

THE COST OF GREEN LEVIES

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Environmental levies (green levies) now cost the UK economy about £11 billion a year in total, putting £150 a year on the average household electricity bill, and a further £250 per household on the annual cost of living, a total of £400 per household per year. The levies also depress wages and rates of employment.

The Office for Budget Responsibility (OBR) publishes estimates of the environmental levies on the British economy as part of its *Economic and Fiscal Outlook*, which is released twice a year. The most recent issue is dated October 2021, with the costs reported in Tab 2.7 of the spreadsheet 'Supplementary fiscal tables: receipts and other':

2.7 Environmental levies							
	£ billion						
	Outturn		Forecast				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Renewables obligation	6.3	6.4	6.6	6.7	6.9	7.1	7.3
Contracts for difference	2.2	2.2	2.1	2.9	2.9	2.9	3.9
Capacity market ¹	0.0	0.9	0.6	0.7	1.0	1.0	1.1
Green gas levy	0.0	0.0	0.1	0.1	0.1	0.2	0.1
Environmental levies	8.5	9.5	9.2	10.4	10.9	11.2	12.4
<i>Memo: Expenditure on renewable heat incentive (RHI)</i>	<i>0.9</i>	<i>1.0</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.2</i>

Note: The 'Environmental levies' line above is consistent with the 'Environmental levies' line in Table 3.4 of the October 2021 *Economic and fiscal outlook*.

¹The ONS have yet to include capacity market auctions in their outturn numbers. If they were included, they would have been £1.1bn.

Figure 1: Tab 2.7 of OBR spreadsheet 'Supplementary fiscal tables: receipts and other', in the *Economic and Fiscal Outlook – October 2021*.¹

The levies listed here consist of subsidies to renewables and payments to other generators to support renewables, and amount to £9.5 billion in the current year, rising to £12.4 billion in 2026/27.

The OBR has decided to exclude the costs of the Feed-in Tariff (FiT) for small-scale renewable generation, which Ofgem reports as costing consumers about £1.76 billion per year.² This is probably because of technical difficulties in determining how much of that sum should be considered

as subsidy. In our view, it is all subsidy, giving a total green levy cost of about £11.26 billion per year, nearly all of it on electricity bills.

For the purposes of this note we will round this down to £11 billion per year.

Households meet all of these costs:

- through their own energy bills
- through the cost of goods and services as industrial, commercial, and public sector consumers pass on their share of the levies through prices or taxation.

The Office for National Statistics reports that there are 27.8m households in the UK,³ so the total cost of living impact of the £11 billion a year levies on British households can be calculated as approximately £400 a year.

Of this total, about £150 per year is recovered directly from domestic electricity bills, a figure calculated thus. Households account for some 42% of electricity sales (108 TWh out of 259.5 TWh in total)⁴ and therefore pay a similar proportion of the total levy cost in their energy bills, or £4.4 billion a year. This, divided by 27.8m households gives a mean electricity bill impact of about £150 per year.

It is also important to remember that the green levies charged to industrial and commercial consumers will exert a downward pressure on wages and rates of employment, a negative but real effect of unknown magnitude.

There is a strong argument, in our view, for removing these levies from the national electricity bill to reduce the overall cost of living for UK households and cost of operation for businesses increasing wages and employment. In the short term, the cost might be transferred to general taxation, but without delay these subsidy entitlements should be bought back by government at a discount and cancelled.



Notes

1. <https://obr.uk/efo/economic-and-fiscal-outlook-october-2021/>
2. <https://www.ofgem.gov.uk/publications/feed-tariff-fit-annual-report-2020-21>

3. <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/datasets/familiesandhouseholds>

4. <https://www.gov.uk/government/statistical-data-sets/regional-and-local-authority-electricity-consumption-statistics>