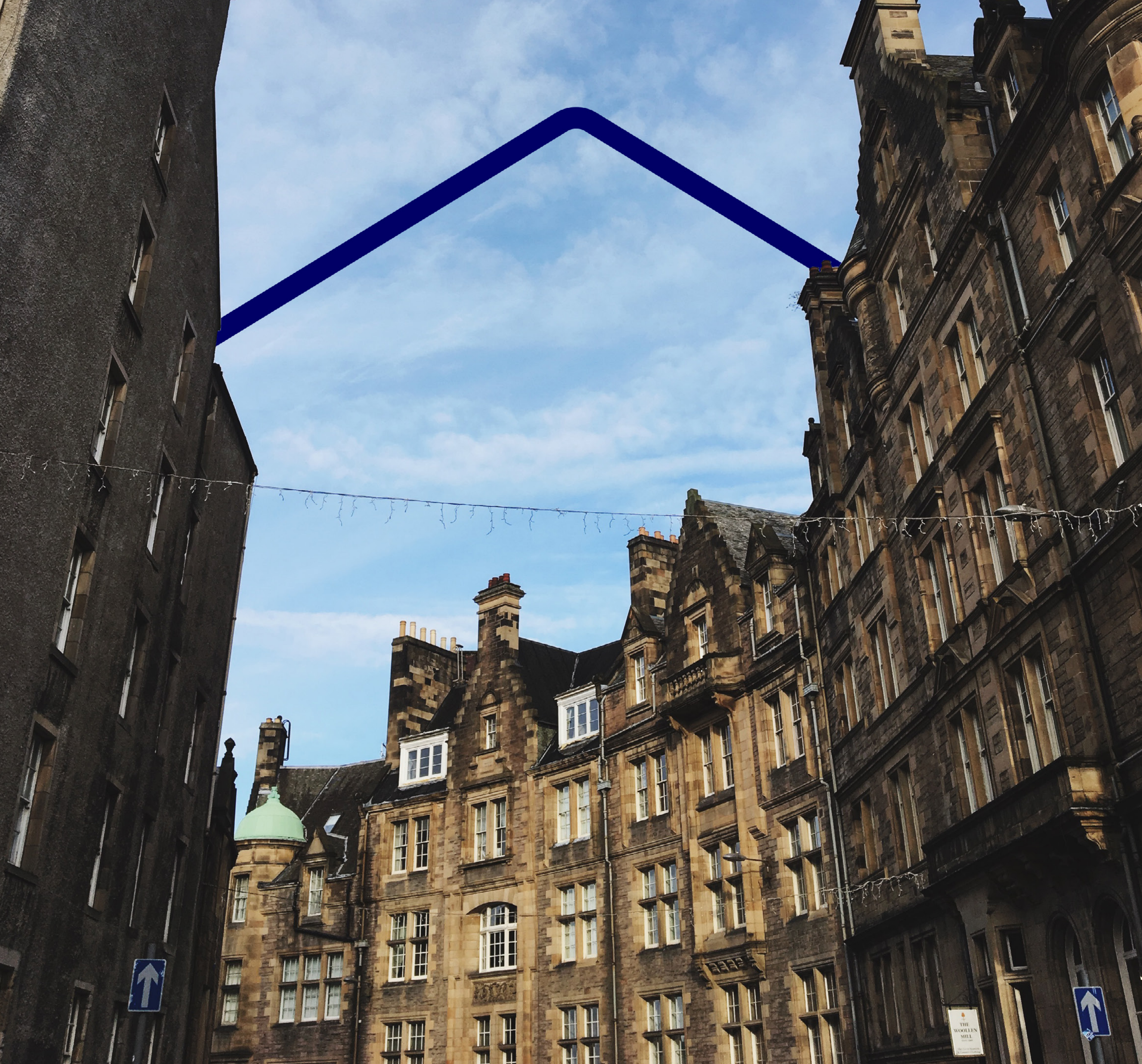




The Voice of Scotland's Housing Associations



Road to 2026: Meeting the challenge of net zero



Introduction

Over a million people in Scotland live in a social home: but nationally, there is a waiting list of over 250,000 people.

Scotland's housing associations provide safe, warm, affordable homes for life, and we desperately need more of them. That's why housing needs to be a crucial part of the conversation ahead of the next Holyrood elections on 7 May 2026. SFHA is publishing a series of policy position papers to set out the challenges for our members, outline and test our key policy positions, provoke debate, and seek to influence party manifestos. The first of these papers focuses on 'Meeting the challenge of net zero'.

About SFHA

The Scottish Federation of Housing Associations (SFHA) is the voice of housing associations and co-operatives. Housing associations and co-operatives provide homes for over half a million people in Scotland. As not-for-profit organisations, they don't just build, maintain and rent out homes; they also help their tenants by providing care and support services as well as advice and support on energy efficiency, finances, employment and more.

Summary

Housing associations in Scotland are already working towards net zero goals as part of global efforts to address climate change.

Decarbonising our homes will be a critical part of this but the current **uncertainty around standards**, the **inadequacy of funding** offerings and the need to balance against other **competing priorities** is making this increasingly challenging. Over the coming decades our members will have to manage **difficult investment decisions**, ensuring they deliver the required upgrades to their housing stock while **protecting tenants** from unintended consequences.

To help navigate a clear path between these sometimes conflicting objectives, strong leadership and support is needed from Scottish Government.

Our **calls to action** ahead of the 2026 election therefore include:

Supporting strategic investment through long-term funding and finance solutions

- Implement the recommendations of the recent Scottish Futures Trust report¹ on new finance models including further development of the proposed 'aggregator approach'
- Strengthen the Social Housing Net Zero Heat Fund, ensuring this is significantly scaled up and extended beyond 2026, providing a predictable and long-term grant offering which better reflects the costs associated with delivering net zero projects

Enhance financial support for area-based approaches to help progress mixed tenure projects where social landlords are not the majority owner

Scaling up delivery of effective retrofit pathways

- Confirm the new Social Housing Net Zero Standard and publish associated technical guidance
- Establish a new project support unit to provide multidisciplinary support and expertise to social landlords, including for heat networks and other area-based approaches
- Work with the energy sector to identify collaboration opportunities ensure timely upgrades to the infrastructure needed to support clean heat

Ensuring a just transition for social housing tenants

- Set out how the costs of the transition will be shared fairly across all households
- Work with the UK Government and Ofgem to influence the necessary reforms to the energy market
- Expand devolved energy costs protections to low-income households which use clean heat with additional uplifts for those in remote and rural areas
- Provide multi-year resource funding to energy advice and advocacy services for social tenants

1. www.scottishfuturestrust.org.uk/publications/documents/financing-and-funding-the-decarbonisation-of-scotlands-social-housing

The current context for the sector

The Scottish Government has set ambitious plans for becoming a net zero nation by 2045 as part of global efforts to tackle climate change. However, progress has been limited, with annual targets for the reduction of greenhouse gas emissions consistently missed and the 2030 interim target of a 75% reduction now abandoned.

The Heat in Buildings Strategy sets out the long-term goal of improving the energy efficiency of our built environment alongside transitioning to clean forms of heat. With the social housing sector forming almost a quarter of our housing stock, social landlords have a key part to play in this transition. Our members have already been making significant investments in existing homes and currently outperform the private sector in terms of energy efficiency performance. They also continue to build new affordable housing, including 'Greener Standard' and Passivhaus homes which exceed the minimum energy standards of the building regulations.

However, further progress is being impeded by **uncertainty around the proposed standards** which social landlords, and other housing tenures, will be expected to meet. For example, it has recently been announced that the Heat in Buildings Bill, which was consulted on in 2023, will be delayed until concerns about costs and fuel poverty impacts can be resolved. The proposed Social Housing Net Zero Standard is also still being developed despite previous calls for a revised approach and implementation of a new standard for existing homes to be in place by 2023. For new homes, there are also plans to introduce a 'Passivhaus equivalent' from 2026, albeit with voluntary compliance until 2028 and details of the specific performance requirements to be consulted on later this year.

There is also **inadequate funding and finance** solutions to support these standards. For existing homes, the Social Housing Net Zero Heat Fund is currently the main source of grant funding with Scottish Government covering 50 to 60% of the capital costs for energy efficiency and clean heating upgrades. From the initial allocation of £200m for the current parliamentary term, the most recent figures show that only £75 million has been awarded to date across 80 projects. Feedback from our members has also highlighted the difficulty of aligning this short-term, competitive fund with longer term investment and asset management plans which would offer a more strategic approach.

The cumulative impacts of regulatory standards and broader economic pressures are also resulting in competing demands for investment. Our members are striving to provide the best outcomes for their tenants and communities, ensuring they have safe, warm and affordable homes with heating systems which meet their needs. Meeting the challenge of net zero must therefore be viewed alongside **other strategic priorities** including addressing the housing emergency through the delivery of new homes, providing vital support and services to tenants, and work to keep rents as affordable as possible.

Future challenges



An uncertain investment landscape

Our members' capital expenditure programmes are generally funded through a combination of rental income, grants and commercial loans.

While housing associations can borrow from banks and other private lenders, and have historically had a good credit record, their financial standing is being weakened by factors such as increasing operational expenditure, high interest rates and increasing construction costs, alongside growing rent arrears levels and pressures to limit rent increases. This is already contributing to a downturn in the rate of new housing development¹, reductions in maintenance budgets and cuts to other vital support services for tenants. The latest projections for the sector indicate that finances have weakened at the aggregated level², leaving housing associations with less financial headroom, and this does not yet account for unplanned costs like employer National Insurance increases. Most social landlords have also been unable to include costs for net zero within their 5-year projections due to the uncertainty about the new standards and potential funding.

Investment in existing homes creates particular challenges since this activity doesn't generate a direct financial return for the landlord. In the case of energy efficiency and clean heat upgrades, while there can be financial gains arising from reductions in energy bills, this will typically benefit the tenant.

There are some models which propose recouping costs for the landlord through increasing rent or service changes, provided this can be offset by the energy savings, but this would then limit the impact on fuel poverty alleviation. Some of our members are involved in, or are exploring, renewable energy schemes (e.g. wind turbines) as an additional revenue stream but these are significant infrastructure projects which also carry considerable risk and require upfront capital.

While it is recognised that the public purse cannot fully fund net zero programmes given the scale of the work required, in the absence of further grant support or new funding models, research commissioned by SFHA has estimated that social landlords may need to increase annual rents by an average of £400 to £500 on top of inflation and other planned increases.³ The Scottish Housing Regulator has separately suggested that social housing rents would need to rise by between 42% and 80% to fund the cost of retrofit.⁴ With such uncertainty around the potential returns, and the future funding offerings, it is becoming increasingly difficult for our members to plan investments in line with their 30 year business plans.

1. SFHA, Managing cost pressures in construction: Housing Sector Working Group report (September 2024)
2. Scottish Housing Regulator, Analysis of Registered Social Landlord Audited Financial Statements - 2023/24 (March 2025)
3. IPPR, No home left behind: funding a just transition to clean heat in Scotland (February 2024)
4. Scottish Housing Regulator, Summary of Registered Social Landlord Financial Projections: 2023/24 - 2027/28 (December 2023)

Future challenges



Delivering the right solutions at scale

Aside from the financial constraints, achieving the required pace and scale of retrofit activity will be challenging if demand is set to increase across all housing tenures in Scotland, and the rest of the UK, over the coming decades.

There remain concerns about skills shortages, the capacity of the supply chain, planning system barriers and the need for significant infrastructure upgrades (e.g. electricity grid and metering) to support the roll out of clean heat. However, with adequate funding and policy uncertainty, social landlords could help develop the retrofit supply chain, including supporting local SMEs, by providing a reliable pipeline of work.

There are also opportunities for innovation and the social sector can play an important role if it supported to do so through adequate resourcing and access to specialist expertise where required. Social landlords are already trialling different retrofit pathways for given property archetypes which will provide useful insights for the rest of the housing stock, including understanding the performance gap between predicted and actual outcomes.

Further co-ordination of these activities through a centralised support unit, alongside improved data collection and knowledge exchange, would help to identify the most appropriate solutions and accelerate delivery.

The journey to net zero will require collective action across all housing tenures but with the current uncertainty on the implementation of the Heat in Buildings Bill, and the technical, financial and legal barriers around communal upgrades to mixed tenure properties, our members could face difficulties in upgrading homes in blocks where they are not the majority owner. Similarly, while heat networks may offer a solution for some properties, there remains uncertainty around the timescale of such projects and future proofing requirements to facilitate connections to new networks.

Future challenges



Tackling fuel poverty

Aside from the risks around rent increases already discussed, there remain other financial and technological risks to tenants if these standards are introduced without further supporting policies.

For example, while social landlords will have a responsibility to address poor energy efficiency as a driver of fuel poverty through the new standard, there are other factors outwith social landlords' control, including the energy retail market and wider energy policy, which will influence the outcomes for tenants.

In particular, the recent energy crisis has exposed the vulnerability to global events and their associated impacts on wholesale energy prices. While costs have fallen since their peak, households are still expected to face affordability challenges over the coming years. The current differential in gas and electricity prices also creates tension between fuel poverty and net zero objectives, given it is typically more expensive to run an Air Source Heat Pump (ASHP) when compared to an efficient gas boiler¹. With over 500,000 gas systems needing to be replaced in the social sector, unless electrified heating solutions can be coupled with other technologies like battery storage (adding further capital and maintenance costs), tenants could face increased bills if this transition occurs ahead of addressing the high electricity-to-gas ratio.

Our members are involved in various fuel poverty programmes, with some employing specialist energy advisors or working with partners to support tenants with tailored advice and advocacy². However, with 61% of households in the social rented sector facing fuel poverty, and the latest figures showing increases in national fuel poverty rates in recent years³, these services are under growing pressure and typically reliant on short term, external funding. There are further constraints in remote and rural areas, where fuel poverty rates are highest, as face to face advice is more difficult and resource intensive to deliver. These services will also become increasingly important as the rollout of clean heat accelerates and tenants seek additional support with unfamiliar technologies and more complex tariff options.

1. Harrington, The running cost of domestic heat pumps in the UK (March 2024)

2. www.sfha.co.uk/news/news-category/sfha-news/news-article/changeworks-launches-tenant-energy-support-service

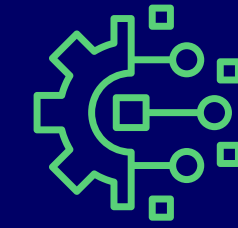
3. Scottish Government, Scottish House Condition Survey: 2023 Key Findings (January 2025)

Member concerns



Securing investment

Will the future funding landscape be sufficient to meet the scale of the challenge? How can social landlords make a robust business case for net zero projects when faced with competing investment priorities?



Technical challenges

How do social landlords tackle their 'hard to treat' properties where there is not yet a viable, cost-effective solution? What is the impact of the additional maintenance and replacement costs of new technologies over the next 30 years?



Impact on tenants

Will tenants be receptive to the levels of works required and the changes to their home? How do social landlords safeguard against increases to rents or energy bills?



Energy system reforms

What changes are needed in the wider energy system to create a fairer energy market? Is there a role for community and locally owned renewables?



Supply chain readiness

Is the wider supply chain ready to scale up the deployment of energy efficiency and clean heat measures? How can our members embed a community wealth building approach and support local businesses?



Wider sustainability issues

How do social landlords address the increasing importance of embodied energy and carbon and the environmental impacts of their wider operations? What are the most important actions for climate change mitigation and adaptation?

Case study: Hjaltland Housing Associations 'Fabric First' Retrofit

As a rural housing provider, Hjaltland Housing Association was aware of the high rates of fuel poverty amongst its tenants, the drivers of which are outlined further in the 2023 report 'A Perfect Storm'¹. They sought to retrofit five of the Association's more difficult to treat timber frame bungalows (currently heated with electric storage heating), targeting those who had received energy support in the last year.

They took a 'fabric first' approach in three of the properties (insulation, door and ventilation upgrades) and compared this with technological solutions like an Air Source Heat Pump (ASHP) and Photovoltaics (PV).

Based on the Energy Efficiency Ratings (the previous compliance metric for EESSH), most of properties had a baseline Energy Efficiency Rating of D and following the upgrades, only the ASHP and PV properties were increased to a C rating. The 'fabric first' properties remained a D rating under current calculation methodology due to the inclusion of mechanical ventilation.

In comparing the Space Heating Demand (current proposal for the new Social Housing Net Zero Standard), the results were more positive with all three of the 'fabric first' properties meeting the proposed range of 70 - 120 kWh/m²/yr and achieving average energy savings of 33%. These properties also saw benefits to the internal conditions (temperature, relative humidity and CO₂ levels) due to the combined improvements in air tightness and ventilation. This was backed up by comments from the tenants who were reporting improved comfort levels, increased heat retention and reductions in condensation.

The ASHP property also met the proposed Space Heating Demand target and achieved a 35% energy reduction while the PV property did not meet the target and achieved only an 11% energy reduction.



1. www.changeworks.org.uk/wp-content/uploads/2023/05/A-Perfect-Storm-Fuel-Poverty-in-Rural-Scotland.pdf

Case study: Hjaltland Housing Associations 'Fabric First' Retrofit

Key learnings:

- A suitable compliance metric is needed - this must promote solutions which will have a positive impact on tenants and climate change targets, including recognising the importance of ventilation
- The capital costs of upgrades are significant -the average installation cost of £33,000-£38,000 for the fabric and ventilation upgrades alone was well above the £14,000 figure for combined fabric and heating upgrades suggested by Scottish Government¹ and only feasible with grant support
- Whole life-cycle costs must be considered - the additional cost associated with maintaining the ASHP and replacing at the end of its lifespan made this unfeasible for wider rollout
- Tenant buy-in is critical but requires investment in tenant support - good engagement was achieved through early consultation visits which outlined the expected disruption and effective sequencing allowed works to proceed while tenants were still living in the properties
- Supply chain constraints are more acute in rural areas - delivering in line with the PAS 2035 specification which requires contractors to be TrustMark accredited resulted in limited competition and the exclusion of local SMEs
- Monitoring and evaluation provides valuable insights beyond the modelled data - Changeworks provided support to ensure a holistic evaluation of outcomes

Funding sources: Energy redress; Social Housing Net Zero Heat Fund

Further information: www.changeworks.org.uk/insights/supporting-hjaltland-housing-associations-deep-retrofit-project

1. www.gov.scot/publications/consultation-new-social-housing-net-zero-standard-scotland/documents

Supporting strategic investment through long-term funding and finance solutions

Our members need clarity on future funding for energy efficiency and clean heat to allow them to plan and deliver retrofit programmes in line with Scottish Government targets. The level of funding should be significantly scaled up, and complemented by new approaches to using private finance where necessary, to avoid the costs having to be passed on to tenants through higher rents.

Calls to action:

- Strengthen the Social Housing Net Zero Heat Fund, ensuring this is significantly scaled up and extended beyond 2026, providing a predictable and long-term grant offering which better reflects the costs associated with delivering net zero projects
- Implement the recommendations of the recent Scottish Futures Trust report on new finance models including further development of the proposed 'aggregator approach'
- Enhance financial support for area-based approaches to help progress mixed tenure projects where social landlords are not the majority owner

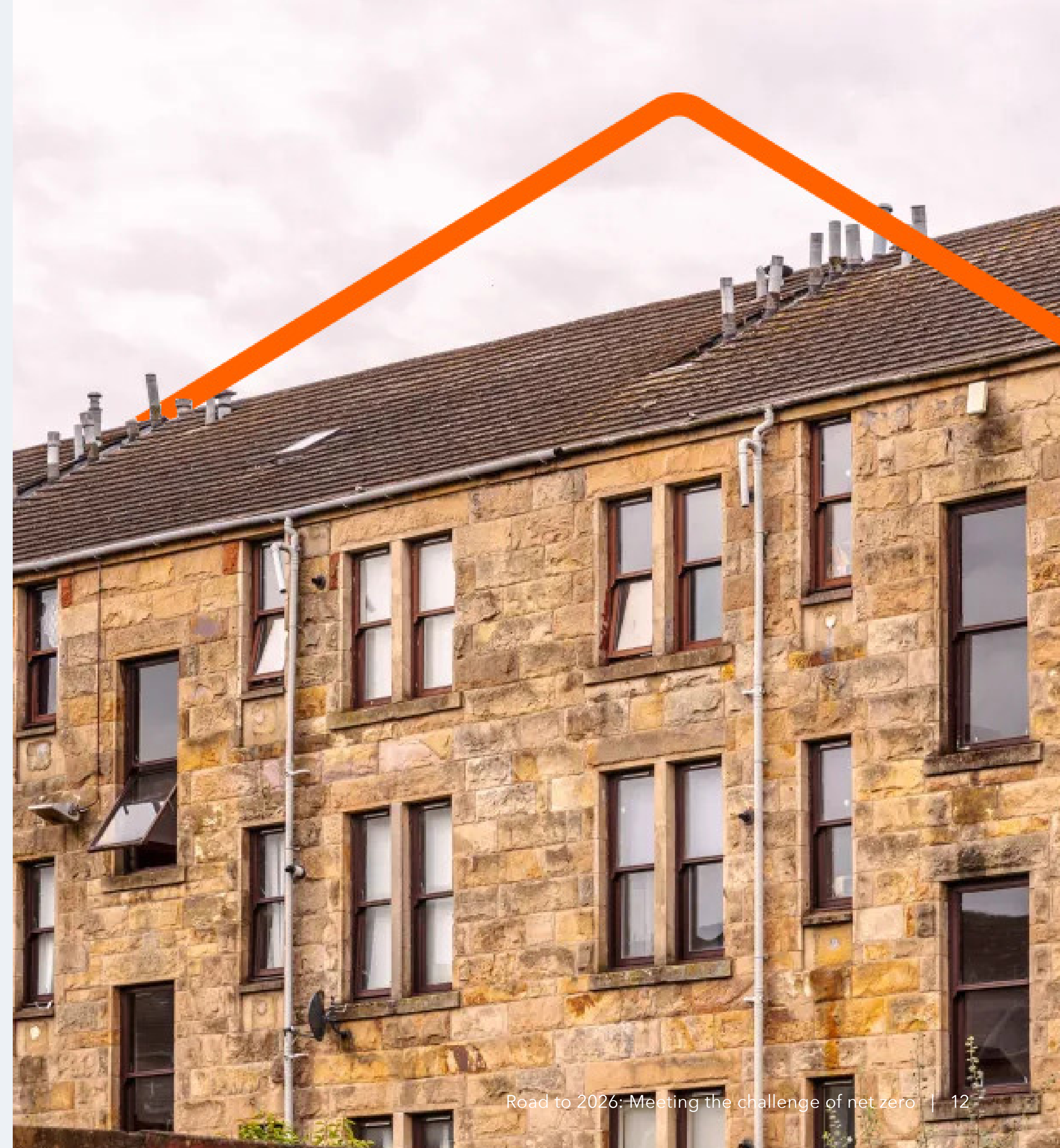


Scaling up delivery of effective retrofit pathways

Building on the progress already made, social landlords must be supported to deliver on net zero objectives at the pace and scale required while recognising the other challenges facing the sector. This will require a supporting delivery framework of technical support and guidance alongside further progress on key enablers such as skills, supply chain and public engagement.

Calls to action:

- Confirm the new Social Housing Net Zero Standard and publish associated technical guidance
- Work with the sector to build a robust evidence base on the costs and impacts of social housing retrofit projects
- Establish a new project support unit to provide multidisciplinary support and expertise to social landlords, including for heat networks and other area-based approaches
- Work with the energy sector to identify collaboration opportunities and ensure timely upgrades to the infrastructure needed to support clean heat



Ensuring a just transition for social housing tenants

As social purpose businesses, housing associations are already contributing to national efforts to tackle poverty and inequality. Scotland's transition to net zero offers a further opportunity to not only address climate change but also improve the wellbeing of its citizens. However, this will require further safeguards to ensure tenants can access affordable warmth and that the wider benefits around health, employment, social value and community wealth building are maximised.

Calls to action:

- Set out how the costs of the transition will be shared fairly across all households
- Work with the UK Government and Ofgem to influence the necessary reforms to the energy market
- Expand devolved energy costs protections to low-income households which use clean heat with additional uplifts for those in remote and rural areas
- Provide multi-year resource funding to energy advice and advocacy services for social tenants





Get in touch to
find out more
sfha.co.uk



Cassandra Dove, Policy Lead | CDove@sfha.co.uk