Institute of Alcohol Studies

BRIEFING

Budget 2016 analysis

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Briefing: Budget 2016 analysis

Summary

- Freezes to beer, cider and spirits duty in this year's Budget continued four years of declining taxes on these products
- Accounting for inflation, beer duty is now 14% lower than in 2012, and cider and spirits duty 6% lower
- Cumulatively, these policies will cost the Treasury £770 million in the next fiscal year, and a total of £2.9 billion in the five years to 2018
- Lower duty results in higher alcohol consumption – the 2014 Budget alone raised drinking by 0.9%
- Lower duty causes death and illness – the 2015 Budget was estimated to cause 6,500 more hospitalisations each year due to alcohol
- The evidence that duty cuts benefitted pubs is sketchy, as brewers have retained the savings and off-licenses have continued to undercut them
- Despite the Government's claim to be supporting Scotch whisky with a duty freeze, duty is not levied on exports, and so cannot be considered trade policy

Overview

This document summarises the decisions taken on alcohol duty in this year's Budget, and evaluates their likely impact. It also sets these policies in the context of recent history, and takes stock following four years of real terms cuts to duty: cheaper alcohol, lower Treasury revenues, higher consumption, increased illness and death, and no demonstrable benefits for pubs or exports.

What happened to alcohol duty in this year's Budget?

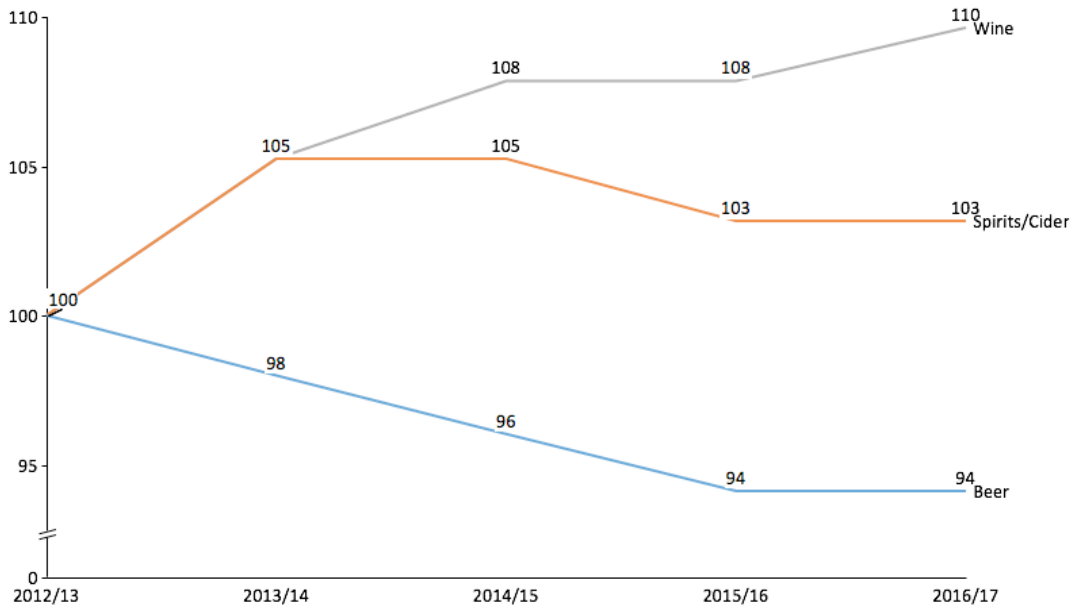
In his Budget statement of 16th March, the Chancellor announced for the following year:

- A freeze on duty on beer, spirits and most ciders (a real terms cut, since duty will fail to keep pace with inflation)
- Duty rates on most wines will increase in line with inflation.

The move represents a fourth successive year of real terms cuts. Between 2008 and 2012, the alcohol duty escalator automatically increased alcohol duties by 2% above inflation each year. However, this was scrapped for beer in 2013 and for wine, cider and spirits in 2014.

The charts below show the cumulative impact of these measures. In nominal terms, successive duty cuts have reduced beer duty by 6% since 2012; cider and spirits duty have not changed much; and wine duties are 10% higher.

Figure 1: Nominal duty rates, indexed: 2012/13=100[1]

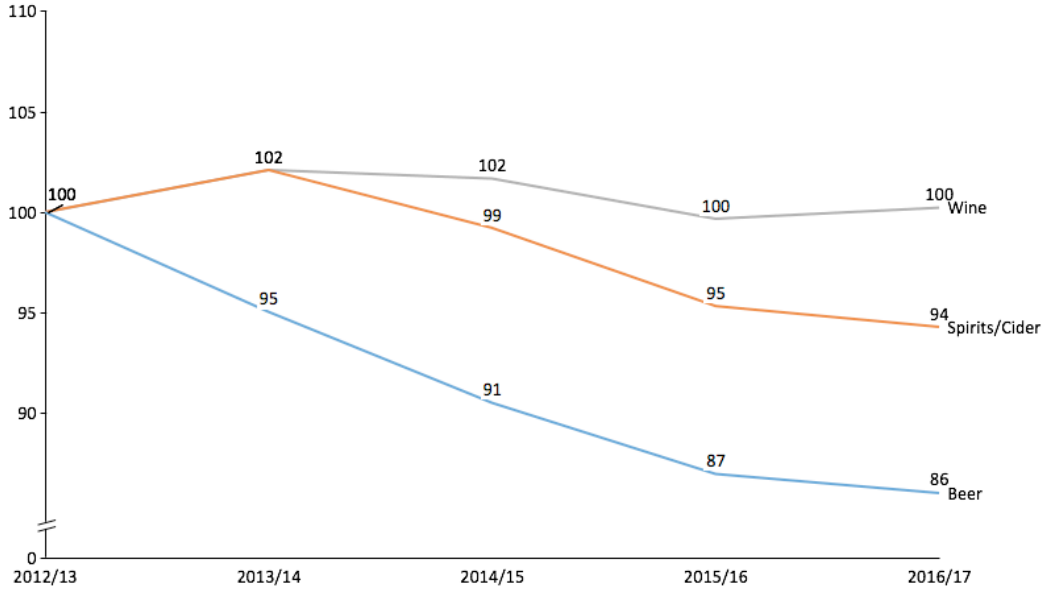


Source: HMRC Guidance: Alcohol Duty rates from 21 March 2016, HMRC Alcohol Bulletin

However, this picture looks dramatically different if we account for inflation, which has eroded much of the value of duty over the past four years. As a result, in real terms:

- **Beer duty is now 14% lower than in 2012**
- **Cider and spirits duty are 6% lower than in 2012**
- **Wine duty has remained flat over the period**

Figure 2: Real duty rates, indexed: 2012/13=100[2]



Source: HMRC, Guidance: Alcohol Duty rates from 21 March 2016; HMRC, Alcohol Bulletin; OBR, Economy Supplementary Tables March 2016

[1] General beer duty; still 1.2-7.5% ABV cider and perry; 5.5–15% ABV wine
[2] General beer duty; still 1.2-7.5% ABV cider and perry; 5.5–15% ABV wine. Deflated in line with the Retail Prices Index.

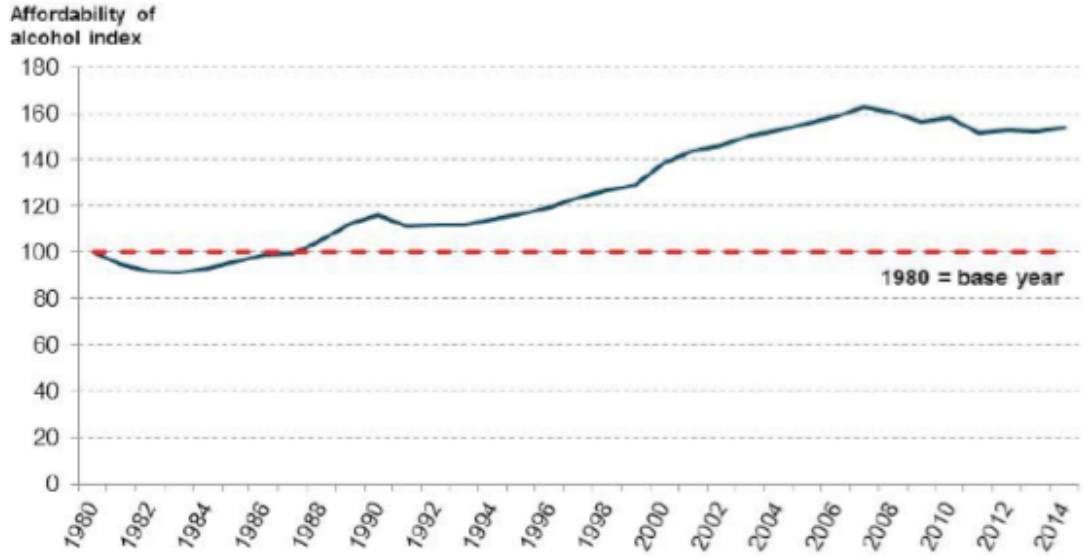
What is the impact on prices?

These reductions in alcohol duty have inevitably put downward pressure on prices (though not everywhere – see the section on pubs below). In its policy paper on the 2016 Budget, HMRC estimated the size of these effects, claiming that the price of a typical:[3]

- pint of beer will be unchanged in cash terms and 10 pence lower than it otherwise would have been since ending the beer duty escalator in 2013
- litre of cider will be unchanged in cash terms and 4 pence lower than it otherwise would have been since ending the cider duty escalator in 2014
- bottle of Scotch whisky will be unchanged in cash terms and 87 pence lower than it otherwise would have been since ending the spirits duty escalator in 2014
- bottle of wine will be 4 pence higher in cash terms and 7 pence lower than it otherwise would have been since ending the wine duty escalator in 2014

These trends pose a real threat to public health. More affordable alcohol is widely recognised one of the most powerful drivers of illness and death in developed countries.[4] The affordability of alcohol has risen dramatically in the UK, and is 54% higher today than in 1980. The duty escalator temporarily reversed this long term trend, but since its repeal affordability has started to climb once more.

Figure 3: Alcohol affordability, 1980–2014



Sources: Alcohol Price and Retail Prices (all items) Indices: derived from Focus on Consumer Price Indices (Codes: CBAA, CBAB, CHBD, CHAW). Office for National Statistics. Real Households Disposable Income from the UK Economic Accounts (Code NRJR). Office for National Statistics.

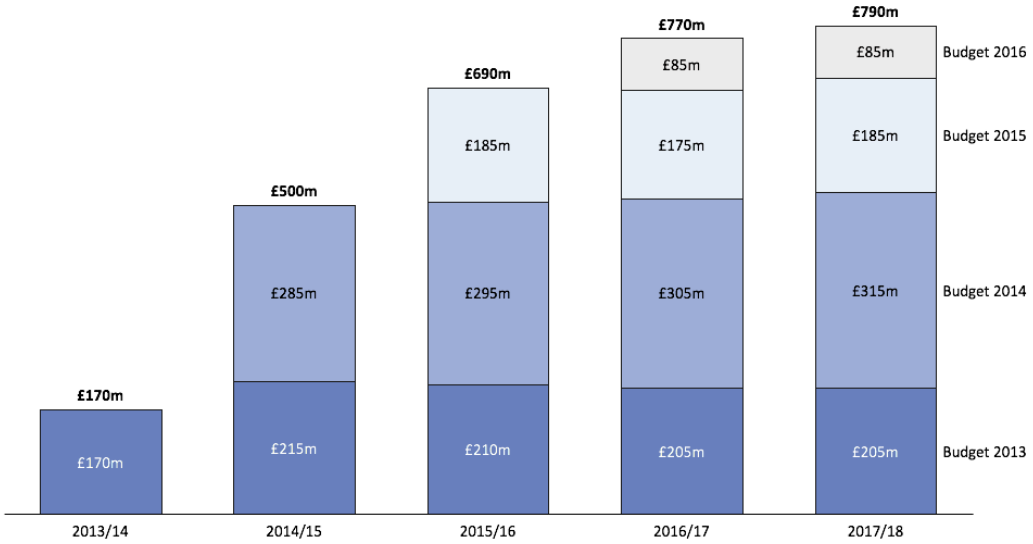
[3] HM Revenue & Customs (2016), Updates to the alcohol duty rates. Available from: <https://www.gov.uk/government/publications/updates-to-the-alcohol-duty-rates/updates-to-the-alcohol-duty-rates>. [Accessed 31 March 2016].

[4] Babor, T. et al (2010), Alcohol: No Ordinary Commodity. Oxford: Oxford University Press, pp. 109–27.

What is the impact on the government finances?

According to the Treasury, the decision to freeze beer, cider and spirits duties in this year's Budget will cost the exchequer £85 million a year. This simply adds to the money left on the table over successive budgets – **without any cuts or freezes, alcohol duty would have raised £770 million more in 2016/17**. Given the strict fiscal targets the Chancellor has set himself – aiming for a £10 billion surplus by 2019/20 – these policies reflect an odd set of priorities from the Government. Cumulatively, since the scrapping of the duty escalator, **the government finances will be £2.9 billion worse off by 2017/18**.

Figure 4: Annual loss of alcohol duty revenue due to budget decisions



Source: HM Treasury, Budget 2013; HM Treasury, Budget 2014; HM Treasury, Budget 2015; HM Treasury, Budget 2016

In the months leading up to the Budget, a number of MPs[5] and trade bodies[6] claimed that the 2014 cuts to spirits duty spirits had in fact raised revenue, contrary to the Treasury's estimate. There is little evidence to support such a view. The argument is based upon the fact that overall receipts from spirits duty since the 2015 Budget are £83 million higher than they were for the same period in the last fiscal year.[7] However, this fundamentally confuses correlation with causation.

Just because a rise in revenue followed a duty cut does not mean it was *caused* by a duty cut. Indeed, the underlying structural recovery of UK alcohol markets was always likely to boost receipts as consumers' disposable incomes rose. The same Treasury forecasts from last year's Budget which showed that a duty cut would negatively affect revenue also predicted that *overall* receipts would nevertheless rise by £85 million in 2015/16, remarkably close to what has in fact occurred.[8] In other words, without a duty cut the most likely scenario is that revenue would have been higher still.

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[5] HC Deb, 1 March 2016, c810. Available from: <http://www.theyworkforyou.com/debates/?id=2016-03-01c.810.6>. [Accessed 31 March 2016]; HC Deb, 9 March 2016, c158WH. Available from: <http://www.theyworkforyou.com/whall/?id=2016-03-09b.158.2>. [Accessed 31 March 2016]

[6] Lyons, M. (2016), SWA takes case for duty cut direct to Treasury, *Off Licence News* [online] Available: <http://www.offlicencenews.co.uk/news/fullstory.php/aid/15419>. [Accessed 16 February 2016]; Lyons, M. (2016), Leading MPs back campaign for 2% cut in drinks duty, *Off Licence News* [online] <http://www.offlicencenews.co.uk/news/fullstory.php/aid/15448>. [Accessed 16 February 2016].

[7] HMRC (2016), Alcohol Bulletin – February 2016; HMRC (2015), Alcohol Bulletin – June 2015.

[8] OBR (2015), March 2015 Economic and Fiscal outlook: Fiscal Supplementary Tables. The OBR estimated that clearances of spirits will rise from 1,092 hectolitres in 2014/15 to 1,145 hectolitres in 2015/16. Multiplying these numbers

What is the impact on consumption?

HMRC claim that the measures in this year's Budget are "likely to lead to a minor increase in overall alcohol consumption in the UK". However, they have not specified how large they expect this increase to be. Previous Treasury analysis predicted a **0.9% increase in overall alcohol consumption as a result of the abolition of the duty escalator**, including a 1.5–1.8% rise in beer in consumption and a 1.1–1.4% increase in spirits consumption.

Figure 5: Change in consumption due to abolition of the alcohol duty escalator

	2014/15	2015/16	2016/17	2017/18	2018/19
Beer	1.5%	1.5%	1.6%	1.7%	1.8%
Spirits	1.1%	1.2%	1.2%	1..3%	1.4%
Alcopops	0.1%	0.1%	0.1%	0.1%	0.2%
Cider	0.9%	0.9%	1.0%	1.0%	1.1%
Wine	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**0.8%**	**0.9%**	**0.9%**	**0.9%**	**0.9%**

Source: Hansard HL WA163, 1 April 2014

What is the impact on health?

The increases in consumption resulting from these successive duty cuts and freezes have inevitably taken a toll on public health, and, as a result, on the NHS. A full reckoning of the cost is not yet available. However, University of Sheffield analysis has estimated that **an additional 6,500 people will be hospitalised every year with alcohol-related ailments as a result of the 2015 Budget alone**.[9] We can therefore infer that the negative impact of removing the duty escalator is higher still, with tens of thousands suffering.

What is the impact on pubs?

HMRC states that the policy objective of freezing beer duty in this year's Budget is that "The government is committed to helping pubs".[10] Yet there is no clear evidence to support the Chancellor's claim that "the action we took in the last Parliament on beer duty saved hundreds of pubs and thousands of jobs".[11] There are two reasons to doubt the effectiveness of such measures. First, because duty cuts are not always passed onto pubs. Second, because duty cuts help the off-trade to undercut pubs.

A number of prominent publicans have alleged that savings from duty cuts have been retained by brewers, and do not benefit pubs. In an open letter to the Chancellor in February, they said: "You will have no doubt spotted the trick here – the brewers impose increases every January onto the retailers and then ask the government to reduce duty in March – at the fiscal expense of other tax raising – in order to mitigate the outcry and demand effect".[12]

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by the relevant spirits duty rates for each year, this implies a rise in revenue from £3.08bn to £3.17bn, an increase of £85 million.

[9] School of Health and Related Research, University of Sheffield (2015) The Sheffield Alcohol Policy Model [Poster]. Research impact and Parliament, 2 November, Portcullis House, Houses of Parliament, London.

[10] HM Revenue & Customs (2016), Updates to the alcohol duty rates. Available from: <https://www.gov.uk/government/publications/updates-to-the-alcohol-duty-rates/updates-to-the-alcohol-duty-rates>. [Accessed 31 March 2016].

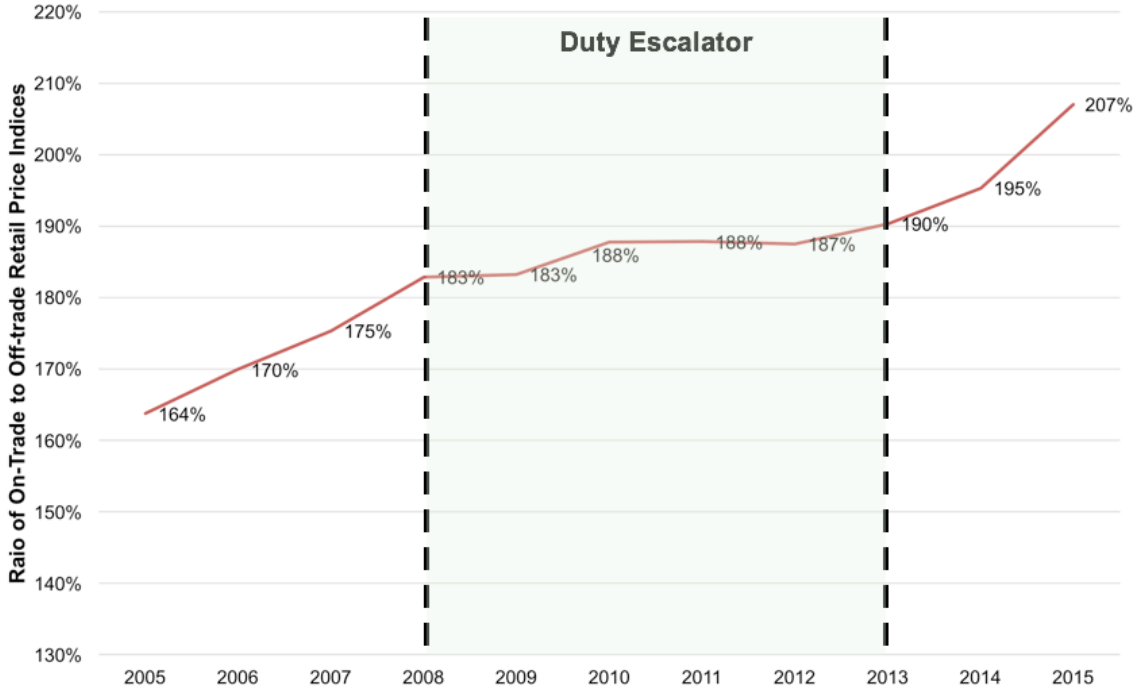
[11] Osborne, G. (2016), Budget 2016: George Osborne's speech, 16 March, House of Commons. Available from: <https://www.gov.uk/government/speeches/budget-2016-george-osbornes-speech>. [Accessed 31 March 2016].

[12] Sutherland, E. (2016), Leading operators slam 'flawed' BBPA beer duty campaign, *Publican's Morning Advertiser* [online]. Available: <http://www.morningadvertiser.co.uk/Legal/Legislation/Leading-operators-slam-flawed-BBPA-beer-duty-campaign>. [Accessed 22 February 2016].

Given the stronger bargaining position of supermarkets, it is highly likely that they can negotiate a greater share of duty cuts from brewers and so benefit more from the policy. The perverse net result of such cuts may therefore be to help the off-trade to maintain the low prices that have undercut pubs, and which are the real cause of their decline. As the chart below shows, the price differential between the on and off-trade has widened further since the beer duty escalator was scrapped in 2013, having stabilised during the period it was in force. As the publicans put it in their letter to the Chancellor, cutting duty "exacerbates the on-trade/off-trade price differential with consequent social and health impacts".

Indeed, the Treasury's own economic model indicates that beer duty cuts do more to benefit the off-trade than pubs. Their analysis suggests a cut in beer duty increases off-trade beer consumption by three times as much as on-trade beer consumption.[13]

Figure 5: Change in consumption due to abolition of the alcohol duty escalator



Source: ONS, Consumer Price Inflation timeseries

[13] Sousa, J. (2014), Estimation of price elasticities of demand for alcohol in the United Kingdom, *HMRC Working Paper 16*, p. 27.

What is the impact on exports?

In his Budget Statement, George Osborne appeared to suggest that the freeze on spirits duty was intended to support exports: "Scotch Whisky accounts for a fifth of all of the UK's food and drink exports. So we back Scotland and back that vital industry too, with a freeze on whisky and other spirits duty this year".[14]

This line of argument is puzzling, since alcohol duties only apply to the domestic, not foreign markets. Indeed, the week before the Budget, Exchequer Secretary Damian Hinds appeared to undermine Osborne's point by observing that "the majority of Scotch does not have duty applied to it as it is for export".[15]
Paul Johnson, Director of the independent think the Institute for Fiscal Studies was blunter in his assessment, dismissing Osborne's remark as a "bizarre aside", and "rhetorical nonsense".[16]

IAS recommendations

1. **Reinstate the duty escalator.** Alcohol sold in the UK is 54% more affordable than it was in 1980. We know that price drives consumption; duty levels should continue to increase year on year to counter the trend of increasing affordability that has been associated with rising consumption and harm.

2. **Increase duty on high strength cider.** Due to anomalies in the excise system, high strength 7.5% ABV ciders are available for the lowest price per unit of any drink. As a result, they are overwhelmingly favoured by dependent, street and young drinkers. Restructuring cider duty so that these products can be targeted with higher tax rates would substantially reduce the harms associated with them.

3. **Ensure spirits are taxed at a higher rate than wine and beer**. In comparison to beer and wine, spirits are generally much cheaper to produce and distribute. The same rate of duty for all beverage types would mean that distilled spirits could be sold much more cheaply than wine or beer, which is a public health concern as they are much stronger and carry a greater risk of health and social harm.

4. **Lobby for change at EU level so that drinks in all categories can be taxed according to their strength.** The structure of UK alcohol taxes is governed by European Directives in a way that means that under current structures, it is not possible to tax wine or cider in proportion with their strength. However, changing the structure of cider duty, to allow greater variation in tax levels, is possible.

5. **Implement a minimum unit price for all alcoholic products.** MUP is needed to deal with the particular problem of the cheapest strongest drinks favoured by the heaviest drinkers and is complementary to reforming alcohol duty structures.

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[14] Osborne, G. (2016), Budget 2016: George Osborne's speech, 16 March, House of Commons. Available from: <https://www.gov.uk/government/speeches/budget-2016-george-osbornes-speech>. [Accessed 31 March 2016].
[15] HC Deb, 9 March 2016, c171WH. Available from: <http://www.theyworkforyou.com/whall/?id=2016-03-09b.171.1>. [Accessed 31 March 2016].
[16] Johnson, P. (2016), Paul Johnson's opening remarks: IFS Budget briefing 2016, 17 March 2016. Available from: <http://www.ifs.org.uk/uploads/budgets/budget2016/budget2016_pj.pdf>. [Accessed 31 March 2016].

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Our core aim is to serve the public interest on public policy issues linked to alcohol. We do this by advocating for the use of scientific evidence in policy-making to reduce alcohol-related harm.

An Institute of Alcohol Studies publication

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