

Splitting the bill

How can Government help families with high energy bills?

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Summary

Families continue to struggle with the cost of living, with high energy bills a persisting issue. Although the huge energy spikes of 2022 are behind us, bills remain significantly higher than they were before Russia invaded Ukraine – around £600 more in cash terms or 25 per cent in real terms. Ministers point to high wholesale energy prices (driven by international fossil fuel markets) as the key cause. This is certainly true for gas bills: fuel costs account for the majority (71 per cent) of the real terms increase over the past decade. For electricity, however, the costs of government policies have been the main driver (46 per cent of the increase), above increases in wholesale energy (32 per cent).

Across gas and electricity bills, a typical household now pays more than £250 per year towards policy costs. These charges fulfil laudable objectives, including greening our energy system (around 60 per cent) and helping low-income households with high bills (approximately 40 per cent). But they have ballooned: more than doubling in real terms since 2015. The Government also collects around £130 in taxes from a typical household's energy bills, split across carbon levies and VAT.

Successive governments (Coalition, Conservative and Labour) have repeatedly layered additional costs on energy bills using a funding structure that is less controlled than other elements of public spending. But this widening of scope now actively works against several policy priorities – from a well-trailed pledge to reduce energy bills, to statutory objectives on fuel poverty and carbon emissions.

Crucially, the growth of these schemes has led to the evolution of what is, in effect, a shadow tax and benefit system hidden within energy bills. Close to £7 billion of energy-policy costs are levied on household bills and subsequently redistributed to households and firms. Lower-income households face a disproportionate burden from this system. And while this group also benefits more from the measures that most closely resemble social policies, these averages mask huge variation: for example, just 0.3 per cent of the poorest half of British families are on track to benefit from government-funded efficiency upgrades in 2025-26, but all pay for costs of the policy. This upward pressure contributes to energy bills' persistent drain on family finances. And, at a time when energy bills are playing such a prominent role in the high cost of living, it is right for the Government to think hard about whether the burden of these costs on those on the lowest incomes can be reduced.

Costs cannot be wished away, so change in the short term involves either reapportioning them across different parts of energy bills or between billpayers and taxpayers. At the end of the day, taxpayers and billpayers are largely the same people, but the distributional consequences of raising the money through bills or taxes is very different. Nevertheless,

moving costs around within bills would not deliver meaningful savings, while moving costs onto general taxation is a big ask of a Government not awash with cash.

However, many are looking to the Government to act to help households struggling with the cost of living, and energy bills are the right place to act. Having risen so quickly, they are one of the biggest drains on family finances with little expectation of returning to pre-crisis levels soon. But before making significant changes that impact both household and public finances, we need to be sure of the key priorities underpinning any interventions.

First, households feeling the worst hardships – those with low income *and* high bills – need to feel the biggest benefits. Ministers do not have the ability to target bill reductions by household income, so this means ensuring that support is scaled in line with consumption. It also means being honest about the extent that households who benefit from social policies that are funded through bills would almost all be better off if costs were met by general taxation instead.

Second, change needs to work towards the UK's emissions goals. As such, any costs picked up by the state should be removed from electricity bills not from gas bills, so that the cost of charging an electric car or running a heat pump falls in relation to the price of filling up with petrol or using a gas boiler.

Finally, we need to be mindful of the public finances. Any new costs should be contained and manageable within fiscal rules and spending plans. Some costs on bills, particularly those relating to 'closed' energy schemes, are fixed and will fade over time, while others – such as tax cuts – would represent a permanent loss of revenue.

These principles lead to a policy prescription which focuses on the policy costs that have been added to bills. Most obviously, costs of the Warm Homes Discount (through which families on means-tested benefits receive a £150 rebate on bills) and the Energy Company Obligation (which funds energy efficiency upgrades for low-income households) that are currently on electricity bills, should instead be funded from general taxation. Both policies represent an unwelcome outsourcing of costs of the social security system to energy bills, and incorporating them into the traditional tax and benefit system could cut energy spending by approximately £50 from January 2026 – at a cost to the Treasury of around £1.3 billion per year.

While this is a good first step, it is not a complete solution. Bills are forecast to increase by £100 in April 2026 so any living standards boost would be fleeting. Further, 40 per cent of these social policy costs land on the electricity standing charge – a focus on unit prices would be better for both vulnerable consumers and for the net zero transition.

So how can the Government go further if fiscal circumstance allows? VAT is levied on both electricity and gas bills at a rate of 5 per cent, raising revenue from both energy used and standing charges. Nil-rating VAT has been mooted as an option. But VAT should not be removed from gas bills; while cutting VAT from electricity bills alone would shave around £40 per year from family bills. However, this route would represent both an open-ended cost to HMT and lead to difficult decisions surrounding rates in Northern Ireland.

Electricity is also subject to a number of carbon taxes – these could be reduced. Britain applied an additional carbon tax (the Carbon Price Support) to electricity generation when traded carbon prices were low and emissions from electricity were high. Since then, however, traded prices have recovered and Britain's coal power stations have closed. So the Carbon Price Support is no longer needed. Disbanding it would cost the Government around £200 million per year, but this would fade to virtually zero by 2030 – meaning relief for billpayers now without long-term consequences for government borrowing. Ministers should not intervene in the UK's Emissions Trading Scheme.

Another option would be for the Exchequer to shoulder the cost of some energy policies. The Renewables Obligation (Britain's former flagship policy for subsidising large scale renewable energy) and Feed-in Tariff (which funded rooftop solar, mainly on family homes) currently add around £110 per year to electricity bills. Funding these through general taxation instead would be a bigger win than cutting carbon taxes. Both schemes have been superseded by other subsidies, so their costs are fixed and will fall over time – a more fiscally sustainable approach than options that come with perennial costs.

There is no free lunch here: the Treasury would need to find £1.3 billion per year to pay for social policies on electricity bills, £3 billion for the Renewables Obligation and Feed-in Tariff (and £200 million for the Carbon Price Support). These costs would fall to around £3.5 billion by 2029-30. This represents a significant sum, but we are proposing a change in the type of funding – from taxes on bills to general taxation – not new spending. The reward would be an immediate cut in energy bills – worth £110 for the poorest fifth and £40 for middle earners (net of tax) – and reducing the rate of inflation by around 0.3 percentage points.

As another winter approaches, the Government is being pushed to help families with energy bills. Energy bills are complicated and comprised of many parts – a thorough examination of these is important for assessing how ministers could help. This note sets out the merits of an approach focussed on moving social policy costs from electricity billpayers to taxpayers, and how costs associated with some closed energy schemes and outdated taxes could also be moved, being mindful of the Government's fiscal rules. These measures could start to be delivered in November's Budget, quickly filtering through to ease the strain on household budgets.

Energy bills remain significantly higher than they were before the crisis

Energy bills remain at the epicentre of the UK's enduring cost of living crisis. More than half of British households say they are worried about paying for their energy bills, and consumer debt now stands at £4.4 billion – an all-time high.¹ Although the dramatic price spikes experienced during 2022 – triggered by the war in Ukraine and its effect on global energy markets – have eased, household bills remain substantially elevated. Typical dual fuel bills have settled around £600 higher (in cash terms) or a 25 per cent real terms increase.

Ministers have pointed to high wholesale energy prices, driven by international fossil fuel markets, as the principal factor behind these stubbornly inflated costs.² And this explanation holds weight for gas bills: the bulk (71 per cent) of the real terms increase since 2015 can be attributed to higher fuel costs. This is largely due to the changing nature of Britain's gas supply and an increasing reliance on seaborne deliveries of LNG, which come at a higher cost than Russian-derived gas transported to the UK via the European mainland used to be.³

For electricity bills, however, changes in wholesale prices (themselves largely a function of global gas prices) only account for 32 per cent of the increase. Instead, the largest source of upwards pressure comes from increasing costs of government policies and schemes that are funded through bills. These account for nearly half (46 per cent) of the observed increase, as Figure 1 shows.⁴

¹ Department for Energy Security and Net Zero, [Public Attitudes Tracker: Spring 2025](#), July 2025, Ofgem, [Debt and Arrears Indicators](#), September 2025.

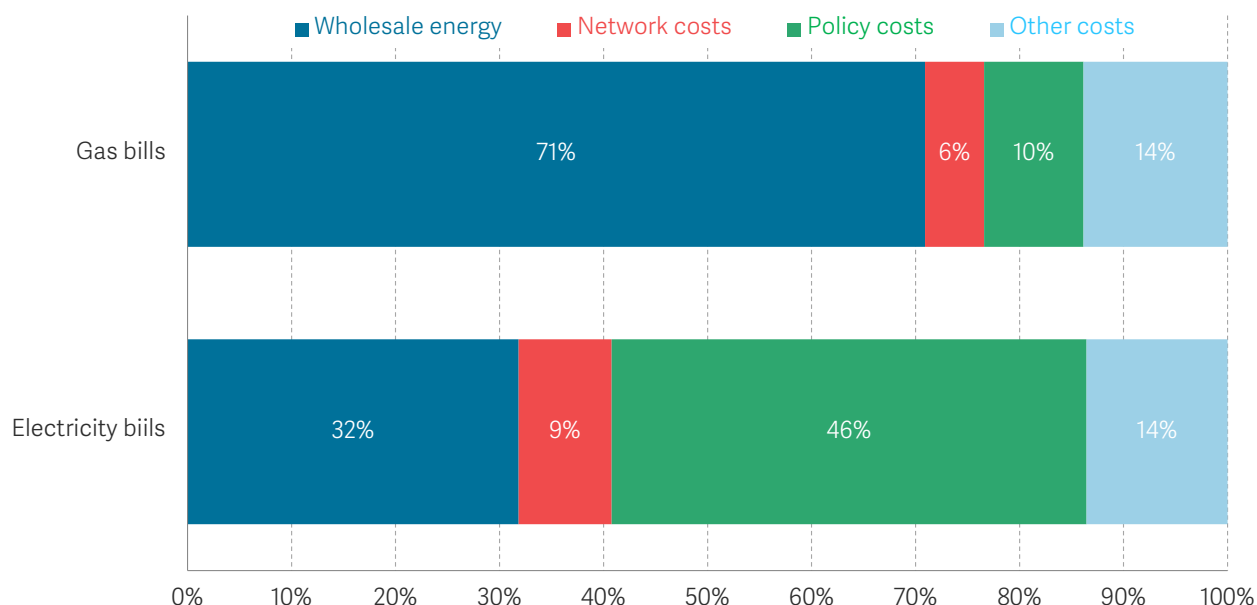
² See, for example: J Ambrose and J Kollewe, [Average annual energy bill to rise to £1,849 in Great Britain from April](#), Guardian, February 2025.

³ For more on the reshaping of Britain's gas supply, see: Department for Energy Security and Net Zero, [Digest of UK Energy Statistics \(DUKES\): natural gas](#), July 2025.

⁴ Energy prices faced by firms have also increased over the past decade and are now seen as an impediment to economic growth. These bills are comprised of different components, and different firms are exposed to different prices according to their demand. The implications of this are outside the scope of this note, which focuses on household bills. This note also only refers to households in England, Scotland and Wales, as those in Northern Ireland are served by Ireland's single energy market and therefore subject to different policies and costs. In all cases, bills are GB averages.

FIGURE 1: Wholesale energy costs are not the sole driver of higher household energy bills

Proportion of real terms increase in typical household dual fuel energy bill from 2015 to 2025, by component: GB



NOTES: 2015 refers to the 2015-16 financial year. Comparison is with the latest (Q4 2025) Ofgem price cap levels, deflated by CPI. Wholesale energy costs refer to the direct fuel costs component of energy bills. Network costs are due to transmission and distribution costs. Policy costs include all Government schemes funded through bills. Other costs include supplier costs, supplier earnings (EBIT) and VAT. Taxes levied at the point of electricity generation are included in wholesale costs, as are capacity market costs. SOURCE: RF analysis of Ofgem, Low Carbon Contracts Company, ONS data.

Successive governments have loaded costs onto energy bills instead of increasing taxes

Across gas and electricity bills, a typical household in the UK now pays over £250 each year towards policy-related charges. These costs serve important functions: around 60 per cent underpin initiatives aimed at decarbonising our energy supply by funding low carbon electricity, smart meters or alternatives to natural gas. The remainder is directed towards social support, either through direct bill reduction or by funding home energy efficiency upgrades for households that would find upfront costs otherwise unaffordable.

But the costs added to bills have ballooned, more than doubling in real terms since 2015 and growing in scope (summarised in Box 1). In addition to these direct charges, the Government also raises around £130 per household through taxes on energy, including carbon levies and VAT.⁵

⁵ In this note we consider policy costs and taxes separately because they serve different purposes: policy costs fund specific energy and climate initiatives, while taxes raise general government revenue. Separating them improves transparency and allows for clearer assessment of the effectiveness and fairness of energy policy decisions.

BOX 1: The policy landscape on bills is complex and opaque

There is now a suite of government policies funded through charges on energy bills. This box provides a short summary of the objectives and costs of each, and Figure 2 shows how they have increased in cost since 2015.

- **Renewables Obligation (RO)** – launched in 2002 as the then-Government’s main policy to support large-scale renewable electricity. It provides renewable energy generators with extra payments on top of revenue earned from selling electricity into wholesale markets. It supports around 32 gigawatts of capacity, with the majority (61 per cent) being onshore and offshore wind. Although the scheme closed to new projects in 2017, it still costs around £7.5 billion a year. Of this, about £2.5 billion is paid by households — roughly £89 per home per year – through unit prices on electricity bills. These costs will start to decline from 2027, and are expected to halve by 2035 as older projects reach the end of their subsidy contracts.
- **Contracts for Difference (CfD)** – introduced in 2014 to replace the RO as the main way the government supports renewable energy projects. Under the CfD scheme, generators are guaranteed a fixed price for the electricity they produce, removing market risk and lowering capital costs.⁶ If the market price is lower than the agreed price, they receive a top-up; if the market price is higher, they pay back the difference. The cost of the scheme is therefore a function of wholesale electricity prices, but the Office for Budget Responsibility estimates a cost of £1.4 billion for 2025–26; around £30 per household via unit prices. However, when wholesale prices were high during the energy crisis, this scheme actually raised money for the Government; see Figure 2. Spending is expected to rise in the coming years as more CfD-backed businesses a fixed rate for every unit of electricity they generate, whether used by themselves or exported to the grid. It closed to new applicants in 2019, and currently costs around £1.9 billion per year. Of this, about £540 million is paid by households (around £20 each per year) through electricity bill unit prices.
- **Feed-in Tariffs (FiT)** – introduced in 2010 to support small-scale renewable electricity generation, mainly from rooftop solar panels. The scheme pays households and

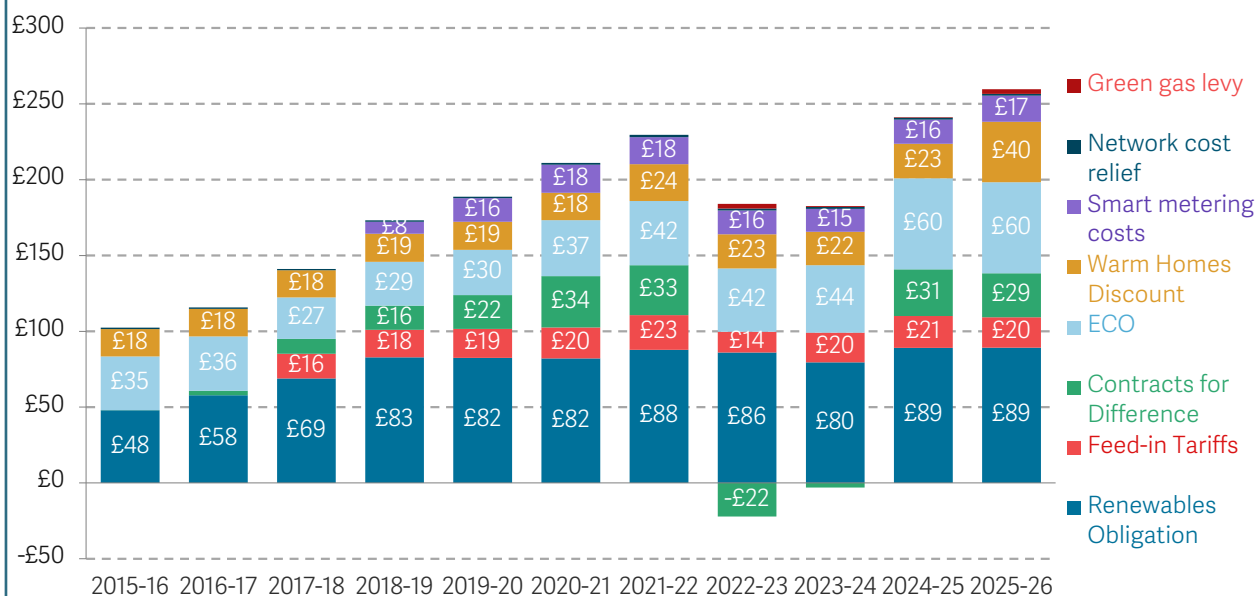
⁶ For a discussion on the importance of capital costs to electricity prices, see: E Fry and J Marshall, [Electric Dreams](#), Resolution Foundation, April 2024.

projects underpin the Government's 'Clean Power 2030' goal.

- Green Gas Levy (GGL) – introduced in 2021 to help fund the production of greener alternatives to natural gas, specifically biomethane (a renewable gas made from organic materials). To support this, the GGL places a charge on gas suppliers, which is then passed on to consumers through gas bills. The Government sets the total amount to be raised by the levy each year. At present, the cost to households is around £3 per year, added to the standing charge.
- Smart meter programme costs – these fund the replacement of traditional gas and electricity meters with smart meters. These devices give households real-time information about their energy use, helping them to better manage consumption, access time-of-use electricity tariffs, and receive more accurate bills without the need for manual meter readings. Currently, households pay around £17 per year for the scheme via electricity bill unit prices.
- Energy Company Obligation (ECO) – this scheme requires suppliers to improve the energy efficiency of a certain number of homes across Great Britain. The main focus is on supporting low-income and vulnerable households by funding measures such as insulation and heating system upgrades. ECO has been running in various forms since 2013, and the latest iteration adds £36 to gas bills and £24 to electricity bills, funded via unit charges.
- Warm Homes Discount (WHD) – the WHD provides a £150 annual rebate on energy bills for eligible households, helping to support those most at risk of fuel poverty. Recent changes to the WHD have expanded eligibility, meaning that 6.1 million households on means-tested benefits now qualify automatically. The size of the rebate was also recently increased from £130 to £150. WHD costs are recouped equally from gas and electricity standing charges, adding around £40 per year to a typical energy bill, a near doubling of costs before the recent scheme expansion.
- Assistance for areas with high electricity distribution charges (AAHEDC) – helps reduce electricity bills for consumers in the north of Scotland, where costs associated with using the electricity network are particularly high. Funded through a small levy (around £1 per year) on all GB electricity consumers, it aims to ensure fairer pricing across regions.

FIGURE 2: The cost of policies on household energy bills has increased over time

Annual real terms cost of policies on gas and electricity bills for a household with typical consumption: GB



NOTES: Shown in current (2025) prices. Annual costs based on typical consumption values of 2,700 kWh of electricity and 11,500 kWh of gas. In 2022-23 and 2023-24, CfD costs were negative as aggregate wholesale prices were higher than contractually agreed prices, leading to generators paying back money. 2025-26 costs based on the first nine months of the financial year.

SOURCE: RF analysis of Ofgem, Low Carbon Contracts Company, ONS CPI data.

This situation has arisen as successive governments – Coalition, Conservative, and now Labour – have increasingly layered additional costs on energy bills through a funding structure that is less controlled than other elements of public spending. This approach allowed them to deliver spending without increasing headline tax rates, and without the need for the Chancellor du jour to announce funding under the Budget spotlight.

Unfortunately, this method of funding has created a fragmented and opaque system that runs counter to several key policy goals. Layering new costs onto bills undermines efforts to reduce bills in the short term – particularly relevant for a government that pledged to cut bills by £300 ahead of the 2024 election. But it also actively works against statutory targets on fuel poverty and carbon emissions, both of which are largely undeliverable without cheap energy – particularly electricity.⁷

We now have a hidden tax and benefit system inside energy bills

The growth of policies funded through household energy bills has led to a system where around £7 billion in revenue is collected from billpayers and then paid out to

⁷ See: Department for Energy Security and Net Zero, [Review of the Fuel Poverty Strategy](#), February 2025, and Climate Change Committee, [Progress in reducing emissions – 2025 report to Parliament](#), June 2025.

individual families and to firms. This is, in effect, a shadow system of redistribution, but one that operates and is funded separately to the UK's tax and benefit system.

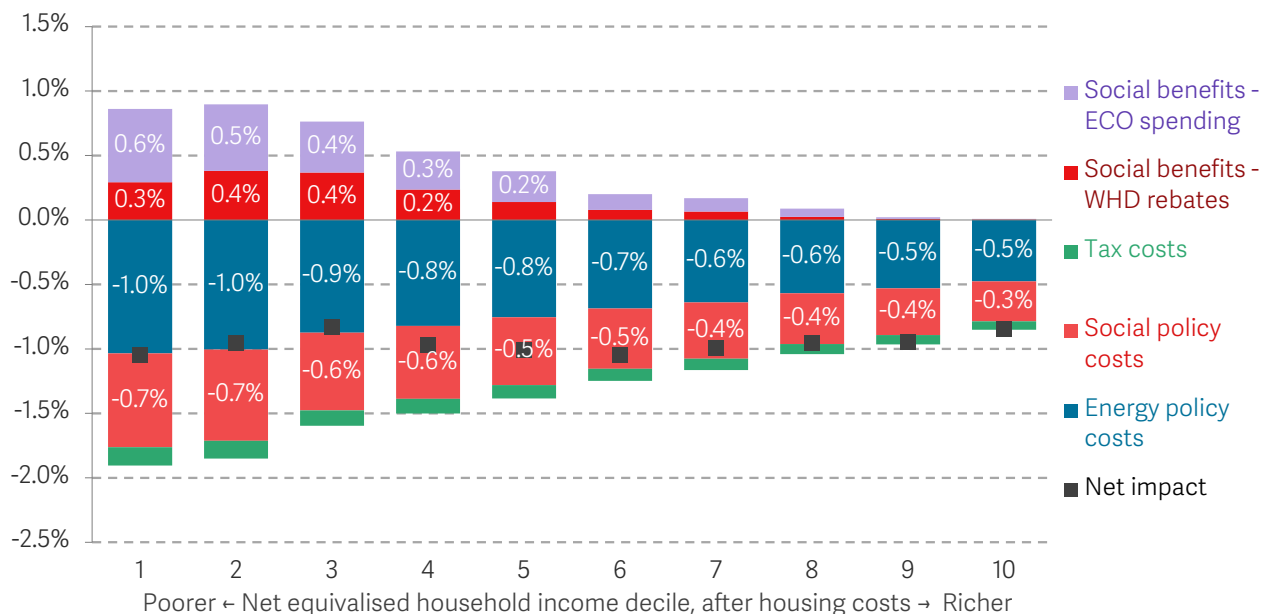
Figure 3 shows the distribution of costs and spending through policies on household energy bills. On average, lower-income households shoulder a disproportionate burden from energy-related policies. This reflects the fact that these bills make up a larger share of spending for poorer families than richer ones. It is true that lower-income households benefit more from schemes that most closely resemble social policies.⁸ Most of these benefits (59 per cent) arise through ECO spending on efficiency improvements, with the remainder on bill rebates. But ECO spending is hugely variable: on current trends, just 56,000 households will benefit from spending under the ECO scheme this financial year, of which four-fifths (80 per cent) are in the poorer half of the income distribution.⁹ This only amounts to a tiny fraction (0.3 per cent) of below-median-income families – leaving the vast majority paying for ECO but seeing no upside this year. The average distribution of the benefits shown in Figure 3, therefore, masks significant within-decile variation.

⁸ Note that the costs spending for social policies shown in Figure 3 are not equal. This is caused by high delivery costs of the ECO scheme, which eats into the ability of the programme to install home improvement measures. RF analysis of Ofgem and Government data shows that around a quarter of overall costs are lost in this stage. These are additional to the administrative costs reported by Government, which amount to around 2 per cent of total scheme costs. Only spending that is directly received by households is shown in Figure 3.

⁹ Source: Department for Energy Security and Net Zero, [Headline Energy Efficiency Statistics, headline release \(September 2025\)](#), September 2025, RF analysis of ONS Living Costs and Food Survey, MHCLG English Housing Survey data.

FIGURE 3: The distribution of policy costs and benefits masks huge variation across the population

Average annual costs and benefits of social and energy policy costs, and carbon taxes, on household energy bills, as a share of annual expenditure, by equivalised after housing costs income decile: GB, 2025-26



NOTES: Costs levied on electricity standing charges applied to all households, and those on gas to households that report spending on mains gas in the LCFS. Annual gas and electricity consumption values derived from LCFS spending data and re-weighted to account for recent changes in Ofgem's typical domestic consumption values (TDCVs) that show average consumption falling over time. Standing charges uprated to align with 2025 values. Tax costs are those from the Emissions Trading Scheme and Carbon Price Support. Social benefits via Energy Company Obligation spending assumed to be proportional to household eligibility by income deciles and reported spending shares across both core and 'flex' groups. Environmental costs comprise the Renewables Obligation, Feed-in Tariffs, Contracts for Difference, Smart meter programme costs and the Green Gas Levy. Social costs are the Warm Homes Discount, Energy Company Obligation and Assistance schemes for areas with high electricity network costs (AAHEDC). SOURCE: RF analysis of ONS, Living Costs and Food Survey; DWP, Households Below Average Income; Ofgem price cap methodology; Low Carbon Contracts Company data; and OBR, Economic and Fiscal Outlook, March 2025.

The distributional picture of the benefits to households from these policy costs is muddled by the nature of those benefits. In Figure 3, the benefits show the capital grants made under ECO to individual households. But if we wanted to compare recurrent benefits – i.e. actual bill reductions – which is what matters for the cost of living, then we would need to take account of the fact that these savings take much longer to materialise than the in-year capital spending from which they result (it takes around £20 of spending through ECO to deliver £1 of annual bill savings).¹⁰ This means that the benefits shown in Figure 3 will overstate those recurrent benefits in a given year (although we would also need to take into account the effect of previous ECO grants on current bills).

¹⁰ Source: Department for Energy Security and Net Zero, [Headline Energy Efficiency Statistics](#), headline release (September 2025), September 2025.

That this situation has arisen from government policy choices is far from ideal. And it is important: high-income households may barely notice the impact of these policies, but for those on low incomes they contribute to the real and on-going concern over the ability of to pay bills or fall into debt.

The affordability of energy remains a source of public concern, political tension, and even macroeconomic instability, contributing to inflation and making it harder for the Bank of England to reduce interest rates. At a time when energy bills are playing a prominent role in the high cost of living and with households facing another winter of high energy bills, now is the time to ask if this method of funding is fit for purpose and if the burden of policy costs on those on the lowest incomes can be reduced.

Cutting bills in the short-term means reapportioning costs, not wishing them away

These costs cannot be wished away. In the short term, change involves reapportioning them across different parts of energy bills – between different fuels or between unit and standing charges – or between billpayers and taxpayers. The latter requires increasing government spending or reducing tax revenues, either of which will need to be matched by tax increases elsewhere.

There is a rationale for moving some policy costs from electricity to gas, but keeping charges within energy bills will not lead to an immediate and substantial bill reduction for most households.¹¹ So this is a longer-term solution rather than an answer for politicians looking for results this winter. As such, we should instead examine which costs would be better funded from taxation.

The Government is far from awash with cash, but if it wants to help households with the cost of living then energy bills is the right place to act. Energy bills are one of the biggest drains on family finances, with prices having risen faster than CPI for more than two decades.¹² There is also scant expectation that energy costs will return to pre-crisis levels any time soon.¹³

Reform to energy bills is complicated and will have wide-ranging implications. Figure 4 shows the options at play, including the extent of their annual costs (denoted by the size of the bubbles), their category, and where within energy bills they are funded.¹⁴ Here

¹¹ Changing the relative prices of gas and electricity is crucial for improving the incentive for households to invest in low carbon heating systems. For more, see: Z Leather and J Marshall, [Turning up the heat](#), April 2025.

¹² See: S Pittaway and L Try, [The bare necessities](#), Resolution Foundation, June 2025.

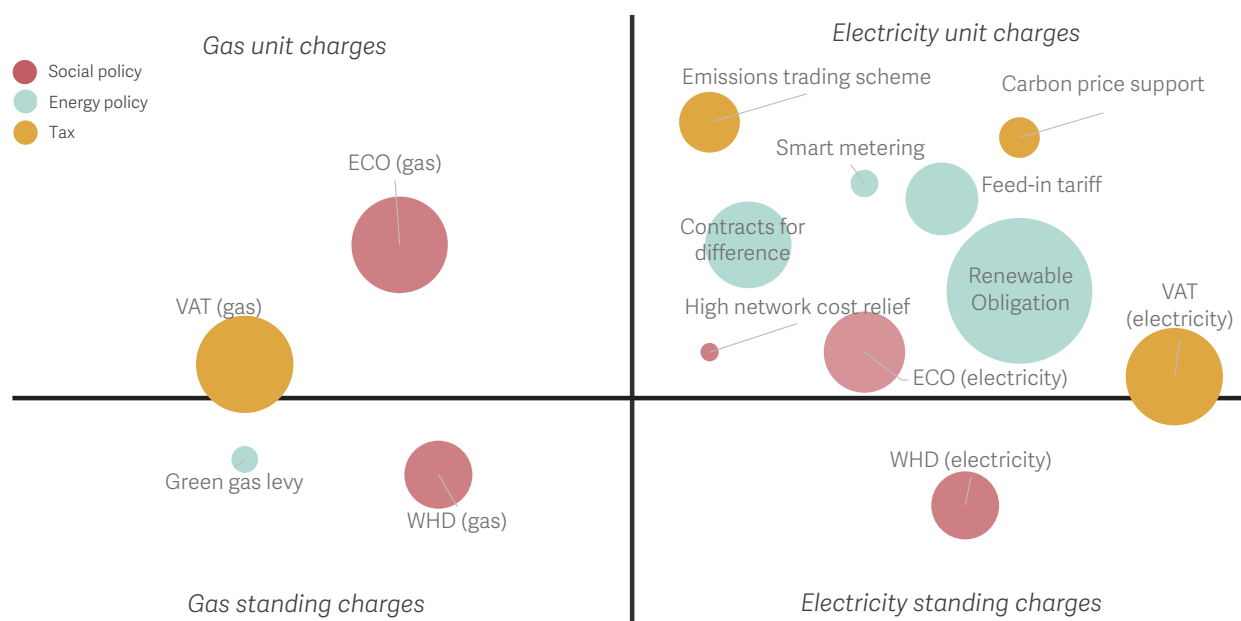
¹³ Forecasts show an increase in network costs and a new funding scheme for the Sizewell C nuclear plant adding £100 to typical bills in April 2026. See: Cornwall Insight, [Rising Transmission Costs to Add £30 to Household Energy Bills from Next April](#), September 2025.

¹⁴ Note that the position of bubbles outside of the quadrants has no value, apart from VAT on gas and electricity bills which are split across unit and standing charges. Relative shares are indicated by their position on the vertical axis.

we can see an array of different costs, of different sizes, that fulfil different objectives, seemingly randomly allocated across energy bills.

FIGURE 4: What policies achieve, and how they are funded within bills is important

Energy and social policy costs, and taxes on domestic energy bills, by part of the bill upon which they are incident: GB 2025



NOTES: Larger bubbles represent larger annual costs. Positioning within quadrants is of no relevance, except for VAT on electricity and gas where their proportional incidence on unit charges and standing charges is represented by their y-axis position. SOURCE: RF analysis of Ofgem, Low Carbon Contracts Company, Department for Energy Security and Net Zero data.

So, how should policy makers approach reform? We argue that interventions should seek to achieve three goals.

First, we need to ensure that vulnerable households are beneficiaries of any change. The key group here is families with low incomes and high energy use, for whom higher-than-average bills eat into lower-than-average household budgets.¹⁵ This group remains chronically overlooked in energy policy, perhaps due to a perception that richer households have bigger bills. But this is not an absolute truth: consumption varies more within income deciles than across the income distribution as a whole.¹⁶ For example, one in four of the poorest families in Britain are high electricity users – defined here as more than 1.5 times the ‘typical’ consumption – a level comparable to those on the highest incomes.¹⁷ Given that Ministers currently lack the ability to tailor energy support by

¹⁵ See: M Brewer et al., *A chilling crisis*, Resolution Foundation, August 2022.

¹⁶ There is a growing body of literature that disproves this assumption. See, for example: HM Treasury, *Net Zero Review Final Report*, October 2021; M Brewer et al., *A chilling crisis*, Resolution Foundation, August 2022, and Citizens Advice, *Fairer Bills, Smarter Systems: Designing targeted social tariffs with automation in mind*, March 2025.

¹⁷ Source: RF analysis of ONS Living Costs and Food Survey, Ofgem data.

income (as they have not yet made enough progress developing the infrastructure for a social tariff), pursuing this agenda means providing support that is scaled by energy use.¹⁸

We also need to acknowledge the disproportionate burden that lower-income households face by funding social policy through energy bills. Recent changes to eligibility criteria for some social energy schemes have effectively turned energy bills into a vehicle for delivering parts of the welfare system. The WHD now provides £150 rebate on energy bills to everyone receiving a means-tested benefit in a way that has an almost identical impact to increasing benefit entitlement by £150 a year.¹⁹ Households who receive the WHD also contribute to the funding of the scheme, reducing the net benefits they receive: expanding the WHD to all households receiving a means-tested benefit nearly doubled the cost of the scheme, adding £20 to dual fuel energy bills. The upshot of this is that recipient households lost 13 per cent of the value of the rebate, and those just missing out on eligibility face ever more upward pressure on bills. This is, quite simply, not how social security programmes should be funded.²⁰ Further, ECO spending is far from uniform across poorer households – as detailed above.

Second, any changes need to provide a tailwind for the UK's net zero transition. Reducing the disparity in prices between (expensive) electricity and (cheaper) gas has been regularly pointed to as a policy priority for cutting carbon emissions.²¹ This means any costs should be taken from electricity bills, not from gas.

And third, we need to be mindful of the long-term fiscal sustainability of such changes. HM Treasury must ensure that any new public spending – whether through subsidies, tax cuts, or other policy changes – can be managed within its fiscal rules and long-term spending plans. This includes maintaining control over public borrowing and meeting fiscal targets.

Within the suite of energy policies currently funded through bills, there is a clear distinction between 'closed' schemes – such as the Renewables Obligation and Feed-in Tariffs – and ongoing or expanding programmes like the Contracts for Difference (see Box 1 above for more detail on these policies). Closed schemes are no longer open to new applicants and have largely fixed costs that will decline over time as contracts expire. In contrast, active and future-facing policies are expected to grow as part of the

¹⁸ For more on the need to target energy bill support according to household income, see: M Brewer et al., [A chilling crisis](#), Resolution Foundation, August 2022.

¹⁹ Households also need to purchase their eligibility from a 'large' supplier to receive the WHD. Given the recent consolidation this market (the most recent Ofgem data shows just 2 per cent of customers are with 'small' suppliers, down from 12 per cent in 2018), we can assume all households are eligible.

²⁰ There is also no reason that a change in how these programmes are paid for would lead to a reduction in their scope or scale – if ministers are happy with the costs when funded through bills the arguments for paring it back when paid for through taxation are thin.

²¹ See: Climate Change Committee, [Progress in reducing emissions – 2025 report to Parliament](#), June 2025, E Fry and J Marshall, [Electric Dreams](#), Resolution Foundation, April 2024, M Shepherd et al., [Cheaper electricity, fairer bills](#), Nesta, December 2024.

Government's commitment to decarbonise the power sector by 2030, representing uncertain and long-term costs for the Exchequer if moved onto the public balance sheet.

Similarly, tax cuts – such as reducing VAT on energy bills – represent a permanent loss of government revenue. The Office for Budget Responsibility (OBR) scores such measures accordingly, meaning they can have a lasting impact on the Chancellor's ability to meet fiscal targets and must be carefully weighed against other spending priorities.

HMT should pick up the costs of social policies and some energy policies

These principles lead us to the following policy prescription: costs of the Energy Company Obligation and the Warm Homes Discount that currently land on electricity bills (but those on gas bills) should be funded via general taxation instead.²² By doing so, ministers could cut bills by approximately £50 going into the winter and put an end to the unjustifiable way that this part of the social security system is outsourced to electricity bills – at a cost to the Exchequer of £1.3 billion per year.

This is a good first step, but not a complete solution: typical bills are forecast to increase by £100 in April 2026 so any cost of living upsides would be fleeting.²³ Further, the costs of the Warm Home Discount programme (making up 40 per cent of social policy costs on electricity bills) land on standing charges. So action here would not be as beneficial to vulnerable consumers or the net zero transition as that solely targeted at unit prices.

We should therefore treat this £50 saving as a minimum and also look to other policies for extra oomph as and when fiscal space allows. So, how could the Government go further?

One option would be to cut taxes on electricity bills. VAT is currently levied at a rate of 5 per cent across both gas and electricity bills, and a reduction to zero has been floated in the press. The current double-taxation of emissions from electricity generation is ripe for reform and forms the basis of policies proposed by the opposition Conservative Party.²⁴

Of the two tax options, there is a stronger rationale for targeting the latter. The main expense here is the Emissions Trading Scheme – but removing electricity from this market-based mechanism would be very complicated, likely leading to a loss of certainty in the value of traded permits and on Government receipts, and unwelcome

²² Government interventions should not target the price of gas, so the costs of these programmes that land on gas bills should not be changed.

²³ Forecasts show an increase in network costs and a new funding scheme for the Sizewell C nuclear plant adding £100 to typical bills in April 2026. See: Cornwall Insight, [Rising Transmission Costs to Add £30 to Household Energy Bills from Next April](#), September 2025.

²⁴ In a speech to the 2025 Conservative Party Conference, Shadow Secretary of State Claire Coutinho announced that a 'Conservative Government will axe the Carbon Tax on electricity generation' For more, see: C Coutinho, [Energy is prosperity](#), October 2025.

consequences on other parts of the traded sector. Electricity exporters would also face a new levy for electricity exported to the EU. But Britain has a secondary carbon tax on electricity generation, the Carbon Price Support (CPS). This was introduced in 2013 to drive coal out of the generation mix when traded carbon prices were insufficient to do so. But Britain's last coal power station ceased generation in 2024, and traded carbon prices have increased substantially since the early 2010s. Scrapping the CPS would therefore have no considerable impact on the way electricity is generated but would reduce wholesale prices and electricity bills. This would save households around £10 in 2025-26 and cut Government tax receipts by around £200 million, diminishing to near-zero by 2030.

VAT on electricity bills, on the other hand, is worth £44 per year. Cutting VAT would offer some additional protection to households, being worth more when bills are higher, but it also represents an uncertain and open-ended cost for HM Treasury and the loss of revenues are harder to forecast. Further, around a fifth (21 per cent) is levied on the standing charge – not where we should be looking for additional bill savings. Cutting VAT in Britain would also bring complex issues around alignment with VAT rules in Northern Ireland, which remain tied to EU rules (where a minimum rate of 5 per cent is mandatory) under the Windsor Framework.

A quicker political win, and one that comes with better fiscal stability would be for the Exchequer to shoulder the cost of some energy policies instead. The Renewables Obligation and Feed-in Tariff add around £110 per year to energy bills (see Figure 2 above), and have now been replaced by newer mechanisms for supporting renewable electricity generation. Because there are no new financial commitments being made under these schemes, the costs are predictable and diminishing: RO costs will halve by the mid-2030s, for example.²⁵ This makes them significantly easier for HM Treasury to manage and incorporate within its long-term fiscal planning and spending rules.

Importantly, removing these 'legacy' policy costs from household energy bills would also not breach the polluter pays principle. These schemes were originally designed to support the early deployment of low-carbon technologies with the aim of driving down costs over time – not to pay for energy. Other government schemes with similar goals, such as subsidies for electric vehicles or low carbon heating, are similarly not recovered from consumers through additional costs on car use or home heating – these costs being added to bills is therefore something of an anomaly.

There is no free lunch here: HM Treasury would need to find £1.3 billion per year to pay for social policies, £3 billion for the Renewables Obligation and Feed-in Tariff (and £200

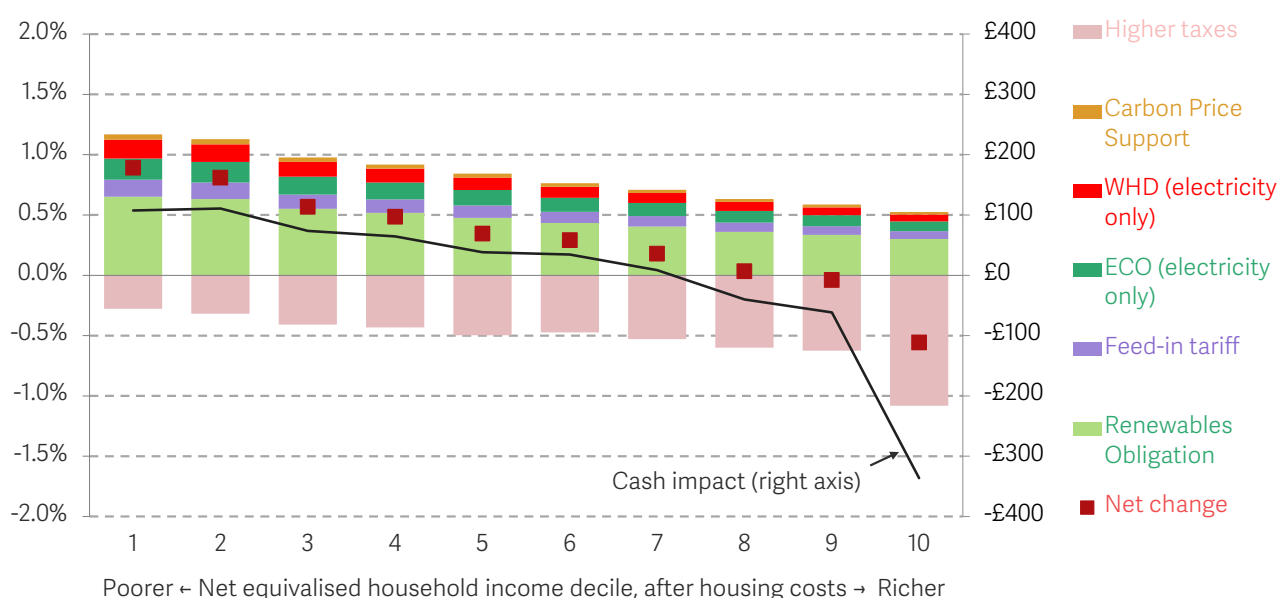
²⁵ RF analysis of Ofgem data shows.

million for the Carbon Price Support) – with potential Barnett Consequentials on top.²⁶ In reality, this is a tax transfer from charges on bills to higher taxes elsewhere in the system – which in almost all cases would be more fairly distributed. However, the Realpolitik is that such a shift is harder at a time when the public purse is already very tight. And in the 2029-30 fiscal year, which is important for the Government's forecasts, the combined cost of these changes to the Exchequer would be closer to £3.5 billion – falling as the cost of the Renewables Obligation scheme and expected receipts from the Carbon Price Support diminish.

But the reward would be a much-desired immediate cut in energy bills – one worth £110 for poorer households net of tax increases, assuming costs spread across the whole tax base, as Figure 5 shows – and reducing the rate of inflation by around 0.3 percentage points.

FIGURE 5: Spreading policy costs across the tax base would boost living standards for lower earners

Savings and extra costs from proposed policy changes, in cash terms and as a proportion of total expenditure, by equivalised after housing costs income deciles: GB 2025-26



NOTES: Costs levied on electricity standing charges applied to all households, and those on gas to households that report spending on gas in the LCFS. Annual consumption values derived from LCFS spending data and re-weighted to account for recent changes in Ofgem's typical domestic consumption values (TDCVs). SOURCE: RF analysis of ONS Living Costs and Food Survey, Ofgem, LCCC, OBR data.

²⁶ Whether Barnett consequentials are triggered, and to what extent, depends on whether UK Government funding is new and additional, whether it supports functions that are devolved, and how comparable the spending is to devolved services. HM Treasury would also need to consider whether replacing a consumer levy like the Renewables Obligation with public funds constitutes a real change in spending, or simply a reclassification. Past precedents and the broader political context will also influence the final decision.

Energy bills remain a significant weight on living standards in Britain, and this note argues that ministers should not be afraid of helping families by removing some costs from bills. Employing a triple-pronged approach that focuses on living standards, the net zero transition and fiscal stability is the best route, with clear and immediate benefits for vulnerable families facing another winter of unaffordable bills. The measures we propose could start to be delivered in November's Budget and would quickly filter through into household living standards from January 2026 – giving the Government a quick win on energy bills, as well as reducing inflation and improving incentives for decarbonisation.

The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

We aim to provide rigorous analytical work, develop effective policy proposals, and use our expertise to affect direct change. We analyse the trends and outlook for living standards, including for different age groups, family types, and levels of household income and wealth, and seek to promote greater understanding of these. Our research focuses both on the specific areas of the economy that matter most for people's living standards, including work and housing; and on economic growth and productivity as the route to sustainably higher living standards. We also examine the role of government in improving living standards including through taxes, social security and public services.

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