20th January 2017

Rt. Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

I am writing to outline the CBI's priorities for the March Budget. The CBI is the UK's leading business organisation, speaking on behalf of 190,000 businesses that together employ around a third of the UK's private sector workforce. We represent businesses of all sizes, sectors and regions.

2016 was a year of momentous change for politics, society and for business. As we put the outcomes of these decisions into action, business is committed to working with Government to build a better economy that shares the benefits of growth across the UK and in our local communities.

The foundations for this ambition must be grounded in efforts to improve productivity and the huge variations between the most and least productive areas in the UK. The CBI welcomed your efforts to improve UK productivity through the creation of the £23 billion National Productivity Investment Fund at Autumn Statement, covering R&D, housing and local and digital infrastructure.

Last year the CBI launched a study into the differences in regional productivity, and what more businesses and Government can do to tackle them.[1] This report found that the primary factor in boosting regional productivity is <u>educational attainment and skill levels</u>. <u>To lock-in economic growth and prosperity for the long-term, we believe that measures to raise performance in these areas should be prioritised at Budget.</u>

However, this cannot be the sole focus for the Budget. While the UK economy has been resilient since the referendum, the CBI expects growth to slow this year, to around 1½ per cent, as uncertainty around our EU exit dampens business investment and higher inflation erodes consumer spending growth. Against an uncertain and increasingly inflationary economic environment, many businesses – particularly retailers and manufacturers – are facing a growing burden of operational costs.

The cumulative effect of these pressures risks hampering firms' ability to deliver jobs and growth and raise productivity. <u>Government must therefore be alive to the challenges facing firms and should take action as necessary to alleviate these pressures.</u> By supporting businesses to invest, the Government can promote growth at a critical time for the UK economy as we enter into EU exit negotiations.

I look forward to discussing these recommendations with you in due course.

Yours sincerely,

Carolyn Fairbairn
Director-General

[1] The CBI's *Unlocking Regional Growth* report can be accessed at: www.cbi.org.uk/insight-and-analysis/unlocking-regional-growth/

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The CBI's key recommendations		At March Budget	Over 2017
1. Boost regional growth and productivity, particularly through a focus on education and skills			
1.1	Invest in education to boost national prosperity and life chances, including enhancing funding in regions with poor attainment and considering a leadership investment fund for head teachers	✓	✓
1.2	Give people the knowledge and skills to succeed in the modern workplace, by incentivising STEM students to become teachers, funding pupils' digital development and introducing dedicated careers leaders	✓	✓
1.3	Treat the first two years of the apprenticeship levy as a transition period while delivering a genuinely employer-led system	✓	✓
1.4	Provide greater granularity on the funding commitments made at Autumn Statement to boost productivity	✓	✓
1.5	Prioritise delivery of the planned infrastructure pipeline, providing timelines for delivery where possible	✓	✓
2. Stand ready to support firms in a more challenging and uncertain economic environment			
2.1	Limit the growing burden of business rates by bringing forward the RPI to CPI switch		✓
2.2	Clarify the long-term intentions for financial services taxation, including a commitment to stability in Insurance Premium Tax for the rest of the Parliament	✓	✓
2.3	Open a review into the scope and effectiveness of capital allowances	✓	
2.4	Provide stability in pensions policy	✓	✓
2.5	Support exports and investment through Air Passenger Duty		✓
2.6	Review incentives to improve employee health and wellbeing		✓
3. Improve the attractiveness of the UK as place to do business through the R&D Tax Credit review and Levy Control Framework			
3.1	Build on the success of the R&D tax credit schemes by increasing certainty and simplicity around claims, and ensuring valuable R&D activities are brought into scope	✓	
3.2	Provide a long-term, stable, transparent and cost-efficient framework for energy policy	✓	

1. Boost regional growth and productivity, particularly through a focus on education and skills

To improve productivity and prosperity, we need economic growth to be inclusive and spread across the whole of the UK, with businesses and Government working together in partnership.

The CBI's *Unlocking Regional Growth* report, published in December 2016, found that ensuring strong school performance and getting the best results at GCSE-level (or equivalent) is the single most important driver of productivity differences across the UK. Making progress in this area is a shared challenge for Government and business and is vital to enhancing life chances across all sections of our communities.

While the English school system has gently improved in recent years, there remains a long tail of low achievement – both for individual young people and in some parts of the country. This needs to change, and will require a joined-up effort from Government, schools and business. Our proposals blend funding recommendations, significant but practicable reforms to the education system, and clear, positive messaging.

Invest in education to boost national prosperity and improve people's life chances

1.1 Improving schools is the best long-term growth strategy a nation can have, with the CBI's *First Steps* report suggesting that raising school performance to the levels of the best in Europe could add £8 trillion to GDP over the lifetime of a child born today. To do so requires targeted action at the ages attainment gaps open up and for those children most at risk of falling behind. Evidence from London's schools on leadership, research-led teaching and high expectations demonstrates clear routes as to how performance of disadvantaged pupils and social mobility can be improved.

1.1.1 Support high quality teaching and governance through the Chartered College of Teaching and a new leadership investment fund designed to support heads more effectively

Evidence from schools in London and elsewhere demonstrates that the most important factor in improving education is high quality school leadership and excellent teaching. With this in mind, embedding a culture of school-led performance improvement is vital. The Government should offer all necessary support to the new Chartered College of Teaching as part of this as it seeks to improve practice. It should also look at what further support can be offered to head teachers through a leadership investment fund, which could be used to reform the support we give to head teacher development.

1.1.2 Enhance funding for better teaching in regions with poor levels of educational attainment

Some areas of England – especially rural and coastal towns – face particularly acute challenges in underperformance of educational attainment. This is exacerbating pre-existing disparities in regional productivity and growth performance. The CBI has welcomed the introduction of Opportunity Areas as a focus on regions with poor social mobility. Government should strengthen the impact of this initiative by introducing funds to attract and develop higher skilled teachers and school leaders to these areas following the structure of the Pupil Premium model.

1.1.3 Ensure schools spending reflects the vital importance of education to our economy

Businesses see education as the single greatest factor in boosting the long-term growth of our economy, and so it should be a priority in Government budgets. The ambition for the new national funding formula (NFF) for schools is founded on a salient issue – the fairness of per pupil spend across England – that will help drive future prosperity by improving social mobility. But it should not disguise cuts in the overall budget for 5-16 schooling. Government should protect education spending in real terms in every year of this Parliament, by ensuring that the NFF supports growth in school development. As the fiscal position improves, a more ambitious target of protecting education spending per pupil should be introduced.

Adopt an approach to education that gives people the knowledge and skills to succeed in the modern workplace

1.2 The CBI has long campaigned on the importance of outcomes – positive destinations in work or university – to our education system. We remain of the view that the Ofsted framework and the practice of inspection needs further reform to get this right. A well-led school system with high teaching standards can deliver both if the right framework of support is put in place. From offering enhanced childcare provision, to a more engaging and effective primary curriculum, through to greater choice and options between 14 and 18.

1.2.1 <u>Introduce dedicated careers leaders in every school to improve performance</u>
Careers advice in England has never been as strong as it should be. Through the Careers and Enterprise Company (CEC), the Government has taken a positive step to address this – though the company remains smaller in size than it needs to be. At present, there is a lot of good work going on between schools and companies to build better links and strengthen inspiration, but it is patchy and sub-scale. The CEC can help address this, but a careers lead with strong business links in every school is needed to really drive performance, and government should look to provide some seed funding for this.

1.2.2 <u>Incentivise STEM students to become teachers by offering grants linked to joining the profession and retention</u>
As our economy changes STEM (science, technology, engineering and maths) skills are going to matter even more, and we need to invest in how they are taught. Government provision of bursaries and action on teacher training, as well as business initiatives, like the successful STEM ambassador scheme, are positive steps. But we can go further and should explore what longer-term incentives could be implemented to draw – and retain – STEM graduates into teaching. A welcome starting point would be for the Government to assess tying student loan reimbursement to career progression within teaching – especially in targeted regions and Opportunity Areas.

1.2.3 <u>Set aside funding to boost pupils' core digital development and attainment</u>
Since the time of our *First Steps* report on schools in 2012, the CBI has been clear that digital skills are a gateway to the modern labour market, sitting alongside English, maths and the sciences. Ensuring that schools give these the focus they need requires recognition in the accountability framework, space in the curriculum and funding to deliver effective and relevant teaching. Setting aside funding for schools to improve their digital offer – perhaps by following the model of the school sports grant – would be a welcome step. Linking this new provision up with companies through the better careers inspiration set out above has the potential to be transformative.

1.2.4 <u>Press ahead with reforms to technical education and set aside funding to make it a success</u>
The CBI warmly welcomed the Government's support for the 15 Sainsbury pathways. However, a key concern for employers is ensuring that technical pathways are not seen as the second option, and that provision is good. Achieving this will require greater co-operation between schools, and between individual schools and local colleges. The Government must therefore increase funding for 16-18 provision in order to support the development of better technical education and a wide range of other options available for young people, such as UTCs. Government should also consider whether a change to the funding methodology is necessary to encourage co-operation and a focus on positive outcomes for young people.

1.2.5 Improve available funding to encourage upskilling and further learning for adults
Businesses already spend £45 billion per year on training, and the apprenticeship levy means that there is a significant focus on how this money is spent. But enabling career progression into higher skilled work is vital, and adult learning outside of the employer training budget is essential, both to family incomes as our labour market changes and to meeting the skills needs of our industrial strategy, notably in areas like digital and STEM skills. Government must look again at how to achieve this by developing a comprehensive approach to adult re-skilling. This should go beyond apprenticeships alone and include support for those changing jobs and roles as part of a wider strategy encompassing improved support for Equivalent or Lower Qualifications, part-time learning, fast track, condensed courses and the structural reform needed to deliver these options.

Treat the first two years of the apprenticeship levy as a transition period while delivering a genuinely employer-led system

1.3 CBI members remain of the view that the timescale and design of the Apprenticeship Levy pose big risks for employers to manage. If firms are to deliver quality provision and – in many cases – maintain successful training models, getting the policy right is crucial. Government has rightly recognised many of these challenges by adopting more of a partnership approach with business to improve the policy design. Over the longer-term, the CBI believes the Government should adopt a more flexible skills levy that funds a broader variety of high quality training. To achieve effective performance from the levy, Government should:

1.3.1 Create a genuinely employer-led system through the Institute for Apprenticeships (IfA)
Business has long called for greater ownership of skills policy. The creation of the IfA was welcomed by the CBI and must be a vital part of a flexible, employer-led system. However, for these reforms to create a truly business-led system in the long-term, the institute must be given a broader remit, including the right of reporting to ministers on robust success metrics for the system, a genuinely employer-led board and a consultative role on the future levy rate.

1.3.2 Ring-fence employers' levy contributions to fund quality training
Successful training levies around the world ring-fence employers' contributions to spend on training to ensure quality and business-relevant training. The Government must re-commit to ring fencing the levy as a fund that will only be used to pay for apprenticeship training and the system that supports it.

1.3.3 Develop an apprenticeship market strategy that works for business
Only three months out from its introduction, firms are increasingly concerned about many aspects of the Apprenticeship Levy – particularly the supply and quality of training that is going to be available, given the timescales and slow progress on establishing effective new standards. A more effective strategy for the apprenticeship market needs to be developed to give firms and providers the certainty that they are accessing high quality training programmes in return for their levy contributions. Government should work closely with the IfA to deliver this.

1.3.4 Allow firms to fund high-quality training in their supply chains and local areas by increasing the transfer-limiting cap
The Government has taken welcome steps to explore how levy funds may be transferred to other employers in the new system and the CBI is actively supporting this work. However, the framework that will become effective from this April – whereby a 10% limit on the amount that levy-paying employers can transfer and the EU State Aid rules preventing organisations from receiving over €200,000 over three years – won't work for those who currently support training in their supply chain. Given the vote to leave the EU, and the Government's focus on an industrial strategy that is both place and sector-based, a change in this approach

is desirable and can be delivered at no cost to the Exchequer. Government should significantly increase the 10% cap and allow regional and sectoral collaboration as well as in supply chains. This will allow larger companies to support smaller firms and innovative approaches to training.

Provide greater granularity on the funding commitments made at Autumn Statement

1.4 The CBI welcomed your efforts to improve UK productivity at the Autumn Statement through the creation of the £23 billion National Productivity Investment Fund, covering R&D, housing and local and digital infrastructure. Firms are now keen to learn exactly how these funds will be spent to help get planned productivity-boosting projects off the drawing board and into action. Where appropriate, Government should work with firms to ensure that these committed funds are put to maximum use.

1.4.1 <u>Use existing structures to direct additional R&D support to where it is most needed</u>
The UK has historically underinvested in R&D compared to our international peers, and the additional funding at Autumn Statement is a useful starting point towards bridging this gap. By 2025, the CBI wants to see combined public and private expenditure on R&D to increase from 1.7% of GDP today, to 3%. With some funds available to spend from this financial year, it is right that these are delivered through existing mechanisms such as Innovate UK's current competitive funding schemes. As the funds are released, Government should continue to consult closely with business on: priority areas for support, the mechanisms through which support is provided, and how success is measured to ensure effectiveness.

1.4.2 <u>Work with business to boost the reliability and availability of digital connectivity</u>
Greater digitisation is a key enabler of innovation and economic growth. The additional funding announced at Autumn Statement should be used to support improvements in the speed and reliability of business broadband alongside consumer broadband. However, the design of this scheme needs to be carefully considered to ensure that businesses are aware of the support available, and thereby acts as an incentive – not a disincentive – to providers.

1.4.3 <u>Commit to a long-term funding framework for local infrastructure projects</u>
CBI members place great value on the Local Growth Fund and its associated economic benefits, particularly in raising productivity across English regions. Alongside providing clarity over the allocation of funds at the LEP-level, Government should work with businesses to ensure that crucial, growth-enhancing projects are delivered and develop a long-term and sustainable approach to funding local infrastructure projects.

Prioritise delivery of the planned infrastructure pipeline to boost productivity, providing timelines for delivery where possible

1.5 The CBI's Regional Growth analysis shows that investment in infrastructure can lift the UK's long-term productive potential and get the country on a stronger growth trajectory – particularly in cities like Liverpool, Manchester and Leicester with large populations surrounding central urban areas.

1.5.1 <u>Maintain a relentless focus on delivery of planned road and rail projects</u>
With over £450 billion of planned projects to improve our rail and road networks set out within Control Period 5 and the Road Investment Strategy, Government should work with business to size this significant opportunity to drive growth and prosperity right across the country. This means giving greater granularity of the pipeline through start and completion dates for projects. Furthermore, business would welcome a focus on delivering the additional investment in local roads and traffic 'pinch points' set out in the Autumn Statement.

2. Stand ready to support firms in a more challenging and uncertain economic environment

While the economy has been resilient in the weeks and months since the EU referendum, the CBI's latest economic forecast predicts a softening in economic growth in 2017 and 2018 as business investment slows and rising inflation curbs households' disposable incomes. The price of imported goods is increasing rapidly due to the weaker pound, putting pressures on margins, particularly in the retail and manufacturing.

Many firms will also be adjusting to the increases in the National Living Wage and the impending introduction of the Apprenticeship Levy from this April, alongside other substantial – and increasing – administrative and policy costs, including the growing burden of business rates. More recently, the last Autumn Statement added further to business costs through the restrictions to in-work benefits via salary sacrifice and another increase in the Insurance Premium Tax rate to 12%.

The cumulative effect of these cost pressures – from both economic developments and policy measures – risks hampering firms' ability to deliver jobs and growth. In this environment, Government must be vigilant against raising operational costs facing firms further and should:

Ensure business rates do not weigh on businesses ability to grow and compete

2.1 Business rates are growing as a proportion of taxes paid by business, and weakening the competitiveness of all businesses with a physical presence, particularly those in the retail and manufacturing sectors. Business rates are currently indexed to increase each year by RPI inflation, until 2020-21 when it switches to the current official measure of inflation – CPI – that generally runs lower. At present, both RPI and CPI are substantially higher than commercial property price growth, meaning that the property tax burden facing business is growing faster than the value of the assets. Moreover, inflation is set to increase substantially this year and next because of a weaker sterling, thereby further adding to the challenge for businesses already struggling with higher input costs.

2.1.1 <u>Limit the growing burden of business rates by bringing forward the RPI to CPI switch</u>
By Autumn Budget, Government should look to bring forward to 2018/19 the switch in the indexation of business rates from RPI to CPI that is currently due to happen in 2020/21. The CBI estimates that this would involve a manageable cost to the Exchequer of £1 billion per year.

Provide clarity in financial services taxation in an uncertain economic environment

2.2 A strong financial services sector is critical to the success of the UK economy. In recent years, the financial services industry has faced a frequently changing tax environment. At a time when businesses in the sector are already experiencing heightened uncertainty following the EU referendum, policy instability risks harming this vital sector of the UK economy.

2.2.1 <u>Clarify the long-term intentions for financial services taxation</u>
The Government should outline the long-term intentions for the Bank Levy and Corporation Tax Surcharge, including clarification that the Surcharge will not be a permanent feature of the tax system.

2.2.2 <u>Commit to stability in Insurance Premium Tax (IPT) for the rest of the parliament</u>
Given the successive hikes in the IPT rate since 2010, including three increases in less than two years, operational costs for the insurance industry have increased significantly. Further increases to IPT will force firms to raise insurance premiums, further adding to the inflationary economic environment faced by the consumer and potentially leading to levels of insurance that inadequately cover risk. IPT is a revenue tax rather than a value added tax. It is therefore substantially more distortive for firms – given that it is irrecoverable – and should not be compared to the standard

VAT rate. Government should commit to stability in IPT for the rest of this Parliament and, working with business, should conduct an assessment of the impact of recent increases in IPT on insurance consumption.

Improve the competitiveness of UK capital allowances

2.3 The present value of capital allowances in the UK is the least competitive among G7 economies. This is a costly shortcoming in a competitive international environment for capital investment. Part of the reason for this is the scope of capital allowances in the UK. Firms are unable to claim relief when investing in industrial buildings and structures, including infrastructure assets that are so critical to our long-term growth potential, such as roads, airports and new nuclear facilities.

2.3.1 <u>Open a review into the scope and effectiveness of capital allowances</u>
Capital allowances have been an important area of the tax system that have been neglected while other areas of the business tax system have seen reform. The Government should open a review at Budget into the scope and effectiveness of the capital allowances system.

Provide stability in pensions policy

2.4 Long-term savings are critical to creating a more prosperous society, and workplace pensions are by far the cheapest and most effective way for millions of working people to save for retirement. However, success in this task requires strong, supportive employers who are able to meet their obligations while growing their business, especially in the context of the added uncertainty currently facing the UK economy. Stability in pensions policy and support for scheme sponsors is therefore critical.

2.4.1 <u>Take immediate action to underpin stability in firms' defined benefit pensions</u>
To do this, the Government should restate its support for the sustainability objective of the Pensions Regulator alongside undertaking efforts to allow schemes to introduce a modern inflation rates for indexation. Encouraging rigorous alternatives, where appropriate, to the 'gilts plus' approach to valuing schemes is also key. This will help schemes give savers a clearer statement of their position and may unlock investment in asset classes that have better long-term effects on the wider economy.

2.4.2 <u>Maintain the existing structure and rates of tax relief for employers, and protect tax relief for savers</u>
Underpinning the success of both defined benefit and contribution schemes is the tax framework. By maintaining the existing structure and rates of relief for employers, businesses can continue to support high levels of employee saving and build confidence in the long-term nature of pensions. It is also important that employees are effectively incentivised to save – no further cuts in provision of relief for individual savers would be welcome, given the substantial changes of the past decade, which have damaged confidence in pensions.

2.4.3 <u>Prioritise stability in auto-enrolment to support smaller firms adjust</u>
As the smallest employers, with limited experience of pensions, embark on enrolling their staff into a workplace pension, the emphasis must be on finishing the job, rather than making substantial changes. Government can support firms through the process and help them deliver workplace pensions by reducing unnecessary administrative burdens that disproportionately affect smaller businesses.

Support exports and investment through Air Passenger Duty

2.5 Air Passenger Duty (APD) acts as a disincentive to the development of new routes with new markets and deters business travel, which helps drive service exports in particular.

2.5.1 Freeze the remaining long-haul band of APD in 2017

As the Government looks to show, post-referendum, that the UK is open to new and existing partners across the world, business wants to see a freeze in the remaining long-haul band of APD in 2017. This will help leisure and business passengers manage the higher cost of foreign travel due to the weaker pound. Moreover, analysis from PwC suggests that reductions in APD would lead to a significant increase in investment and exports. Adopting this measure would cost the Government no more than £200 million. With Scottish airports set to come significantly more into line with international competitors from 2018, the solution in the long run is a competitive flat rate of APD across the whole UK, to avoid internal distortions.

Review incentives to improve employee health and wellbeing

2.6 Employers have an important role to play in supporting employee health and wellbeing. The restrictions to in-work benefits via salary sacrifice announced at Autumn Statement risk sending the wrong signal to companies wanting to invest more in employee health and wellbeing.

2.6.1 Conduct an assessment of the impact of changes to employee health benefits through salary sacrifice

Business supports Government efforts to eliminate inappropriate use of in-work benefits through the salary sacrifice mechanism. However, employee health schemes – such as health screenings – are a way in which employers can further support the wellbeing of their staff. Excluding benefits in kind from salary sacrifice schemes could diminish this contribution. Within the next 12 months, Government should undertake a review to assess the behavioural trends of this policy decision to ensure that the impacts of these restrictions do not adversely affect employee health and place additional strain on the NHS.

3. Improve the attractiveness of the UK as a good place to do business through the R&D Tax Credit review and Levy Control Framework

Recent Governments have taken positive steps towards creating an attractive business environment that encourages valuable economic activity in the UK. Most recently, this Government confirmed the commitment to the planned reduction in the headline rate of Corporation Tax to 17% by 2020 – the lowest in the G20 – at the 2016 Autumn Statement.

The Government have committed to look at both the R&D Tax Credits regime and Levy Control Framework at the Budget. In these areas, the Government should:

Build on the success of the R&D tax credit schemes by increasing certainty and simplicity around claims, and ensuring valuable R&D activities are brought into scope

3.1 The R&D tax credit system has strong business support and forms an essential part of the innovation ecosystem that makes the UK an attractive place to invest. The recent introduction of the 'Above-the-Line' R&D Expenditure Credit (RDEC), which also enables loss-making companies to claim, has further enhanced the ecosystem. However, CBI members tell us that more can be done to build on the success of the system and ensure the full benefits of R&D flow through the UK economy. The CBI therefore welcomes the review announced at Autumn Statement 2016 for conclusion at Budget. Through the review the Government should:

3.1.1 <u>Provide additional guidance on the R&D tax credit claims processes</u>
Many CBI's members – large and small – tell us that they are put off claiming R&D tax credits as they are unsure if their R&D activity satisfies the qualification criteria. By improving the claims guidance, including by providing real-life examples, the Government can further support valuable R&D investments by firms. The Government should also look to improve awareness of the credit, helping to encourage take-up, particularly by smaller companies.

3.1.2 <u>Improve certainty and simplicity around R&D claims</u>
Many businesses comment that it can be difficult to budget for the benefit that they eventually get back following a claim, weakening the behavioural element of the credit. The Government should look to provide examples of the typical benefit received from different types of claims, and by considering options to provide advance indication or minimum guarantees of the expected credit. SMEs in particular often comment that R&D tax credits are a lifeline, but waiting long periods – sometimes over 18 months – to get the cash in their pocket after initial R&D investments can often dampen their incentive to claim or deter them from undertaking the investment altogether. With the advent of Making Tax Digital, bringing forward and simplifying payment of the credit would be a positive way to mitigate the digitisation burden for SMEs, while helping them with cash flow and budgeting.

3.1.3 <u>Explore a supercharge for commercialisation of activity that follows initial research</u>
To ensure the UK does not miss out on the benefits of high value innovations that occur between initial ideas and the production process (which typically fall between the scope of R&D tax credits and Patent Box), the Government should explore the option of enhancing the R&D tax credit for businesses that develop their research in the UK, prior to commercialisation.

Provide a long-term, stable, transparent and cost-efficient framework for energy policy

3.2 The Levy Control Framework (LCF) provided a helpful long-term signal of intent to investors, and was useful in controlling costs in a demand-led incentive environment. However, with new low-carbon deployment increasingly driven by supply-led policy, mainly Contracts for

Difference (CfDs), Government should work with industry to consider a revised future policy framework to ensure investment in a low-carbon, secure and affordable energy system.

3.2.1 Provide clarity on arrangements for LCF beyond 2020, ensuring visibility, cost control and transparency

Businesses currently have a limited understanding of the Government's intentions for investment in low-carbon energy generation beyond 2020, when the current Levy Control Framework comes to an end, making it difficult for firms to plan for long-term investments. Government must therefore clarify at Budget a future framework for investment into the 2020s, which achieves the outcomes of long-term visibility; cost control, and value for money for business and household energy consumers; and transparency. These outcomes can be delivered through a reformed LCF, or a new framework, and should include the commitments set out below (see points 3.2.2 and 3.2.3).

3.2.2 Set a clear and regular long-term pipeline for CfD auctions

The priority from an investment perspective Government should set out plans for the timing and expenditure of Contracts for Difference (CfD) auctions at least four years in advance. Not only would this engender a greater sense of stability, but it would also help identify and control future costs. In addition, the Government should utilise the forthcoming Government's Emissions Reduction Plan, due to be published in March 2017, to set out its wider ambitions for the generation landscape, which will be important for those in the supply chain.

3.2.3 Publish an annual report on the cost impact of all energy and climate policies

To help instil greater transparency around policy impacts and costs, Government should document each year all policies and levies that are added to consumer bills – on both a gross and net basis – and how these will be kept under control. This should include future projections of policy costs.