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Response to Warm Homes Fund: Call for Evidence

Introduction

Thank you for the opportunity to respond to this call for evidence.

As the GB-wide heat network consumer champion, we focus our response on the urgent need for investment in heat network remediation works to address shocking levels of heat loss, low efficiency and poor reliability on many existing heat networks across the UK, leading to consumers often facing much higher heating bills than a consumer with their own gas boiler and frequent supply outages.

There are estimated to be somewhere between 500,000 and a million homes on heat networks, and this number is set to rise to 5-6 million homes by 2050. The biggest barrier to this growth is the poor experiences of many current customers.

DESNZ's forthcoming Heat Network Technical Assurance Scheme (HNTAS) aims to address poor performance issues for both existing and future heat networks, but there is an estimated need for around £2.9bn of capital expenditure over the next decade to bring all existing heat networks up to a good standard of performance.

Whilst this remediation work will deliver long-term saving from higher efficiency, the current legal framework (Landlord and Tenant Act 1985) for funding major works to building infrastructure such as heat networks often requires leaseholders to fund work up-front before work can start. Social landlords operate some of the oldest heat networks with the highest remediation costs and have no obvious way of financing the scale remediation work required. It is therefore essential that government find a way to ensure that these remediation costs can be financed in such a way that they can be funded over the longer term from the efficiency savings achieved. The Warm Homes Fund is an obvious vehicle to achieve this end.



About Heat Trust

Heat Trust was launched in 2015 as a voluntary regulator for heat networks, to fill the gap created by the absence of statutory regulation, and to champion the interests of consumers in the sector.

We have operated the only consumer protection scheme for heat networks in Great Britain over the past decade. Our scheme currently protects over 97,500 domestic and micro-business consumers across 151 heat networks registered by 30 different heat suppliers.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Stephen Knight'.

Stephen Knight

Chief Executive, Heat Trust

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Heat Trust's response to Warm Homes Fund: Call for Evidence

We have not sought to answer every question, but to focus on where we believe our input is most needed to address heat network consumer interests.

Section 1 – Aims, scope and eligibility (Questions 1 - 12)

We strongly agree with the proposed aims, scope and eligibility of the Warm Homes Fund and in particular the inclusion of heat networks and landlords within the scope and eligibility criteria.

We would draw attention to the fact that heat network customers are disproportionately living in social housing, which is also where we tend to see the oldest, least reliable, most inefficient heat networks with the highest cost of remediation works needed to bring them up to compliance with the forthcoming HNTAS.

Section 2 - Use cases and target groups

We have limited this response to Section 2F (Heat networks), whilst noting that heat networks are typically owned and operated by landlords (both social and private) and therefore could fall under Section 2B (Landlords and tenants).

Section 2F (Heat networks) (Questions 61 – 65)

Question 61: How could the Warm Homes Fund support the market growth of heat networks as set out in the Warm Homes Plan?

We would argue that the biggest risk to heat network market growth stems for the poor experience that many existing customers have of their poorly performing, inefficient and unreliable heat network. Supporting remediation works to existing heat networks to address this consumer detriment would therefore be the most significant step to support growth.

Question 62: Would investment in heat networks – whether for connection costs, compliance with Heat Network Technical Assurance Scheme requirements, capital support – contribute to the draft Warm Homes Fund aims? When could benefits be realised, and what risks need to be considered?

We believe that investment in heat networks, especially remediation works to existing poorly performing heat networks, would strongly contribute to the aims of the fund. Tackling poorly performing heat networks will unlock growth in an essential sector to heat decarbonisation, cut significant gas use and CO₂ emissions whilst addressing significant consumer detriment (high heat prices poor reliability), that disproportionately impacts social tenants. There is strong evidence from the DESNZ's Heat Network Efficiency Scheme (HNES) that heat network efficiency can be doubled from 30-35% to around 65% with appropriate remediation measures, leading to very significant savings in both consumer heating costs, gas usage and CO₂ emissions.

Question 63: Is there a need for finance here, and what are the barriers that prevent the private sector from filling it?

The requirement to fund major works to heat networks within buildings to achieve significant ongoing savings in gas/energy use presents an obvious need for finance to ensure the works can be funded over the longer term from ongoing savings. The structure of the heat network sector, with landlords typically owning and operating heat networks and recovering 100% of



their costs from tenants and leaseholders, means that the operators themselves have no financial incentive to invest in improving performance and the tenants and leaseholders (who suffer the poor performance and high bills) have little influence over the operator's investment decisions. The Landlord and Tenant Act includes no obligation for landlords to offer payment plans or loans for major works, so leaseholders can face large up-front costs. Without a means to finance these costs, it is likely that many heat networks will fail to comply with HNTAS, leaving residents to suffer from expensive inefficient heating systems.

Question 64: How could government finance address this gap with repayable finance where government earns a return? Where possible, please describe how this model could work.

Loan durations could be linked to expected payback periods, with the government sharing returns (and risk) with heat network consumers. WHF loans could be blended with grant funding from the Heat Network Efficiency Scheme (HNES) as well as with any developer contributions that government can secure. We have separately argued in our response to the HNTAS consultation that the developers responsible for building poorly performing heat networks should contribute towards remediation costs and that HNES grant funding will also need to increase.

Question 65: What are the wider policy barriers that may need to be overcome to realise the benefits from the outlined investments into heat networks? Please consider any specific areas of law, regulation or other policy which may need to change.

The proposed Heat Network Technical Assurance Scheme (HNTAS) will need to be put in place to ensure landlords make the necessary investment with finance from the Warm Homes Fund. Changes to Landlord and Tenant Act provisions may be required to ensure private landlords take up finance options for this work and offer appropriate payment plans.

END

To discuss any aspect of this response, please contact:

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