

Cut the Cost of Electricity – Move Social and Environmental Levies into General Taxation

Overview:

- The UK currently has some of the highest electricity costs in Europe, in part due to the social and environmental levies placed on electricity bills.
- Last year's Budget lowered the share of levies on bills from 19% to 9% under the current price cap. However, this is only a temporary reduction until 2029, and the OBR forecasts levies to rise by a third by 2031.
- Additionally, due to the current crisis in the Gulf, Cornwall Insight forecast an [18% rise in the July price cap](#) as markets continue to feel the impacts of the conflict.
- Levies are overwhelmingly placed on electricity bills, and not gas. This disincentivises the switch to electric heating from gas, harming progress to tackle climate change.
- To lower bills and incentivise the transition to clean heat – the Government should permanently fund levies through general taxation. This would reduce all electricity bills, while having the greatest impact on fuel-poor households, who spend a larger share of their income on energy.
- [The MCS Foundation research](#) found that in 2025, shifting levies into general taxation could have saved some consumers up to £530 per year, and moved 1.8 million households out of fuel poverty.

Background

- Domestic buildings account for around 15% of the UK's total emissions.
- The Government and the Climate Change Committee both agree that the electrification of heat represents the most efficient and cost-effective route to decarbonising homes at scale.
- To help incentivise the growth of electrified heat, we believe the UK Government must address the high cost of electricity.
- Voters are most likely to single out energy and utility bills as the area of [household spending they are most concerned about](#).

Difference Between Gas and Electricity Prices – also known as the 'Spark Gap' – and Why it Matters

- In 2025, electricity cost on average four times more per unit than gas.
- Despite the efficiency of a heat pump (one unit of electricity can generate around four units of heat), consumers don't always see bill savings due to the high price of electricity.
- Reducing the 'Spark Gap' can guarantee that a heat pump is cheaper to run than a gas boiler, and lead to lower bills.

Lower electricity-to-gas price ratios lead to more heat pump sales per household



What are social and environmental levies?

- Charges added to energy bills to fund government schemes supporting decarbonisation, energy efficiency, renewable generation, and assistance for vulnerable households.

Unfairness of the current Levy system

- Low-income households face a disproportionate share of levies. As seen in Figure 4, many low-income groups paid more than 1.1% of their net income on levies alone—an amount **greater than their average weekly spending on bread, rice and cereals**.
- Over 8% of households in the UK rely on electricity for heating, and these households are around twice as likely to be in fuel poverty as the wider population.
- **Funding levies through general taxation is a progressive measure** that eases the disproportionate burden on low-income households, and households heated by direct electric.

Potential Benefits – Moving all Levies into General Taxation

- In 2025, full levy reform would have delivered **annual savings of £170–£530 per household** — around 50% higher than under the post-Budget framework.
- This approach would substantially improve fairness by reducing the share of net income that low-income households spend on policy levies to close to zero.
- Heat pumps would reach cost parity with gas boilers at much lower efficiencies, meaning they wouldn't need to work as effectively to be cost-effective.

How you can help

- Any potential changes to the funding of social and environmental levies would be set out in the 2026 Autumn Budget. Between now and then, we're asking MPs to:
 - Make representations to the Treasury calling for social and environmental levies to be permanently funded through general taxation
 - Use DESNZ & Treasury Oral Questions to keep this issue relevant
 - Learn about [heat pump uptake in your constituency](#) – which would rapidly increase with levy reform.