

Summary Report

Financing and funding the decarbonisation of Scotland's social housing

March 2025



Introduction

Decarbonising Scotland's social housing is seen as a critical component of Scottish Government achieving its net zero goal by 2045. The social housing sector has made significant strides by implementing the Energy Efficiency Standard for Social Housing.

Delivering energy efficient housing with clean heating systems will not only reduce carbon emissions, but can also deliver socio-economic benefits; warmer, more comfortable homes can significantly improve health, support longer living, enhance life chances and community strength amongst residents, and if implemented effectively, can have a positive impact on reducing future tenant living costs.

The [accompanying report](#) was prepared by infrastructure specialists, the Scottish Futures Trust, to consider potential investment models to decarbonise existing social housing.

The report does not attempt to address the level of funding support required for social housing, although this has been considered by others, including Scottish Government. More broadly, Scottish Government is currently reviewing the estimated total cost of its Heat in Buildings Strategy (previously estimated at £33 billion) and anticipates the outputs of that work will be made available soon.



Endorsement of the need to decarbonise social housing

In response to the report, the Scottish Federation of Housing Associations has provided its support and states the following:



This report makes for essential reading in setting out potential funding solutions to allow housing associations to make homes more energy efficient. If Scotland is to achieve its net zero targets, then it's clear there needs to be substantial investment to allow housing associations to urgently accelerate their programme of retrofitting homes. The transition to net zero must be a just transition: tenants cannot be left to foot the bill through higher rents. This is why SFHA fully supports the report's recommendations, including to significantly enhance the current Social Housing Net Zero Heat Fund (SHNZHF).

SALLY THOMAS

sfha

Scottish Federation of
Housing Associations

We are housing Scotland



Overarching recommendations

The process of creating the investment models (alongside substantial sector-wide stakeholder engagement), led us to a set of overarching recommendations. In particular the following three short-term recommendations should be implemented now and be led by Scottish Government, working in collaboration with other sector stakeholders:

1 Strengthen the current SHNZHF offering (it is noted that the SHNZHF is intended to run in its current form to the end of the current Parliament with enhanced multidisciplinary support). As the market matures, and as the requirements of regulation become clearer, support can be focused on targeting successful and replicable approaches to delivery. The analysis in the main report suggests that this should include further exploration of low cost, blended financing under the financial-aggregator and related super-aggregator models (see description below).

2 Improve clean heat and energy efficiency data collection – centrally gather and share data for installation and materials costs, as well as information on the performance and net savings realised for energy efficiency and clean heat deployment. Accessibility to this data for all social landlords will be key to helping inform, develop, evaluate and deliver net zero retrofit projects. Increased data clarity and reliability will also give confidence to potential private investors.

3 Work with the sector to further explore and implement the prioritised blended financial models and possible use of financial guarantees. There is also the opportunity for social landlords to participate (rather than lead) in area-based opportunities as they arise. There is substantial enthusiasm in the sector for the development and implementation of solutions, but the sector needs clarity on its net zero requirements/responsibilities and how it should address these alongside other priorities.

The outcomes of this report, and the exploration and analysis of other models within it, should be revisited periodically and their applicability reassessed as the landscape continues to change and develop.

Overview of the sector

SCOTLAND'S SOCIAL HOUSING LANDLORDS

26 

Local authorities

138 

Registered Social Landlords

100-60k 

Properties per landlord

Social landlords own and manage social housing. The landscape of Scotland's social housing landlords is varied, with 26 local authorities and 138 Registered Social Landlords (RSLs) currently performing this role. Landlords range from large, concentrated, and urban to small, dispersed, and rural, and can be responsible for more than 60,000 homes or a few hundred.

Some operate extensive new housing supply programmes, whereas the programmes of others can be much smaller. They report to elected bodies and boards and have varying positions of financial capacity. In addition, there are also fundamental differences in how Registered Social Landlords (RSLs), as private sector entities, and local authorities, as public sector bodies, approach the role of social landlord. It is therefore unlikely one generic solution can be applied to all landlords, as what is relevant to one may be impractical for another. Any future model development should recognise this and ensure that appropriate options are taken forward to offer something to cover the breadth of the landlord base.

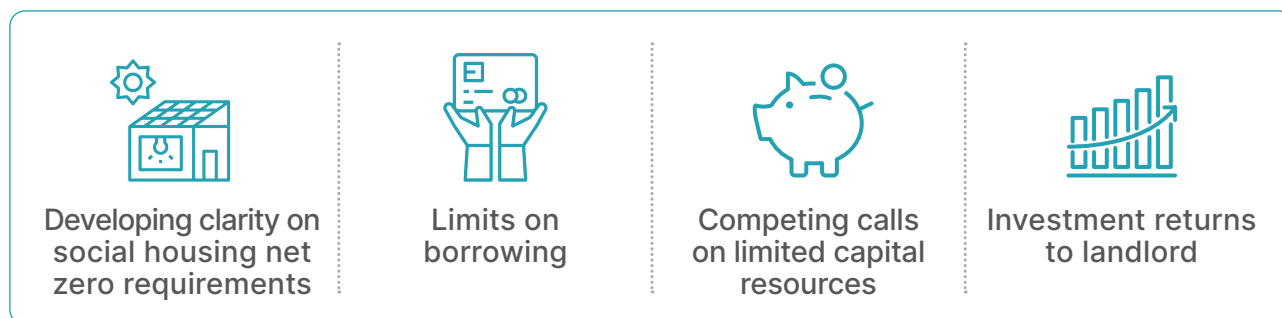
Landlords' capital expenditure plans are focused on their core business operations whilst trying to deliver the transition to net zero. They also share Scottish Government's ambition to build more affordable homes whilst scheduling routine stock maintenance, lifecycle replacement, and improvement programmes.

Net zero and new-build aspirations require substantial funding, regardless of how sourced. In principle, this funding can be largely drawn from two sources: government grant or income from tenants. These sources are constrained and therefore there is a need for clarity to prioritise investment.



Challenges to retrofit at scale and pace

There are a number of challenges to the decarbonisation of heat in social housing that are highlighted in the Report:



- **Developing clarity on social housing net zero requirements** – Social landlords will ultimately require clarity on the requirements of the Social Housing Net Zero Standard¹, and the timetable for its introduction to plan their investment programmes effectively.
- **Limits on borrowing** – Local authorities and RSLs borrow in different ways to invest in social housing. Local authorities generally borrow from the Public Works Loan Board, but there will be a limit on how much can be added to their existing borrowing obligations. This limit could be further impacted if there are restrictions on the ability to apply increases to the principal source of repayment, namely rents. Housing associations, on the other hand can borrow from banks and other private financial institutions. The sector has a good credit record, but lenders are aware that several headwinds are likely to impact the financial standing of RSLs, including significantly higher construction costs, higher operational expenditure, limitations to rent increases, higher arrears levels and higher interest rates.
- **Competing calls on limited capital resources** – Social landlords also have other significant capital expenditure requirements. For example, in 2022/23 local authorities spent £491 million on improvements to existing stock and extensive new-build programmes.
- **Investment returns to landlord** – A key aspect of any investment programme, is the extent to which it generates any additional revenue or cost reductions, as additional revenues can then be used to pay off the financing which supports the investment. Of particular relevance is the fact that investing to support improvements in energy efficiency and clean heat will not necessarily result in any reduction in overall energy costs.

1 [Social housing net zero standard](#): consultation

Other challenges identified in the Report include:

- Availability of grant support from Scottish Government as a result of budgetary constraints.
- The underlying need for social landlords to keep rents affordable for tenants.
- Expertise and capacity within social landlords to plan for, and implement, energy efficiency and clean heat measures.
- Capacity of the supply chain and the availability of skills to support retrofit measures.
- Negative perceptions of net zero interventions amongst tenants.
- Ensuring reliable data on the condition of existing stock is available.
- Uncertainty on the applicability, effectiveness and cost impacts of particular net zero measures.

Model analysis and prioritisation

In arriving at the three recommendations detailed previously, 12 models were developed and assessed against a set of five evaluation criteria outlined below, to allow ranking and prioritisation of the models:



ADDITIONALITY
attracting additional
non-Scottish
Government investment



APPLICABILITY
ease of deployment



SUFFICIENCY
attracting investment and
impact decarbonising the
sector



SKILLS AND CAPACITY
provide or build retrofitting and financing
skills for the social housing sector



TENANT IMPACT
beneficial financial impact
on tenants

All models evaluated possess a mix of merits and drawbacks, and this is reflected in a relatively narrow range of assessment scores. Furthermore, many models are complementary and can be pursued in parallel. Accordingly, many social landlords may find a combination of approaches desirable to deliver their retrofit strategies effectively.

Although all the models described have some form of track record in the market they are not all equally viable for implementation at this time for a variety of reasons.

Accordingly, a further layer of assessment was undertaken, which provided additional scrutiny on the need for government funding and the time-frames needed for implementation. The report has attempted to consider and reflect on the limited resources of Scottish Government and the social housing sector, by analysing and prioritising a set of models which can be actioned and developed now. A small number that appear most promising at this time have been put forward for prioritisation and summarised in the diagram below:

An overview of the identified priority models are provided as follows:



ENHANCED SHNZHF

ADDITIONAL SUPPORT

Stakeholder engagement indicated a strong case for the enhancement of centrality supported skills and expertise. This will provide immediate support to the sector, and is a key step for developing the models below.



AGGREGATION MODELS

FINANCIAL AGGREGATOR/SUPER AGGREGATOR

Blended finance and support models to be prioritised for further exploration and development.



LOAN GUARANTEES

ALTERNATIVE FINANCING

Noted that there is existing activity on this (led by National Wealth Fund). Scottish Government to engage with this to complement other models and create opportunities to deploy the offering at greater pace and scale.

- The Social Housing Net Zero Heat Fund (SHNZHF) is an existing Scottish Government fund to help social landlords install clean heating systems and energy efficiency measures. We have identified a strong case for an enhanced SHNZHF which would become a centre of excellence for the sector, offering landlords a range of skills and expertise. An enhanced SHNZHF would provide a key component in the development of other priority models.
- Financial-aggregator models could involve the establishment of a new Special Purpose Vehicle (SPV), part funded by Scottish Government capital and part funded by private loans. The SPV makes loans available to landlords at a blended rate of interest. The SPV would require significant additional resources, skills and set up costs and one possible approach would be the creation of an enhanced multidisciplinary support resource which could act as a one-stop shop. It is possible that this additional support resource could grow or be derived from a more general enhanced SHNZHF support offering, and this might provide a step towards establishing a super-aggregator type model.

- In a loan guarantee scheme, Scottish Government (or possibly the National Wealth Fund), would act as guarantor, guaranteeing loans made by private finance providers (the beneficiary) to social landlords to allow them to proceed with net zero retrofit measures. This approach may complement the development of aggregator models.

It is also observed that area-based (also synonymously referred to as place-based) financing approaches (which group together net zero investment projects in a given area or locality) are currently being explored more broadly by others. This approach aims to group together net zero investments to create scale, attractive investable propositions and long-term certainty for investors. There might be opportunity for landlords and Scottish Government to participate with and support work, albeit most likely led by others in this area.

Conclusion

Decarbonising Scotland's social housing stock is a challenge. By leveraging innovative financial models, strengthening existing support mechanisms to help address sector-specific challenges, Scotland's social housing sector can progress the decarbonisation of existing social housing.

The overarching recommendations outlined in the [main report](#) provide some simple and immediate practical steps to support the ongoing implementation of net zero retrofit measures in the sector.



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