

**Local Government, Housing and Planning Committee  
Tuesday 21 January 2025  
2nd Meeting, 2025 (Session 6)**

## **Retrofitting of housing for net-zero**

### **Introduction**

1. The purpose of this paper is to provide background information to inform the Committee's oral evidence session with the Acting Minister for Climate Action and his officials.
2. Further background by SPICe is provided in the Annexe to this paper.
3. The Committee will take evidence from:
  - Alasdair Allan MSP, Acting Minister for Climate Action;
  - Neal Rafferty, Head of Heat Strategy and Consumer Policy Unit;
  - Gareth Fenney, Interim Deputy Director for Heat in Buildings Delivery;
  - Ross Loveridge, Head of Heat in Buildings Assessment & Legislation Alignment Unit; and
  - Sue Kearns, Deputy Director Heat in Buildings Policy and Regulation.

### **Background**

4. In May 2024 the Committee collaborated with the Scottish Parliament's Futures Forum and the Net Zero, Energy and Transport Committee to deliver a [one-day conference about Scotland's housing and net zero](#). Parliamentarians and stakeholders heard from a range of experts and participated in group discussions about decarbonising heating, retrofitting existing housing stock, and socio-economic considerations.
5. The Committee subsequently highlighted in its [Tracker Report](#) for 2023-2024 anticipated work on both a Climate Change Plan and a Heat in Buildings Bill (a commitment of the Programme for Government 2024/25).its disappointment that the Climate Change Plan has been delayed and a Heat in Buildings Bill has yet to be introduced, despite the commitment to take these forward in the Scottish Government's Programme for Government.
6. At its [meeting on 19 November 2024](#) the Committee agreed to invite the Acting Minister for Climate Action to give evidence to the Committee on what the Scottish Government is doing to provide greater urgency to retrofitting housing for net zero, in the absence of both the Climate Change Plan and a Heat in Buildings Bill.

## **Focus of the session**

7. The Committee will explore the following themes with the Minister for Climate Action:
- Progress on the Heat in Buildings Bill;
  - Social Housing;
  - Energy Performance Certificate (EPC) reform;
  - Delivery schemes and funding; and
  - Delivery issues, including Local Heat and Energy Efficiency Strategies, and public engagement.

## **Conclusion**

8. The Committee is invited to consider the information above and in Annexe A in its evidence session.

## **Next steps**

9. The Committee will consider the evidence and any next steps later in the meeting.

**Committee clerks,  
January 2025**



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2<sup>nd</sup> Meeting, 2025 (Session 6)

## Retrofitting of housing for net-zero

### Introduction

1. The purpose of this paper is to provide information to inform the Committee's session with the Acting Minister for Climate Change, Alasdair Allan MSP, on the Scottish Government's work around its Heat in Building strategy.
2. In the Scottish Government's [Programme for Government](#) this year it announced that it would be introducing a Heat in Buildings Bill. It is not clear yet when that Bill will be introduced.
3. In advance of the Committee meeting, the [Minister wrote to the committee on 9 January 2025](#) on progress made in this area.

### Background

4. To meet its climate change targets (to be net zero by 2045), greenhouse gas emissions from buildings must reduce. This will require improvements in energy efficiency and a move away from 'polluting heating systems,' such as gas and oil boilers to clean heating systems such as heat pumps.
5. In its [Heat in Building \(HiB\) strategy](#), published in 2021, the Scottish Government set out high level plans to guide action towards the long-term aim.
6. Each year, the Scottish Government summarises progress in its heat in building progress report. The [most recent annual report was published in October 2024](#). This describes activity in key areas including through its delivery schemes, new build regulations, heat networks, energy efficiency of homes and growth in clean heat installations. It described how, between 1990 and 2022, emissions from buildings fell by 32 per cent, and there has been an improvement in the energy efficiency of homes across tenures between 2019 and 2022.

7. The report also provided statistics on greenhouse gas emissions. Latest statistics are for 2022 and show the buildings sector emissions to be 7.7 MtCO<sub>2e</sub> (metric tons of carbon dioxide equivalent). This is a reduction of 1.2 MtCO<sub>2e</sub> compared to the previous year, and a reduction of 1.3 MtCO<sub>2e</sub> compared to the baseline year of 2019.
8. The 2020 Climate Change Plan update set out annual envelopes for each sector.. The buildings sector envelope was 7.1 MtCO<sub>2e</sub> for 2022. Therefore, the sector was outwith its envelope for this year i.e. emissions were 0.6 MtCO<sub>2e</sub> above what was planned.
9. The Scottish Government reporting on emissions from the buildings sector does not adjust for annual temperature variation (with significant potential for increased emissions as the result of a cold winter). The Climate Change Committee do produce temperature adjusted emissions for the Buildings sector in Scotland, and their [2023 Progress Report to the Scottish Parliament](#) reports a fall of 0.5MtCO<sub>2e</sub> between 2012-21. This is a roughly 5% reduction in this period.
10. In terms of progress towards the overall net zero by 2045 goal, the Climate Change (Scotland) Act 2009 as amended, established a framework of interim emission reduction targets lower than the baseline of 56% by 3 2020, 75% by 2030 and 90% by 2040. Alongside these, statutory annual targets were plotted in a straight line between the interim targets. The Scottish Government has recognised the Climate Change Committee's position that the interim 2030 target is out of reach. The annual targets have also been missed.
11. The 2009 Act requires that whenever an annual emissions reduction target is not met, the Scottish Ministers must prepare a report setting out proposals and policies to compensate in future years for the excess emissions. [The latest report was published in September 2024 and also includes information on wider action and achievements that the Scottish Government continues to take forward.](#) The document references the proposed Heat in Buildings Bill and the [New Build Heat Standard \(NBHS\)](#). The NBHS came into force in 1 April 2024. The Committee recently considered an amendment to the regulations on the standard on [12 December 2024](#).
12. The [Climate Change \(Emissions Reduction Targets\) \(Scotland\) Act 2024](#) replaces the system of annual and interim emissions reduction targets, with a system of periodic carbon budgets that are focussed on emissions over a number of years.

## Heat in Buildings Bill

13. As part of its strategy the Scottish Government intends to legislate for existing buildings to meet certain energy efficiency requirements and require the installation of clean heating systems. The Scottish Government [consulted on proposals for a Heat in Buildings Bill in late 2023](#). The broad proposals are:
  - all homes and businesses will have to move to a clean heating system by the end of 2045;

- people buying new homes and buildings before 2045 would be asked to move to a clean heating system within a set period after the sale; and
  - minimum energy efficiency standards for all homes would apply by the end of 2033, to make them warmer and less expensive to heat - private landlords would need to do this by the end of 2028.
14. The consultation also set out some proposed mitigations that might affect the timing or extent of change, for example a cost cap, or exemptions and extra time to meet the standard ([See the SPICe Blog Decarbonising heating in Scotland: the proposals for a Heat in Building Bill for further detail](#)).
15. The HiBS recognised the challenges that can be faced in improving energy efficiency, and decarbonising heat, in flats. It established [a Short Life Working Group on Tenements](#) to offer advice to the Scottish Government in developing options on the best approach for tenement buildings. [Its report was published](#) at the same time as the consultation on the Heat in Buildings Bill. The report supported consideration of a 'whole tenement' energy efficiency standard being set in future should the development of future powers make this fair and viable, and amendments to tenements legislation.
16. The [Minister's 9 January letter to the Committee](#) states that it is "... still considering the responses to our consultation and will confirm our decisions on next steps as soon as practicable." The letter also references the need to dovetail with decisions of the UK Government given some policy is reserved:

"This means that we need more and greater information and certainty about the timing and impacts of UK Government decisions about its own intentions to legislate on the prohibition of polluting heat and related requirements to install clean heating systems instead. It is important to bear in mind that the UK Government powers in this area extend to the supply side and its ability to require greater action on the part of heating system manufacturers and installers as well as home and building owners themselves. We also need to take into account the UK Government's much anticipated decision on the potential role of hydrogen in providing heat, and also the effect of actions that it can take to Scottish Ministers, make clean heating systems more affordable – such as the removal of certain costs from electricity bills."

## Social housing

17. [Around a fifth of all homes in Scotland are owned by social landlords](#) (councils and housing associations). These are not included in the HiB bill proposals, as social landlords have already been working to decarbonise their homes, in line with policy set by the Scottish Government.
18. At the same time as the HiB bill consultation, the Scottish Government published a separate [consultation on a new Social Housing Net Zero Standard in Scotland \(SHNZS\)](#) to replace the second [Energy Efficiency Standard for Social Housing](#) (EESH2). An analysis of consultation responses has been published

and the Scottish Government has produced [interim guidance for social landlords](#) to the sector until a new standard is established. The Minister's letter states that, "We will confirm our next steps – which are being worked on alongside those for the Bill – as soon as possible."

19. The Scottish Government has made available funding for the Social Housing Net Zero Heat Fund (£200 million available up to 2026) to support social landlords across Scotland to install zero direct emissions heating systems and energy efficiency measures across their existing stock.
20. An ongoing theme in the Committee's consideration of affordable housing supply is the need for social landlords to balance investment between building new homes and retrofitting existing homes. The Scottish Housing Regulator's report on the [Summary of Registered Social Landlord Financial Projections 2024/25 - 2028/29](#) reported that many Registered Social Landlords (RSLs) had not fully considered the costs of decarbonisation in their business planning and that:

"...it is concerning that for such a significant risk area with the potential to have a material impact on the funding of business plans that the majority of RSLs are still using the fallback position of there being no policy framework in place or insufficient available information on costs. This is in marked contrast to the position in England & Wales where Registered Providers are much more likely to include the future impact of de-carbonisation in their business plans. There remains limited data on how much additional investment might be required."

## Funding and delivery schemes

21. Scottish Government funding is used for schemes such as grant and loan schemes provided by Home Energy Scotland and council Area Based Schemes (ABS) to reduce fuel poverty by enabling local authorities to design and deliver energy efficiency programmes in fuel poor areas. Other support includes SME Loans and cashback and the Scottish Green Public Sector Estate Decarbonisation Scheme.
22. The Minister's letter states that the Scottish Government has allocated £1.3 billion of funding through the Heat in Buildings schemes so far this Parliamentary Session (excluding 25/26), spending over £575 million on energy efficiency and clean heating projects. The [draft budget for 2025-26](#) has allocated £349 million for energy efficiency and decarbonisation. The Scottish Government has pledged £1.8bn for heat and energy efficiency measures this parliamentary term, [whilst estimating that the total investment needed for decarbonising heat will be over £33 billion](#).
23. [Statistics](#) on the Area Based Schemes (ABS) show that over the years 2022-23 to 2023-24, the budget was underspent by around 23%. Some councils spend their full allocation and can absorb underspends. But other councils have not spent their full allocations.

24. [The Existing Homes Alliance has said](#) that one reason for the underspend is that councils often don't receive their grant allocation until several months into the financial year. It is calling on the Scottish Government to work with councils and delivery partners to make sure this funding is fully spent in future. The group is specifically asking for the Scottish Government to:
- Advise councils of their grant allocation earlier in the year so they have more time to procure and deliver the programmes;
  - Reallocate any underspend early so fuel poor households receive the help they need; and
  - Work with councils to develop improvement plans where they are consistently underspending.
25. The [Heat in Buildings Progress report](#) contains data on various indicators. For example, heat pump installation has been increasing. In 2023, 6,388 heat pumps were installed in Scotland, almost a quarter (24%) more than the previous year. [Audit Scotland, reporting in February 2024](#), stated that:
- “The HIBS stated that to meet the 2030 targets, clean heating system installations between 2021 and 2026 would need to reach a total of 124,000 and annual installation rates would have to peak at over 200,000 in the late 2020s. Current installation rates are significantly below these rates.”
26. Longer term the Scottish Government has highlighted significant scale of spending required and that the costs cannot be borne by Government alone. It has established the [Green Heat Finance Taskforce](#) to “develop a portfolio of innovative financial solutions for building owners in Scotland to ensure that by 2045, our homes and buildings no longer contribute to climate change, as part of the wider just transition to net zero”.
27. The [Taskforce published the Part 1 report](#) in November 2023. The report concluded that the market in green home retrofit products in the UK is currently immature but has significant potential for growth. The Part 2 report is expected to report in early in 2025 following which the Scottish Government will formally respond. It is [anticipated it will cover](#) “retrofitting finance options for social housing, area-based mechanisms, including district heating, neighbourhood financing mechanisms, the potential of municipal bonds, quasi equity-based funding, aggregation financing, as well as heat as a service models”.
28. Regarding total costs, the Just Transition Commission's [report Investment for a Just Transition](#), noted the need for substantially more investment to meet the net zero objectives:
- “... we need to get real about the costs. The Scottish Government has estimated £33bn is needed to decarbonise Scotland's homes and buildings. We have approximately 2.6m homes and 230k non-domestic buildings, so if you do the basic maths, that's about £11.5k/building. That might just about cover the installation cost of a heat pump in an

easy-to-treat property. To meet the tougher end of the net zero objectives, we'll need likely four times that investment, so circa £45k/building to do it once and do it properly. Which is more like £130bn, not £33bn. So we need to get really serious about the costs of achieving Net Zero, who's going to pay, and how."

## Clean Heat Market Mechanism

29. The UK Government's legislation on the [Clean Heat Market Mechanism](#) (CHMM) will come into force on 1 April 2025 covering the whole of the UK. The aim is to incentivise investment in heat pump supply chains and give customers more choice over how and when they decarbonise their heating demand.
30. The CHMM will oblige fossil fuel boiler manufacturers to install a certain number of heat pumps in proportion to their fossil fuel boiler sales, which is 6% in the first year. Alternatively, heat pump credits can be acquired through trading with other firms. Manufacturers are required to make a payment-in-lieu of any shortfall in heat pump credits against their target.

## Skills and supply chain

31. The Minister's letter of 9 January refers to the Scottish Government's work to develop the skills needed to the net zero transition. For example, many of Scotland's colleges and independent training providers offer heat pump training. The Scottish Government's Low Carbon Skills Grant supported 218 apprentices during 2023-24 to be trained in heat pump installation. The Government has also invested in a mobile heat training centre for heat pump installation.

## Local Heat and Energy Efficiency Strategies

32. [Local Heat and Energy Efficiency Strategies \(LHEES\)](#) set out the long-term plan for decarbonising heat in buildings and improving and energy efficiency across an entire local authority area.
33. All local authorities were required to publish a Local Heat and Energy Efficiency Strategy and Delivery Plan by the end of 2023. The Minister's letter indicates that at the time of writing, 30 of the 32 local authorities have published LHEES, including 27 final LHEES and three in draft.
34. The Minister's letter notes that the Scottish Government "continues to engage with local authorities and are providing training from Zero Waste Scotland for local authority officers in the skills needed to take the next steps following the publication of their LHEES."

## Heat Networks

35. Heat networks have the potential to supply clean heat to homes and buildings from a central source, avoiding the need for individual gas boilers. [The Scottish](#)



[Government has been working to expand the development of heat networks](#) including funding new projects and introducing new rules to regulate the sector.

36. The [Heat Networks Delivery Plan](#) provides more detail on Scottish Government support for heat networks. [A quarterly report on progress that the heat network delivery programmes are making is also published on a quarterly basis.](#)

## Public Awareness

37. In December 2023, the Scottish Government published the [Heat transition: public engagement strategic framework](#). This sets out how the Scottish Government will work with others to deliver a programme of public awareness raising, education and participation around clean heat and energy efficiency. It also includes a high-level monitoring and evaluation framework, which will be further developed over 2024 and 2025. A Scottish Climate Survey was undertaken in 2024 and results will be available in 2025. The survey will assess public awareness and understanding of, and engagement with, climate change-related issues.

## Energy Performance Certificate Reform

38. The Scottish Government is proposing to reform the proposed system of Energy Performance Certificates (EPCs). The aim is to ensure that EPCs have clearer information about how well insulated a home is by providing new information on the fabric energy efficiency of a home. It will also highlight clearly whether key insulation measures (such as cavity wall and loft insulation) have been installed. The Annex to the Minister's letter provides further detail on the proposals.

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15 January 2025

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