BRIEFING

Spring Budget Analysis 2023

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Summary

- In the **Spring Budget 2023** there were two key announcements:
    1. Most alcohol duty will go up with RPI inflation in August 2023
    2. Draught Relief – part of the Reform of Alcohol Duty – will be increased
- This follows a freezing of alcohol duty from February to August, announced in December 2022
- After the increase, alcohol duty will still be much lower than it was in 2012/13. In real terms:
    1. Beer duty will be 29% lower
    2. Draught beer duty will be 36% lower
    3. Cider and spirits duty will be 23% lower
    4. Draught cider duty will be 30% lower
    5. Wine duty will be 15% lower
- Cumulatively, duty cuts will cost the Treasury over **£23.9 billion** from 2013-2028, compared with if duty had been raised in line with inflation as was planned

- The **Reform of Alcohol Duty** will commence in August 2023. Under the new system, all products will be taxed according to their strength
- There will be a temporary 18-month period in which all wines of strength 11.5-14.5% will use an assumed strength of 12.5%
- We support the shift to a more proportionate system, however, we have a number of concerns and recommendations:
    1. The rates are set too low – they should at least cover the £27 billion cost of alcohol harm to society
    2. Cider is still being preferentially treated with lower rates than the same strength beer, which is likely to continue to cause harm. They should be equalised
    3. Duty should be de-politicised and automatically uprated in line with inflation or earnings yearly, instead of being considered at each Budget

What happened to alcohol duty in the Spring Budget 2023?

Both a freeze and an uprate

The Chancellor of the Exchequer announced that nominal alcohol duty would increase by the retail price index (RPI) rate of inflation for beer, wine, cider and spirits, from 01 August 2023.

This followed the announcement on 19 December 2022 that duty would be frozen from February to August 2023, when the Reform of Alcohol Duty will be implemented. The reason cited for freezing duty was to “minimise the burden on business”, as there would only be one period of duty change in the year not two.

From August 2023, it is understood that duty will be uprated by 10.1%, making it only the second time in the past 12 years that all alcohol duties have been uprated in line with inflation. In theory, the Treasury and Office for Budget Responsibility assume that all alcohol duty rates will go up with inflation year-on-year from 01 February so that alcohol duty does not lose value in real terms. In practice, this has only happened infrequently in recent years.

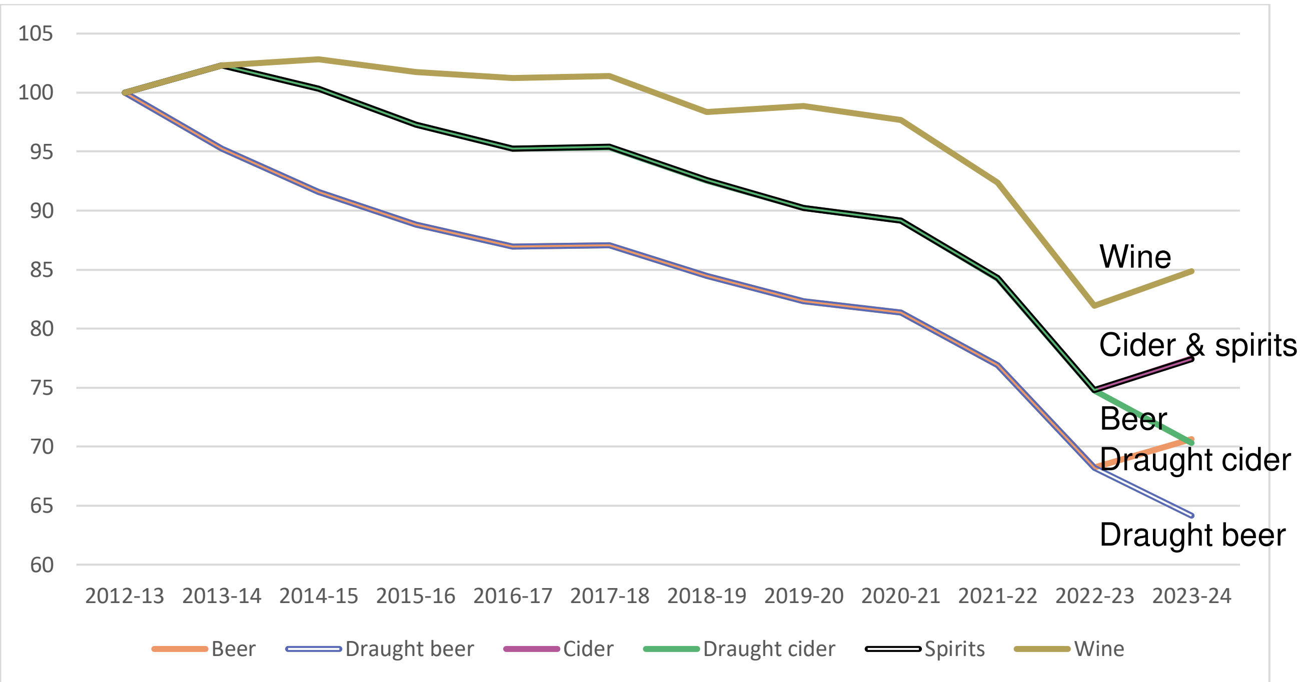
Draught Relief increased
Also announced in the Spring Budget was the plan to increase Draught Relief, which was planned as part of the Reform of Alcohol Duty.

In the Autumn 2021 Budget, then Chancellor Rishi Sunak announced that the alcohol duty system would be reformed (see page 7 for more detail) and draught beer and cider would be taxed 5% less than packaged beer and cider, to reduce taxes on drinking in pubs.

In the Spring Budget, the relief was increased from 5% to 9.2% for qualifying beer and cider products, and from 20% to 23% for qualifying wine, spirits based, and other fermented products. The qualifying factors are that products must be under 8.5% ABV, and packaged in containers that hold at least 20 litres which are designed to connect to a dispense system.[1]

How these changes affect duty rates
The new system treats on and off-trade products differently for the first time, in terms of duty. This means that on-trade only products – so draught products – will attract less duty than off-trade products of the same category. Figure 1 shows how duty has changed in real terms since 2012, with the difference in on and off-trade duty shown clearly from 2022-23.

Figure 1: Real duty rates, indexed: 2012/13=100



While this move will slow the rising affordability of off-trade products, it falls far short of undoing the last decade of cuts and freezes. In 2023-24, in real terms, compared to 2012-13:

[1] HMRC Reform of Alcohol Duty Rates and Reliefs, Policy Paper March 2023

- Beer duty will be 29% lower
- Draught beer duty will be 36% lower
- Cider and spirits duty will be 23% lower
- Draught cider duty will be 30% lower
- Wine duty will be 15% lower

Lower duty means more deaths, hospitalisations and crime

It is well established that lower alcohol taxes and prices lead to higher levels of consumption, which in turn lead to worse health and social outcomes. Estimates from the Sheffield Alcohol Policy Model, which utilises the best available evidence on these relationships, lay bare the consequences of consecutive duty cuts. As a result of changes to alcohol duty policy between 2012-2019, increased alcohol consumption is estimated to have led to:

- 2,223 additional deaths in England and Scotland between 2012 and 2019
- 65,942 additional hospital admissions in England and Scotland over the same period
- £341 million in additional costs to the NHS
- Over 100,000 additional alcohol-attributable crimes
- Over 500,000 additional lost days of work, at a cost to the economy of £62 million[2]

The decline in real duty is even bigger between 2019 and 2023 compared to 2012 and 2019, because of high inflation. So these predicted deaths and hospitalisations are likely to be much higher. In addition, these harms are experienced disproportionately by the lowest income groups.[3] Deaths from alcohol are already at record high levels in the UK, having increased by 27% from 2019-2021.[4]

Cost to the public purse

The Chancellor's decision to freeze duty until August and then uprate, and to increase Draught Relief, will cost the Treasury anticipated revenue of £155 million in the year 2022-23. Cumulatively, this decision will cost the public purse £880 million over the six years from 2022-28, as shown in Table 1.

Table 1: Impact of Spring Budget 2023 alcohol duty freeze and uprating, and Draught Relief increase, on government finances[5]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Exchequer impact	-155m	-405m	-75m	-80m	-80m	-85m	**£880m**

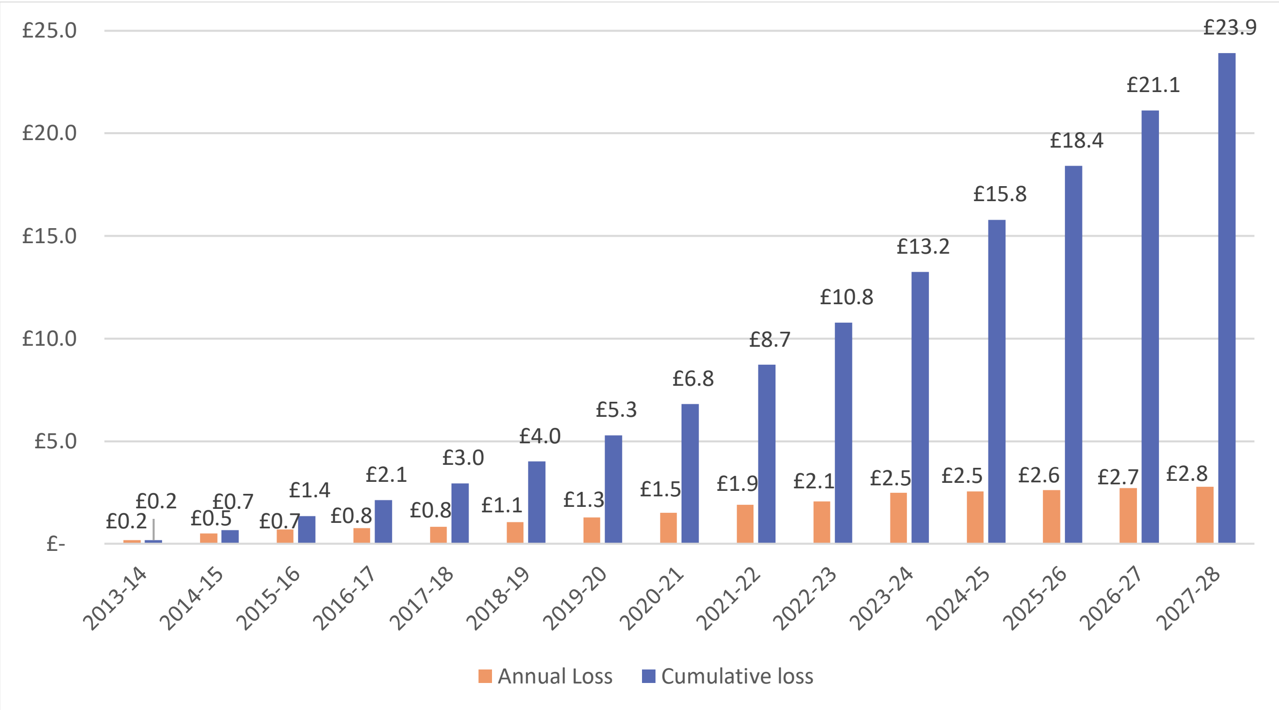
This is substantially less than previous Budget freezes and cuts have cost. For instance, the Autumn 2021 Budget alcohol duty freeze cost the Treasury anticipated revenue of £3 billion over the six years from 2021-2027 – around £500 million every year.[6]

[2] Angus, C. and Henney, M. (2019) Modelling the impact of alcohol duty policies since 2012 in England and Scotland. The University of Sheffield and Institute of Alcohol Studies
[3] OHID, Local Alcohol Profiles for England
[4] ONS (2022) Alcohol-specific deaths in the UK: registered in 2021
[5] HM Treasury Spring Budget 2023 p.77
[6] HM Treasury Autumn Budget and Spending Review 2021 p.134

However, added to the cuts and freezes in alcohol duty since 2012, the annual cost of recent cuts to alcohol duty will be more than £2.1 billion in the year 2022-23. By 2027-28, the total cumulative foregone revenue will reach **£23.9 billion**. In other words, if the Government had stuck to the planned trajectory for alcohol duty in 2012 – 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 £23.9 billion for the public finances.

The OECD estimates that diseases and injuries caused by alcohol lead to treatment costs of 3.0% of total health expenditure in the UK, equating to around £8.3 billion.[7] Therefore this lost revenue of £23.9 billion could have covered the costs of alcohol harm to the NHS for almost three years.

Figure 2: Cumulative and annual impact of alcohol duty cuts since 2012 on government finances (£billions) [8]

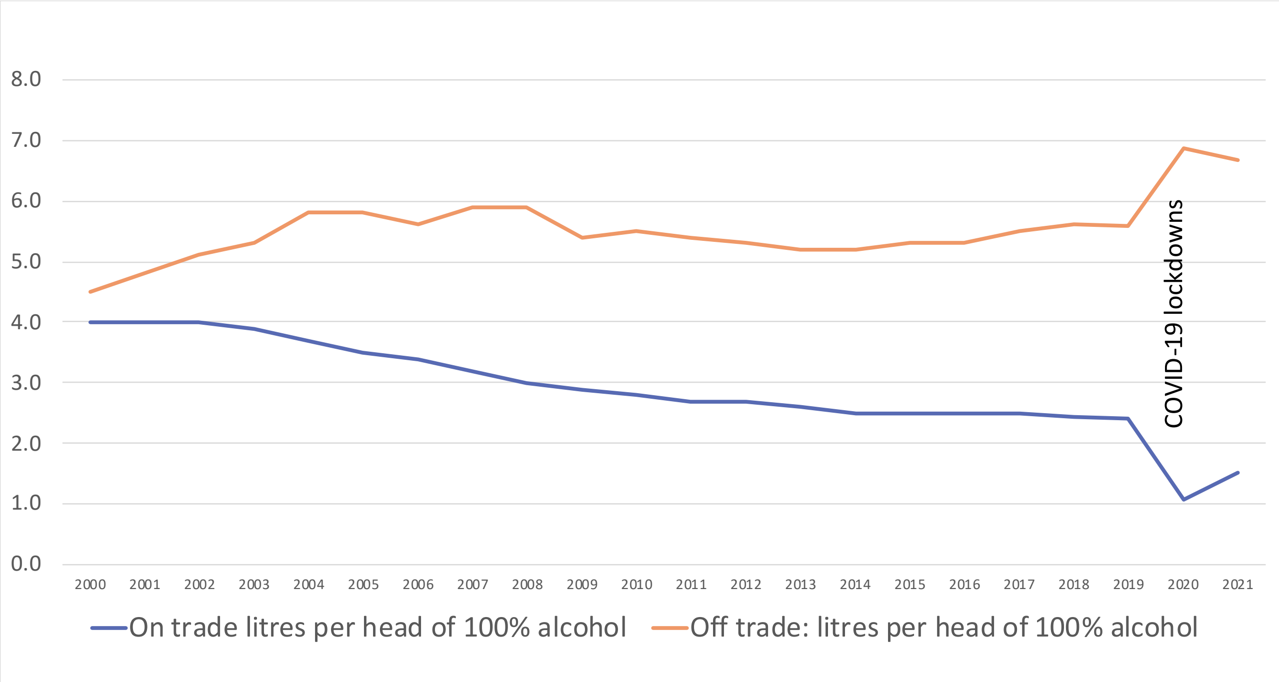


Supporting the on-trade

The aim of the Draught Relief is to try to reverse the long-term shift away from on-trade alcohol consumption (e.g. pubs, restaurants) towards off-trade consumption (e.g. supermarkets). As Figure 3 shows, this gap has continued to grow over the past decade, despite successive freezes and cuts to alcohol duty.

[7] Calculated using OECD (2021) Preventing Harmful Alcohol Use as a percentage of current UK GDP
[8] HM Treasury Spring Budget 2023, HM Treasury Autumn Statement 2022, HM Treasury Growth Plan 2022, and HRMC Alcohol Bulletin and IAS October 2021 Budget Analysis

Figure 3: UK consumption of alcohol in the on-trade and off-trade[9]



Duty makes up a much bigger proportion of the cost of off-trade alcohol. Therefore, freezes and cuts to duty have disproportionately helped off-trade retailers such as supermarkets, enabling them to maintain much lower prices than the on-trade. This could help explain why there is no evidence that freezing and cutting duty across both the on and off-trade has prevented the closure of pubs. Between 2008 and 2013 – when beer duty was increased by 2% above inflation every year – the net decline in the number of pubs was 1.5% a year. Between 2013 and 2017 – when beer duty was frozen – it continued at around the same rate (1.6% a year).[10] Real terms duty cuts across both the on and off-trade therefore do not seem to have slowed the closure of pubs.

As publicans have previously said that supermarket competition is the single greatest threat to their business, if the intention is to support the on-trade, treating the two trades differently regarding duty achieves this goal.[11] The Chancellor made the aim of supporting the on-trade clear in his Spring Budget statement when he said: “from 1 August the duty on draught products in pubs will be up to 11p lower than the duty in supermarkets”. The Government highlighted that the Relief also aimed to support public health, by supporting “safer consumption of alcohol in supervised public settings which are less associated with alcohol-related harm”.[12]

Could helping pubs also help public health?

There is evidence to suggest that at-home alcohol consumption is more harmful than on-trade consumption. Harmful drinkers account for 32% of alcohol-related revenue in the off-trade, compared with 17% of revenue in the on-trade.[13] So, as the Social Market

[9] The British Beer & Pub Association (BBPA) Statistical Handbook 2022
[10] BBPA (2018), Statistical Handbook 2018
[11] IAS (2017) Pubs Quizzed: What publicans think about policy, public health & the changing trade p.6
[12] HM Treasury (2023) The new alcohol duty system: Final consultation response p.8
[13] Bhattacharya, Aveek, et al. "How dependent is the alcohol industry on heavy drinking in England?." Addiction 113.12 (2018): 2225-2232.

Foundation has stated: "if we want to target alcohol taxes at drinkers who are consuming at riskier levels, we should tax off-trade alcohol more".[14]

In addition, pub drinkers may consume less alcohol due to higher prices and because they cannot 'over-pour' their drinks. Publicans can monitor the drinking of their customers, and (while poorly enforced) can face legal sanctions if they serve those who are already heavily intoxicated. One the other hand, as explained in the IAS report *Pubs Quizzed*:[15]

> "It is possible that drinking in pubs may increase the risk of violence by bringing together intoxicated people in a confined space. For example, one recent study found that the price of alcohol in the on-trade (pubs, clubs and bars) has a greater impact on alcohol-related violence than prices in the off-trade (supermarkets and off-licences), though in both cases cheaper alcohol increases rates of violence. Then again, there is evidence to suggest that 'pre-loading' – drinking at home before going out to drink – is associated with heavier drinking and higher rates of violence."

There are additional considerations which are very difficult to analyse. For instance, alcohol is linked to increased incidents of domestic abuse, which often takes place in the home, yet such incidents are chronically underreported.

What next with the Reform of Alcohol Duty?

From August 2023, the new alcohol duty system will be introduced and all products will be taxed in relation to their alcohol content, reducing the number of different duty rates from 15 to 6.

In the Government's announcement of the reform it stated that the aims of the new system were to[16]:

1. Be simpler, with a reduced number of duty bands based on a common method across all products
2. Be fairer and more consistent
3. Spur innovation and remove anomalies that discourage product development
4. Support public health by focussing on products that cause the highest harm
5. Support the on-trade sector

The key changes are the following:
1. All alcohol products will now be taxed based on product strength by ABV
2. A new Small Producer Relief will be introduced, increasing the scope of the Small Brewers' Relief to all products up to 8.4% ABV
3. The new Draught Relief will be introduced

With the uprating of duty in the Spring Budget, the new alcohol duty rates will be the following, from August:

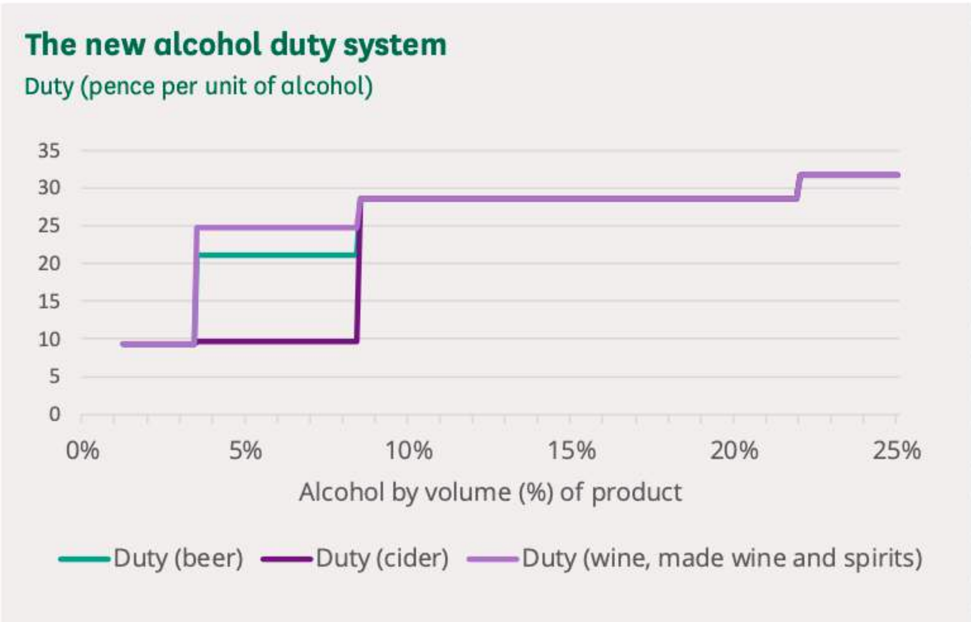
[14] Social Market Foundation (2021), 'Pub relief' on alcohol duty could support hospitality and reduce harmful drinking
[15] IAS (2017) Pubs Quizzed p.10
[16] HM Treasury (2021) The new alcohol duty system: Consultation p.27

Table 2: New duty rates (per litre of pure alcohol) from 1 August 2023[17]

ABV	Beer	Cider	Wine, Spirits, and other fermented products
0-1.2%	Nil	Nil	Nil
1.2-3.4%	£9.27	£9.27	£9.27
3.5-8.4%	£21.01	£9.67	£24.77
8.5-21%	£28.50	£28.50	£28.50
22%+	£31.64	£31.64	£31.64

Therefore, with the new system and new rates, alcohol duties per unit will look like this:

Figure 4: New duty rates in pence per unit[18]



With the increase in Draught Relief, qualifying products will have the following rates:

Table 3: New duty rates for draught products (per litre of pure alcohol) from 1 August 2023

ABV	Beer	Cider	Wine, Spirits, and other fermented products
1.2-3.4%	£8.42	£8.42	£8.42
3.5-8.5%	£19.08	£8.78	£19.08

[17] HM Treasury (2023) The new alcohol duty system: Final consultation response p.33
[18] House of Commons Library (2023) The new alcohol duty system p.13

Following the consultation on the Reform, the Government's response in September 2022 announced a number of technical changes to its proposals:[19]

1. Implementation of the new system was delayed from February to August 2023
2. Due to lobbying from the wine industry, the Government announced a temporary 18-month transitional period, in which all wines of strength 11.5-14.5% should use an assumed strength of 12.5%
3. Draught Relief was expanded from beer and cider to include wine and spirits-based drinks

What effect will the reform have?
Taxing alcohol based on strength not only makes the system simpler and more consistent, but also ensures that higher strength products incur proportionately more duty. This can help address the problem of more harmful high-strength products being sold too cheaply, such as white ciders.

For example, under the current duty system, strong cider is taxed very little per unit of alcohol as it is taxed by volume of liquid and at a particularly low tax rate. This leads to 2.5l bottles of strong cider, containing 19 units of alcohol, being sold for just £3.59 in England. At this price, it is possible to consume the Chief Medical Officers' low-risk drinking guidelines of 14 units per week for just £2.68 – the price of a high-street cup of coffee.[20]

There is clear evidence that strong, cheap drinks are consumed by the most at risk drinkers, with 40% of alcohol sold below 50p-per-unit consumed by the 4% of the population who drink at higher-risk levels.[21]

The proposed new system ends the perverse incentive to produce stronger cider to take advantage of a lower duty rate per unit. Instead, all ciders between 3.5% and 8.4% ABV will be charged 9.67p per unit in tax. While the proposed new rates mean that the duty charged on strong ciders will go up, duty for other products will go down.

One of the stated reasons for changing the system was to "encourage manufacturers to develop new products at lower ABVs, giving consumers greater choice".[22] The Government hopes that by taxing weaker drinks less than stronger drinks, alcohol producers will be encouraged to reformulate products in order to pay less duty, while people will be encouraged to buy lower-strength drinks as they are cheaper and more available.

As outlined above, the Treasury estimates the changes to the alcohol duty system will cost the Government £115 million in revenue in the first year.[23] In other words, the Government will collect less revenue from alcohol duty.

Products that are exported for sale outside of the UK do not pay UK duty. Well over 90% of Scotch whisky, for example, is exported from Scotland and does not pay UK duty. Despite this, the Scotch Whisky Association (SWA) has lobbied for a freezing of duty. One of the SWA's members is Diageo, the company that makes Smirnoff vodka. Vodka is sold

[19] HM Treasury and HMRC (2022) The new alcohol duty system: Consultation response
[20] Alcohol Health Alliance UK (2020) Small change: alcohol at pocket money prices
[21] Sheffield University Appraising the effect of implementing local Minimum Unit Pricing on alcohol consumption and health in the North West of England
[22] HM Treasury Autumn Budget and Spending Review 2021 p.83
[23] HM Treasury Autumn Budget and Spending Review 2021 p.134

and consumed in Scotland far more than whisky and would therefore be affected far more by duty increases.

Recommendations for improvements to better protect public health
Public health organisations have long been calling for a system where alcohol is taxed according to its strength. In principle, the new system is therefore a positive development for public health. However, in practice, there are several areas where the new alcohol duty system could be improved to help protect public health and reduce alcohol harm:

1. The new alcohol duty rates are set at a level that is too low to be able to make a significant difference to public health. Currently, the overall revenue from alcohol duty is around £12.4 billion[24] – which is less than half of the costs of alcohol to society (estimated to be at least £27 billion).[25]
2. Cider is still being treated preferentially, with a rate of less than half that of beer for the 3.5-8.4% ABV band, in which most common ciders fall. The change to the strength-based system will mean that there is no longer a perverse incentive to produce super strong white cider, yet, overall, cider as a category remains widely undertaxed.
3. Alcohol duty rates continue to be set annually at the Budget. Indexing duties in line with inflation ensures that duty does not lose value over time (which would lead to greater health harms) and helps to protect revenue. While the Government said that the assumption will be that alcohol duties rise in line with inflation, the rates will continue to be reviewed on an annual basis and therefore subject to political pressures to introduce cuts and freezes. We recommend that alcohol duty should be automatically uprated in line with inflation or earnings every year, with a comprehensive review taking place every 5-10 years.

For more detail on the Reform of Alcohol Duty, including rationale for the reform and a timeline of changes, see IAS's October 2021 Budget Analysis and the April 2023 House of Commons Library research briefing: The new alcohol duty system.

[24] Office for Budget Responsibility (2023) Economic and fiscal outlook p.148
[25] HM Treasury (2021) The new alcohol duty system: Consultation p.4; Burton, R. et al. (2016). A rapid evidence review of the effectiveness and cost-effectiveness of alcohol control policies: an English perspective.