

# 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.
- Under the current price cap, 19% of consumer electricity bills are made up of social and environmental levies<sup>1</sup>. These levies are driving up bills.
- Last year's Budget will lower the share of levies on bills from 19% to 9% when the next price cap takes effect from April 1st. Despite this, current Government action is temporary, and the OBR forecast levies to rise by a third by 2031. A permanent solution is needed.
- 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 14% 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](#).

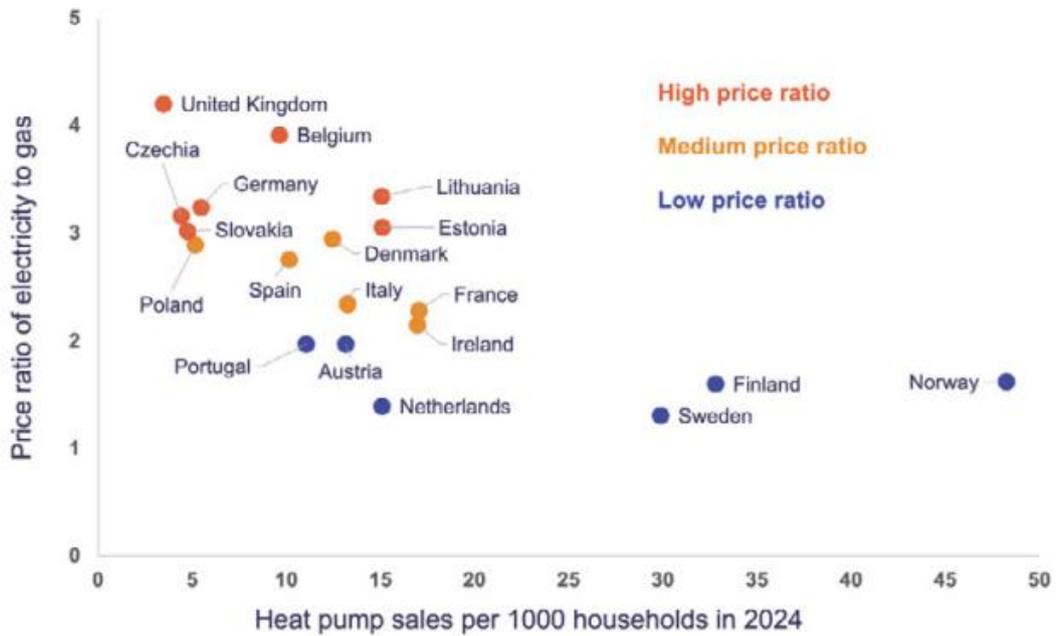
## Difference Between Gas and Electricity Prices – also known as the 'Spark Gap' – and Why it Matters

- 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.

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<sup>1</sup> For a full list of social and environmental levies, and what they pay for, see page 12 of [The MCS Foundation's Report – Rebalancing Electricity Levies in the UK: Impacts on Electricity Bills, Fuel Poverty, And the Clean Heat Transition](#)

**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 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.

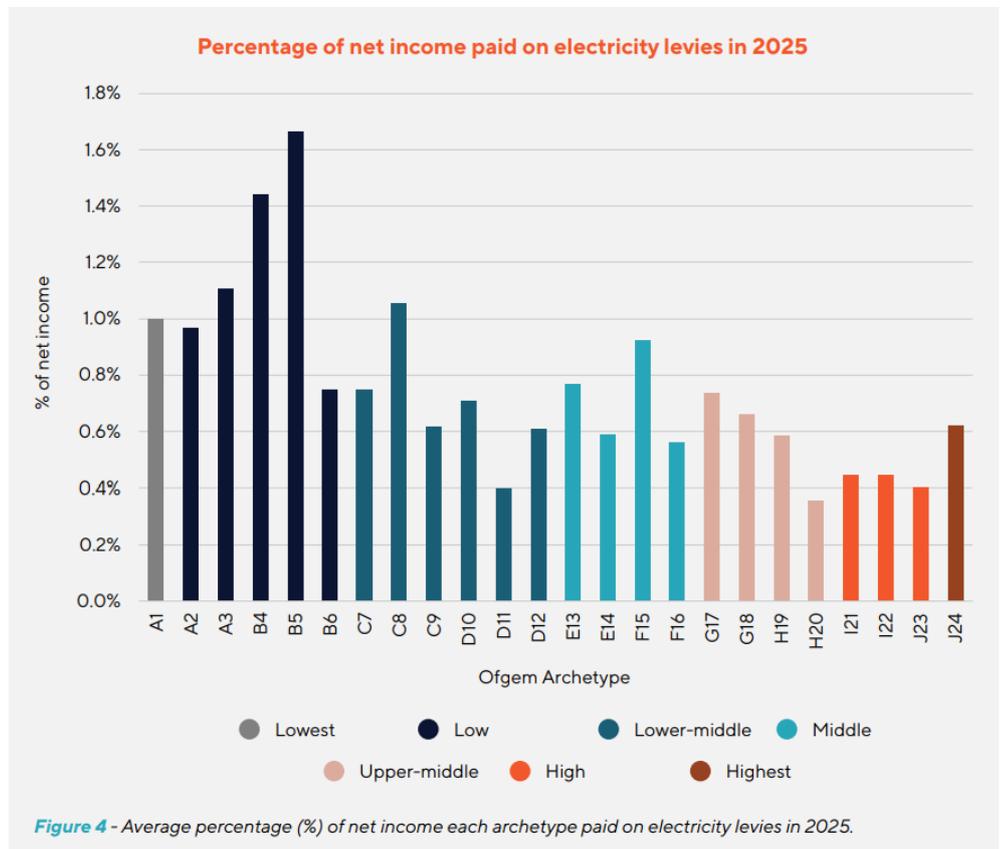


Figure 4 - Average percentage (%) of net income each archetype paid on electricity levies in 2025.

- **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.

### **The Autumn Budget was a good start but more needs to be done**

- The Chancellor decided to part-fund a social and environmental levy (the [Renewables Obligation](#)) through general taxation.
- The Government will fund 75% of the Renewables Obligation at a cost of £2.3bn per year in 2026-27, 2027-2028 and 2028-29. They also scrapped another levy, the Energy Company Obligation.
- These measures would have saved households between £115-343 in 2025.
- However, the partial funding of the Renewables Obligation is temporary and scheduled to end in 2029. Further, the OBR forecast that levies will rise by a third by 2031.
- Therefore, while we welcome the measures taken in the Autumn Budget, we need to see all levies be permanently funded through general taxation.

### **The Warm Homes Plan**

- We welcome the [Warm Homes Plan](#) (WHP) – which aims to upgrade homes to help families cut energy bills and tackle fuel poverty. It's the biggest public investment in home upgrades in British history. The funding includes:
  - £5bn for low-income schemes
  - £2.7bn for the Boiler Upgrade Scheme
  - £2bn for low interest loans
- The plan is very welcome and is a significant step forward in enabling more households to access a wider range of small-scale renewables.
- Green finance and an expanded Boiler Upgrade Scheme are essential; however, the incentive for consumers to install clean heating relies on cutting the cost of electricity.

### **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.

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