Briefing

Budget response

November 2025

Summary:

Although a tax raising budget generally, the chancellor was able to fund a reduction in domestic energy costs by reducing levies predominantly on electricity bills, saving the average household £154 a year. This begins to reduce electricity prices relative to gas, which is crucial to incentivise the electrification of transport and heating.

Rail fares will be frozen in 2026, supporting public transport commuters with the cost of living.

A range of other steps taken across heating and transport to help the public purse will have mixed impacts but there are some important steps to incentivise the transition to cleaner technologies.

A 5p cut in fuel duty will be phased out from September 2026 in a staggered series of rises to April 2027. It will then be uprated annually in line with the Retail Price Index (RPI).

A new pay per mile tax on electric vehicles (EVs) will be introduced from April 2028. This will dampen demand for EVs at a time when zero emission vehicle sales targets for manufacturers are being ramped up. But, overall, EVs will continue to be taxed more favourably than petrol and diesel vehicles.

The Warm Homes Plan will receive a further £1.5 billion for capital investment in a move that partially offsets the closure of the ECO energy efficiency scheme announced.

Disappointingly, there was nothing to help Britain's industrial sectors survive a challenging economic environment or assist with the transition to a greener economy and there were no new policies to promote the circular economy.

Introduction and context

While many feared the worst from this budget, the chancellor was helped by an improved economic outlook to deliver a fiscal repair job that was smaller than expected. She was able to preserve investment spending and pay for a politically significant end to the two child limit on child benefit, largely by freezing income tax thresholds and levying extra taxes on property and pensions savings. She was also able to more than double the size of her 'fiscal headroom', a crucial buffer against economic shocks. Overall, there was a £12 billion rise in spending, offset by £26 billion of tax rises.

Financial markets have so far greeted the budget calmly, with little change to government borrowing costs. Below, we examine the impact the budget measures will have on efforts to tackle climate change, fuel poverty and the transition to clean energy.

Energy bills and efficiency

Energy bills will be reduced by £154 for an average household (January 2026 price cap), which is great news for tackling the cost of living crisis. Crucially, bill reductions are predominantly achieved by moving levies off electricity bills. This will reduce the price of electricity relative to gas, helping remove a disincentive for households to switch from gas boilers to cleaner more efficient heat pumps.

There are three components to the government's energy bills reduction.

First, moving 75 per cent of the legacy Renewables Obligation (RO) levy off electricity bills and into government spending, at a cost of £2.3 billion per year, is a smarter approach than the previously trailed cut to VAT. This was a core Green Alliance ask for the Budget and is a recommendation in our briefing on how to reduce household energy bills. This will save an average household £88 per year and substantially more for those using direct electric heating.

Second, the Energy Company Obligation (ECO), funded by a levy on energy bills, will be scrapped from March 2026, reducing an average household bill by £59 per year.

Third, as VAT is applied to the entire energy bill, the RO and ECO reductions will result in a reduction in VAT of £7 per year for an average household.

ECO is a government energy efficiency scheme designed to tackle fuel poverty and help reduce greenhouse gas emissions. Although it been poorly delivered, scrapping it leaves the government without a large scale fuel poverty alleviation scheme.

To partially offset the loss of ECO, the government has committed a further £1.5 billion to the Warm Homes Plan. But ECO should have been reformed rather than dropped.

The government must urgently set out how energy efficiency upgrades will be scaled up in the Warm Homes Plan before jobs are lost in the retrofit sector due to uncertainty, and homes left cold, damp and hard to heat. It must also clarify how it will meet the statutory fuel poverty targets in its Fuel Poverty Strategy.

Clean heating

Reports that the government was considering restricting the Boiler Upgrade Scheme (BUS) to those receiving benefits proved unfounded. The government's Carbon Budget and Growth Delivery Plan relies on rapid market-led growth in clean heating over the 2030s to reach 1.5 million installations a year by the middle of the decade and deliver a massive ten million tonnes of carbon savings a year between 2033 and 2037. Having ruled out a 2035 ban on sales of new gas boilers, incentives like the BUS will be important.

The budget also included a welcome commitment to do more to reduce the price of electricity relative to gas in the forthcoming Warm Homes Plan.

Transport

The budget was a big moment for transport taxation. Cars, vans and lorries are the UK's biggest source of climate-changing emissions and fuel duty has been frozen or cut since 2011. This has effectively cut the cost of driving in real terms, eating away at revenues for the Exchequer by £120 billion from 2010-11 to 2026-7 and increasing UK emissions by five per cent.

It is welcome news, therefore, that the 5p fuel duty cut introduced in 2022 will be reversed between September 2026 and April 2027, at which point it will rise with inflation. The freeze on rail fares, for the first time in decades, will provide much needed relief to commuters and other rail travellers.

The chancellor also announced a new pay per mile tax on EVs, called the electric vehicle excise duty (eVED) of 3p per mile for battery EVs and 1.5p per mile for plug-in hybrid models. The OBR predicts the move will raise £1.4 billion in 2029-30 and £1.9 billion in 2030-31.

The tax rate levied on EVs will still be lower than fuel duty for petrol and diesel vehicles, maintaining the incentive to switch. However, other countries that have recently introduced EV road pricing, such as Iceland and New Zealand, saw significant drops in the market share for new EVs. The OBR predicts a net decrease of 120,000 EVs sold over the forecast period as eVED is partially offset by other policies, including more money for the electric car grant, a £200 million increase in charging investment, the rise in the expensive car supplement threshold (a higher fee charged for premium cars) and business rate relief on EVs.

The late 2020s is a crucial time for the EV transition. Zero emission vehicle mandate (ZEV) targets increase steeply while the options available to manufacturers to comply with the regulation decrease, as flexibilities are slowly withdrawn. By 2030, manufacturers will only be able to hit their ZEV targets by sales, so cutting demand during this period is risky and could threaten the government's single biggest emission saving policy during the 2020s and 2030s.

The government should delay the implementation of eVED, until the EV market is more mature, during the next parliament, by which time over a fifth of all UK cars will be EVs and new sales targets will close in on 100 per cent.

Industrial decarbonisation

There was little to help Britain's industrial sectors survive a challenging economic environment or assist with the transition to a greener economy. No new policies were introduced to help cut electricity costs for industrial sites. Plans for the Treasury to cover 75 per cent of the costs of the Renewables Obligation only apply to household energy consumers.

With the British Industrial Competitiveness Scheme (BICS) not being introduced until 2027, and not likely to cover all industrial sectors, many businesses will continue to struggle with high gas and electricity prices.

The loss of the Industrial Energy Transformation Fund earlier this year means that there is now no policy support for installation of industrial heat pumps and other forms of industrial electrification.

The government must urgently bring down electricity costs for businesses trying to decarbonise. Electrification of industrial processes is widely recognised as the most efficient and effective way to cut emissions, but electricity prices are too high, at four to five times the equivalent cost of gas. An electrification business model, tied to decarbonisation plans, is required.

Oil and gas

The Energy Profits Levy on oil and gas windfall profits has not been scrapped, despite rumours of this before the budget, but the government has set out plans for a mechanism to replace it called the Oil and Gas Price Mechanism. This will kick in from 2030 when the Energy Profits Levy ends, or before then if energy prices fall below an agreed threshold. The new mechanism is designed to apply a windfall-style tax only when energy prices are above an agreed threshold.

The government also published the North Sea Future Plan, in response to a consultation earlier this year. The plan commits to strong climate action by promising to end new exploration licences for oil and gas. While there are some exceptions for 'tie-backs' (production linked to existing fields), the volumes of oil and gas from these extensions will be minimal. This makes the right call by recognising that oil and gas production in the North Sea basin is already in decline, and the future for workers and communities lies in the clean energy transition.

This is reflected in the news that the oil and gas industry regulator has had its remit reformed, with the old primary duty to maximise economic recovery of oil and gas replaced by three parallel objectives, including net zero and enhancing the transition to clean energy.

New commitments have been made to support North Sea workers to transition to new careers, including a North Sea Jobs Service with a £20 million funding pot to pay for training needs. Unions and local representatives will also be involved in policy making through the new North Sea Future Board.

Circular economy

The budget was disappointingly quiet on the circular economy and did nothing to use two obvious levers in advance of the circular economy growth plan next year.

Following industry complaints, the chancellor decided not to move to a single rate of Landfill Tax and charge the same for 'inert' waste like soils as other types of waste. The original timeline was too rapid, providing an incentive for waste crime and pushing costs on businesses with little time for them to switch to alternatives. But the new approach – to ensure the gap between rates, currently more than £120 per tonne, does not get larger – provides no incentive to create alternatives.

The government also confirmed that the rate for the Plastic Packaging Tax will rise with inflation. With the UK's plastics recycling industry on the brink of collapse, a higher tax rate was needed to close the price gap between virgin and recycled plastic.

For more information, contact:
Steve Coulter, head of economy, Green Alliance
scoulter@green-alliance.org.uk