



**CIOB**

The Chartered  
Institute of Building

# Harnessing Scotland's Social Housing Expertise:

*How Scottish  
Government can  
support the social  
housing sector to  
reach its retrofit  
targets*

# Executive Summary

Housing associations (HAs) are an integral piece of Scotland's housing system. Highly regulated and mission-driven, they are not only directly linked to achieving social housing targets and the Scottish Government's goal to end homelessness, but with well over a quarter of a million units across the nation, HAs are also key partners in achieving decarbonisation and net-zero targets. Firmly placed at the centre of Scotland's climate, housing, and fuel poverty crises, HAs must be supported in undertaking the widescale retrofit projects necessary to improve and maintain the quality and energy efficiency of their stock, and in so doing, protect the affordability and comfort of their tenants, many of whom represent Scotland's most vulnerable households.

The social rented sector has some of the most energy-efficient homes in Scotland, and HAs have proven their willingness and ability to undertake energy-efficient retrofits in order to meet increasingly stringent government standards. However, having already made significant financial investments to undertake the retrofit projects needed to meet these standards, HAs will not be able to continue to improve their stock while maintaining affordability for their tenants in the absence of comprehensive, well-designed government support.

This research was conducted in collaboration with HAs to identify current barriers to the widespread uptake of retrofit projects within the social housing sector and to identify how to overcome these barriers. In August 2023, CIOB conducted a roundtable discussion with representatives from HAs to understand the challenges they are facing. This report outlines the findings from these discussions, making tangible policy recommendations to mitigate barriers to widescale retrofit.

## Supporting Scotland's Social Housing Retrofit

Critically, HAs noted significant problems with current funding schemes, especially in programme design. They highlighted challenges with cost-matched funding requirements, arguing that raising the necessary 50% capital contributions is a significant barrier to accessing funding. Similarly, the annual application process, combined with late-stage approvals for funding, prevent long-term planning and certainty for HAs, their tenants, and the wider supply chain. Further, stakeholders noted that there is too much bureaucracy involved in applying for funding, with HAs often several layers of administration removed from decision-makers. Finally, the compartmentalisation of funding was repeatedly highlighted as a challenge. HAs noted that the absence of a cross-tenure model and limitations on co-applications from multiple parties inhibits their ability to take the place-based, neighbourhood-wide approach to retrofit that has been established as best practice, and provides the best value for money

HA representatives also highlighted challenges with the scope and approach set out in funding schemes. They advocated for a whole-home, fabric-first approach that removes the parameters within existing funding streams that prescribe specific retrofit interventions. The recommended whole-home, fabric-first approach provides flexibility for HAs to leverage their own expertise to decide upon the right course of action for each project. Relatedly, challenges were noted with current metrics used to gauge the efficacy of retrofit projects. HA representatives repeatedly raised concerns with Energy Performance Certificate (EPC)-based metrics, arguing that these measures aren't fit for purpose and challenging the lack of quality metrics – like tenant satisfaction, well-being and comfort levels – in measuring the success of energy efficiency upgrades.

# Executive Summary

Roundtable participants also pointed to wider systems-level issues facing the construction industry and the challenges they pose to delivering widescale HA retrofit projects. Of particular concern was Scotland's ongoing skills shortage, which is particularly acute in Scotland's remote and island communities. This shortage, it was argued, is exacerbated by the piecemeal, short-term approach to funding that leaves the sector and its wider supply chain unable to plan to meet demand strategically and with certainty for its stakeholders.

Despite the considerable challenges identified during discussions, there was widespread agreement around the table that there are opportunities to overcome these barriers, with clear recommendations for Government coming to the fore. Ultimately, these recommendations hinge upon the need to let social landlords lead the way. To support immediate and widespread retrofit projects in the sector, Scottish

Government should look to redesign current programming by combining funding into a central pot, administered over a five-year term, allocated based on need, without parameters on the specific use of funds, and with metrics that focus on obtaining the best outcomes for tenants and energy performance as are reasonable given the condition of the home.

HAs have made clear that they can be entrusted to undertake this task independently, due to the highly regulated nature of the sector, their proven ability to meet standards like Energy Efficiency Standard for Social Housing (EESH), their demonstrable knowledge of their stock and their tenants, and their overarching mission to provide good quality homes. Scottish Government needs to make urgent revisions to energy efficiency funding programmes, extending far greater trust to HAs to directly access funding with the flexibility and autonomy needed to put these funds to use effectively and efficiently and to the greatest benefits of their tenants and the wider environment.



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# Summary of policy recommendations

## Immediate

- **Allow for blending of energy-efficiency funding schemes.** Currently, limitations within funding schemes like the Social Housing Net Zero Heat Fund restrict HAs from using other public funds to meet cost-matching requirements. Removing these limitations would immediately increase the accessibility of these funds to HAs.

## Long-term

- **Overhaul the public funding landscape for retrofit in the social housing sector to optimise accessibility for HAs.** Current problems with programme design create significant barriers to accessing funding for HAs. These programmes should be redesigned in the following ways:
  - Centralising and amalgamating funding schemes into one single programme, delivered and administered directly to HAs by Scottish Government
  - Developing a five-year funding model to provide certainty to HAs, tenants, and the supply chain
  - Removing cost-matching requirements, instead allocating funding based on need, which in some cases may mean 100% capital funding contributions
  - Allowing for co-applications between multiple organisations
  - Updating the metrics used to evaluate retrofit projects, revisiting the use of problematic EPC ratings. Instead, metrics could focus on an overall percentage reduction of heat loss in the homes being retrofit, and should also consider quality metrics like tenant satisfaction and comfort levels.
- **Map and triage social housing stock in collaboration with social housing landlords to identify priority need units/areas and strategically allocate funding.** HAs noted that decreasing barriers to accessing funding will pressurise the existing funding pot; there will simply not be enough to go around. In order to strategically allocate funding, Scottish Government is urged to work with HAs to identify the priority projects in their stock to first ensure no units are lost with the December 2025 regulations, and from there that a strategic approach to remaining funding allocation can be adopted.

## System-wide

- **Develop a National Retrofit Delivery & Resource Plan.** We urge Scottish Government to develop a National Retrofit Delivery and Resource plan that considers a long-term strategy for retrofit across tenure, considering the resources – both financial and human – that will be needed to deliver this vision. This plan should include reconsideration of the standards and metrics that will be used to measure success and evaluation processes to monitor our progress towards achieving objectives.
- **Establish a Ministerial Oversight Group on Retrofit.** Retrofit is a complicated, cross-portfolio issue. We will not be able to meet our objectives by working in siloes. As Scottish Government recently recognised with the development of their Ministerial Oversight Group on Homelessness, complex policy challenges require collaborative working. CIOB therefore urges Scottish Government to establish a Ministerial Oversight Group on Retrofit to bring together the relevant ministers and officials to think holistically across the wider system.

# Introduction

Scotland, like many nations around the world, is facing three different, but intertwined crises. The first, as has been well recognised by the Scottish Government, is the climate crisis. Given that heat in buildings alone accounts for 20% of Scotland's greenhouse gas emissions,<sup>1</sup> the built environment has a critical role to play in addressing the climate crisis.

At the same time, the country is facing a worsening housing crisis. Housing affordability continues to be a challenge across all tenures, with rising interest rates for mortgage holders and rent levels in the private rented sector. Recent research has shown that the supply of affordable housing in Scotland has fallen 20% in three years.<sup>2</sup> Further, Shelter has highlighted a "chronic shortage of social homes".<sup>3</sup> The Scottish Federation of Housing Associations, citing the near quarter of a million people on the social housing waiting list, argues that affordable social housing is needed "more than ever before."<sup>4</sup> Amidst this crisis, recent figures indicate that tender prices for social housing have increased 6.9% in just one year as of the first quarter of the Scottish Government's 2023/24 fiscal year and that social housing starts in Scotland for the same period are down nearly 40% year on year.<sup>5</sup>

Compounding these housing affordability challenges is the ongoing cost-of-living crisis, which includes concerning rates of fuel poverty. Recent government estimates suggest that, from

April 2023, there will be 920,000 households – 37% of the national total – living in fuel poverty.<sup>6</sup> Fuel poverty has a strong association with income; households in the lower income bands have the highest rates of fuel poverty, with nearly 80% for the bottom income band.<sup>7</sup> It is unsurprising, then, that despite the high energy efficiency of social housing relative to other tenures, households in the social sector are more likely to be in fuel poverty.<sup>8</sup>

Social housing, as the Scottish Government has recognised, "has an important contribution to make"<sup>9</sup> in tackling the climate crisis. In response, and navigating regulatory standards like EESSH and EESSH2, housing associations have been working to decrease their carbon emissions. In a time when social housing waiting lists are increasing, incoming regulatory standards for social housing could push 3,000 units out of the overall supply.<sup>10</sup> Since the lowest rates of fuel poverty are associated with higher energy efficiency standards,<sup>11</sup> it is imperative that the overall efficiency of Scotland's social housing stock is addressed if we are to meet Scottish Government's fuel poverty targets.

Retrofitting Scotland's social housing sector will help to address all three of these crises in tandem: decarbonising the stock, preserving the number of social housing units, and helping to lower fuel poverty rates for tenants.

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<sup>1</sup> Scottish Government, [The Energy Efficiency Standard for Social Housing post 2020 \(EESSH2\) Scottish Government Guidance for Social Landlords](#), March 2021.

<sup>2</sup> Solace Scotland, [Housing In Scotland: Current Context And Preparing For The Future](#), July 2023.

<sup>3</sup> Shelter Scotland, [Social Housing Explained](#), 2023.

<sup>4</sup> Scottish Housing News, [SFHA AGM calls for more affordable housing and welcomes new board members](#), October 2023, n.p.

<sup>5</sup> Scottish Government, [Scottish Social Housing Tender Price Index Quarterly Report](#), September 2023, p. 2.

<sup>6</sup> Scottish Government, [Scottish House Condition Survey: 2021 Key Findings](#), May 2023, p. 10.

<sup>7</sup> Scottish Government, [Scottish House Condition Survey: 2021 Key Findings](#), May 2023, p. 68.

<sup>8</sup> Scottish Government, [Scottish House Condition Survey: 2021 Key Findings](#), May 2023, p. 56.

<sup>9</sup> Scottish Government, [The Energy Efficiency Standard for Social Housing post 2020 \(EESSH2\) Scottish Government Guidance for Social Landlords](#), March 2021.

<sup>10</sup> Scottish Government, [The Energy Efficiency Standard for Social Housing post 2020 \(EESSH2\) Scottish Government Guidance for Social Landlords](#), March 2021, s13.67.

<sup>11</sup> Scottish Government, [Scottish House Condition Survey: 2021 Key Findings](#), May 2023, p. 70.

# Social housing & retrofit

Scotland's social housing sector – representing just under one-quarter of the nation's overall housing stock<sup>12</sup> – is owned and managed by housing associations (HAs), also known as Registered Social Landlords, as well as public entities, largely local councils.<sup>13</sup>

The sector has “for many years, focused on delivering affordable, high-quality, energy-efficient homes.”<sup>19</sup> This commitment is well evidenced: the sector has some of the most energy-efficient homes in the country,<sup>20</sup> which are more likely to meet the standard for decent housing,<sup>21</sup> with 65% of social housing in EPC band C or better.<sup>22</sup> The current state of the sector's stock is in large part due to their willingness to take on the challenge of retrofit to meet increasingly stringent regulatory obligations.<sup>23</sup> As the Scottish Government has recognised, “social landlords have made significant improvements to the quality” of their homes, having invested an estimated £4 billion to meet Government standards between 2004 and 2015.<sup>24</sup>

However, HAs are facing the cumulative effects of the financial investments required to meet standards like EESSH and EESSH2. Having already made significant investments and with incomes ultimately generated through rental payment from tenants, many of whom are already struggling financially, raising the capital funding needed for further retrofit projects puts their affordability-driven missions at risk. HAs are left trying to balance their statutory requirements to meet government regulations, while ensuring that their stock remains affordable for their tenants. As such, immediate assistance from government is imperative if they are to continue to tackle the climate, housing, and cost-of-living crises.

## An overview of EESSH and EESSH2

The Energy Efficiency Standard for Social Housing (EESSH) was introduced in March 2014, aiming to “encourage landlords to improve the energy efficiency of social housing”<sup>14</sup> and set a milestone for social landlords to meet by 31 December 2020.<sup>15</sup> EESSH2 was confirmed in June 2019 and set a second milestone for the social rented sector to meet by December 2032.<sup>16</sup> The EESSH2 milestone sets out that “all social housing meets, or can be treated as meeting, EPC Band B...or is as energy efficient as practically possible...and within the limits of costs, technology and necessary consent” and outlines that no social housing below EPC Band D should be re-let from December 2025.<sup>17</sup> A review of EESSH2 is currently underway, aiming for completion in 2023, as “the current 2032 milestone is not aligned with net zero targets for heating”. The Scottish Government has issued guidance for social landlords during the interim period until a new standard is established.<sup>18</sup>

<sup>12</sup> Shelter Scotland, [Social Housing Explained](#), 2023.

<sup>13</sup> Scottish Government, [Social housing](#), n.d.

<sup>14</sup> Scottish Government, [Consultation on the Energy Efficiency Standard for Social Housing post-2020 \(EESSH2\)](#), May 2018, p. 1.

<sup>15</sup> Scottish Government, [The Energy Efficiency Standard for Social Housing post 2020 \(EESSH2\) Scottish Government Guidance for Social Landlords](#), March 2021, s1.3.

<sup>16</sup> Scottish Government, [Home Energy and Fuel Poverty](#), n.d.

<sup>17</sup> Scottish Government, [Home Energy and Fuel Poverty](#), n.d.

<sup>18</sup> Scottish Government, [Energy Efficiency Standard for Social Housing Review Group](#), January 2023.

<sup>19</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 6

<sup>20</sup> Scottish Government, [Consultation on the Energy Efficiency Standard for Social Housing post-2020 \(EESSH2\)](#), May 2018, p. 2.

<sup>21</sup> Shelter Scotland, [Social Housing Explained](#), 2023, n.p.

<sup>22</sup> Scottish Government, [Scottish House Condition Survey: 2021 Key Findings](#), May 2023, p. 43.

<sup>23</sup> Centre for Local Economic Strategies, [A roadmap to decarbonisation](#), November 2022, p. 23.

<sup>24</sup> Scottish Government, [Social housing](#), n.d.

# This research

## Purpose/aims

In recognition of all of the above, and with concerns being raised about the accessibility of current funding programmes, we undertook this research with the following aims:

- Identify the current challenges and barriers to widescale uptake of retrofit projects in Scotland's social rented sector from the perspectives of social housing providers.
- Work with social housing providers to identify opportunities for tangible policy change over the short, medium or long term to remove these barriers.
- Situate these recommendations within the existing landscape of research and reporting on social housing retrofit to strengthen the validity of recommendations and support Government in evidence-based policymaking.

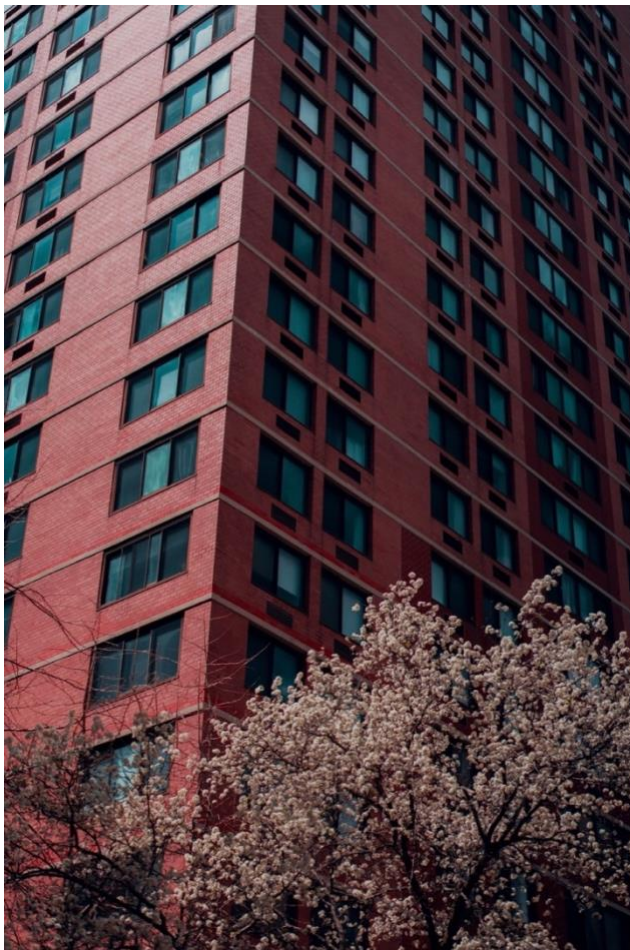


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## Methodology

A semi-structured roundtable discussion was held with HA representatives and practitioners with extensive experience in overseeing social housing retrofit projects. These discussions centred around open-ended questions that sought to identify barriers to retrofit projects, understand the current landscape of funding schemes, and where possible, glean insights into opportunities for policy change or intervention that would support HAs to undertake retrofit projects.

Key themes and recommendations were collated and re-presented to the stakeholder group in order to confirm their accuracy and to ask follow-up questions for clarity where required. From there, desk-based research in the form of a literature review, largely focused on industry research, was conducted. This review aimed to identify alignment with existing policy recommendations in order to situate the roundtable discussions within the wider evidence landscape on retrofit in Scotland.

# The Findings

## Barriers to retrofit

### Funding

Given the financial pressures outlined in the introduction of this report, it is perhaps unsurprising that the greatest challenge identified during roundtable discussions related to funding. HAs have to carefully manage budgets; their income ultimately comes from rents, and, as stakeholders noted, *“we’re not dealing with people that have money in the bank – we’re dealing with people who are struggling as it is.”* So, there are significant consequences that must be considered when planning for retrofit investments.

Retrofit is expensive. The Scottish Federation of Housing Associations recently noted that “almost 80%” of their members had reported that sourcing funding for retrofit projects is challenging.<sup>25</sup> Similarly, roundtable participants outlined that *“there is a willingness”* to undertake retrofit projects, *“but we just can’t afford it.”*

Given the Scottish Government’s commitment to provide a programme of investment of at least £1.8billion through the Heat in Buildings Strategy, it would, on the surface, seem that there is adequate funding available for retrofit works in Scotland, though this funding will be shared across tenures.<sup>26</sup> So, where are the barriers? Despite the various government-funded schemes that have been rolled out, problems with programme design have made this funding at least insufficient and at worst entirely inaccessible to HAs in need.

Currently, the funding landscape in Scotland is largely reliant on cost-matched grant programmes, which require housing associations to contribute 50% of the funding for retrofit projects. Stakeholders noted that even for ‘secure and robust’ HAs, the requirement to raise these matched funds is a significant barrier to undertaking projects, highlighting that the situation is even worse for smaller, less financially secure groups. This approach to funding has two equally undesirable impacts. Firstly, HAs with limited capital funding or ability to borrow simply do not apply for funds, and no retrofit projects are undertaken. Secondly, HAs have to significantly scale back their project scope to fit in line with their budgets. Though the latter may mean some retrofit works are still undertaken, not only will these piecemeal projects leave us miles off Scottish Government targets, but they also cost more in the long run. As a practitioner noted, *“you lose the volume, you lose the scale, you lose the value.”*

Beyond the challenges in getting to 50% funding, the structure of funding schemes poses additional barriers, with Built Environment-Smarter Transformation (BE-ST) noting that “current funding support is seen as complex and fragmented.”<sup>27</sup> Echoing this notion, roundtable participants noted that a recent change to policy that prevents the blending of funding programmes is a *“very big barrier”* to retrofit projects. For example, participants highlighted that the Social Housing Net Zero Heat Fund contains contradictions that state initially that “projects cannot make up the 50% match funding with other public funds,” but later that “projects already in receipt of receiving financial support from the Scottish Government may be eligible for additional support for this fund.”<sup>28</sup> Despite the latter statement, participants noted that, to the best of their knowledge, projects that attempted to blend funds in this way were rejected. Similarly, while individual Home Energy Efficiency Programmes (HEEPS) schemes can be blended with other funding models, participants noted that Local Authorities have *“not worked in partnership”* with HAs to pull available funding together, further underscoring their desire to engage directly with central government to access funding.

Compounding these challenges is the absence of support that goes *“beyond capital funding.”* When undertaking retrofit projects, HAs have to consider financial implications far beyond the upfront cost of retrofit.

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<sup>25</sup> Scottish Federation of Housing Associations, [Retrofitting properties for net zero: what do social landlords need?](#), January 2022, n.p.

<sup>26</sup> Centre for Local Economic Strategies, [A roadmap to decarbonisation](#), November 2022, p. 15.

<sup>27</sup> EE Market Analysis – BE-ST p. 20

<sup>28</sup> Scottish Government, [Social Housing Net Zero Heat Fund - development funding invitation](#), February 2022.



These costs include the loss of rental income while work is ongoing: *“the moment you move people you’re losing revenue.”* These can include costs to decant tenants to other housing while major works are done, or the costs of compensating tenants for disruption during less-invasive projects. Once retrofit projects are completed, HAs need to consider the ongoing maintenance costs over the lifecycle of the materials and equipment installed. This is particularly important given the Government focus on renewable technologies. Currently, the maintenance of heat pumps and PV panels is costly, and, as the ZEST report notes *“some landlords have concerns about whether heat pumps will perform as modelled, having had operational problems with older technologies.”*<sup>29</sup>

The administration of funding programmes is equally problematic. Stakeholders noted that there is too much bureaucracy when trying to apply for and access funds, asking *“why can’t we be sitting at the table actually dealing with the funds?”* HAs are several steps removed from decision-makers and face the costs and heavy administration of navigating and submitting applications, noting that *“you’ve got to do all the legwork”* to get a project to a place where applications can be made. Further, with no guarantee that funding will be approved HAs are forced to *“roll the dice...”* arguing *“that’s why the money’s not getting spent, we can’t take that gamble.”* HAs noted that they have previously assessed the costs and risks of applying to Government-led energy efficiency programmes and elected to not to apply, despite a significant need for financial support.

*“that’s why the money’s not getting spent, we can’t take that gamble.”*

For those HAs that opt to take the risk and submit an application, the timelines associated with the programmes pose further challenges. For those that have had funding approved, they argued that *“you always get the money too late,”* with one noting that they were given funding in February that had to be spent by June. The impact of this short turnaround is considerable. It puts pressures on contractors to get work done quickly, it makes communication with tenants difficult, and as BE-ST noted, it may shape the size and scale of work: *“the short-term nature of grant schemes prevents more ambitious retrofit projects.”*<sup>30</sup> On a macro scale, this short-term, roll-of-the-dice model misses out on the opportunity for long-term market planning that can *“signal the potential for work and investment to the market.”*<sup>31</sup>

Similarly problematic is the lack of joined-up approach to retrofit funding models. A significant portion of social housing lies within mixed tenure blocks, where private landlords and owner-occupiers may be unable or unwilling to share in energy efficiency works.<sup>32</sup> Compounding these challenges is the lack of authority HAs have to approach other tenants when working with funding that flows through local authorities. HAs and experienced practitioners agreed that, if they had more ready access to and control of funding, they would approach private owners directly, noting that *“if we were going for that funding ourselves, we would’ve gone to the private owners as well”*, but worried that in the current model they’d meet pushback from local authorities asking *“who gave you the right to chap their door?”*

It is imperative that urgent changes are made to the design of energy efficiency programming or, as the Centre for Local Economic Strategies (CLES) has noted, the ongoing barriers to accessing existing funding could leave HAs facing *“three unattractive choices – raising rents on social housing tenants in a cost-of-living crisis, scaling back their retrofit ambitions or adding debt to balance sheets in a time of rising interest rates.”*<sup>33</sup>

<sup>29</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 17.

<sup>30</sup> Built Environment-Smarter Transformation, [Energy Efficiency Market Analysis and Economic Opportunity Assessment](#), July 2023, p. 57.

<sup>31</sup> Centre for Local Economic Strategies, [A roadmap to decarbonisation](#), November 2022, p. 24.

<sup>32</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 7.

<sup>33</sup> Centre for Local Economic Strategies, [A roadmap to decarbonisation](#), November 2022, pp. 31-32.

## Approach

### *Putting fabric first*

Mirroring the challenges with the current funding approach are the equally-fragmented and often unhelpful parameters mandated through energy efficiency schemes. ‘Fabric First’ – defined as “ensuring that buildings are as efficient as possible (where cost effective) so that the energy we currently use is not wasted”<sup>34</sup> – is broadly agreed to be the correct approach to retrofit, as has been widely recognised during industry discussions and supported by the Zero Emission Social Housing Taskforce (ZEST) report.<sup>35</sup> Despite this recognition, a historic focus on renewables has side-stepped the fabric first approach, and in so doing, left many social homes with incomplete retrofit measures, for instance with heat pumps fitted, but no external wall insulation. Not only do these projects leave housing with suboptimal efficiency in terms of their energy use, but subsequent upgrades to the fabric can then render the existing heat pumps too big for the decreased load required. Practitioners around the table addressed the legacy of these programmes, saying *“I wish 15 or 20 years ago that instead of putting money into heat pumps we’d put it into the fabric. It would’ve been a bigger outlay then, but it would require so much less now...we can’t afford to be saying the same things in 15 years’ time.”*

*“if we can only do 100 houses a year, and we’ve got 5,000 houses, we’re never going to get there.”*

Helpfully, programme criteria have changed and now provide funding for fabric upgrades. However, these programmes remain heavily parametered, over-focused on renewables, and do not provide HAs with the flexibility necessary to undertake retrofit works based on the condition of each property and what will provide the best outcomes for both tenants and the environment. Further, the aforementioned challenges with funding streams undermine the ability of HAs to take a whole-home approach to retrofit, with many facing the choice between doing entire home upgrades to a select number of properties (the more efficient and cost-effective approach in the long-term) or taking on piecemeal, smaller projects across more of their properties in order to make incremental improvements for more households.

### *Scale matters*

Remarking on the scale of Scotland’s retrofit challenge given the nation’s necessarily ambitious climate change targets, a roundtable participant noted, *“if we can only do 100 houses a year, and we’ve got 5,000 houses, we’re never going to get there.”* The best way to optimise onsite and supply chain logistics, bring costs down, create a steady pipeline of work, decrease disruption to tenants, and recruit and retain the necessary people to undertake retrofit works is to approach these projects at the neighbourhood level. Particularly in rural and island communities, taking a cross-tenure, neighbourhood-wide approach to construction allows for the creation of a shared construction site and allows contractors to establish a supply chain, move materials in bulk, recruit and, as often needed, train and upskill local workforces. In the absence of this joined-up approach, all parties lose out on economies of scale. Further, the supply chain and workforce remain insecure, which, as outlined below, worsens the skills gap. Ultimately, opportunities are missed to bring all tenures along on a just transition, ensuring that everyone in Scotland has a home that is safe, warm, affordable and energy efficient to heat.

This one-off approach also lessens the ability of HAs to work in tandem. Roundtable participants repeatedly noted the possible benefits of a joint venture approach that would allow HAs to apply for funding together, noting that *“we’ll join forces and learn from each other,”* pointing to the ability of such approaches to provide access to funds to smaller organisations who don’t have the in-house experience to prepare and submit applications or indeed to undertake complex retrofit projects alone.

<sup>34</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 13

<sup>35</sup> *ibid.*

## Skills gap

Scotland is facing a worsening skills shortage in the construction sector. Recent reporting from Skills Development Scotland has noted that “supply challenges have worsened across Scotland...and vacancies have become harder to fill,”<sup>36</sup> with the most recent figures from the Construction Industry Training Board (CITB) estimating that 4,550 new entrants will be needed in Scotland annually between 2023 and 2027 to meet workloads.<sup>37</sup> As BE-ST recently noted “the skills shortage is identified as the most significant obstacle impeding the delivery of large-scale retrofit initiatives.”<sup>38</sup> This challenge was highlighted repeatedly during roundtable discussions, with participants noting “*we need an awful lot more people trained in apprenticeships*” and “*you try to find retrofit assessors or coordinators, very difficult.*”

Given these shortages, it is of significant concern that the fragmented, piecemeal approach to funding prevents the sector – and the education system – from long-term planning and coordination to ensure we are closing the gap and supporting the development of green skills needed as we move into the future. Training and upskilling people does not happen overnight, and the CITB data shows that things are worsening, not getting better. Further, participants of the roundtable were acutely concerned by the challenges they faced in finding the right people in remote and rural areas, further underscoring the importance of joined-up, long-term thinking.

## Measuring progress

It is imperative that the efficacy of retrofit works is monitored and measured in order to ensure that we are making the right choices about improving our housing stock that makes an impact on tenants now as well as standing the test of time. However, it is less clear what metrics are best suited to measure this impact, with wide agreement that existing models – namely EPCs – are not fit for purpose.

### Understanding EPCs

An EPC – energy performance certificate – is used to provide an indication of the energy efficiency of a building, with rating from A (very efficient) to G (inefficient).<sup>39</sup> Social housing faces stringent energy efficiency regulations, based on EPC ratings. Under EESSH2, with some exceptions, EPC Band B has been set as an “aspirational target,” with a new minimum standard applying from April 2025 that states that social housing cannot be let if its energy performance is below band D.<sup>40</sup> Despite the heavy reliance on EPCs when setting regulatory standards, concerns have been raised throughout the industry, both in this research and during wider discussions, about the accuracy and suitability of EPC ratings, further outlined below.

Despite the heavy weighting applied to EPC ratings in regulating social housing stock, repeated concerns have been raised about their suitability and accuracy. For instance, CLES recently cited a review of EPC ratings that found that they “do not account for the carbon reduction or the quality of home – they are mainly based on efficiency in terms of cost.”<sup>41</sup> Similarly, research from BE-ST found that 57.80% of respondents think that the EPC system should be reformed as a system before its used to set targets.<sup>42</sup> Even the Scottish Government has noted the possibility for Standard Assessment Procedure (SAP) calculations – the framework upon which EPCs are established – “to include errors.”<sup>43</sup> These findings align with the feedback from the roundtable discussion, with participants arguing that “*there is no*

*value in the EPC, but we’re told houses have to have this EPC rating*” and highlighting the frequent need for reassessments due to errors. Further, they noted that these measures don’t contain any quality considerations, ignoring things like tenant comfort, and highlighting that their inflexibility does not allow for consideration of individual elements of each retrofit project. HAs are inherently mission-driven, and repeatedly noted concern with the absence of quality metrics in driving and informing retrofit projects, arguing “*I don’t think anyone’s paying attention to what the tenant and property really needs.*”

<sup>36</sup> Skills Development Scotland, [Sectoral Skills Assessment - Construction](#), October 2023, n.p.

<sup>37</sup> as cited in Skills Development Scotland, [Sectoral Skills Assessment - Construction](#), October 2023, n.p.

<sup>38</sup> Built Environment-Smarter Transformation, [Energy Efficiency Market Analysis and Economic Opportunity Assessment](#), July 2023, p. 7.

<sup>39</sup> Scottish Government, [Energy Efficiency: Energy Performance Certificates](#), n.d.

<sup>40</sup> Scottish Government, [The Energy Efficiency Standard for Social Housing post 2020 \(EESH2\) Scottish Government Guidance for Social Landlords](#), March 2021, s. 13.68.

<sup>41</sup> Centre for Local Economic Strategies, [A roadmap to decarbonisation](#), November 2022, p. 14.

<sup>42</sup> Built Environment-Smarter Transformation, [Energy Efficiency Market Analysis and Economic Opportunity Assessment](#), July 2023, appendix p. 16.

<sup>43</sup> Scottish Government, [The Energy Efficiency Standard for Social Housing post 2020 \(EESH2\) Scottish Government Guidance for Social Landlords](#), March 2021, s4.24.

Roundtable participants also noted the challenges with meeting stringent requirements for existing housing stock, including the difficulties and high costs of reaching PAS2035. PAS2035, which is “not a certification but an industry standard which specifies the minimum requirements that retrofit projects must meet to be compliant”<sup>44</sup> was noted by participants to be a “*very high standard*” that can be difficult to meet in certain cases, particularly in certain regions of Scotland where wind and weather conditions are more severe: “*it’s an even harder standard to try to achieve in Tiree.*” In some cases, participants felt that reaching PAS2035 was “*inconceivable*” noting that they need to consider the value of the asset compared to the cost of retrofitting to these standards. They warned that these calculations could put HAs in the undesirable position of having to offload difficult or costly-to-retrofit stock. Further, given that PAS2035 includes the appointment of a retrofit coordinator,<sup>45</sup> the current skills shortage for these roles presents further challenges to meeting these standards.

## Where we stand

The risks and consequences of inaction are clear, as is the severity of the challenges and pressures facing HAs. Feeling increasingly frustrated, participants argued during discussions that Scottish Government is “*actually creating a housing crisis.*” They further noted that “*there seems to be a miss between the tenants’ voice and the government’s voice. And we’re the ones stuck in the middle saying ‘well how are we going to finance this and deliver this to everyone’s benefit?’*” It is with this question in mind that we now turn to the recommendations arising from the roundtable.

*“There seems to be a miss between the tenants’ voice and the government’s voice. And we’re the ones stuck in the middle saying ‘well how are we going to finance this and deliver this to everyone’s benefit?’”*

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<sup>44</sup> Built Environment-Smarter Transformation, [Energy Efficiency Market Analysis and Economic Opportunity Assessment](#), July 2023, p.14.

<sup>45</sup> Built Environment-Smarter Transformation, [Energy Efficiency Market Analysis and Economic Opportunity Assessment](#), July 2023, p. 16.

# Threading it all together

*“Government wants more social homes – let’s design programmes that don’t stand in the way”*

Out of the discussion, key policy recommendations, following a clear route map forward, came to the fore. Long-term, we need to fundamentally restructure funding for social housing retrofit projects. In the short-term, there are key changes to programme criteria that will start to make a positive impact immediately.

Positively, the findings of this research are well-aligned with existing recommendations from organisations like SFHA, the ZEST Report on Social Housing, and the EESSH Review Funding and Costs Sub-Group. Given this alignment, there is a clear route map for Scottish Government to support social landlords to undertake the widescale retrofit projects needed to reach our housing, climate change, and fuel poverty targets.

## Designing energy efficiency funding that works for the sector

### The long-term vision

In their report, ZEST recommended that “Scottish Government should work with social landlords to ensure capital investment for social housing is adequate, structured, and designed in line with the needs of the sector, and support the social housing sector’s aim for a Fabric First approach.”<sup>46</sup> We urge government to engage further with social landlords directly to better understand their needs and how best to support them. Offering the perspectives of HAs, we build upon the ZEST recommendation below, outlining key elements of programme design that must be considered if the needs of social housing landlords are to be met.

### Multi-year funding

As SFHA has argued, social housing, like the rest of the construction sector, above all else, needs stability.<sup>47</sup> The ZEST report recommended that Scottish Government implement a “consistent, multi-year fund, allocated based on need.”<sup>48</sup> Similarly, the EESSH Review Funding and Costs Subgroup, recommended “comprehensive, multi-year funding streams to be considered for introduction at the earliest opportunity.” Roundtable discussions, as outlined above, align perfectly with these recommendations. Delving further into the specifics, roundtable participants suggest that “*ideally, if you could put in place a five-year funding programme...you can give your tenants good communication*” with another arguing that a five-year model would allow “*contractors to plan and put labour in place for us to be able to deliver and build things.*” This long-term approach also has system-wide benefits, as BE-ST has argued, noting that “multi-year funding pathways offer pipeline surety, which encourages the supply chain to invest in skills and resources to meet the market demand.”<sup>49</sup>

### Central pot of funding

Roundtable participants pointed to several challenges with the fragmented and devolved nature of funding streams, especially noting a desire to be much closer to decision-making bodies and individuals to allow greater control, certainty, and understanding of funding opportunities. Both the ZEST report and EESSH Review Funding and Costs Sub-Group have made similar calls to government, asking for “a long-term, non-competitive grant fund...distributed fairly across the sector based on need”<sup>50</sup> and noting that the “numerous existing funding streams should be consolidated where possible to encourage a simplified and effective funding offering.”<sup>51</sup> The findings of this roundtable similarly suggest that centralising and consolidating energy efficiency funding for social housing into one programme should be a priority for Scottish Government.

<sup>46</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 4.

<sup>47</sup> Scottish Housing News, [SFHA AGM calls for more affordable housing and welcomes new board members](#), October 2023, n.p.

<sup>48</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 13.

<sup>49</sup> Built Environment-Smarter Transformation, [Energy Efficiency Market Analysis and Economic Opportunity Assessment](#), July 2023, p. 28.

<sup>50</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 15.

<sup>51</sup> Scottish Government, [Consultation on the Energy Efficiency Standard for Social Housing post-2020 \(EESH2\)](#), May 2018, p. 21.

## Considering need

Despite what appear to be robust funding streams for social housing retrofit, the cost-matching requirements for these programmes render them inaccessible to many HAs, most especially those facing acute financial challenges. While participants acknowledged that, overall, more funding will be required to tackle the scale of the retrofit projects needed in Scotland, the more immediate need is to reduce the heavy upfront capital burden placed on these organisations. In the spirit of their collaborative approach, HAs around the table felt that contribution percentages should be based on need, suggesting that while for some HAs and projects 80% of funding might be a sufficient contribution, other associations might require 100% of the funding to be covered in order to take on this work.

## Joint venture approach

Programmes must be designed to facilitate joint venture approaches. This means not only opening up application processes to allow housing associations to jointly apply for funding – capitalising on the in-house expertise of larger, more experienced organisations – but also working to integrate cross-tenure funding.

## Bringing everyone on board

As the ZEST report highlights, engagement needs to be facilitated with the private rented sector and owner-occupiers if we are to support the tenure-neutral approach outlined in Housing to 2040.<sup>52</sup> We need to bring everyone on board, and think holistically about retrofit programming for other tenures, ensuring equitable access to good quality homes for everyone in Scotland. This will not only work to address the condition and energy-efficiency of mixed-tenure buildings like tenements, but it will also allow for neighbourhood-level retrofit projects to be developed. This means simplifying access to funding for private landlords and owner-occupiers and developing a reserve fund to support projects where additional support is needed to retrofit mixed-tenure common spaces in cases where some parties are unwilling or unable to contribute to these works.

*“remember, we’re all not-for-profit organisations. At the end of the day, this is all about the tenants.”*

Beyond simplifying access to funding, Government awareness programmes must be vastly expanded and improved. Recent consumer research conducted by the CIOB found that affordability of energy efficiency upgrades was a barrier to undertaking these projects for 40% of households, and that awareness of energy efficiency programmes is alarmingly low amongst the Scottish public: over a third of households (39%) are unaware of past or current Government support schemes.<sup>53</sup>

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<sup>52</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 13.

<sup>53</sup> Chartered Institute of Building, [Two in five Scottish residents can’t afford energy efficiency upgrades says CIOB survey](#), October 2023.

## Building with trust

The recommendations made above for policy change hinge upon one fundamental principle: Government must place trust in Housing Associations and their ability to undertake retrofit projects efficiently, properly, and with the joint interests of environment and tenants in mind. However, we are not asking Government to provide this trust blindly. Housing Associations have a track record of successfully meeting Scottish Government regulations. As the ZEST report recognises, “landlords have extensive experience of delivering projects to improve the energy performance of buildings as well as innovative solutions that work for tenants.”<sup>54</sup> Roundtable participants underscored the mission-driven nature of the sector, saying, “remember, we’re all not-for-profit organisations. At the end of the day, this is all about the tenants.”

As was repeatedly noted throughout discussions, Housing Associations exist within a highly regulated environment, in which they are required to substantiate their expenditures to their boards, to the Social Housing Regulator, and through reporting, to Scottish Government. HAs have to substantiate their strategic objectives, noting that there are oversight mechanisms available and built in: “we’re so well regulated that if something’s going badly, it’s going to get picked up.” They urged Government, “we’re open and transparent, come along and see what we’re doing.”

Ultimately, we need to let social landlords lead the way. The best thing Scottish Government can do to spur on immediate and widespread investment in the sector would be to combine funding into a central pot, administered over a five-year term, allocated based on need, without parameters on the specific use of funds, and with metrics that focus on obtaining the best outcomes for tenants and energy performance as are reasonable given the condition of the home. Housing Associations have the expertise, the knowledge about their stock and their tenants, and the overarching mission to provide good quality homes required to deliver upon retrofit objectives. They just need the long-term financial support of Scottish Government to get there.

### Corresponding policy recommendations:

- **Immediate**
  - **Allow for blending of energy-efficiency funding schemes.** Currently, limitations within funding schemes like the Social Housing Net Zero Heat Fund restrict HAs from using other public funds to meet cost-matching requirements. Removing these limitations would immediately increase the accessibility of these funds to HAs.
  
- **Long-term**
  - **Overhaul the public funding landscape for retrofit in the social housing sector to optimise accessibility for HAs.** These programmes should be redesigned in the following ways:
    - Centralising and amalgamating funding schemes into one single programme, delivered and administered directly to HAs by Scottish Government
    - Developing a five-year funding model to provide certainty to HAs, tenants and the supply chain
    - Removing cost-matching requirements, instead allocating funding based on need, which in some cases may mean 100% capital funding contributions
    - Allowing for co-applications between multiple organisations
    - Updating the metrics used to gauge retrofit projects, revisiting the use of problematic EPC ratings. Instead, metrics could focus on an overall percentage reduction of heat loss in the homes being retrofit, and should also consider quality metrics like tenant satisfaction and comfort levels

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<sup>54</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 7.

# How do we get there?

## Establishing a roadmap

### Mapping our social housing stock

During discussion with housing associations, it was recognised that centralising and simplifying energy efficiency funding will likely result in the need to prioritise certain projects; there simply won't be enough money to go around.

In trying to grapple with this challenge, there was broad and immediate agreement that most housing associations would be able to identify the priority projects within their own stock. The ZEST report recommended that social landlords undertake an "in-depth and updated stock condition survey." Expanding upon this recommendation, it was suggested by HA representatives that a nation-wide mapping exercise be conducted by Scottish Government in partnership with HAs to outline not only the condition of the stock but also to identify the areas in greatest need to facilitate the strategic allocation of funding.

HAs were optimistic about the efficacy and relative ease of conducting such an exercise, arguing "*we could do it together, we could plan and facilitate it as opposed to working in siloes.*" One participant noted that "*each organisation could say, if we were really honest, what we would need,*" and make clear to government "*here's our major concerns as an organisation just now.*" There was further agreement around the table that developing this mapping exercise would allow us to take stock of what we have nationally, outline what work is needed, and importantly, systematically and strategically move through the areas and stock in the greatest need. It was suggested that the two areas of immediate focus should be units that are at risk of being un-lettable with incoming regulations to ensure we are not decreasing the number of social homes available, and those homes that are off the gas grid. Further underscoring the benefits of such an exercise, it was noted that this approach would also allow for neighbourhood level planning and provide clarity of the work needed over the longer-term, providing certainty for social landlords, their tenants and the supply chain.

### Corresponding policy recommendation:

- **Map and triage social housing stock in collaboration with social housing landlords to identify priority need units/areas and strategically allocate funding.** Scottish Government is urged to work with HAs to identify the priority units in their stock to first ensure no units are lost with the December 2025 regulations, and from there that a strategic approach to remaining funding allocation can be adopted.



## Addressing the wider system

### Getting to the 'how' of our retrofit challenge

As the roundtable discussions repeatedly made clear, social housing retrofit exists within a wider system. We urge Scottish Government to develop a national Retrofit Delivery and Resource plan that considers a long-term strategy for retrofit across tenure, considering the resources – both financial and human – that will be needed to deliver this vision. This plan should include reconsideration of the standards and metrics that will be used to measure success and evaluation processes to monitor our progress towards achieving objectives.

### Getting everyone around the table

Retrofit is a complicated policy issue that, as the ZEST report recognised, “will require working across ministerial portfolios.”<sup>55</sup> From skills and higher education, to planning, to housing, and net zero buildings, we will not be able to meet our objectives by working in siloes. As Scottish Government recently recognised with the development of their Ministerial Oversight Group on Homelessness, complex policy challenges require collaborative working. CIOB therefore urges Scottish Government to establish a Ministerial Oversight Group on Retrofit to bring together the relevant ministers and officials to think holistically across the wider system.

#### Corresponding policy recommendations:

- **Develop a National Retrofit Delivery & Resource Plan.** We urge Scottish Government to develop a national Retrofit Delivery and Resource plan. This plan should include reconsideration of the standards and metrics that will be used to measure success and evaluation processes to monitor our progress towards achieving objectives.
- **Establish a Ministerial Oversight Group on Retrofit.** CIOB urges Scottish Government to establish a Ministerial Oversight Group on Retrofit to bring together the relevant ministers and officials to think holistically across the wider system.



Photo credit: David Chapman via Procast Group

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<sup>55</sup> Zero Emissions Social Housing Taskforce, [Achieving net zero in social housing](#), August 2021, p. 8.

# Conclusions

## The cost of inaction

We know that retrofitting Scotland's social housing stock will be expensive, and it won't happen overnight. The costs of inaction, however, greatly outweigh these challenges. Problems with the current retrofit funding landscape pose acute risks to our social housing stock. HAs repeatedly noted concerns about the loss of stock: *"we need to meet these standards or our houses are unlettable,"* arguing that Government is *"actually creating a housing crisis"* by imposing regulatory standards amidst ineffective and insufficient support for HAs who want to preserve their stock. By its own estimates, the Scottish Government recognised that 3,000 homes were projected to fall below EPC D by 2020,<sup>56</sup> a portion of the stock that, due to incoming regulations, will be rendered unlettable by December 2025.<sup>57</sup> In a time when local authorities are declaring a housing crisis and the costs to build new housing are increasing, we simply cannot afford to lose any of our existing social homes.

*"There is the desire to do it. The money is there to do it, but we cannae tie the two together."*

Housing Associations highlighted a worry that, despite their financial need and interest in undergoing retrofit projects, money is continually left unspent due to challenges with accessibility. As such, they shared concern that they will be blamed when energy efficiency and fuel poverty targets are not met, *"my fear is that someone says we've got all this money and you don't spend it,"* but with the barriers to funding in place, they noted *"it's almost as though they set us up to fail."* There is a real willingness amongst the sector to be a proactive partner, but there are barriers in place that cannot be overcome without policy change.

## Let them get on with it

Housing Associations are at the heart of tackling Scotland's housing, climate, and cost-of-living crises, we need to act now to support these organisations to leverage their expertise and willingness to act, and quickly. HAs have a demonstrable track record of success and their highly-regulated and mission-driven environment facilitates the level of autonomy and discretion that would allow them to quickly and efficiently retrofit their stock. *"At the end of the day, I want to see that what we're doing is actually making a difference."*

We need to be thinking collaboratively about how to achieve our goals and how we can ensure the best outcomes for people. We are running out of time to achieve our targets. Government must act quickly to remove barriers to funding, open up dialogue with HAs and, frankly, entrust them with directing their own retrofit strategies. HAs have proven that they are willing and able, *"we provide good quality housing and people are happy in the communities they live in."* We need to provide them with appropriate resource and get out of their way: *"there is the desire to do it. The money is there to do it, but we cannae tie the two together."*

With the existing barriers to the widescale retrofit of Scotland's social housing stock *"someone is going to have to make hard choices,"* we urge Scottish Government to take immediate action to ensure that these hard choices don't fall to Scotland's most vulnerable households.

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<sup>56</sup> Scottish Government, [The Energy Efficiency Standard for Social Housing post 2020 \(EESHS2\) Scottish Government Guidance for Social Landlords](#), March 2021, s13.67.

<sup>57</sup> Scottish Government, [Home Energy and Fuel Poverty](#), n.d.

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