

Aldersgate Group representation to Autumn Budget 2026

September 2026

About Aldersgate Group

Aldersgate Group is a coalition of major businesses, academic institutions and civil society organisations, driving action for a competitive and environmentally sustainable economy.¹ Our corporate members represent all major sectors and believe that strong environmental policies and good regulation are key to unlocking growth and decarbonisation. Among many others, they include Anglian Water, Associated British Ports, Aviva, BT, Co-op, Michelin, Nestlé, Netflix, ScottishPower, Siemens, SUEZ, Tesco, VodafoneThree and Willmott Dixon.

Summary

Businesses across the country are showing that decarbonisation action can reduce costs, boost productivity, create skilled jobs and open new markets. Building on this momentum requires clear, consistent policy that strengthens investor confidence.

The single most powerful lever available to the Chancellor at this Budget is the price of electricity. Lowering prices would cut household and business costs, improve returns on clean technology, strengthen energy security and support lower inflation. It is also essential to electrifying industry, transport and buildings, and growing domestic supply chains. We have two linked recommendations.

1) **Reallocate social and environmental levies off electricity bills and into general taxation**

- Successive governments have funded industrial strategy and social policy through electricity bills, significantly contributing to higher electricity costs. Government should swiftly introduce levy discounts and set out a roadmap to remove all these costs from bills by 2030, funding them through general taxation.

2) **Support business electrification through targeted operational expenditure discounts**

- Government should introduce **a targeted electrification discount scheme** to close the remaining gap between electricity and gas running costs for heavy industry and manufacturing, accounting for regional and sectoral differences. Heat electrification is a key priority, but road freight faces the same barrier and warrants additional support designed for its own circumstances.
- Government should announce a commitment to the scheme at Autumn Budget 2026 and consult quickly on design, eligibility and scope, with a view to launching in 2028.

¹ Individual recommendations cannot be attributed to any single member, and the Aldersgate Group takes full responsibility for the views expressed.

Introduction

Businesses across the country are showing that decarbonisation can go hand in hand with economic growth, improving the security of energy supplies, lowering costs, and boosting productivity, skilled jobs and access to fast-growing global markets. Recent analysis by CBI Economics and the Energy and Climate Intelligence Unit finds that the UK's net zero economy generates around £105 billion in gross value added and supports 1.1 million jobs across every UK region. These jobs are around 48% more productive than the UK average and pay wages around 11% higher, while more than 96% of the sector's 23,500 businesses are SMEs. The benefits also extend across the wider economy, for every £1 generated by net zero businesses, a further £1.85 is created elsewhere.²¹

Our business members are ready to build on this progress through continued investment, innovation and support for their supply chains, but they need consistent, sustained and supportive government policy to make this happen.

The government's focus on the net zero transition, particularly homegrown clean power, has helped drive investment, strengthen energy security and support regional growth. Turning cleaner generation into lower bills and a more electrified, competitive economy is the next, and even more valuable, phase of the transition.

Progress is being held back because major policy costs are recovered through electricity bills. This makes electricity artificially expensive relative both to international competitors and domestic gas, suppressing the demand growth needed to spread fixed system costs and bring prices down.

This submission therefore focuses on electricity costs and electrification, where action by the Chancellor can unlock investment across multiple sectors, including industry and manufacturing, heavy goods vehicles and logistics, and temporary power in the creative industries and construction. Despite challenging fiscal circumstances, targeted action can support energy security, economic resilience, regional investment and decarbonisation at the same time.

Recommendation 1: Reallocate social and environmental levies from electricity bills into general taxation

The problem

Successive governments have added costs to electricity bills to fund industrial strategy and social policy. The four largest levies, the Warm Home Discount, Feed-in Tariff, Sizewell C levy and remainder of the Renewables Obligation, will raise around £10.3 billion in 2029/30, adding nearly £100 a year to the average household bill and over 20% to business electricity costs.² The Climate Change Levy on electricity raises a further £637 million, taking the total burden to around £11 billion a year.^{3 4}

British industrial electricity prices are the highest of any member country of the International Energy Agency, 63% above the median,⁵ while household energy bills remain around 70% higher than in 2021.⁶

Higher electricity costs have five major consequences:

- **They drive inflation and reduce fiscal headroom.** Removing levies could lower CPI inflation by more than 0.32 percentage points,⁷ increasing fiscal headroom by an estimated £1.5 billion in 2028/29 and £2.5 billion in 2029/30.⁸ The measure would therefore partly pay for itself.
- **They hold back investment and growth.** Business leaders rank high energy costs as the second biggest barrier to UK growth, behind business taxes,⁹ and more than 40% of companies report cutting UK investment because of them.¹⁰ Removing levy costs from businesses could boost economic output worth an estimated £130 billion of to the UK economy by 2050.¹¹ Lower input costs for firms would increase economic output, leading to higher real incomes and household spending, more free capital for investment, the attraction and retention of internationally mobile industries, and stronger exports.¹²
- **They are regressive for households.** Low-income households spend three times the share of their income on levies as wealthier households.¹³ Electrically-heated homes are particularly exposed, and removing levies could save a typical household using electric heating up to £420 a year.¹⁴ Meanwhile energy debt is on course to reach £7 billion this year.¹⁵
- **They discourage electrification.** Levies artificially increase the cost of domestically generated low-carbon electricity relative to internationally traded gas, weakening the incentive for households and businesses to invest in further electrification and leaving the UK highly exposed to volatile fossil fuel markets.¹⁶
- **They slow decarbonisation.** Electrification and low-carbon electricity together account for around 60% of emissions reductions by 2040 in the Climate Change Committee's (CCC) Balanced Pathway. The CCC strongly recommends reducing policy costs on electricity to encourage switching to electric technologies.¹⁷

Affordable electricity also has wider economic benefits. It strengthens the business case for heat pumps, electric vehicles, industrial electrification, grid infrastructure and flexibility, helping create the domestic demand needed to attract investment in UK supply chains. Growing electricity demand can, in turn, spread fixed electricity system costs across more consumption and reduce unit costs.

Progress so far is welcome, but partial

The government began reducing levies in November 2025, introducing a temporary 75% discount on the Renewables Obligation for households and removing the Energy Company Obligation. This reduced the average household bill by £150 and inflation by 0.25%,¹⁸ at a cost of £2.4 billion a year. Removing VAT from household electricity bills for six months from October is another welcome step.¹⁹ However, these measures remain temporary and, in the case of the Renewables Obligation discount, limited to households.

We recommend permanently removing all levies from electricity bills and funding them through general taxation

Government should permanently remove the Renewables Obligation, Feed-in Tariff, Warm Homes Discount, nuclear levies and Climate Change Levy from electricity bills, funding them instead through general taxation. Further discounts should be introduced as soon as possible, alongside a roadmap to remove these costs permanently by 2030.

Government should also introduce the levy control framework committed to in the 2025 Autumn Budget. This should strengthen Treasury oversight, constrain new levies and improve transparency over their impact on consumers. It would allow ministers to manage costs across the energy system more strategically, supporting growth, electrification and reduce dependence on imported gas while better targeting support at households and businesses most in need.

Recommendation 2: Support business electrification through targeted operational expenditure discounts

Electrifying heat in industrial processes is key to delivering lower and more stable energy bills for manufacturing businesses in the long term. Currently the high cost of electricity prevents many companies from adopting electrified heat technologies, despite those products being considerably more efficient than their high-carbon equivalents. Industrial electrification is one of the most cost-effective and impactful decarbonisation routes available, with the Climate Change Committee finding that it could deliver 57% of the emissions reductions required from industry by 2040, yet only around 3% of industrial process heat is currently electrified.²⁰ Industry itself agrees on the direction of travel, a survey of 1,400 senior executives found that almost two-thirds of industrial leaders see electrification as the most effective lever for meeting net zero targets.²¹

The removal of levies from bills will help to address this. The spark gap (the ratio of electricity to gas prices) would fall for businesses as a result of removing policy costs, from between 3.9 and 4.3 today to between 3.1 and 3.5.²² However, for many medium and large energy-intensive businesses the spark gap would remain too high to generate an adequate return on capital to justify investment in electrifying heat in commercial production processes, and some would still see their costs rise as a result of switching. The same dynamic holds back other forms of business electrification. Electric trucks, for instance, offer a promising route towards decarbonisation for road freight but face a comparable running cost disadvantage against their diesel equivalents.

A targeted electricity price discount scheme

The government should introduce targeted electricity price discounts for businesses investing in technologies that electrify heat, improving competitiveness and accelerating uptake. Support should focus on larger businesses able to finance upfront capital costs but facing operating costs that prevent projects meeting investment barriers.

The scheme could use an application or auction process and initially prioritise businesses with smaller spark gaps, maximising the volume of energy demand electrified for a given level of public support. Energy UK and CBI modelling of a medium-sized industrial or commercial site suggests that combining policy cost removal with a heat pump supported

through such a scheme could reduce annual energy bills by around £188,000, or 13%, in 2029/30.²³

The government should announce a commitment to a scheme at Autumn Budget 2026 and consult as soon as possible on its design, eligibility and scale, with a view to launching in 2028.

Initial support should prioritise energy-intensive manufacturing and industry with strong potential to electrify. Manufacturing generates £220 billion in output, supports 2.6 million jobs paying 8% above the economy-wide average, and accounts for 42% of UK exports, 48% of business R&D and 17% of business investment.²⁴ Existing support through the British Industry Supercharger and British Industrial Competitiveness Scheme addresses wider competitiveness pressures but is neither sufficient nor specifically designed to make electrification commercially viable for most industrial applications.²⁵

The targeted electrification scheme should also be designed so it can be expanded over time to other energy-intensive sectors or projects electrifying heat.

Road freight faces the same barrier

Heavy goods vehicle fleets warrant equivalent targeted support. Like industrial heat, the gap in operating costs does not yet favour electrification. The scheme design would need to differ, reflecting the comparison with diesel, the role of fuel duty, and the distinct costs and operating models associated with depot charging and fleet operations. Government should therefore develop targeted support for road freight electrification alongside the heat scheme.

Wider enablers

Aldersgate Group continues to advocate for a **cross-economy electrification action plan**, in which targeted measures for energy-intensive businesses would form an important part. A coordinated, cross-government plan should accelerate the adoption of low-carbon technologies across transport, buildings and industry by aligning existing policies, closing remaining gaps and giving investors a single, coherent view of the direction of travel.

That plan should focus on ensuring the surrounding policy environment supports demand-side electrification. Three elements matter most:

- **Access to finance for projects and infrastructure:** upfront capital costs remain high. For some large-scale and complex projects, a blended finance model in partnership with the National Wealth Fund could unlock private investment in electrification
- **Demand-side measures:** greater demand for low-carbon products and services, including through green public procurement, supports investment certainty across the value chain.
- **Access to the grid:** adequate network capacity and timely connections are essential. The Regional Energy Strategic Plans process and the ongoing consultation process on strategic demand connections to the distribution grid are both vital, and the action plan should be aligned with them. Aldersgate Group and UKERC modelling of a high industrial electrification scenario found that, without additional investment, the distribution network becomes significantly constrained from 2030

onwards, leaving industrial sites in some regions unable to access the electricity they need.²⁶

Conclusion

The UK has a clear opportunity to unlock growth in every postcode, improve energy security and strengthen living standards by addressing high electricity costs. Reallocating social and environmental levies from electricity bills into general taxation is the single decision at this Budget that would lower bills for households and businesses immediately, put downward pressure on inflation, improve the return on every electrification investment, strengthen energy security and give UK supply chains the demand signal they need. Pairing it with targeted operational support for business electrification would convert a one-off price reduction into a durable shift in how the economy uses energy.

¹Energy and Climate Intelligence Unit and CBI Economics (2026), [The race for net zero: the UK net zero economy and the transition to a competitive future](#)

²Based on Electricity Bills Taskforce calculations pulling together evidence from multiple sources. Forecast revenues from: [Office for Budget Responsibility \(2026\), Economic and fiscal outlook, March 2026](#); UK government (2026), Feed-in Tariffs scheme: final consultation analytical annex, impact of indexation options; and EIUG analysis. Cost projections for domestic consumers based on further analysis by EIUG and E3G, drawing on DESNZ data for average household energy consumption ([Review of the average annual domestic gas and electricity consumption levels: methodology note](#)) and [UK government \(2025\), Consultation on Warm Homes Discount cost recovery](#).

³ When the Climate Change Levy was first introduced in 2001, much of the UK's electricity was produced from high-carbon sources such as coal. In the intervening 25 years, electricity carbon emissions have been reduced by over 75%. While the levy played an important role in the transition to a lower-carbon system, it is no longer fit for purpose.

⁴CBI and Energy UK (2026), [Cutting business energy costs: a blueprint to boost growth](#)

⁵Department for Energy Security and Net Zero (2025), [International industrial energy prices](#). Note: UK relative to the median IEA country.

⁶Ofgem (2026), [Energy price cap \(default tariff\) levels](#)

⁷Good Energy (2026), [Rewiring the market: how to tackle the hidden causes of high energy bills](#)

⁸Analysis by the Electricity Bills Taskforce, as of September 2026, based on the [OBR \(2025\), Ready reckoner](#).

⁹TechUK (2026), [The state of UK tech in 2026: polling from techUK and Public First](#)

¹⁰CBI and Energy UK (2026), [Cutting business energy costs: a blueprint to boost growth](#)

¹¹CBI and Energy UK (2026), [Cutting business energy costs: a blueprint to boost growth](#)

¹²PwC, CBI and Energy UK (2026), [Powered up or priced out? The £250bn case for a national energy plan](#)

¹³MCS Foundation (2026), [The case for further levy reform: impacts on energy bills, fuel poverty and the clean heat transition](#)

¹⁴ Electricity Bills Taskforce figure based on [Department for Energy Security and Net Zero \(2026\), Annual fuel poverty statistics report: 2026](#); [Ofgem \(2023\), Decision on revised Typical Domestic Consumption Values for gas and electricity and Economy 7 consumption split](#); Energy UK analysis. Note: includes the impact of the Autumn Budget 2025 energy bills package.

¹⁵Which? (2026), [Consumer Worries Dashboard, updated April 2026](#); Energy UK (2026), [Energy debt: Everyone pays](#)

¹⁶E3G and King's College London (2026), [The home front: a strategic security review of British homes](#)

¹⁷Climate Change Committee (2025), [The Seventh Carbon Budget](#)

¹⁸Office for Budget Responsibility (2025), [Economic and fiscal outlook, November 2025](#)

¹⁹Department for Energy Security and Net Zero (2026), [Breathing space on your energy bill](#). Note: the relief applies to household electricity supplies in Great Britain from 1 October 2026 to 31 March 2027.

²⁰Climate Change Committee (2025), [The Seventh Carbon Budget](#)

²¹Siemens (2025), [Infrastructure Transition Monitor](#). Survey of 1,400 senior executives.

²²CBI and Energy UK (2026), [Cutting business energy costs: a blueprint to boost growth](#)

²³CBI and Energy UK (2026), [Cutting business energy costs: a blueprint to boost growth](#)

²⁴Make UK (2025), [UK Manufacturing: The Facts 2025](#).

²⁵Aldersgate Group (2025), [Representation to Autumn Budget 2025](#)

²⁶ Aldersgate Group and UKERC (2025), [Electrifying industry and distribution networks](#)