

Budget 2020: Submission to the Chancellor

Campaign for Real Ale



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1. Executive summary

- Pubs are a force for good in society, impacting positively on social wellbeing, fostering community cohesion and tackling loneliness.
- CAMRA is calling for a package of measures which will support pubs as the cornerstones of the Great British High Street.
- The cornerstone of this package is a fundamental review of the English business rates coupled with restructuring UK draught beer duty, specifically to help rejuvenate the on trade.
- This will ensure the future stability of the pub sector - encouraging consumption of alcohol in a supervised setting, bringing investment and employment to high streets and village centres, and allowing everyone to take advantage of the social and wellbeing benefits of thriving community pubs.
- Piecemeal duty freezes and cuts are only sticking plasters, bringing fleeting relief to the sector, and are symptomatic of a broken system of taxation.

2. Social and community benefits of pubs

2.1. Pubs are a force for good in life - they have a beneficial effect on personal and social wellbeing, fostering community cohesion and tackling loneliness. They also raise over £100m for charitable causes every year¹. The role that pubs play in UK society is contributing to wider Government objectives and initiatives. CAMRA therefore urges the Chancellor to take this into account when considering changes to taxation.

Tackling loneliness and social isolation

2.2. Loneliness, living alone and poor social connections are as bad for your health as smoking 15 cigarettes a day². The number of social connections and close friends that people have has a large impact on preventing loneliness. A recent survey³ by the Campaign to End Loneliness found that 52% of lonely people over 65 missed simply 'sitting with someone' the most.

2.3. Pubs are at the heart of villages, towns and cities, providing a place for people to socialise and enjoy a drink in a supervised, community setting. They play a vital role in tackling loneliness and social isolation and are one of the last few places where people can come together to socialise outside the home, as other community facilities close.

2.4. In 2018 the UK Government published its first Loneliness Strategy⁴, which stated that:

¹ PubAid

² Holt-Lunstad, 2015

³ <https://www.campaigntoendloneliness.org/laughter-really-could-be-the-best-medicine/>

⁴ ['A connected society: A strategy for tackling loneliness'](#)



2.4.1. *“This strategy recognises the fantastic role that community groups, faith groups, pubs, sports clubs and others already play in creating stronger communities.”*

2.5. In order for pubs to continue to contribute to foster stronger and more connected communities, and helping to fight loneliness, measures are needed to improve their long term economic viability.

2.6. CAMRA has collected case studies from across the UK showcasing the ways that pubs are helping tackle loneliness and social isolation. These can be found at Appendix 1.

The ‘Friends on Tap’ report

2.7. CAMRA commissioned research from Professor Robin Dunbar at Oxford University. The result was the ‘Friends on Tap’ Report⁵.

2.8. Professor Dunbar and his research team found that:

- People who have a ‘local’ and those who go to community-type pubs have more close friends they can call on for support, and are happier and more trusting of others, than those who don’t have a local.
- They also feel more engaged with their wider community.

2.9. The report also made several recommendations to Government:

- Policy on beer tax and business rate relief should consider the positive impacts which community pubs have on health and wellbeing.
- Consideration should be given to cutting beer duty to help keep pints affordable and thereby support community pubs.
- Consideration should be given to extending business rate reliefs to more pubs to help reduce their costs.

2.10. CAMRA maintains that there are public health and social benefits to encouraging people who choose to drink to do so in pubs, where the sale and consumption is supervised and in a community setting. Above and beyond the ‘Friends on Tap’ Report, the social and community value of pubs, and subsequent advocacy of policy changes is now well-documented.

2.11. As recommended in an IPPR Report ‘Pubs and Places’⁶:

- *“it [the current policy framework regarding pubs] is counter-productive, particularly in terms of tackling crime and disorder”*

⁵ [‘Friends on Tap’ Report 2016](#)

⁶ [Rick Muir: ‘Pubs and Places’ report for IPPR](#)



- *“by making beer in pubs more expensive while beer in shops and supermarkets gets relatively cheaper, policy is drawing people out of the regulated and supervised drinking environment of the pub”*

2.12. Furthermore, in 2017 CAMRA carried out polling via YouGov which found that 69% of respondents thought that pubs should be given tax relief as they provided a safe, managed space for people to drink responsibly, showing that there is public appetite for supporting pubs through positive policy measures.

The 2019 Conservative manifesto and the Government’s recognition of the community and social value of pubs

2.13. The 2019 Conservative manifesto contained commitments for more business rate relief for pubs, a full review of business rates and a review of alcohol duty.

2.14. CAMRA welcomes the move to announce the implementation of further rate relief for English pubs ahead of the Budget, and specifically the recognition by the Chancellor of the community value of pubs to the UK.

2.15. Announcing the extra £1,000 rate relief for some pubs, the Chancellor said:

2.15.1. “Thousands of pubs will get £1,000 off their rates bills this April, thanks to the changes we’re announcing today. These will mean lower rates for the small independent shops, cafes and locals at the heart of our communities”

2.16. Additionally, Community Pubs Minister Luke Hall said:

2.16.1. “Pubs are front and centre of communities around the country, the key to thousands of jobs and providing a meeting point for local residents to get together and enjoy a pint. Today’s business rates cut continues our firm commitment to support pub owners, helping to keep the pints pouring and the locals happy.”

2.17. This represents excellent progress on delivering on commitments contained in the Conservative manifesto, however to truly ensure that community pubs across the UK are supported, the Chancellor must now announce a fundamental review of business rates and consider supporting the on trade and high streets through a meaningful reduction in duty on draught beer.

3. Economic contribution of the beer and pub sector

3.1. Pubs make a valuable economic contribution to the UK above and beyond the pure amount that they pay in tax. However, the tax burden on the sector is still large and disproportionate to other



industries, with one third of the cost of a pub pint now made up of taxes⁷.

3.2. There are many incentives to encouraging a thriving pub sector – boosts to the local economy and high streets and increased employment.

Economic contribution

3.3. The beer and pub sector adds £22.9 billion to the UK economy annually. This includes paying £12.7 billion in taxes and £11.1 billion in wages.⁸

3.4. Previous research has found that each pub contributes on average £80,000 per year to the local economy⁹. This is much higher than that of an average retail outlet, owing to the high levels of employment that are sustained within the beer and pub sector.

3.5. Pubs are a fundamental feature of UK high streets and shopping parades – and support for the pub sector should be seen as a vital component of the revitalisation of high streets in every community.

Employment

3.6. Nearly 895,000 jobs are supported across the beer and pub sector, with 43% of jobs held by young people under 25¹⁰. The pub sector also employs a large number of apprentices, and the sector's high level of employment among young adults contributes to the Government's continued efforts to reduce the number of those not in employment, education or training (NEET).

3.7. Brewing is a labour-intensive industry and employs nearly half of the total workforce involved in drinks manufacture as evidenced in the graph below.

⁷ Figure calculated by CAMRA based on £1.46 of a £4, 4.5% abv pint representing tax (67p VAT, 49p excise duty, 15p business rates, 15p other taxes)

⁸ Oxford Economics - as displayed on www.cutbeertax.com

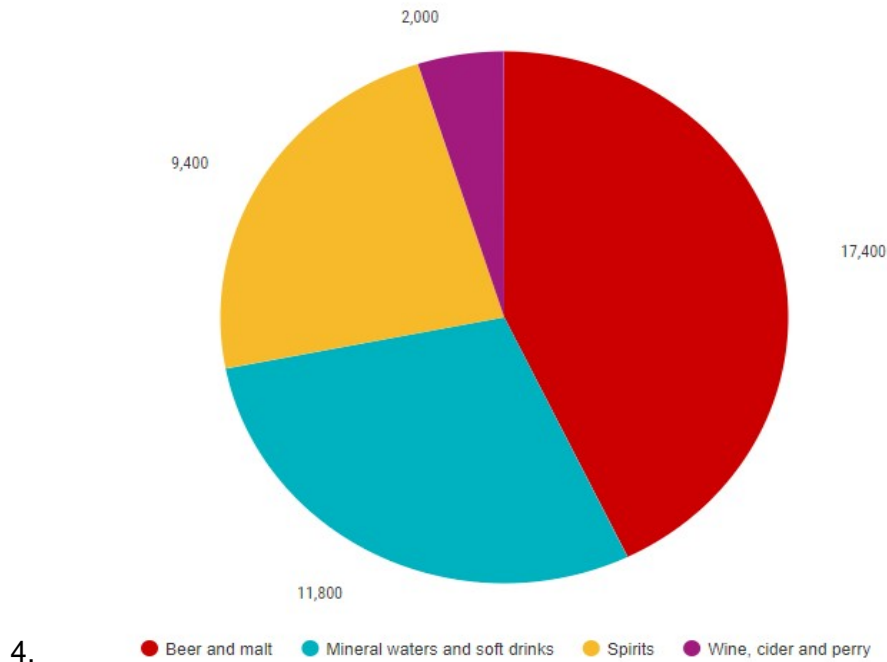
⁹ Rick Muir: 'Pubs and Places' report for IPPR

¹⁰ Oxford Economics - as displayed on www.cutbeertax.com



SOURCE: BBPA Statistical Handbook 2019

Employment in the manufacture of alcoholic and other beverages



5. Creating jobs in brewing creates further jobs down the supply chain. A single job in brewing supports:¹¹

- 18 jobs in pubs
- 1 job in agriculture
- 1 job in supply chain
- 11 jobs in retail

5.1. From the above, we can see that on trade sales of alcohol support a larger proportion of jobs than off trade sales. There are therefore significant benefits to targeting measures at increasing support for on trade venues (such as community pubs) – an increase in employment (and the associated revenue from employment taxes), and a reduction in the number of people claiming employment benefits. This is before the social and community benefits of pub going are taken into account.

Tourism

5.2. Pubs are a traditionally 'British' social institution and therefore are a significant attraction for tourists. Beer, and especially real ale, are considered quintessentially British drinks, with pubs considered the traditional drinking venue in the UK. In 2015, more than 600 million visits to pubs were made by holidaymakers¹².

¹¹ Facts on Tap 2017 - BBPA

¹² ONS Tourism Intelligence Unit



5.3. Thousands of pubs also provide accommodation for tourists and research shows that customers planning a trip would rather stay in a pub (48%) than a branded hotel (27%)¹³.

5.4. Thriving pubs and high streets are a significant benefit to tourism, and support from Government to the beer and pub sector is recognition of this.

6. Proposals to provide greater economic stability and confidence to the sector

6.1. In the last decade, taxation on the beer and pub sector has increased dramatically, and often disproportionately to other types of business.

6.2. This is despite pubs being a cornerstone of the traditional high street and providing invaluable social and personal wellbeing benefits to those who use them.

6.3. The following section sets out CAMRA's vision for comprehensive reforms to deliver a thriving industry, liberated from the current burdens of disproportionate taxation. These measures, a full review of the English business rates system and a lower rate of UK draught duty on beer, must be delivered together to ensure a thriving pub sector in the future.

Full review of business rates

6.4. CAMRA believes the current business rates system is not fit for purpose. The pub sector pays an unfair amount of the total rates burden, the system punishes successful business owners who increase their turnover through investment (often saving pubs from closure in the process), and the existence of a complex rate relief system signals the failure of the rates system.

6.5. Along with other beer and pub industry groups, CAMRA is calling for the Government to honour its manifesto commitment and implement a full review of the English business rates system this Budget. This review must result in fundamental changes that ensure pubs are treated fairly.

6.6. A reformed business rates system must include the following:

- A valuation system that takes account of the wider community and societal benefits of pubs and the property-based nature of the business.
- A grace period after any significant investment before a rates bill can increase.
- A widening of the scope of the Digital Services Tax to ensure that the online businesses share the tax burden, allowing for a reduction in taxation of property-based businesses.
- A significant increase in resources for the Valuation Office Agency, including ensuring enough properly trained and experienced valuation officers who can correctly apply any future rating methodology for pubs.

¹³ Cask Marque Pubs with Accommodation Report 2017



- Overhaul of the appeals system to resolve appeals in a timely manner.

6.7. Further background to the rates burden and need for fundamental reform are highlighted in the below.

2017 revaluation

6.7.1. Four out of ten pubs saw rises in their Rateable Value, which resulted in significant rises in business rates bills for numerous community pubs.

6.7.2. After the 2017 revaluation pubs faced a 15% increase in Rateable Value compared to the national average across all businesses was 9.1%¹⁴.

6.7.3. Many of the pubs which experienced the largest rises in bills saw their Rateable Value increase to above £100,000, and consequently have been unable to benefit from any business rate relief at all.

6.7.4. The previous revaluation took place in 2010, therefore many rateable values were reflecting market values at the peak of the financial crash.

Overpayment by the pub sector

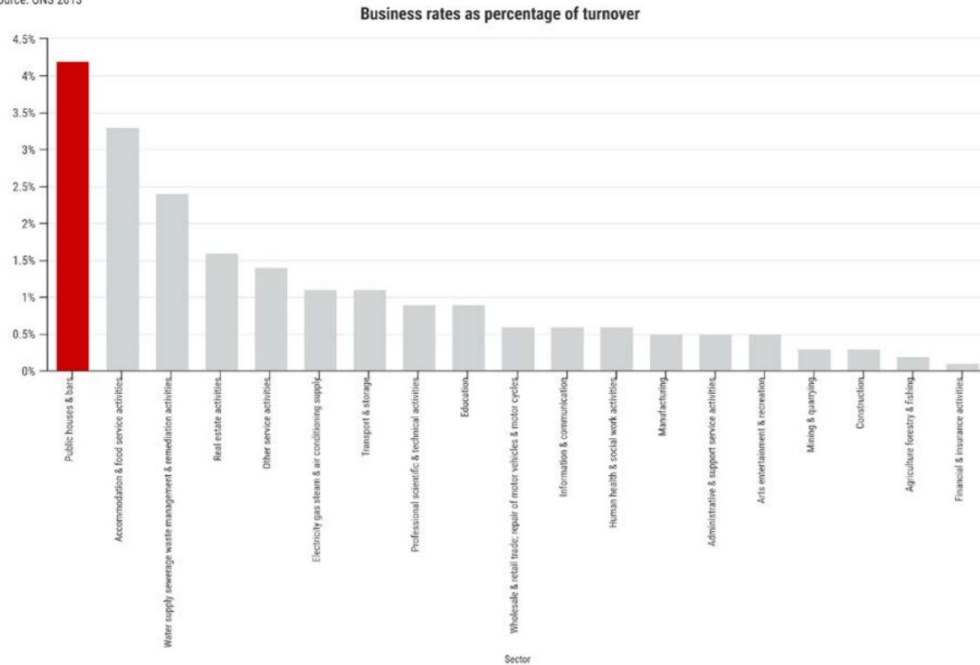
6.7.5. The pub sector is unfairly taxed. At the point of the last revaluation, pubs paid 2.8% of the total business rates bill but only accounted for 0.5% of total business turnover, as demonstrated by the graph below. This equates to an annual sector overpayment of around £500m.

6.7.6. This overpayment is a result of the way that the current business rates system penalises property-based businesses – which is exhibited in the decline of the high street.

¹⁴ BBPA written evidence to Treasury Committee Inquiry 2019



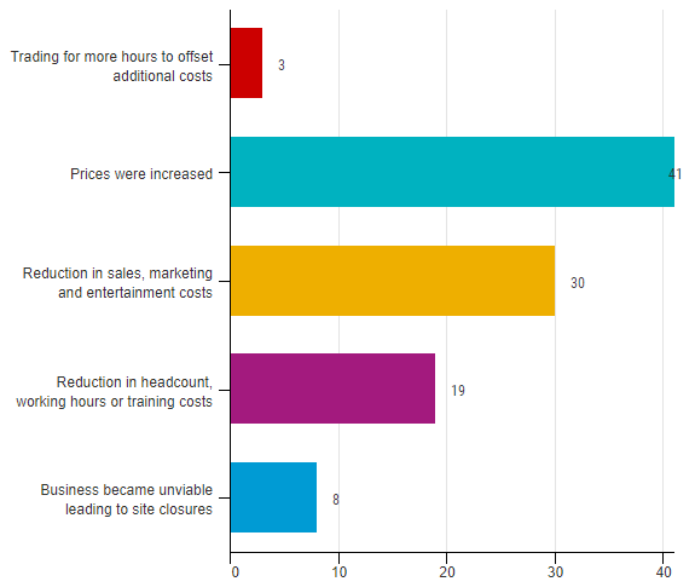
Source: ONS 2013



6.7.7. In the hospitality sector, the revaluation resulted in increased prices for consumers, reductions in staff numbers and in some cases the closure of venues. This can be seen in the results of the 2018 UKHospitality/Christie & Co Benchmarking report, as shown in the graph below.

SOURCE: UKHospitality/Christie & Co Benchmarking Report 2018

What measures did your business adopt as a direct result of the April 2017 business rates revaluation? (% of responses)



CAMRA survey of publicans on business rates

6.7.8. CAMRA conducted a survey of publicans on business rates ahead of the 2019 Treasury Committee Inquiry on business rates.

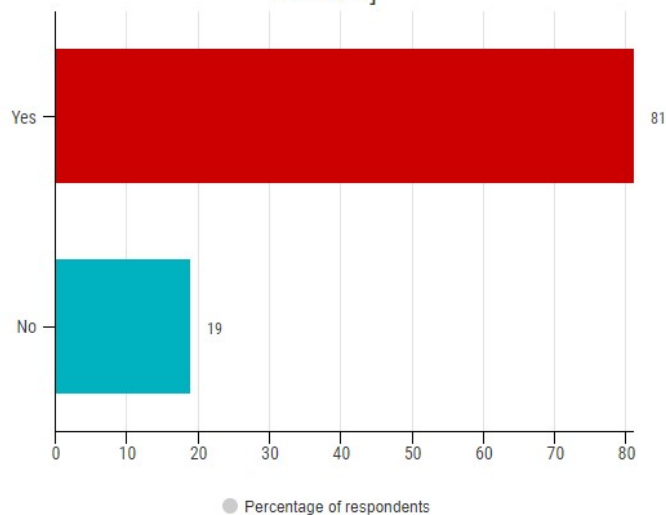


6.7.9. The survey received nearly 700 responses from pubs across England, and included freehouses, managed and tenanted pubs. Publicans were asked the following three questions related to business rates, along with the option of providing additional comments:

- If their business rates bill increased, decreased or stayed the same as a result of the 2017 revaluation.
- If the change in their business rates bill affected the economic viability of their pub.
- If they think that the current business rates system is fair for pubs.

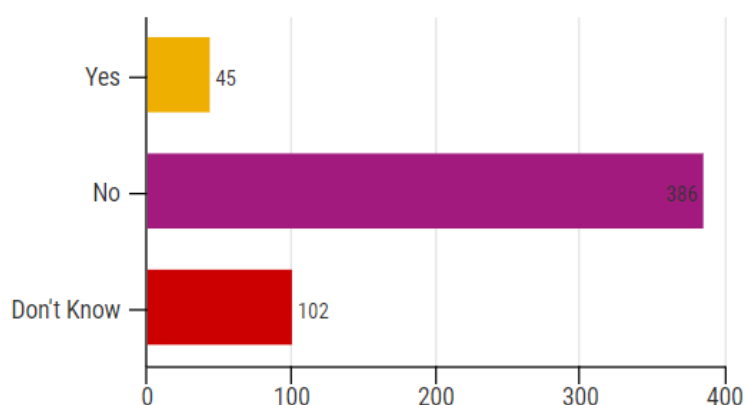
6.7.10. Of those reporting an increased business rates bill, the vast majority stated that this had affected the viability of the pub, as demonstrated in the graph below.

Has the change in your business rates bill affected the economic viability of your pub? [those who reported an increase in their rates bill]



6.7.11. Free text comments for this question told of consequences including having to reduce staffing levels, increase prices and not being able to invest money back into the business to make improvements.

Do you think that the current business rates system is fair for pubs?



6.7.12. Most respondents stated that the business rates system is unfair for pubs. Free text comments for this question highlighted the levels of increases experienced, and the seemingly arbitrary results for pubs when compared with shops and other businesses in the local area.

Business rate relief

6.7.13. The Government has taken steps to attempt to mitigate the negative impacts of the 2017 revaluation for the pub sector. However, this does not fix the root issues with the system. While rate relief has been welcomed, it must now be recognised by the Government that reliefs are a sticking plaster and not a solution, and many do not reach the pubs that experienced the most extreme of increases in their rates bills from the last revaluation.

6.7.14. The table below shows the rate reliefs applicable to pubs in England that have been in place since the revaluation, and the impacts of these on the sector. A key conclusion of the Treasury Committee’s 2019 Inquiry into business rates found that the number of reliefs needed for business rates to operate indicates a broken system¹⁵.

Relief	Start	End	Comments on effect for the pub sector
Pub specific rate relief (£1,000 discount for pubs with an RV under £100k)	2017	2019	The pub-specific relief only applied to pubs with a rateable value of below £100,000. This excludes some pubs which have seen very large increases in their rateable values, and therefore the largest increases in their business rates bills. While any relief is welcomed, for a pub facing an increase of tens of thousands of

¹⁵ [Treasury Committee Business Rates Inquiry 2019](#)



			pounds, a £1,000 discount has little effect. This relief was subject to State Aid rules so some pubs owned by multiple operators did not benefit from the discount.
Transitional Rate Relief	2017	2021	Transitional Relief is important for phasing in large increases, but by the end of the relief period another revaluation will take place and the rates bill may rise further. Transitional Relief works by phasing in the decreases to pay for the phased increases, so while allowing slight respite to those with increased bills, it denies the immediate discount to other pubs to pay for it.
Retail discount (extended from 1/3 reduction to provide a 50% reduction in rates for businesses with an RV under £51k)	2019	2021	<p>Although many pubs will benefit from the new (but still temporary) rate relief package, the £1,000 pub specific rate relief for pubs with a rateable value of under £100,000 ended when the discount was originally introduced. This means that pubs with a rateable value of between £51,000 and £100,000 have lost a small but vital relief to the large tax bill they face.</p> <p>Many of the pubs that have been denied access to this relief are pubs that saw large increases in their rates bill following the last revaluation, and therefore will be struggling most to stay viable as a business. This relief is subject to State Aid rules so some pubs owned by multiple operators did not benefit from the discount.</p>
Pub specific rate relief (£1,000 discount for pubs with an RV under £100k)	2020	2021	<p>This means that pubs with a rateable value of below £100,000 will receive an additional £1,000 off their rates bill, in addition to the retail relief that pubs with a rateable value of under £51,000 benefit from. While this means that pubs with a rateable value of between £51,000 and £100,000 have regained a small amount of relief, it represents a very small amount of their total rates bill while pubs with a rateable value of below £51,000 receive a 50% reduction.</p> <p>This relief is subject to State Aid rules so some pubs owned by multiple operators did not benefit from the discount.</p>

The Valuation Office Agency (VOA), Fair Maintainable Trade (FMT) and the appeals system

6.7.15. Based on discussions and feedback from publicans and other industry groups, CAMRA believes that that FMT, the approved valuation method for public houses and agreed by the VOA and industry representatives, is not being correctly applied.



The Valuation of Public Houses Guidance¹⁶ methodology sets out that the FMT of a public house should be that which can be expected of a 'Reasonable Efficient Operator', and not just the sales figures or total turnover for a pub.

6.7.16. Submissions to the 2019 Treasury Select Committee Inquiry from the British Beer and Pub Association, Save UK Pubs and the Brighton and Hove Licensees Association raised concerns that FMT is not being correctly calculated due to various factors, including reductions in the number of Valuation Officers and over-reliance on total turnover figures.

6.7.17. Over-reliance on overall turnover figures when calculating FMT will also exacerbate the issue of poor operators being rewarded with decreases in rateable value and outstanding operators being handed increases, and potentially being taken out of the remit of rate reliefs that they are currently in receipt of.

6.7.18. Furthermore, budget cuts and scarcity of resources at the VOA means that valuations are carried out through a 'desktop only' method, whereas previously valuations officers would be based in local authorities and visit the businesses that they were valuing, the system is now centralised and relies on business owners to submit trading/sales figures for their assessment to be calculated.

6.7.19. This is also exacerbated by a slow and clunky appeals system. While the 'Check, Challenge, Appeal' system was introduced to simplify the process for business owners this has not been the case. The backlog of appeals that has built up has been well documented in the media, with some cases dating back to 2010, well before the last revaluation.

Property based vs online business

6.7.20. The beer and pub industry is contained solely within a property based business model - along with the personal and social wellbeing benefits associated with pubs and moderate alcohol consumption in a regulated, community setting. This cannot be replicated in a purely online business.

6.7.21. Figures from the British Beer and Pub Association suggest that the total tax liability of Facebook is roughly equal to just the beer duty bill of Black Sheep Brewery (a small to medium sized operator) alone. This shows the tiny proportion of total business taxation that the online business is paying.

6.7.22. The Government has announced its intention to deliver a 'Digital Services Tax' from April this year, aimed at ensuring that online businesses contribute to the Exchequer.

¹⁶ [Valuation Office Agency: Valuation of Public Houses Guidance \(ratings list 2017\)](#)



6.7.23. However, the 2% tax on the revenues of some businesses only collect around 1.3% of the amount collected through business rates. Therefore, the Digital Services Tax needs to be widened to ensure that revenues can be used to reduce the overall rates burden for property-based businesses.

6.7.24. UK Hospitality, the British Beer and Pub Association also stated that consideration should be given to moving away from a property-based tax system in written submissions¹⁷ to the 2019 Treasury Committee Inquiry.

Disincentive to investment

6.7.25. A key finding of the Treasury Committee Inquiry was that business rates acts as a significant disincentive to investment, including reducing carbon emissions through investment in greener technologies.

6.7.26. The rating methodology for pubs is based almost uniquely on turnover (which in pubs is not necessarily an indicator of profit levels for the licensee) and therefore an investment by a publican almost certainly leads to an increase in business rates (whether there is an immediate reassessment or at the next revaluation), regardless of if the benefits of that investment will be realised immediately or over several years, or if that investment has saved a pub from the brink of closure.

6.7.27. Therefore, CAMRA, along with UK Hospitality and the British Beer and Pub Association supports the introduction of a grace period after an investment that prevents rate increases, as was also a recommendation of the Barclay Review of business rates in Scotland.

7. Lower rate of duty for beer sold in the on trade

7.1. Now that the UK has left the European Union, the UK is not bound by rules on excise duty structures contained in European Directives. We welcome the Conservative Manifesto commitment to review Alcohol Structures, and believe this presents an excellent opportunity to target a reduction in beer duty at the on trade only, and more specifically at pubs. This will complement business rate reform to create a fiscal environment in which community locals can thrive and contribute to the revitalisation of high streets and local economies.

7.2. Australia already operates a duty regime where a reduced rate of duty applied to draught products. This incentivises consumption in the on trade (where draught products are almost exclusively consumed).

7.3. CAMRA has commissioned economic modelling from Europe Economics on a reduced rate of duty for draught beer. The

¹⁷ [Treasury Committee Inquiry on Business Rates - publications](#)



results suggest that a 5% reduction in draught beer duty would lead to an additional 4.5 million litres of beer being sold in the on trade, resulting in a net increase of nearly 1000 jobs.¹⁸

Previous approaches to beer duty

7.3.1. The last Labour Government introduced the Beer Duty Escalator in 2008. Duty increased by 2% above inflation each year, and after taking other one-off duty hikes into account, beer duty increased by a total of 42% during the operation of the escalator.

7.3.2. This understandably caused significant damage to the beer and pub sector. During the operation of the Beer Duty Escalator:¹⁹

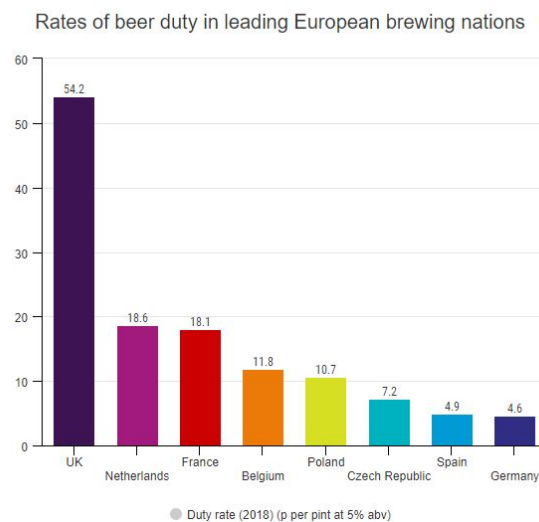
- Beer sales in pubs fell by 42%
- 3,700 pubs closed
- 75,000 pub staff lost their jobs

7.3.3. The Escalator was ended in 2013, and other welcome cuts and freezes to duty have followed, however these are just sticking plasters which have not undone the consequences of the unprecedented rise in duty caused. The consequences of the 2017 business rates revaluation have been another devastating blow for the sector, and coordinated action is needed on both beer duty and business rates to ensure community pubs can thrive.

International comparisons

7.3.4. The UK has a disproportionately high rate of duty when compared to neighbouring brewing nations. The graph below shows that the UK has by far the highest rate of duty compared to other leading European brewing nations.

SOURCE: BBPA Statistical Handbook 2019



¹⁸ Europe Economics 2019

¹⁹ From a bleak future to confidence and stability: the story of the beer duty 2008 to 2016. BBPA, CAMRA and SIBA.



On trade and off trade

- 7.3.5. Over the last twenty years the proportion of alcohol consumed in the on trade has declined dramatically – now only 30.4% of sales take place through on trade channels compared to 47% in 2000.²⁰ Off trade sales of beer overtook on trade sales in 2015.²¹
- 7.3.6. While it is widely accepted that the on trade provides a regulated and supervised environment for the consumption of alcohol, the on trade (where the majority of spending on alcohol happens) faces a much greater tax burden than the off trade, (where the majority of the volume of alcohol is sold).
- 7.3.7. Increases in beer duty and business rates disproportionately impact on the on trade, driving prices up and consumption into the off trade as prices become unaffordable. Supermarkets will regularly sell alcohol as a ‘loss leader’ as a means of securing more custom, and hence can absorb duty rises much more easily than the on trade.
- 7.3.8. In 2018 CAMRA conducted YouGov polling that 50% of beer drinkers now think that the price of a pint in a pub is unaffordable. In order to encourage moderate consumption in a supervised environment, it is in the interests of the Government to implement measures such as a reduction in draught beer duty to encourage consumption in pubs (where social wellbeing benefits can also be found) rather than purchasing alcohol in the off trade for consumption at home.
- 7.3.9. As the graph below demonstrates, the majority of alcoholic drinks sold in pubs are beer (70% compared to 10% each for wine, cider and spirits) – therefore a reduction in draught beer duty will encourage consumption back into pubs from the off trade, bringing the benefits of increased employment levels and support for property based, high street businesses which have suffered in recent years.

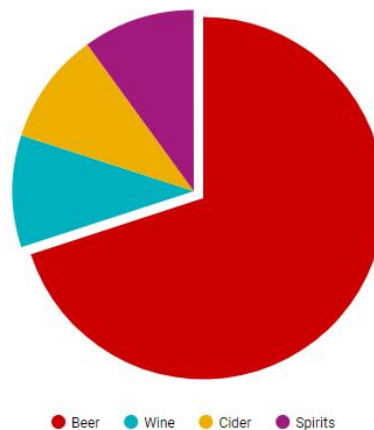
²⁰ BBPA Statistical Handbook 2019

²¹ BBPA Statistical Handbook 2019



SOURCE: Facts on Tap 2017

Market share in pubs by drink type

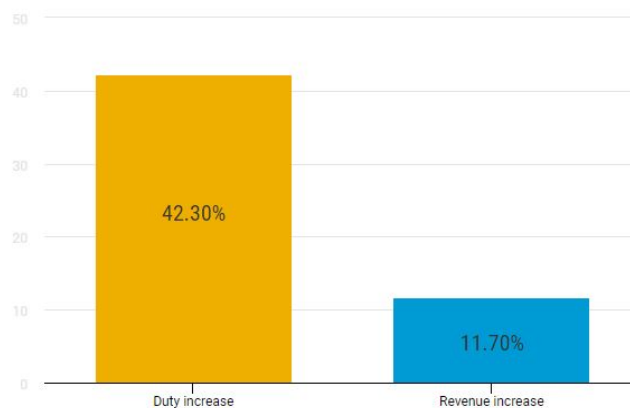


Government Revenue

7.3.10. The graph below shows how increases to beer duty did not yield equivalent revenue increases for the Exchequer at the time it was rising at the highest rate – during the Beer Duty Escalator. Therefore, increasing beer duty is an incredibly ineffective way of generating tax revenue for the Government.

SOURCE: HMRC Bulletin and BBPA Statistical Handbook 2018

Beer Duty and Government Revenue Increases 2008-2013



7.3.11. Instead of considering duty changes as a measure purely to increase duty receipts, a fresh school of thought is needed, which considers social wellbeing, preventing loneliness, supporting high streets and reducing unemployment (which in turn provide wider economic benefits and tax revenue) – all through simply encouraging pub use.

7.3.12. Our modelling from Europe Economics, found at Appendix 3 of this submission, shows that a 5% reduction in draught beer duty would cost the Exchequer £76m (a figure which doesn't include associated revenue generated in employment taxes from the additional jobs created or savings from expenditure on Universal Credit), which is less than the £85m



cost of freezing beers, spirit and cider duties in 2016²², and significantly less than the cost of cutting duties in each of 2013²³, 2014²⁴ and 2015²⁵.

7.3.13. Previous freezes and cuts to beer and other alcohol duties have also been across the board, rather than targeted at the on trade, and specifically high streets and pubs.

Targeting support at pubs and high streets with a differential duty rate

7.3.14. As evidenced above, 7 out of 10 drinks sold in pubs are beer, and across the whole on trade sector beer still accounts for a majority of sales at 54% of consumption²⁶.

7.3.15. Therefore, to deliver a package of reforms targeted at boosting pubs and high streets, it makes sense to deliver business rate reform for pubs and a reduction in draught beer duty, as draught beer is almost exclusively consumed in the on trade, and the most frequently consumed drink in pubs.

7.3.16. Our economic modelling shows that in the scenario of draught beer duty being cut by just 5%, there would be £26.6m of additional expenditure on draught beer and 38% of this consumption would represent beer that was previously consumed in the other market formats (off trade and non-draught).²⁷ This shows a pull from the off trade to the on trade rather than just increased consumption of on trade beer.

8. Minimum action needed in the Budget

8.1. The new Government has made bold commitments to reforming business rates and reviewing alcohol duties, which CAMRA hopes will secure the continued success of the pub sector in the longer term.

8.2. Small, incremental freezes to duty and piecemeal rate reliefs will not produce the results needed to properly address over-taxation of the sector – and the need for them is a symptom of the broken way our taxation system works. Only a comprehensive package of reform as outlined in this submission will provide long term prosperity for pubs and high streets and village economies.

9. About CAMRA

²² Budget 2016: Policy costings

²³ Budget 2016: Policy costings

²⁴ Budget 2014: policy costings

²⁵ Budget 2015: Policy costings

²⁶ BBPA Statistical Handbook 2019

²⁷ Europe Economics 2019





Campaign
for
Real Ale

9.1. CAMRA is one of the most successful consumer organisations in Europe. Founded by four beer lovers in 1971, today we represent more than 190,000 beer drinkers and pub goers across the UK.

9.2. Our vision is to have quality real ale, cider and perry and thriving pubs in every community.

10. Contact

10.1. If you have any questions about this submission, please contact Ellie Hudspith, CAMRA Policy and Research Manager.

ellen.hudspith@camra.org.uk
07538177662

Appendix 1 - Case studies of pubs working to tackle loneliness and social isolation

Cleveland Arms, New Ferry

The staff at the Cleveland give free tea and coffee to their regulars who struggle with social isolation. You do not have to drink to join in at the Cleveland and be with friends.

The pub runs a soft drinks caddie where customers bring along their tea, coffee, and hot chocolate and the staff put the kettle on. The pub offers a range of board games, friendly faces and often a listening ear.

Designated drivers receive free hot or soft cold drinks and this applies for darts evenings group parties and bank on holidays. The licensees believe that a pub is not only for drinking alcohol; for many it is the only social outlet, a support place and a second home.

Sunflower, Belfast

The Sunflower is a traditional corner pub focussed on great beer and great music, but also boasts a wealth of community focussed activities too. There are regular meetup nights including a Spanish language class and open mic sessions set up.

Cellar House, Norwich

The Cellar House has joined the Chatty Cafe scheme and every Wednesday have a table set up with a sign, magazines and board games for attendees.



They are also the local Post Office (which is on the bar) and make sure to check in with their customers who they know are living alone.

Brook Inn, Plympton St Maurice

The Brook Inn is known for “TLC Thursday” - an hour every Thursday afternoon for some Tea, Laughter and Company. The pub started running the event 18 months ago, inviting anyone who lives alone, feels lonely or simply wants to widen their circle of friends to join them for a free cuppa and piece of cake. Eight people turned up for the first one, now attendance is usually 30-40 people. The event has had a Q&A with the local politician, lots of entertainment from local musicians, health professionals, artists and even a young hip-hop dancer who has the whole room body popping! Locals drop in to donate money, cakes and tea-bags for the event.

Sip Club, Manchester (North West)

A unique micropub above an estate agents on Barton Road. The list of events and activities is impressive including supper clubs, tasting evenings, book club, speakeasy poetry nights, Sip One Purl One knitting & crafts club, quiz nights and more. Not content with only holding events for local humans, Sip Club also hosts a ‘Canine social’ so that dogs (and their owners) can meet up and socialise.

Lamp Tavern, Birmingham

The Lamp Tavern has been described as a ‘hidden gem’ in the heart of Birmingham. The pub is a popular venue with a welcoming landlord and friendly regulars who will talk to anyone who visits the pub for the first time.

Gerard Arms, St Helens

The Gerard Arms is the home of the Loving Arms Dementia Group. Started in 2018, the Group is now regularly attended by 80 people each week and has begun to organise day trips and other events.

Alexandra, London

This Wimbledon pub is the birthplace of Meet Up Mondays. Started by landlord Mick Dore in January 2018, attendees are offered free hot drinks and sandwiches and a place to socialise with others.

Kingslodge Inn, Durham

The Kingslodge Inn throws a Christmas party each year for people in the area who are living alone, working with local sheltered housing and Age UK. They also put on monthly lunches for local elderly people outside of the festive period.

Bevy, Brighton

The Bevendean (known by all locals as the Bevy) was bought by the community and opened in 2014. The pub is also a community cafe and boasts a seemingly endless list of community events and services including a choir, dementia cafe, minibus service from the pub to Brighton Albion football matches, repair clubs, community kitchen with classes for locals, minibus service that brings people to a seniors’ lunch club, and talks for the community.



Appendix 2 - Case studies from CAMRA survey of licensees on business rates

We would like to draw attention to the following case studies, all of which have been submitted by publicans across England as part of the survey. These detail the personal stories of those affected by increases in business rates and the consequences for the business. Some express frustration at the whole way that business rates work for pubs, and the seemingly arbitrary results of the 2017 revaluation.

Please note that some publicans indicated that they did not want their pub name or location shared publicly, so these have been credited as 'anonymous'.

"I am currently appealing our rates increase. [I]t almost doubled overnight. It has put a huge strain on the business finances." - Emily Sadler, owner of The Windsor Castle Inn in Lye, West Midlands

"I have had to raise all prices, I have been unable to reinvest in the kitchen as I would like (and need) and have had to reduce the amount [m]y wife and I can pay ourselves. I pay higher business rates than the local Sainsbury's petrol station and the local Barclays bank." - Mark Newman, owner of The Hampshire Bowman in Dundridge, Hampshire

"My business rates basically doubled! From £32,000 to £61,000 per annum set in 2015 at my peak. [S]ince then my turnover has fallen somewhat and with minimum wages going up yearly I am running at a loss and have had to take out large loans just to keep my doors open and my staff in employment and have now put [the] pub on the market. The government did give us back £1,000 relief but when it goes up £30,000 it seemed a joke." - Stewart Cross, owner of The Platform Tavern in Southampton

"My business rates went up from £19k payable to £45k payable. I've had to cut staff and hold back on reinvestment. If they went down I'd be able to invest more into the business." - Dan Lightfoot, tenant of The Greyhound in Ipswich

"We have reduced our staff levels to the bare minimum and our health is affected because we have to work so hard." - The tenants of The Three Kings in Fornham All Saints, Suffolk

"[The business rates are] just crippling! It means we are less able to attract decent calibre staff, as we are able to offer less than jobs in other lines of employment. This has a knock on effect in trying to grow the business." - The owners of The Brewers Arms in South Petherton, Somerset

"[I] went from £29,500 to £51,000. I have also missed out on the relief for the next 2 years by £1. Good pubs need to constantly evolve and reinvest but with the extortionate rates and taxes there is no money left to do this." - Tenant of The White Hart in Headington, Oxfordshire

"No investment can be made due to lack of any meaningful profits let alone pay the rates and it does negatively impact staffing levels and even [leads to] higher beer prices." - Tenant of The Macbeth in London

"Our Business rateable value increased by 265% which has forced us to look at our overheads including staff levels, we have been fighting this with the help of our local MP." - Gary Fantom, tenant of The Rutland Arms in Holmesfield, Derbyshire



“Staff levels have gone down to cover [the] extra cost of rates, less rates would equal more money to invest.” - Tenant of The Trunch Crown in Trunch, Norfolk

“[W]e work 7 full days a week, having to run another business just to keep the bills and major repair bills paid.” - Owner of The Three Sisters in Gillingham, Kent.

“I will pay 12x the amount a terraced house on the same street pays this year.” - Tenant of The Dolphin in Canterbury

“Investment has stopped due to the more we invest, the better the business, the more we give the council to waste. If we leave our business to become wrecked and in need of repair, [w]e get charged less rates because it's not worth anything. This means our employees' jobs are at risk and they work in a terrible unrepaired business.” - Owner of the George Wright Hotel in Rotherham

“It is increasingly difficult to generate profit. We are frightened to pass price rises directly onto our customers as we feel we are competing with cut price deals in supermarkets.” - Mike Cranney, who owns The Windmill in Bristol

“We are competing with a number of cafes in the area that are all exempt from business rates, it impacts on our ability to compete on price and staff wages.” - Owner of the Coach House Inn in Rosedale Abbey

“£1 in £3 taken is tax. It can't survive with those levels. [I] understand there need to be rates but a level playing field [is] required.” - Mark Holden, who runs The Victoria Inn in Truro

“[O]ur business rates level is three times higher than other rival pubs in our location, and this directly impacts on Sky subscriptions etc. [H]owever, although our turnover is higher than these other pubs; it is because we do a good food offer - so our staff costs are huge and take all the additional profit.” - Tenant of The Thatched House in Exeter

“[W]e have seen a rise in rates of nearly 50% over the six years we have had the pub, along with minimum wage increases, PAYE and pensions this has put a huge strain on profitability.” - Tenants of The Windmill Inn in Macclesfield

“It's a crippling amount of money, with no benefits that we can see for our rural location. We can't even get the road to our pub gritted costing thousands of pounds each year. We're small but work extremely hard to keep our pub busy and we are penalised for this.” - Owner of The Wheatsheaf in Raby

“The rateable value doubled. The increase in expense has prevented us from having a budget for marketing and we have reduced events such as live music at the venue to recover costs. The impact this has had on sales was dramatic, with an £18,000 loss on sales as a result. I have now decided to apply for funding so that we can continue putting on more events so that the pub can remain open.” - Owner of The Three Tuns in Bristol

“We are having to increase alcohol and soft drink prices which is resulting in customers going elsewhere.” - Dave Walker, who owns The Green Hops in Billingham



“Our business rates have increased dramatically, whilst it isn't going to cause us to re-evaluate the viability of the business it does make us look very closely at all our other costs including staffing levels.” - Owner of The Castle Hotel in Bishops Castle

“The economy is reviewed regularly but Business Rates are set in stone, appeals take too long resulting in closures left, right and centre.” - Anonymous

“This is a very challenging industry to be in at the moment, particularly in smaller towns. It feels [like] everything is stacked against you; rents, rates, pricing etc. It is extremely hard to make a living.” - Anonymous

“It's so closely tied to rents that in a city like Durham, to move onto the Bailey (city centre, and only 10 minutes away from where we are), while increasing trade, would make it near impossible to survive. This is because the rents go up massively, AND the rates go up in line with the rent - so you're getting the increases twice.” - Anonymous

“Tax on alcohol seems disproportionate for our industry. Quite often in rural pubs it is the only hub for a sense of community which is much needed in today's society. We are a place where people know they can go to get assistance for all manner of things. And where a sharing of knowledge occurs, of both people needing help or in trouble social matters, sharing of criminal activity so taxing us at every opportunity does nothing but harming the wider community.” - Anonymous

“Due to significant increases across a range of our costs including rates, we have had to reduce staffing levels and cut the opening hours of the pub during some quieter periods in order to be as efficient as we can and hopefully remain viable.” - Anonymous

“Cashflow is pretty critical most of the year and our biggest cost is business rates... but you can't cut [that] back that so you have to cut back on holding stock or taking on more staff.” - Anonymous

“Rates are now 3 times that of our competition and represent 30% of our monthly expenses.” - Anonymous

“My business rates trebled, so obviously this put more pressure on the business.” - Anonymous

“We have had to trim anything and everything to make [a] profit. I myself do most of the work from cleaning, organising cellar work shifts and gardening. If the rates went down it would mean I would be more comfortable to have a member of staff on a bit more frequently.” - Anonymous

“[The business rates] will probably put us under sooner rather than later.” - Anonymous

“The shops around the pub have significantly lower rates despite the fact they are larger, have more customers and sell alcohol.” - Anonymous

“The business rates aren't realistic and are out of date, how can they treble someone's rates without even visiting the property to see what's actually going on!” - Anonymous

Appendix 3 – Economic modelling from Europe Economics





Europe Economics

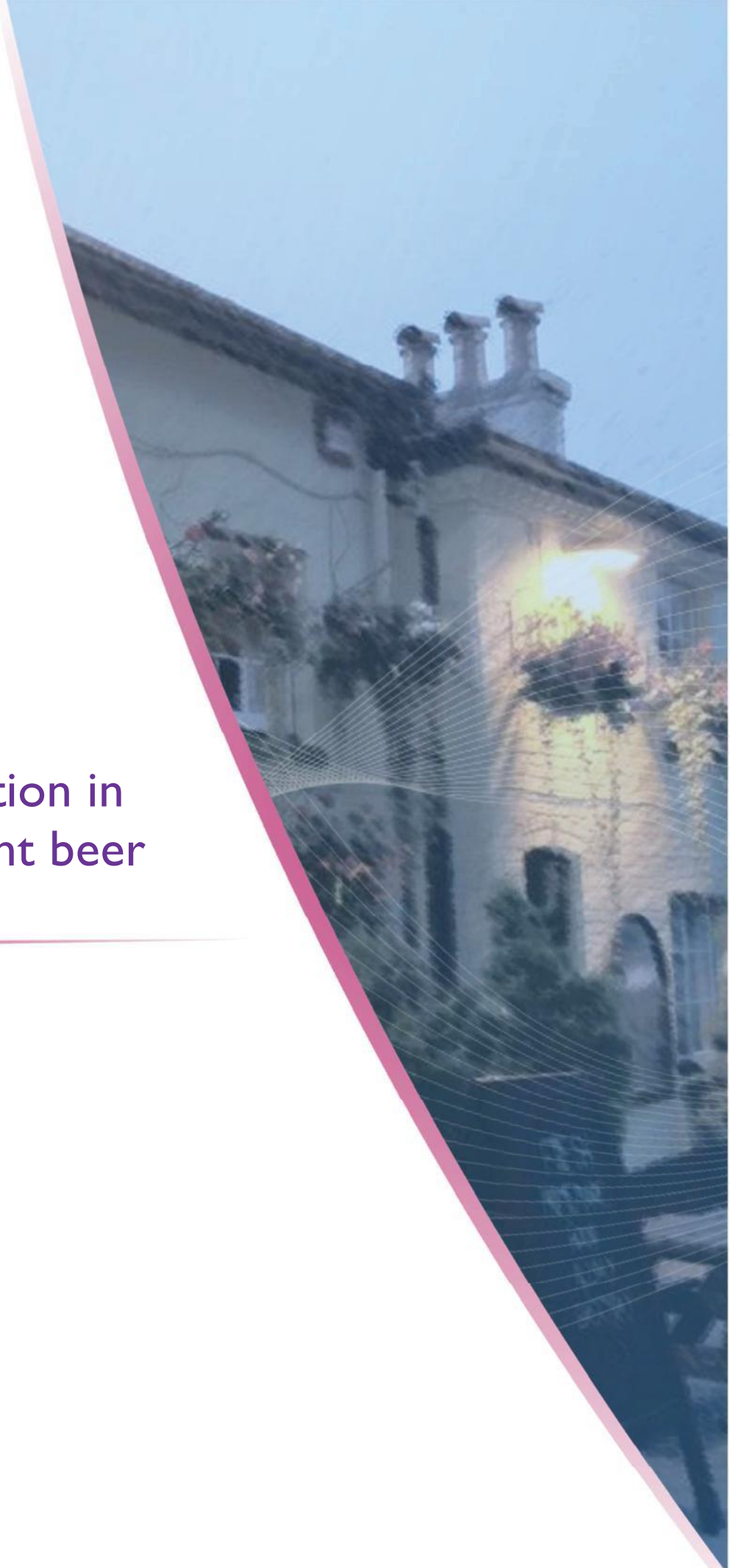
Modelling a reduction in the duty on draught beer in the UK

November 2019

Europe Economics
Chancery House
53-64 Chancery Lane
London WC2A 1QU

Tel: (+44) (0) 20 7831 4717
Fax: (+44) (0) 20 7831 4515

www.europe-economics.com



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1 Introduction and summary

Europe Economics has been commissioned by the Campaign for Real Ale (CAMRA) to estimate the impacts of a reduction in the beer duty rate applied to draught beer delivered in on-trade markets.

At present, pubs are currently subjected to different taxes, which include excise duty on beer, VAT, and business rates. When setting duty rates on alcoholic drinks, the UK government is subject to the European Commission Directive 92/83/EEC that fixes an EU harmonised minimum excise duty rates for alcoholic products. As any other Member State, the UK is constrained in being able to set its own rates only above the minimum level set by the EU.

CAMRA believes that the prospect of Britain leaving the EU could be an opportunity for the Government to reduce the duty rates levied on pubs. In this way, it would make them more able to compete with the off-trade market of alcoholic beverages bought in supermarkets and consumed at home.

A reduction in duty rates (together with other changes to business rates) could halt the trend of pub closures as well as boost the ability of small and local brewers, that sell their produce to pubs, to compete against larger international rivals.

Aim of the study

The decline in the pub industry has been showing alarming trends in the last decade (with pub closures occurring at rate of 12 per cent¹). A conceivable way to help reducing the trend could be to define duty rates on the basis of the means of delivery of beer.

At present, beer duty varies solely in the strength of the alcohol content of beer in the UK. Other jurisdictions (such as Australia), have introduced an alternative system, which is based on the alcohol strength and, importantly, the size and type of container (whether it can be connected to a pump delivery system for serving draught beer). This system effectively reduces the price of on-trade draught beer, and hence it lowers the differential between beer sold in on- and off-trade markets.

Summary of Results

This study simulates what would be the impact of a reduction in the duty rate applicable to the sale of on-trade draught beer in pubs in the UK. Our findings are that:

- A 5% reduction in the duty rate of on-trade draught beer (from £0.1908 to £0.1813) would lead to an addition 4.5m litres being sold in the on-trade markets. This would result in a net increase of around 966 jobs (1,000 in draught on-trade markets and a decrease of 85 in non-draught and off-trade markets). This would cost £76m to the exchequer.
- We have also shown that a net impact of 754 jobs could be achieved at no additional cost to the exchequer if we allow an increase of 5.9% in the duty of off-trade markets (from £0.1908 to £0.2021, to make the option revenue-neutral).
- A more ambitious policy involving a 10% reduction in the duty rate of on-trade draught beer (from £0.1908 to £0.1717) would imply a net gain of 1,497 jobs with no additional costs to HMRC (by employing a revenue-neutral increase in off-trade beer duty).

¹ House of Commons Library (2019), "Pub statistics".

2 Methodology

Data on alcohol markets can be decomposed into two segments of the beer sector: the on-trade, which includes alcoholic beverages consumed in pubs and other hospitality outlets, and the off-trade, which captures the volume of beer sold in the retail sector.

Our analysis estimates the effect of a reduction in duty applied to on-trade draught beer. For this, we construct a model that envisages the following dynamics. We acknowledge that the impact of taxes on a market might not be straightforward and depends on the extent to which suppliers and consumers react to price changes. To simplify, one can model the impact of a tax change as a combination of a price change and a subsequent change in sales:

- A reduction in on-trade draught beer duty reduces the price of a pint. Consequently, the sales at the pub will increase.
- Conversely, an increase in beer duty would increase prices of beer, causing sales to drop.

One simplification of our model is that it supposes that the effect of a duty change on the final price of beer is completely passed through to consumers (hence the “pass-through rate” is 100 per cent).² The impacts on sales are estimated using elasticities estimated for the sector.

2.1 Data, estimates and sources

The modelling takes some empirical information on the initial levels of the main variables of interest (Table 1). These are:

- **Market data.** The total volume of beer produced in the UK in 2018 stands at 4,228m litres, consumed in the on-trade and off-trade markets in proportions of 46 and 54 per cent respectively. The on- and off-trade prices are £5.91 and £2.36 per litre, respectively. We assume that the prices of on-trade draught and non-draught beer are both equal to the on-trade price (£5.91 per litre).³
- **Consumption.** The initial volume in on- and off-trade markets is calculated using on- and off-trade market consumption shares, and on-trade draught and non-draught shares. With the given proportions, we estimate the initial beer volumes as: 1,767, 177 and 2,283m litres, for on-trade draught, on-trade non-draught and off-trade, respectively.⁴
- **Expenditure:** the consumption values can be expressed as expenditure by multiplying by the correspondent price per litre. This gives expenditure figures (in £ thousands) of 10,438, 1,049, 5,386 for on-trade draught, on-trade non-draught and off-trade beer (implying that for each pound spent in the sector is spent as 62p, 6p and 32p, in the draught, non-draught and off-trade sectors respectively).

² This is a defensible assumption for British alcohol markets and is commonly assumed in other research literature (e.g. Griffith et al., 2017, ‘Tax design in the alcohol market’ <https://www.ifs.org.uk/uploads/WVP201728.pdf>). Indeed, sometimes the increases in alcohol taxes are passed on more than one-for-one into final consumer prices. See Leicester (2011), ‘Alcohol pricing and taxation policies’, IFS Briefing Note, <https://www.ifs.org.uk/bns/bn124.pdf>.

³ Whilst the prices of beer sold in the on- and off-trade will vary considerably across geographic regions and beer varieties, we use the average as provided by the latest Statistical Handbook published by the British Beer and Pub Association.

⁴ To calculate the draught / non-draught shares of on-trade beer we carried out the following. Firstly, we take the proportion consumed in the on-trade sector (46 per cent, ‘a’) and the proportion of beer consumed that is sold as draught (41.8 per cent of all beer, as provided in BBPA, ‘b’). Then, by assuming that all draught beer is consumed in the on-trade, the difference between a and b gives the proportion of on-trade non-draught beer ($0.46 - 0.418 = 0.042$). Therefore, within the on-trade, 91 per cent of beer is sold as draught ($0.418 / 0.46 = 0.91$) and 9 per cent as non-draught ($0.042 / 0.46 = 0.09$, or $1 - 0.91 = 0.09$).

- **Tax data.** The duty payable per litre of pure alcohol is £0.1908 on beer with alcoholic strength ranging from 2.8 to 7.5 per cent. This is the most recent duty rate provided by HMRC (1 February 2019).
- **Employment.** An employment figure for the on-trade is given by the ONS: 450,000. The off-trade employment linked to beer is taken from a 2016 estimate made by Oxford Economics: 12,730. The employment multiplier is the total volume of beer in the segment divided by the employment in the segment. This gives a figure representing the volume per employee.
- **Elasticities.** The effect on beer volume is modelled on the basis of own-price elasticity. This denotes the expected percentage change in the volume consumed for a given percentage change in the price of the beer. For example, a 1 per cent increase in the price of on-trade draught beer is expected to cause a reduction in on-trade draught beer consumed by 0.34 per cent. The elasticities for on- and off-trade beer impacts are provided by HMRC (2014).⁵

Table 1: Summary of data and sources

Variable	Figure (2018)	Source
Market data		
- Volume of beer produced (m litres)	4,228	(1)
- Price on-trade draught / on-trade non-draught / off-trade	5.91 / 5.91 / 2.36	(2)
- Average strength of beer	3.9%	(2)
Consumption Volume		
- on- / off-trade (%)	46 / 54	(2)
- draught / non-draught (% of on-trade)	91 / 9	(EE)
- draught / non-draught / off-trade (%)	42 / 4 / 54	(EE)
- draught / non-draught / off-trade (m litres)	1,767 / 177 / 2,283	(EE)
Expenditure		
- draught / non-draught / off-trade (%)	62 / 6 / 32	(EE)
- draught / non-draught / off-trade (£000)	10,438 / 1,049 / 5,386	(EE)
Tax data		
- Duty payable (beer 2.8-7.5% strength, per litre pure alcohol)	£0.1908	(3)
Employment		
- Pub / Retail (linked to beer)	450,000 / 12,730*	(4) / (5)
- Volume-employment ratio pub / retail (litres per person)	4,322 / 179,340	(EE)
Own-price elasticities		
- On trade	-0.34	(6)
- Off trade	-0.74	(6)

Note: * refers to 2016 data.

Sources: (1) HMRC UK Alcohol Duty Statistics (July 2019). (2) BBPA Statistical Handbook (2019). (3) HMRC 'Alcohol Duty rates from 1 February 2019' (February 2019). (4) ONS 'Economies of ale' (November 2018). (5) Oxford Economics 'The local impact of the UK beer and pub sector' (November 2016). (6) HMRC (2014), 'Estimation of price elasticities of demand for alcohol in the UK'; elasticities are estimated with a certainty of 99.9%. (EE) Europe Economics's calculations based on (2).

2.2 The impacts

The starting point for our calculations are two different suggested policy options. We then model a change in duty and their impact on prices. Finally, volume impacts are estimated by applying the relevant elasticities to the price change. This means that the impact estimates involve three distinct steps: setting the policy options, calculating the price impacts, and estimating the changes in volumes and employment.

⁵ HMRC (2014), 'Estimation of price elasticities of demand for alcohol in the UK'. We note that the cross-price elasticities between on- and off-trade beer as given by HMRC are non-significant and have hence not been used in our analysis.

The policy options

Our results show the impacts of two policy options:

- **P1:** The impact of a 5 per cent reduction in on-trade draught beer duty alone (the main objective of CAMRA).
- **P2:** The impact of P1, complemented with an additional duty increase in off-trade markets, so as to make P1 a revenue neutral option (this is so that there is no impact on the revenues collected by HMRC).

Price impacts

The typical pre-tax prices at current duty rates can be expressed as the sum of: pre-tax prices (£4.18/litre in the on-trade markets and £1.22/litre in the off-trade), a duty rate (£0.1908 for beer drinks of 3.9 alcohol strength in both markets), and a VAT rate (at 20% this implies an additional £0.98 and £0.39 in on- and off-trade markets, respectively). The sum of the different components yields the final (post-tax) price of £5.91 and £2.36 for on- and off-trade markets (shown in Table 1).

The policy options change the duty paid on beer and hence the final price. We assume that the duty change is fully passed-on to consumers (and is, therefore, fully reflected in the final price). In this way, the post-tax price of on-trade draught beer decreases from £5.91/litre to £5.86/litre under P1. Under P2 we allow an increase in the off-trade duty by 5.9% (this is the value that makes P1 a revenue-neutral option) and implies a price change from £2.36 to £2.41 in off-trade beer.

Volume and employment impacts

The volume of beer consumed in the UK beer market is expected to react to the duty changes modelled. The new volumes are estimated using the existing volumes, the change in prices (before and after the policy option) and the elasticities (for on- and off-trade).

Employment impacts are estimated using an 'employment multiplier'. This is the total volume of beer in the segment divided by the employment in the segment. This gives a figure representing the volume per employee. The on-trade employment multiplier is far lower than that of off-trade, a fact that is reflected in the employment impacts reported herein.

3 Results

In this section we show our results but also explore the implications for the final volumes of non-draught beer consumed in the on-trade and beer consumed in the off-trade markets.

3.1 Impact of P1 – first set of results (on-trade draught market only)

The 5 per cent reduction in draught beer duty alone is found to decrease the post-tax price of draught beer by 0.76 per cent, from £5.91 (in the original situation, P0) to £5.86 (the policy change P1). Employing the own-price elasticity, this implies an additional beer consumption of 4.5m litres. Using a ratio of employment to consumption, this yields an increase of 1,051 in employment serving draught-beer in on-trade markets. The tax revenue impact would be a reduction of £71.25m (these are lost revenues due to the reduction in the duty of on-trade draught beer from P0 to P1, as well as the corresponding reduction in VAT duty revenue, Table 2).

Table 2: First Results: P1 (5% duty reduction) – on-trade draught only

	P0	P1	Impact P1 - P0 Totals+
Price impact			
Pre-tax price	£4.18	£4.18	0
Duty	£0.74	£0.71	-0.03
VAT (20%)	£0.98	£0.98	-0.01
Post-tax price	£5.91	£5.86	-0.04
Impacts			
Volume (000s litres)	1,767,206	1,771,748	4.5m litres
Employment (people)	408,913	409,964	1,051 jobs
Tax revenue (£000s)	3,054,736	2,983,483	- £71,253

Note: + Totals might not add due to rounding.
Europe Economics calculations.

3.2 Impact of P1 – impact accounting for parallel markets

We believe that the results presented in Table 2 are likely to overestimate the employment impact of the duty reduction. Although it is true that a price reduction will increase the consumption in draught beer (and also the jobs associated with it), we cannot ignore where this additional consumption comes from. To the extent that the consumption is *additional* to the consumption of beer in the different markets, there will be an undoubtable net increase. However, to the extent that such increase is in fact *substituting* the consumption in other markets (i.e. off-trade, but also non-draught beer consumed on-trade) the impact would be simply replacing jobs in one sector with jobs in another.

We might ask ourselves how much of the additional consumption found as a result of the duty reduction is coming from the other sub-markets (that is, non-draught and off-trade). To obtain such an estimate we have proceeded as follows. We have calculated the additional expenditure associated with the additional volume obtained from the own-price effect in draught consumption. This is simply a multiplication of the volume obtained and the new price of draught beer, and it implies an additional expenditure on draught beer of £26.6m. One would expect that, before the policy change, expenditure on beer would be distributed across the three markets (draught, non-draught and off-trade) according to some pre-

established market shares. These have been estimated in Table 2 (Section 2) as 62% / 6% / 32% reflecting that, for each pound spent on beer, 62 pennies would go to draught, and the rest would go to non-draught and off-trade markets (6 and 32 pennies, respectively). We can hence establish that 38 per cent of the additional £26.6m expenditure on draught is likely to have come from beer that was consumed previously in the other two markets (6 per cent in the non-draught and 32 per cent in off-trade). This would mean that of the additional consumed 4.5m litres in the form of draught beer, 280,000 and 3.6m litres are being *diverted* away from the non-draught and off-trade, respectively.

We have calculated how the 4.5m additional litres are increasing the jobs in on-trade draught, but at the same time it is reducing employment in the other sectors (due to a drop in the consumption in on-trade draught and off-trade).⁶ However, we can see that the impact of such beer *substitution* effect is small. This is because non-draught beer represents a small proportion of the total on-trade beer consumption. Moreover, the employment associated with beer in the off-trade segment is very small. Using a similar ratio of employment to consumption in both markets we estimate that the drop in such markets would be limited to 85 (65 and 20 jobs for the non-draught and off-trade markets respectively). Consequently, the employment impact of the duty reduction on the on-trade draught market will be 1,051 additional jobs, but the loss in employment in the other two markets will be 85 jobs. As a result, the net impact on the whole beer market will be 966 additional jobs. The impact on government tax revenue results in a net loss of £75.8m (Table 3).

Table 3: Main Results: P1 (5% duty reduction and impact in parallel markets)

	P0	PI	Impact P0 - PI Totals+
Volume (000s litres)			
- Draught	1,767	1,772	
- Non-draught	178	177	
- Off-trade	2,283	2,279	659,000 litres
Employment (people)			
- Draught	408,913	409,964	
- Non-draught	41,087	41,022	
- Off-trade	12,730	12,710	966 jobs
Tax revenue change (000)			- £75,834

Note: + Totals might not add due to rounding.
Europe Economics calculations.

3.3 Impact of P2 – revenue neutrality

In the P2 policy scenario, the tax revenue that is lost from the lower draught duty rate is offset by the increased rate on off-trade beer. This implies that there is no net cost to the UK taxpayer of this modelled scenario. To do so, the off-trade duty rate increases by 5.9 per cent to offset the lost revenue resulting from on-trade draught beer. This results in an off-trade beer reduction of 38m litres.

When the employment multiplier is applied to the volume impacts of the combination of beer duty changes, the loss in employment due to the off-trade duty increase is more than offset by the increased employment due to draught beer sales. Employment in the on-trade is raised by a total of 1,051 persons, whilst overall beer-related employment in non-draught and off-trade reduces by 65 and 232, respectively. The net impact is an increase of 754 (Table 4).

⁶ This can easily be understood if one sees that whatever consumption is increased in the form of draught (in substitution of non-draught) might not cause any employment effect if the personnel serving the draught and non-draught is the same (simply substituting one activity for another inside the pub).

Table 4: Main Results: P2 revenue neutrality (5% duty reduction in markets)

	P0	P2	Impact P2 - P0 Totals+
Volume (000s litres)			
- Draught	1,767	1,772	
- Non-draught	178	177	
- Off-trade	2,283	2,241	-37.2m litres
Employment (people)			
- Draught	408,913	409,964	
- Non-draught	41,087	41,022	
- Off-trade	12,730	12,498	754 jobs
Tax revenue change			£0

Notes: + Totals might not add due to rounding.
Europe Economics calculations.

3.4 Alternative scenario P3: 10% on-trade draught duty reduction

We have extended the simulation exercise to model a larger reduction in the on-trade draught duty. Maintaining tax revenue neutrality requires a still-larger increase in the duty applied to off-trade beer (12 per cent). This scenario increase on-trade draught volume by 9m litres, whilst increasing the number of jobs devoted to beer by nearly 1,500 persons. The full results are reported in Table 5.

Table 5: Main Results: P3 revenue neutrality (10% duty reduction in on-trade draught)

	P0	P3	Impact P3 - P0 Totals+
Volume (000s litres)			
- Draught	1,767	1,776	
- Non-draught	178	177	
- Off-trade	2,283	2,198	-76.8m litres
Employment (people)			
- Draught	408,913	411,015	
- Non-draught	41,087	40,958	
- Off-trade	12,730	12,254	1,497 jobs
Tax revenue change			£0

Notes: + Totals might not add due to rounding.
Europe Economics calculations.

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5 Technical Appendix

5.1 Complete beer elasticities used

HMRC's original elasticities table (only beer elasticities are reproduced)

		On-trade	Off-trade
Prices	On-trade	-0.34***	0.03
	Off-trade	-0.08	-0.74***

*** estimated with a certainty of 99.9%. Own-price elasticities in bold.

5.2 UK government beer duty interpretation guidance

Beer Duty

How much Beer Duty you pay depends on the beer's strength, or 'alcohol by volume' (ABV).

Strength (ABV)	Beer Duty rate per litre for each % of alcohol
More than 1.2%, up to 2.8%	8.42 pence
More than 2.8%, up to 7.5%	19.08 pence
More than 7.5%	24.77 pence

Example

You buy a pint of 5.0% strength lager. The Beer Duty you pay is 19.08p x 5.0 = 95.40 pence per litre. This works out at just over 54 pence a pint (about 568ml or 0.568 litres).

Source: UK government (2019), 'Tax on shopping and services', <https://www.gov.uk/tax-on-shopping/alcohol-tobacco>