

Budget 2018 analysis

Summary

- Alcohol duty was cut in real terms for the sixth year out of seven, with only wine duty increased in line with inflation
- Accounting for inflation, beer duty is now 18% lower than in 2012; cider and spirits duty 10% lower, and wine duty 2% lower
- Cumulatively, these policies will cost HM Treasury over £1.2 billion in 2018/19, and a total of £9.1 billion by 2024
- The new band of duty on 'mid-strength' cider between 6.9% and 7.5% ABV announced in last year's Budget was set at £50.71 per hectolitre and comes into force from February 2019, but is likely to have very limited effect on price and consumption
- Lowering duty increases deaths and illness from alcohol – the best available estimates suggest these cuts have led to thousands of extra hospitalisations and hundreds more deaths
- The evidence that duty cuts have benefitted pubs is dubious, as brewers have retained much of the savings and off-licenses have continued to undercut them
- These measures are unlikely to have done much to support whisky exports as duty is only applied to domestic sales, and over 90% of scotch whisky is exported

Overview

This document outlines the decisions taken on alcohol duty in the November 2018 Budget. It places these policies in wider context, to set out the cumulative impact of real terms cuts to alcohol duty for the sixth year since 2012: in terms of affordability, consumption, health impacts and the consequences for the economy and public finances.

What happened to alcohol duty in the Budget?

In his October 29th Budget statement, the chancellor made the following announcements:

- A duty freeze on beer, spirits and most cider for 12 months from February 2019 (a real terms cut, since duty will fail to keep pace with inflation)
- Duty on wine will increase by 3.4%, in line with forecast inflation, for the same period
- The new 'mid-strength' band of duty on ciders between 6.9% and 7.5%, announced in last year's Budget to come into force in February 2019, will be set at £50.71 per hectolitre
- A ban on 'post duty point dilution', the practice of diluting wine once the excise duty on it has been calculated so as to reduce the duty paid, from February 2020. This is anticipated to increase duty revenue by £85–90 million a year at full effect.

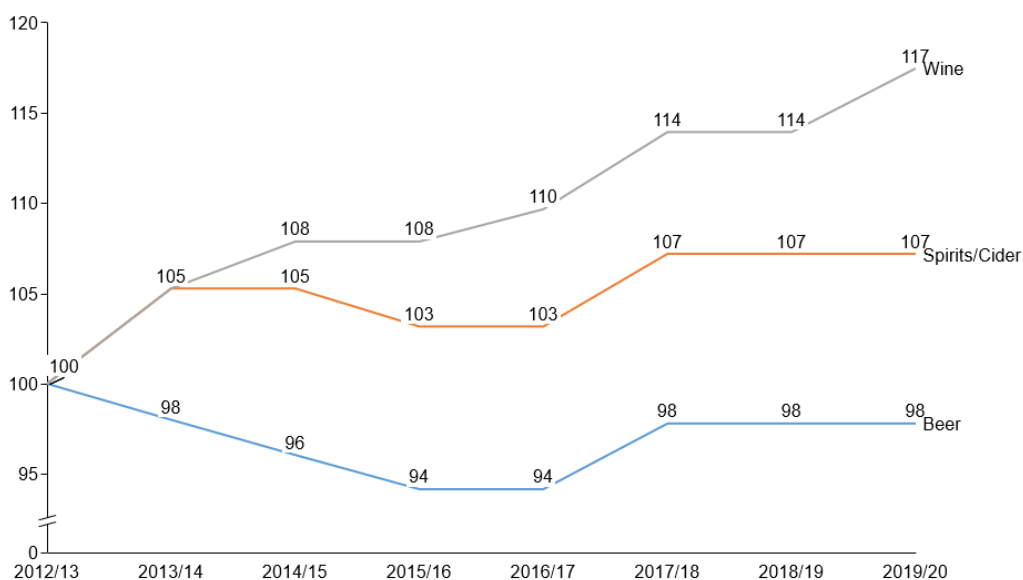
Another year of real terms cuts to alcohol taxes

The main headline in terms of alcohol duty is that **for the sixth year out of seven, the government announced real terms cuts to alcohol duty**. HM Treasury's plans for the public finances assume that alcohol duty increases automatically each year in line with inflation.¹ However, in practice, recent governments have faced fierce resistance from industry groups who have presented inflation increases as an excessive 'rise' in duty (when in fact such a policy merely ensures that the value of duty is not eroded by inflation).² In the case of beer duty at least, we now appear to be approaching a situation similar to that of fuel duty, where after nine successive nominal freezes, the default has shifted, and the *de facto* expectation is no longer that duty will rise in line with inflation.³

Between 2008 and 2012, the alcohol duty escalator ensured that all alcohol duties rose by 2% above inflation each year. However, this policy was scrapped for beer in 2013 and for wine, cider and spirits in 2014. Since then, beer, spirits and cider duty have been cut in real terms in every year with the exception of 2017/18 (when they were increased in line with inflation). Wine duty has been cut by less, but its value has fallen in real terms overall since 2012.

The charts below show the cumulative impact of these measures. In nominal terms (that is, before inflation), when the measures announced in this Budget come into force in 2019/20, beer duty will be 2% lower than in 2012; cider and spirits duty 7% higher; and wine duty 17% higher.

Figure 1: Nominal duty rates, indexed: 2012/13=100⁴



¹ HMRC (2018), Policy Paper: Alcohol Duty Up-rating. Available:

<<https://www.gov.uk/government/publications/increase-in-alcohol-duty-rates/alcohol-duty-up-rating>> [Accessed 2 November 2018]

² Goldsmith, C. (2017), Budget 2017: Alcohol duties set to rise as the chancellor makes no changes to planned increases, *City AM* (8 March). Available: <<http://www.cityam.com/260528/budget-2017-no-changes-were-made-alcohol-duties-but>> [Accessed 2 November 2018]

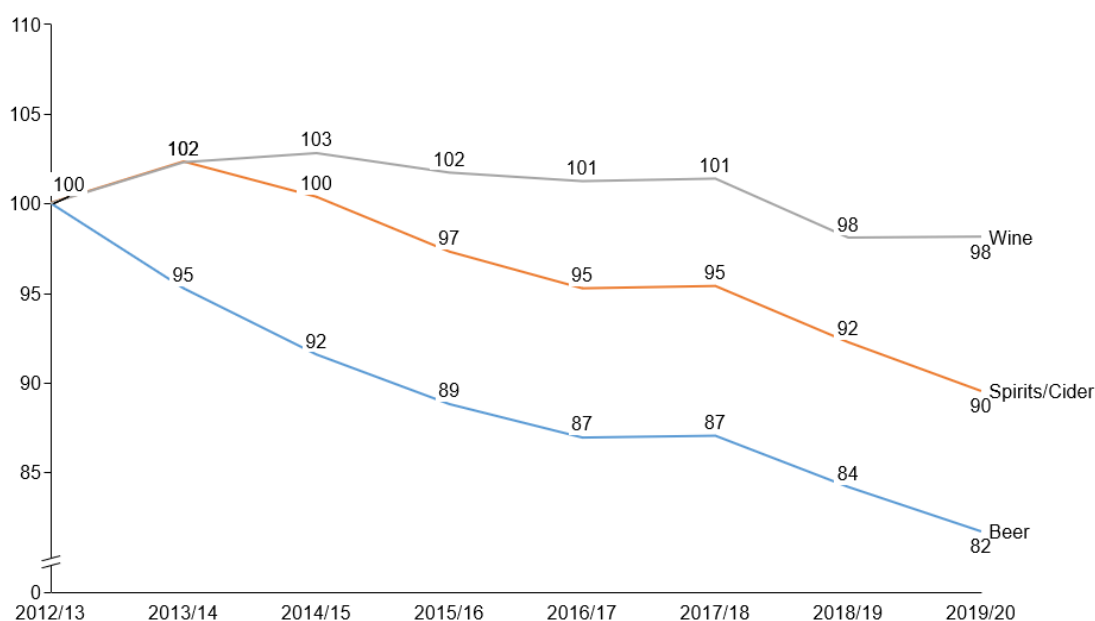
³ Elgot, J. (2018), Theresa May pledges to freeze fuel duty for ninth consecutive year, *Guardian* (3 October). Available: <<https://www.theguardian.com/politics/2018/oct/03/theresa-may-pledges-to-freeze-fuel-duty-for-ninth-consecutive-year>> [Accessed 2 November 2018]

⁴ General beer duty; still 1.2%–6.9% ABV cider and perry; 5.5%–15% ABV wine. Source: HMRC (2018), Policy: Paper: Alcohol Duty Up-rating; HMRC (2018), Alcohol Bulletin. Available from: <<https://www.uktradeinfo.com/Statistics/Pages/TaxAndDutybulletins.aspx>> [Accessed 2 November 2018]

However, this picture looks dramatically different if we account for inflation, which has eroded much of the value of duty since 2012. By 2019/20, in real terms, compared with 2012:

- **Beer duty will be 18% lower**
- **Cider and spirits duty will be 10% lower**
- **Wine duty will be 2% lower**

Figure 2: Real duty rates, indexed: 2012/13=100⁵



Some clarity on white cider tax

Health groups have long campaigned for action on strong ‘white’ ciders, such as Frosty Jack’s and White Ace. These products have been particularly associated with harmful, street and dependent drinking,⁶ as for years they have been the cheapest alcoholic product – often on sale for as little as 16p per unit.⁷ Historically, these have typically been 7.5% ABV, as this attracts the lowest duty per unit of any drink. This is because cider duty is charged on the volume of liquid sold, rather than the volume of alcohol (see figure 4). As a result, within each duty band, stronger drinks attract less duty per unit, and 7.5% was the strongest permitted within the standard cider band.

⁵ General beer duty; still 1.2-6.9% ABV cider and perry; 5.5-15% ABV wine. Source: HMRC (2018), Policy: Paper: Alcohol Duty Up-rating; HMRC (2018), Alcohol Bulletin; OBR, Economy Supplementary Tables November 2018

⁶ Alcohol Health Alliance (2017), Our policy position on taxation. Available from: <http://ahauk.org/wp-content/uploads/2017/01/AHA-Budget-2017-submission.pdf> [Accessed 2 November 2018]

⁷ Alcohol Health Alliance (2017), Pocket money prices for alcohol continue 1 year on. Available from: <http://ahauk.org/pocket-money-prices-alcohol-continue-1-year/> [Accessed 2 November 2018]

In the March 2017 Budget, the government announced that it would consult on a new band of cider duty to tackle white cider. In the November 2017 Budget it confirmed that the new band would be introduced on ciders between 6.9% and 7.5% ABV. The government also clarified that the purpose of this new rate would be to encourage white cider producers to reformulate their product to a lower strength, rather than to directly increase the tax on white cider.⁸ Therefore, the introduction of the new band would be delayed until February 2019 to give cider producers time to adjust their products.

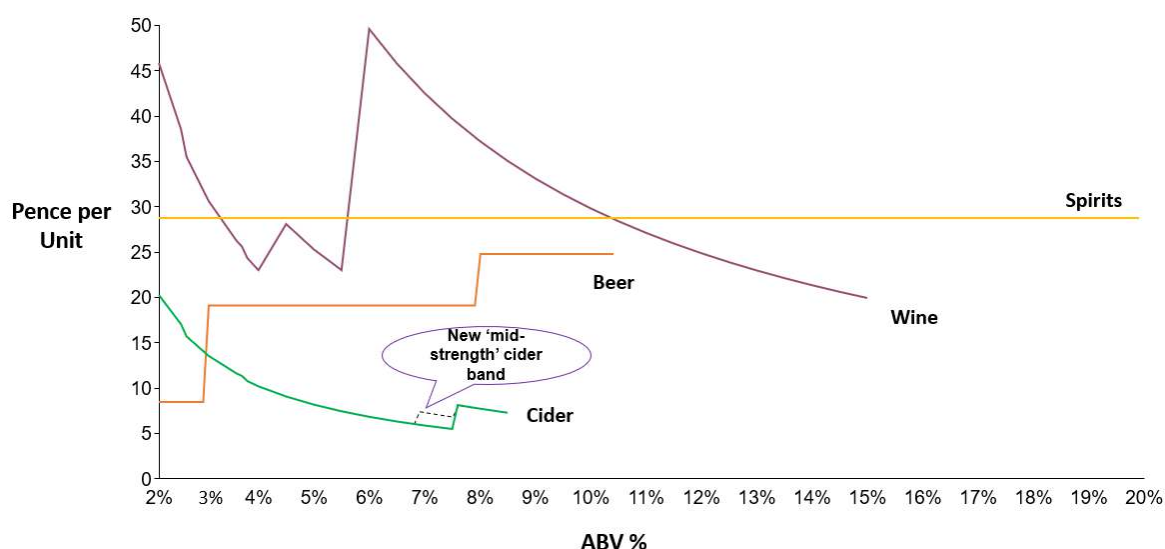
In this year's Budget, the government finally announced that the new 'mid-strength' rate of cider duty would be £50.71 per hectolitre, exactly halfway between the existing rates for 'standard' (1.2%–6.9% ABV) and 'strong' cider (over 7.5% ABV).

Figure 3: Rates of duty on cider and perry from 1 February 2019

Duty band	Strength (ABV)	Rate per 100 litres
Standard	1.2% - 6.9%	£40.38
Mid-strength	6.9% - 7.5%	£50.71
Strong	7.5% - 8.5%	£61.04

Figure 4 shows the impact of the new band of cider duty on the overall structure of UK alcohol duty, which is modest. Duty on cider remains considerably lower than duty on all other alcoholic products, so cider is likely to remain a drink of choice for heavy and harmful drinkers.

Figure 4: Rates of UK alcohol duty, 2019/20⁹



⁸ HM Treasury (2017), Autumn Budget 2017, p. 38
⁹ HMRC (2018), Policy Paper: Alcohol Duty Up-rating

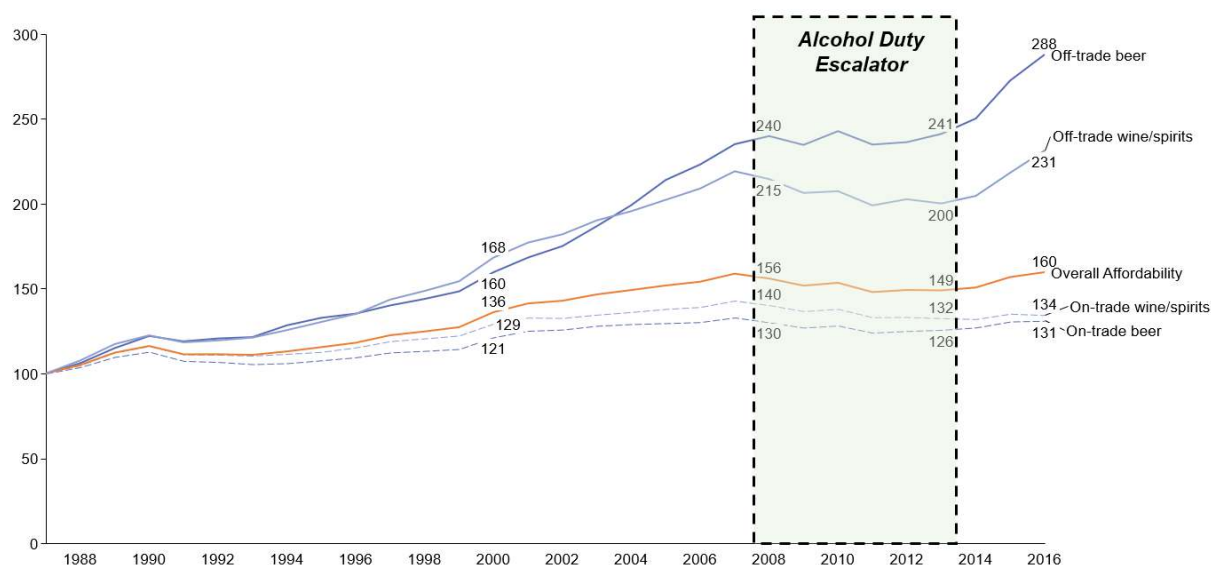
It remains to be seen whether this change will have the desired effect in terms of reformulation. The chargeable duty on a three-litre bottle of 7.5% ABV cider has risen from £1.21 to £1.52. If fully passed onto consumers, this would represent a 31p increase in the price of a bottle of white cider, or around a 9% increase in price. The government's expectation is that this will incentivise producers to reduce the strength of their product to 6.9% ABV in order to avoid this duty increase.

If reformulation does occur as the government intends, we would expect the unit content of a three-litre bottle of white cider to fall from 22.5 units to 20.7 units. However, in that case duty per unit would barely rise, since standard cider duty has failed to keep up with inflation (see appendix).

What is the impact on prices and affordability?

Recent reductions in alcohol duty have contributed to lower prices, and the growing affordability of alcohol. Affordability, in turn, is widely recognised as one of the key drivers of consumption and harm.¹⁰ Since the duty escalator was scrapped, alcohol affordability has risen dramatically, especially in the off-trade (supermarkets and off-licences). Overall, alcohol is 60% more affordable today than in 1987, and supermarket beer is 188% more affordable.

Figure 5: Affordability Index, by beverage type and location, 1987–2016¹¹ (1987=100)



¹⁰ Wall, M. & Casswell, S., (2013) Affordability of alcohol as a key driver of alcohol demand in New Zealand: a co-integration analysis, *Addiction* 108:1, pp. 72–9

¹¹ Institute of Alcohol Studies (2018), The rising affordability of alcohol

What is the impact on the government finances?

HM Treasury estimates that the cuts to beer, cider and spirits duty in this year's Budget will cost the government £165–£185 million a year over the next few years (figure 6). Cumulatively, between now and 2024, the cost is anticipated to be £915 million.

Figure 6: Impact of 2018 budget cuts to alcohol duty on government finances¹²

2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
-£35m	-£165m	-£175m	-£175m	-£180m	-£185m

Added to the cuts in alcohol duty since 2012 outlined above, **the annual cost of recent cuts to alcohol duty will exceed £1.2 billion in 2019/20. By 2022/23, the total cumulative revenue loss will pass £9 billion.** In other words, if the government had stuck to the planned trajectory for alcohol duty in 2012 – that is, to increase all duties by 2% above inflation in 2013/14 and 2014/15, and maintain them in line with inflation every year thereafter – this would have raised another £9 billion for the public finances.

Figure 7: Cumulative impact of alcohol duty cuts since 2012 on government finances¹³



At a time of financial difficulties in the NHS and cuts to alcohol treatment services, the government's priorities can be questioned, particularly given that alcohol duty raises £11 billion a year,¹⁴ far below the government's estimate of the cost of alcohol to society, £21 billion.¹⁵

¹² HMRC (2018), Policy Paper: Alcohol Duty Uprating

¹³ HMRC (2018), Policy Paper: Alcohol Duty Uprating; Hansard (2018) Alcoholic Drinks: Excise Duties: Written question – 161163. Available from: <<https://bit.ly/2z0ul4r>> [Accessed 2 November 2018]

¹⁴ HMRC (2018), Alcohol Bulletin, op. cit.

¹⁵ Bhattacharya, A. (2016), Dereliction of Duty: Are UK alcohol taxes too low? London: Institute of Alcohol Studies.

What is the impact on health?

We do not have the capabilities to specifically model the health impacts of the government's changes to alcohol duty. However, it is highly likely that as the affordability of alcohol has increased, this will have increased consumption, with a negative impact on health. Researchers at the University of Sheffield have estimated that **an additional 6,500 hospitalisations will occur every year with alcohol-related ailments in England as a result of the 2015 Budget alone.**¹⁶

The Sheffield Alcohol Policy Model, which draws on the best available evidence of the relationship between alcohol prices, consumption and health harms to estimate the effects of different alcohol policies, can give us some indication of the likely magnitude of the consequences. For example, it has estimated that a 10% increase in alcohol taxes in England would reduce annual alcohol-related hospitalisations by 16,000 and save 350 lives a year.¹⁷ Conversely, in 2015, it estimated that freezing nominal alcohol duty for five years would lead to 466 additional deaths in England over those five years.¹⁸ Clearly, neither of these scenarios perfectly match the actual policies implemented by the government. However, they are of comparable size – the weighted average real terms decline in alcohol duty since 2012 is 11%, and (as figure 1 shows), nominal duty rates are at similar levels in 2018/19 as they were in 2013/14. What this indicates, then, is that **hundreds of additional lives have been lost as a result of recent duty cuts.**

What is the impact on pubs?

In his Budget statement, the chancellor justified his cuts to beer duty on the grounds of “keeping the cost of beer down for patrons of the Great British Pub”.¹⁹ However, beer duty applies to all beer, whether it is sold in pubs or supermarkets, and it is highly likely that supermarkets benefit as much, if not more, from duty cuts.

As figure 8 shows, off-trade beer has grown steadily cheaper over the past 30 years, and the gap between prices in the on-trade and the off-trade has widened over that period. The era of the duty escalator was the only time when off-trade prices did not fall, and this gap did not widen. Publicans have long recognised this – a 2017 IAS survey found that cheap supermarket alcohol was seen by publicans as the single greatest threat to their business.²⁰

¹⁶ 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.

¹⁷ Angus, C. et al (2016), Alcohol and cancer trends: Intervention Scenarios. University of Sheffield and Cancer Research UK.

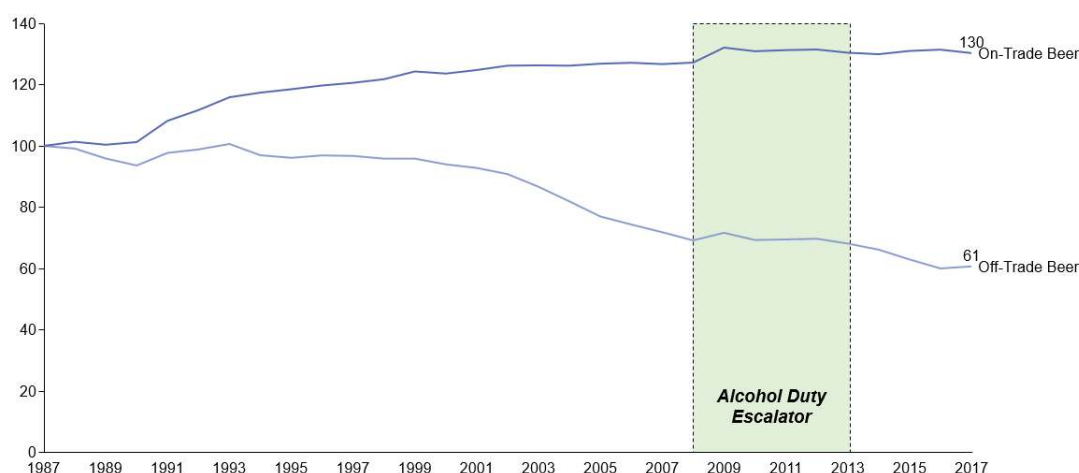
¹⁸ Angus, C. & Ally, A. (2015), Modelling the potential impact of duty policies using the Sheffield Alcohol Policy Model Version 3. Sheffield: ScHARR, University of Sheffield.

¹⁹ HM Treasury (2018), Budget 2018: Philip Hammond's speech. Available from:

<<https://www.gov.uk/government/speeches/budget-2018-philip-hammonds-speech>> [Accessed November 2018]

²⁰ Bhattacharya, A. (2017) *Pubs Quizzed: What publicans think about policy, public health and the changing trade*. Institute of Alcohol Studies

Figure 8: Beer price inflation, 1990–2017 (RPI relative to All-Items Index, indexed, 1980=100)²¹



This is likely because the stronger bargaining power of supermarkets means they can negotiate a greater share of duty cuts from brewers than pubs can. 89% of North East publicans in a recent survey carried out by Balance NE said that duty cuts had no positive impact on their business, with only 7% claiming to have seen any benefit.²²

Overall, it is striking that cuts in duty do not appear to have slowed the closure of pubs. Between 2008 and 2013, the net decline in the number of pubs was 1.5% a year. Between 2013 and 2017, it continued at around the same rate – 1.6% a year.²³ That is despite a stronger economy, relief on business rates and the pubs code, which should all have somewhat improved the trading environment.

What is the impact on the whisky industry?

The chancellor also made reference to the “concerted lobbying of my Scottish Conservative colleagues” in persuading him to cut spirits duty.²⁴ For example, the MP Paul Masterson raised the issue at Prime Minister’s Questions, and has claimed that: “Scotch whisky is an export powerhouse for the UK. It is vital that the UK Government does all it can to provide certainty and support to this vital Scottish industry”.²⁵

This is a peculiar line of reasoning, because exports are not subject to UK alcohol duty – only alcohol released for domestic consumption faces the tax. Paul Johnson, director of the Institute for Fiscal Studies, has dismissed the claim that cutting alcohol duty can support whisky exports as “rhetorical nonsense”.²⁶ Indeed, over 90% of scotch whisky is sold outside the UK, and as a result is unaffected by the Budget announcement.²⁷

²¹ ONS (2016) Consumer Price Inflation time series dataset

²² Balance (2018), Views from behind the bar: North East Landlord Survey 2018

²³ BBPA (2018), Statistical Handbook 2018

²⁴ HM Treasury (2018), Budget 2018: Philip Hammond’s speech

²⁵ Scottish Conservatives (2018), Prime Minister – Scotch Whisky an important industry to the UK. Available from: <http://www.scottishconservatives.com/2018/10/prime-minister-scotch-whisky-an-important-industry-to-the-uk/> [Accessed 2 November 2018]

²⁶ Johnson, P. (2016) Paul Johnson’s opening remarks: IFS Budget briefing 2016. Available: https://www.ifs.org.uk/uploads/budgets/budget2016/budget2016_pi.pdf [Accessed 2 November 2018]

²⁷ According to WSTA (2017), WSTA Market Overview 2017, 5.8m nine-litre cases of scotch whisky were sold in the UK in 2016, which is 53m litres. According to Scotch Whisky Association (2017), 2017 Export Figures (Available:

It has sometimes been suggested that higher rates of spirits duty in the UK can make it harder to argue for those countries to reduce tariffs on British spirits. Yet no evidence has ever been offered for such claims. Moreover, even if duty rates are in fact an issue in trade negotiations, incremental changes of the kind usually seen in Budgets seem unlikely to make a significant difference.

IAS recommendations

1. Raise alcohol duty on all products by 2% above inflation

Alcohol duty has been eroded by successive real terms cuts. Affordability has risen to high levels by historical standards, and at a cost to public health. Above inflation increases in duty are necessary to reverse this trend and ensure progress in reducing alcohol harm.

2. Implement a minimum unit price (MUP) for all alcoholic products in England

MUP is needed to deal with the particular problems caused by the cheapest strongest drinks favoured by the heaviest drinkers and is complementary to reforming the alcohol duty structure for other products. Though the government has commissioned Public Health England to review the evidence of the impact of MUP in Scotland, we believe that the evidence is already strong enough for action, and further delay is only likely to result in more lost lives, higher costs to the taxpayer and damage to the economy.

3. Increase duty on high strength cider

The new rate of cider duty should be expanded to cover all products between 5.5% and 7.5% ABV to have a more meaningful effect on harmful drinking, and set at a rate that substantially increases the price of strong cider.

4. Ensure that future trade agreements do not limit the government's ability to protect public health through measures like scaled volumetric taxation

In renegotiating the UK's trading relationship with the European Union and other countries, the government should ensure that trade regulations do not excessively constrain its ability to protect public health. In particular, it should seek no longer to be bound by European directives in a way that means it is not possible to tax wine or cider in proportion to their alcohol content, ensuring stronger drinks are always more expensive.

<<https://www.scotch-whisky.org.uk/news-publications/news/2017-export-figures/#.W9xh3ZP7RPY>> [Accessed 2 November 2018]), 1.2bn 70cl bottles were exported in 2017, which is 861m litres. Though these figures are taken from different years, they indicate domestic sales account for less than 10% of the total market

Appendix – real duty per unit on white cider

If reformulation does occur as the government intends, we would expect the unit content of a three-litre bottle of white cider to fall from 22.5 units to 20.7 units. This would mean that the duty per unit on white cider would rise from 5.4p per unit to 5.9p per unit, an increase of 9%. At the same time, for the past two Budgets the government has declined to increase duty on ‘standard’ ciders – which will include reformulated white ciders – in line with inflation. Failure to keep up with inflation is thus expected to reduce the real value of cider duty by 6% over the two fiscal years. Consequently, the government’s real terms cuts to standard duty will largely offset the benefits of reformulation. As figure 9 shows, the net result is that duty on white cider is expected to rise by just 0.1p per unit in real terms between 2017/18 and 2019/20.

Figure 9: Duty per unit on a bottle of white cider reformulated from 7.5% to 6.9% ABV (pence per unit, 2017/18 prices)

