BUDGET 2026 – HEAT NETWORKS
28 October 2026

Publisher:	HM Treasury	**Policy Area:**	All
Read full document:	HERE	**Who's impacted:**	All members
How big is the impact:	Very Significant	**Good news/bad news/TBD:**	Broadly good

The Budget 2026 provides some encouraging signals on a continued commitment to low-carbon heating; however, it misses the opportunity to make heat decarbonisation a priority and to highlight the role of heat networks in that transition. The fiscal devolution and the associated local infrastructure investment mechanisms, heat network eligibility for the Warm Home Loans Scheme, investment in new homes and new ambition around data centre heat offtake requirements create opportunities for the heat networks sector.

However, lack of clarity around timelines for the Energy Independence Bill and next steps for the Future Homes and Buildings Standards, as well as the intention to reallocate funds from the Warm Homes Fund raise concern about deprioritisation of heat networks and heat decarbonisation more broadly.

ADE Comment

Today, the HM Treasury has published the anticipated Budget 2026 which sets the fiscal and economic agenda for the Government. The dual prioritisation of defence spending and tackling the cost-of-living crisis without an explicit mention of heat networks points to a missed opportunity for more targeted support that helps to grow the heat networks sector as a solution that cuts across all of Government's ambitions.

The direction of travel appears to support the heat networks sector. A fiscal devolution creates opportunity for heat network investment with new possible investment pathways, including the "Good Growth Funds" and incubator capital funding. The Warm Homes Loan Scheme now includes loans of up to £7,500 for heat network connections, giving demand assurance. The launch of the Data Centre Covenant which will require data centre heat offtake also creates opportunities for the sector.

More broadly, the focus on electrification and cheaper electricity should help sector development. Similarly, abolishing the gas standing charges on domestic energy bills and a commitment to reform the electricity standing charges, reaffirm the continued commitment to low-carbon heating.

From the Budget 2026, ADE: Heat Networks has made the following observations for the sector:

Positive:

- **Devolution and local investment –** A fiscal roadmap to support devolution through "good growth funds" to facilitate local infrastructure investment. These provide a clear opportunity for heat networks as investable community infrastructure that can deliver low-carbon heat and energy resilience to local communities. The government has confirmed £285 million in 2027-28 (£165 million to regions with a mayor in place, £120 million of incubator capital funding for areas transitioning towards a devolution deal).
- **Warm Homes Loan Scheme (WHLS)** - The WHLS which will provide households with zero and low-interest loans to install clean energy technology. Loans of up to £7,500 for heat network connections are now available. This reaffirms the government's support for households to reduce bills and transition to low-carbon energy, while providing demand reassurance to the sector.
- **Energy Wealth Fund -** £2 Bn will be provided by the NWF to invest in renewable and low-carbon infrastructure through the new Energy Wealth Fund.
- **Investment in new homes** – The growth in new social and affordable housing provides a clear opportunity for heat networks to deliver the secure, low-carbon heat these developments will need. The £4.7 Bn Your First home scheme will support the delivery of an estimated 20,000 new homes. The Social and Affordable Homes programme will fund the delivery of an estimated 10,000 social and affordable homes.
- **Data Centre Heat Offtake.** The launch of the Data Centre Covenant marks an important step for treating data centres as heat providers that can deliver community benefits and create opportunities for the heat networks sector. We are pleased to see that all strategic data centres will be required to meet the test of improving local communities, adhering to environmental standards and creating local jobs. Most importantly, data centres "should also capture the heat they produce for nearby homes, schools, hospitals or businesses wherever practical, rather than letting it go to waste".
- **Short-term energy bill support** – Up to 20 million households in EPC bands A-D will be given a one-off payment of £100 from January 2027 at an estimated cost of £2.6 Bn (includes funding provided to devolved governments). The VAT cut to electricity bills will be extended to July 2027 to provide additional breathing space for energy consumers.
- **Longer-term energy bill support** - The government has asked Ofgem to abolish gas standing charges on domestic energy bills by the end of 2027. This charge typically costs £108 a year per household, even if they do not use gas for their heating. The government also stated its commitment to reforming electricity standing charges, with details to be set out next year. This is a clear commitment to shifting away from gas and moving towards low-carbon heating.
- **Clearer expectations for Ofgem, NESO and DESNZ –**The government will also review accountability across the energy system. For each of Ofgem, NESO and DESNZ, the government will review and set our clearer expectations of their respective roles, responsibilities, priorities, and expected outcomes. A new ministerial control centre will work with NESO to identify where additional capacity for data centres and may use Planning and Infrastructure Act powers to access this capacity.

Negative:

- **The prioritisation of defence spending over energy security –** The government announced that capital spending will be reallocated to fully fund the Defence Investment Plan (DIP). This will be set out at the spending review next year. Already, DESNZ has had to reprioritise its budget to contribute towards this, with £1Bn in capital funding reallocated from the Warm Homes Plan. We are experiencing the second gas crisis in just a few years. In funding the DIP, the government must not do so at the expense of projects that allow us to ditch gas for good.
- **Reprioritisation of Warm Homes Fund –** While the increase in housing developments offers an opportunity for heat networks, it is disappointing that the £4.7 Bn "Your First Home" scheme has been funded through a reprioritisation of the Warm Homes Fund.
- **No changes to building regulations –** The statement that the Government will not make major changes to building regulation for the remainder of this Parliament strongly implies that the anticipated Future Homes and Future Building Standards (FHBS) will not materialise *during this Parliament*.
- **Short-term energy bill support –** While support for energy bills in the short term is welcome, the best way to reliably bring down bills for good is to invest in low-carbon heat and shift away from gas. ADE: Heat Networks research shows that investing in heat networks could save £3.5 Bn a year, savings that can be passed on to consumers.
- **The details of the Energy Independence Bill are still unknown –** while the government acknowledges that it will bring forward the Energy independence Bill to legislate for some of the measures of this budget, this will be critical for the success of heat network zoning.