

Submission to the Chancellor: Autumn Budget 2021

CAMRA, The Campaign for Real Ale



About CAMRA

CAMRA, the Campaign for Real Ale, is a non-profit consumer group with nearly 170,000 members across the UK. We campaign for quality beer, cider and perry, and thriving pubs and social clubs in every community.

In 2021 we celebrated being at the forefront of campaigning for consumers of beer, cider and perry for 50 years, as one of the largest and most successful single-issue consumers groups in Europe.

Executive Summary

- Pubs and social clubs are a force for good – they are community facilities, tackle loneliness and social isolation, and contribute significantly to the local economy.
- The pandemic had a devastating impact on the beer, cider, pub and club industry – without Government support schemes, thousands of pubs, clubs, brewers and cider makers would have closed forever.
- The sector is going through a fragile recovery. While consumers have returned, Government support schemes and fiscal measures that are coming to an end have been sustaining this, so more investment is needed to ensure the bounce back continues.
- In the Budget, the Chancellor should announce the following measures:
 - For thriving pubs:
 1. A new Draught Beer Duty rate
 2. A fairer business rates system for pubs
 3. A permanent VAT cut for hospitality businesses
 - For a strong and diverse brewing sector:
 1. Positive reform of Small Brewers' Relief
 2. Increasing the abv threshold for the lower strength Beer Duty band
 - For supporting cider and perry makers:
 1. A progressive duty system for cider producers
 2. Raising the minimum juice content for cider
- With the COP26 summit fast approaching, we have also taken the opportunity to highlight the relative sustainability of consumption of cask beer in pubs, and where our policy recommendations can contribute to the Government's wider aims to fight climate change and make our economy greener.

The pandemic and the beer and pub sector – impact and bounce back

Impact on trade

The effect of the pandemic on the hospitality sector has been devastating.

Data from the British Beer and Pub Association (BBPA) suggests that up to 2,000 pub businesses may have failed, and one in eight hospitality staff were made redundant¹ despite the Coronavirus Job Retention Scheme.

¹ Figure from UKHospitality

On trade beer volumes fell by almost 70% in the 12 months to March 2021, wiping out more than £9.6bn of sales value.²

Small brewers made 2,000,000 fewer pints of beer in 2020.³ They have been disproportionately affected by the closure of hospitality businesses, as most of their sales are to pubs and on-trade venues⁴, while in general more beer is now sold through the off-trade than the on-trade. Over the summer of 2020, SIBA estimated that two brewers a week were closing in the UK.⁵

Communities across the UK have also missed out on the social and wellbeing benefits of moderate drinking in a supervised setting. Every community where a pub has closed permanently due to the pandemic is socially, economically, and culturally poorer than before.

A fragile recovery

Consumers have returned to pubs, and trading levels have improved. However, the recovery is fragile and has been buoyed by Government support schemes and fiscal measures that are now being withdrawn, and rent concessions and discounts that have been arranged between pub companies and tenants – which are now being wound back.

Despite positive news stories since reopening, it is important to note that trading on average is still below pre-pandemic levels. Sales of cask beer are down 40% since April – equivalent to 76 million pints, and £243 million of revenue.⁶

New challenges have also emerged as society has reopened. It is now widely recognised that there is a major staffing shortage in the hospitality sector, in recent weeks the supply of CO₂ has been disrupted, energy bills are expected to rise, and brewers are now looking ahead to (unspecified) changes to Small Brewers' Relief and the introduction of Deposit Return Schemes (which will also affect cider makers, pubs and social clubs).

The BII September 2021 Member Survey⁷ found that:

- 76% of pubs are paying higher wages to attract and retain staff
- Half of respondents are facing increased utility costs of over 10%
- 61% of pubs cannot recruit enough staff to maintain trading levels
- 72% of pubs are running out of core lines in their food and drink offering

Pubs, and the wider hospitality industry, are now at a tipping point in the pandemic recovery and it will be vital for this Budget to reaffirm the Government's commitment to ensure that the sector bounces back and thrives in the future.

² 'Caskonomics' report – www.beergroupinquiry.com

³ Calculation from the Society of Independent Brewers (SIBA)

⁴ SIBA Craft Beer Report 2019

⁵ SIBA estimate

⁶ British Beer and Pub Association (BBPA) – beerandpub.com

⁷ British Institute of Innkeeping - <https://www.bii.org/common/Uploaded%20files/Surveys/2021/Summer-Trading-BII-Survey-Sept21.pdf>

Recommendations to the Chancellor

For thriving pubs

1. A new Draught Beer Duty rate

As part of the ongoing Alcohol Duty Review, a new Draught Beer Duty rate should be introduced.

Seven out of ten drinks sold in pubs are beer⁸, so a new Draught Beer Duty rate provides an opportunity to reform Beer Duty in a way that is targeted at pubs, rather than reducing the General Duty rate which also affects beer sold in the off-trade.

This will help reduce the price differential between supermarket and on-trade alcohol and support consumption in pubs and the wider on-trade, where social wellbeing benefits accrue that do not apply to alcohol consumed at home. In 2019, the average price per pint of beer was £3.81 in the on-trade versus £1.36 in the off-trade⁹.

CAMRA has already commissioned research that found that the introduction of a new Draught Beer Duty rate could¹⁰:

- Result in £26.6m of additional expenditure on draught beer.
- Pull consumption back to into pubs from the off-trade.
- Create additional jobs in pubs.

A more ambitious cut could produce even greater benefits, getting more people back to the pub, helping the sector recover from the effects of the pandemic, and putting more money into local economies.

The recent All-Party Parliamentary Beer Group inquiry into the effects of the pandemic on the cask beer industry in the UK recommended that the Government consider a new Draught Beer Duty rate, to support pubs and brewers of cask beer.¹¹

Above and beyond the social and wellbeing benefits of pub going, this is also an opportunity for the Government to promote a more sustainable way to consume alcohol. Draught beer is served from a reusable cask or keg into a reusable glass, without the single use packaging and consequential waste management and recycling costs that are associated with the off-trade.

2. A fairer business rates system for pubs in England

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.

⁸ Facts on Tap – British Beer and Pub Association

⁹ Nielsen, BBPA estimates - BBPA Statistical Handbook 2020

¹⁰ https://camra.org.uk/campaign_resources/europe-economics-report-the-impact-of-cutting-draught-beer-duty/

¹¹ Beer Group 'Caskonomics' report – www.beergroupinquiry.com

At the point of the last revaluation, pubs in England paid 2.8% of the total business rates bill but only accounted for 0.5% of total business turnover.¹² This equates to an annual sector overpayment of around £500m.¹³

CAMRA has had input into the Business Rates Review and we are looking forward to hearing the results from the Government – which we hope will mean a move to a system where pubs are not unfairly penalised.

To deliver fairer results that allow pubs to thrive, a reformed business rates system for England 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.
- Overhaul of the appeals system to resolve appeals in a timely manner.
- Incentives for pubs, social clubs, brewers, and cider makers to invest in environmentally friendly technologies. The value of such equipment should be excluded from the Rateable Value calculation.

3. Investing in the sector through a permanent VAT cut (UK-wide)

The VAT cut currently in place but due to end before the Budget is a vital measure that is supporting the fragile recovery in pub trading levels.

In the Budget, the Government should:

- Safeguard the recovery and invest in the future of the Great British pub with a permanent reduction in VAT for the hospitality sector.
- Extend the scope of this investment to apply to on-trade alcohol sales too, ensuring that wet-led pubs and social clubs, and the brewers and cider makers that supply them, can enjoy the same benefits.

For a strong and diverse UK brewing sector

1. Positive reform of Small Brewers' Relief (UK-wide)

CAMRA believes that the Small Brewers' Relief (SBR) Scheme is vital to a thriving beer market, and to ensuring choice for consumers. The scheme has been instrumental in the growth in numbers of independent, UK-based

¹² Calculation made using ONS data, 2013

¹³ Ibid

brewers over the last 20 years, and resulting choice in high quality beers of varying styles for consumers.

However, while brewery numbers have grown dramatically, the gulf between small and medium-sized brewers and global brewing companies remains. SBR was introduced not just to support smaller brewers struggling with economies of scale in production but to alleviate market access issues.

In 2002 small brewers were struggling to gain access to market compared to large and global brewers who either owned their own pub estates or had deals in place with pub companies or distributors to supply on-trade venues – the situation has not changed dramatically since, and global brewers have become even more dominant in the UK beer market.

We are concerned that the Government's current rationale for changing the SBR threshold and relief taper relies solely on production costs from a small set of data and does not consider the acute market access issues that small brewers are still facing. Small brewers are vital in encouraging diversity, innovation, and consumer choice in the beer market, but struggle to gain access to the majority of on-trade outlets.

Therefore, as part of the review of SBR, CAMRA urges the Government to:

- Abandon plans to lower the 5,000hl threshold – which would result in some of the smallest brewers paying more tax and create a disincentive for any brewer currently below the proposed 2,100hl threshold to expand in future.
- Invest in SBR and extend the upper production threshold to allow for necessary adjustments to the relief taper. This will not only bring more brewers into the remit of SBR, giving benefit to medium sized brewers that lack the economies of scale of global brewers, but also protect the smallest brewers from an increase in taxation.

2. Increasing the abv threshold for the lower strength Beer Duty band

Lower strength beers should attract a lower rate of duty, and the duty system should incentivise the production of lower strength alcoholic drinks to increase consumer choice. Currently, the lower rate of Beer Duty is applied between 1.2% and 2.8% abv.

It is widely recognised that lower strength alcoholic drinks are less likely to be consumed immoderately, and there is a renewed demand from consumers for lower abv products. However, it is very hard to produce high quality, cask conditioned beers at 2.8% and below.

To help incentivise production of lower strength beers, and to increase consumer choice in the lower strength beer market, the threshold for the lower rate of the Beer Duty should be increased from 2.8% to 3.5% abv.

For supporting UK cider and perry makers

1. A progressive duty system for cider producers

The distribution of cider makers by scale in Britain contains a paucity of viable small- to mid-scale producers. The independent beer sector was not in a dissimilar place 20 years ago, and the single most important thing that facilitated the boom in brewery numbers was the introduction of Small Brewers' Relief, as discussed earlier in this submission.

The current 70hl duty exemption for the smallest of cider producers has been vital for protecting small 'farm gate' diversification and helping new cider makers enter the market. However, it has also effectively acted as a glass ceiling for aspiring cider makers, preventing organic growth above 70hl of production as, once the limit is exceeded, duty is payable on the full production volume.

We advocate the retention of this exemption, but also the introduction of Progressive Cider Duty above 70hl of production as part of the wider Alcohol Duty Review. This will facilitate sustainable growth for those who wish to take their cider making enterprise to a larger scale, employ more people, and give the best of cider a viable chance in the market dominated in volume by a few global producers.

2. Raising the minimum juice content for cider

In the UK, the minimum juice content required to sell a product as cider (contained within the definition of cider for tax purposes) is just 35%. This means that a product that is less than half fermented juice can be sold as cider. While very few producers make a product with a 100% juice content, many of the cheapest and lowest quality products on the market are under 50% juice.

The UK is self-sufficient in cider apples and cider makers are typically a short distance from the orchards that supply them. Cider is made from cold pressed juice and many are naturally fermented. The cider making process is both energy efficient and sustainable.

A modest increase to at least 50% in the minimum juice content required to qualify as cider could:

- Lead to an increase in price for the most cheaply formulated and priced of ciders – a key aspect of improving the value perception, and reputation, of cider.
- Provide increased competition in the marketplace for smaller producers making cider with a higher juice content and at greater production expense.
- Ensure that consumers can be confident that the cider they are purchasing is guaranteed to be more apple juice than water.
- Provide a renewed demand for the several thousand acres of orchards bearing tannin-rich apples that can only be used for cider making and are being currently wound down due to a lack of demand.

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The revival of these orchards will benefit farmers, the cider and perry makers using them, and the environment through increased CO₂ absorption.

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