

Summary: Intervention & Options

Department /Agency: Home Office	Title: Impact Assessment of a Code of Practice for the Alcohol Industry	
Stage: Final	Version: 1	Date: 21 st November 2008
Related Publications:		

Available to view or download at:

<http://www.>

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What is the problem under consideration? Why is government intervention necessary?

Although the law prevents the purchase of alcohol by those under 18 and the serving of intoxicated customers, these practices still occur. Whilst not all consumption is harmful, there are risks associated with alcohol misuse and there is evidence of increasing health harms, high levels of alcohol related crime and of younger people consuming more alcohol, particularly in public places. Effective enforcement should not be a substitute for ensuring that those selling alcohol play their part and an independent review has recommended that a voluntary code of practice is no longer a viable option.

What are the policy objectives and the intended effects?

The objectives are to encourage the more responsible sale of alcohol in order to promote the four licensing objectives as set out in the Licensing Act 2003. Voluntary standards have been shown to be ineffective in bringing about these objectives and so mandatory standards are now being considered. We anticipate that mandatory standards will result in increased compliance, less illegal sales and have a beneficial impact on levels of crime and disorder and on people's health in the short and long term. Hence, savings will be made by enforcement, licensing authorities, and the NHS.

What policy options have been considered? Please justify any preferred option.

Following a public consultation on three options the preferred option is:

To introduce an 'enabling power' whereby the Home Secretary can draw up a code of practice for the alcohol industry which will permit the imposition of some mandatory licensing conditions and allow licensing authorities to 'block apply' conditions to a number of premises at a time.

In the public consultation 90% of the respondents to that question felt that a revised code should be made mandatory. A KPMG review of industry standards found that a voluntary code was not being adhered to.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

Effectiveness will be monitored using the British Crime Survey, hospital admissions data, licensing statistics and ongoing liaison with the police, LACORS, LGA and other stakeholders.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

..... Date:

Summary: Analysis & Evidence

Policy Option: Preferred option	Description: 'Enabling power' whereby the Home Secretary can draw up a code of practice and allow licensing authorities to 'block apply' conditions
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' A 1% fall in consumption may cost the industry £461m over 10 years in lost profit. Some of the measures which could be included in the code include mandatory server training (£19m-£76m p.a.), offering 125ml wine glasses (£3.1m p.a.) and offering 25ml spirits measures (£12m). N.B. these are intended as illustrative estimates		
	One-off (Transition) Yrs			
	£ unknown			
	Average Annual Cost (excluding one-off)			
	£ unknown	Total Cost (PV)	£ unknown	
Other key non-monetised costs by 'main affected groups' There will be other compliance costs to the industry from measures which have not been considered here. There may also be an initial cost to local authorities from deciding whether to apply conditions. These will depend on the number and type of conditions included in the code and so cannot yet be estimated.				

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups' A 1% fall in alcohol consumption is estimated to yield a benefit over 10 years of £2.514bn. This is comprised of a reduction in crime harms (£645m), health harms (£1.06bn) and employment harms (£671m) from alcohol misuse.		
	One-off Yrs			
	£ 0			
	Average Annual Benefit (excluding one-off)			
	£ unknown	Total Benefit (PV)	£ unknown	
Other key non-monetised benefits by 'main affected groups' This policy will lead to greater compliance with laws regarding the sale of alcohol and to alcohol being sold more responsibly. Even if absolute consumption is unaffected, there should be a reduction in binge drinking that will lead to additional reductions in crime.				

Key Assumptions/Sensitivities/Risks We assume that licensing authorities will impose the conditions outlined in the code and if not then the benefits will only materialise from the mandatory conditions. We have not yet fully assessed the cost to industry of complying with the conditions. These will be assessed once known but could potentially be significant.

Price Base Year	Time Period Years 10	Net Benefit Range (NPV) £ unknown	NET BENEFIT (NPV Best estimate) £ unknown
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What is the geographic coverage of the policy/option?	England and Wales			
On what date will the policy be implemented?	Unknown			
Which organisation(s) will enforce the policy?	Responsible atherities			
What is the total annual cost of enforcement for these organisations?	£ unknown			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	N/A			
What is the value of the proposed offsetting measure per year?	£ N/A			
What is the value of changes in greenhouse gas emissions?	£ N/A			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro unknown	Small unknown	Medium unknown	Large unknown
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £ 0	Decrease of £ unknown	Net Impact	£ decrease

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

The content of any revised standards will be subject to further detailed consultation. This impact assessment is therefore limited to the regulatory framework by which any revised code may be implemented. The impact of this framework will be determined by the content of the revised standards and vice versa and so it is not possible to fully cost each option until the content is decided. The content of any revised standards will be subject to further analysis of impacts at a later date.

Rationale for intervention

Although laws in the United Kingdom prevent the purchase of alcohol by those under 18 years old and the serving of intoxicated customers, there is evidence that problems still occur. Whilst not all consumption is harmful, there are risks associated with alcohol misuse and, in particular, these risks are greater when the drinker is under 18. There is evidence of increasing health harms, high levels of alcohol related crime and of younger people consuming more alcohol, particularly in public places.

The Licensing Act

The new Licensing Act was introduced in November 2005. There are four licensing objectives:

- The prevention of crime and disorder;
- The protection of children from harm;
- The prevention of public nuisance;
- Public safety.

The Act made a great deal tools and powers available to enforcement agencies to tackle alcohol-related crime and disorder, as did various pieces of Anti-Social Behaviour legislation, and most recently the Violent Crime Reduction Act.

It is clear, however, that the use of these tools and powers differs considerably from area to area. For example, the recent NAO report, Reducing the Risk of Violent Crime, noted “The Licensing Act 2003 has provided a lever for Crime and Disorder Reduction Partnerships to address alcohol-related violence but it is not yet being fully exploited by local areas”. This was also noted by DCMS following the review of the Licensing Act, “Our main conclusion is that people are using the freedoms but people are not sufficiently using the considerable powers granted by the Act to tackle problems, and that there is a need to rebalance action towards enforcement and crack down on irresponsible behaviour”. Our discussions with the Government Offices, LACORS and the police have highlighted that the same is true for the other tools and powers available to front line practitioners.

Licensing authorities currently have the power to impose conditions on a license in order to support these objectives on a case-by-case basis. However, there is now evidence that licensing authorities are not always able to establish a clear link between local problems and a single premise, and are therefore often prevented from imposing licensing conditions even where they believe they would be beneficial. This has limited the effectiveness of the existing licensing mechanisms.

Social responsibility standards

The alcohol industry's Social Responsibility Standards were launched in November 2005 to coincide with the implementation of the new Licensing Act. They were signed by 16 trade associations and draw together industry good practice, advice and codes of conduct. Adherence to the Standards is voluntary except for the aspects relating to legislation, advertising and the Portman Group code of practice.

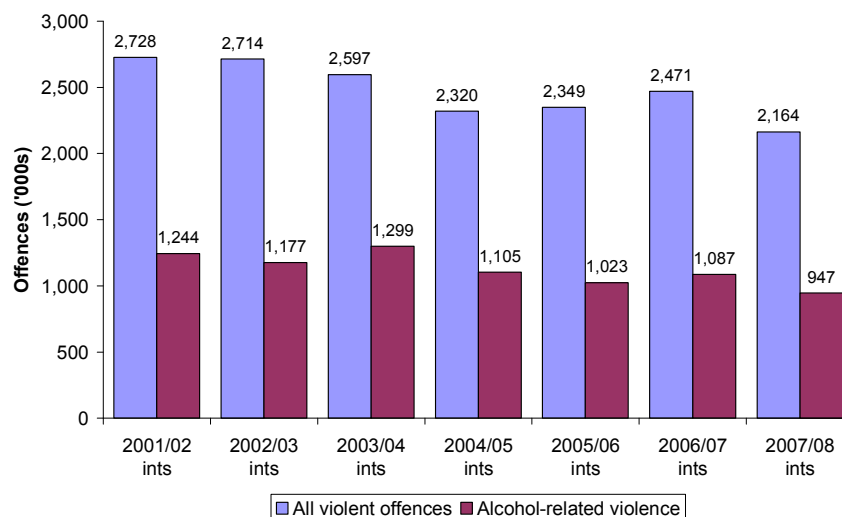
In February 2008, the Home Office commissioned KPMG to conduct a review into the effectiveness of these Standards in contributing to a reduction in alcohol harm. Although they found examples of good practice, most notably at a corporate level, KPMG concluded that those selling alcohol to the public were not aware of the voluntary code of practice that had been agreed by the key trade organisations, and that the code did not have an impact in reducing levels of crime and disorder. In particular, KPMG found evidence of:

- People who appear to be under-18 frequently being admitted to age restricted venues in which they cannot purchase alcohol legally;
- the promotion of alcohol through low price offers, inducements by DJs to consume greater quantities, and glamorisation through links with sexual imagery;
- encouragement to drink more and faster through shots and shooters being “downed in one”;
- sales to blatantly intoxicated people;
- several health and safety issues inside bars and clubs e.g. overcrowding, broken glass and spilled alcohol;
- poor dispersal practices (although there is some very good practice);
- several instances of anti-social behaviour and low level crime (fights and assaults, urinating and vomiting in public places, criminal damage)

Alcohol-related crime

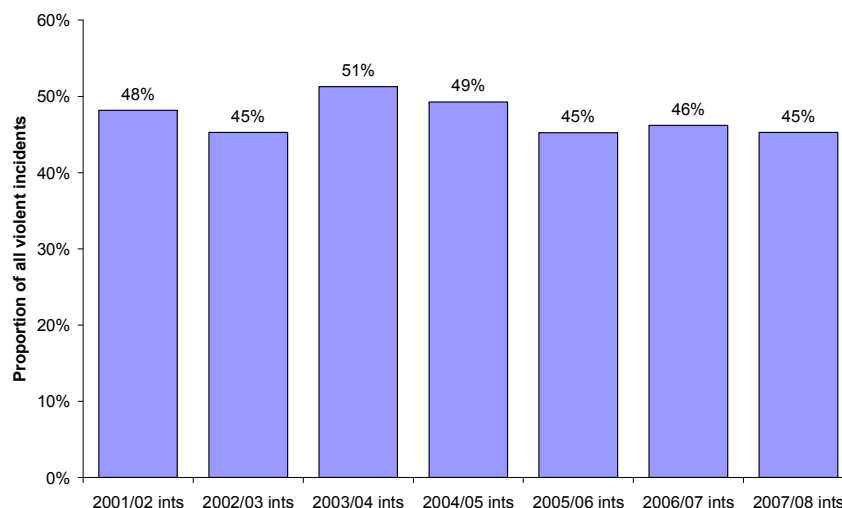
According to the 2007/08 British Crime Survey, victims believed the offender(s) to be under the influence of alcohol in 45 per cent of all violent incidents, equivalent to 947,000 violent offences. Whilst the number of alcohol-related violent offences has fallen significantly since the mid-1990s (see figure 1), the proportion of violent offences that are alcohol-related has remained stable (see figure 2).

Figure 1: Violent incidents and alcohol-related violence, 2001/02 to 2007/08¹



¹ Table 3.11, Crime in England and Wales 2007/08, Home Office Statistical Bulletin 07/08

Figure 2: Violent incidents where the victim believed the offender(s) to be under the influence of alcohol, 2001/02 to 2007/08²



More than half of people surveyed (52%) also thought that alcohol was one of the major causes of crime in 2007/08, an increase from 49% in the previous year. However, a much smaller proportion (7%) thought it was the main cause of crime in Britain today. Results from the 2006/07 survey³ also show that 18% of all violence occurred in a pub or club and 48% of all violent offences occurred between Friday evening and Monday morning.

The 2008 Review of the Licensing Act⁴ found that overall there had been a 1% fall in violence, harassment and criminal damage in the 12 months following the introduction of the Licensing Act. However, there was a 22% increase in offences reported between 3am and 6am. Whilst these represent only 4% of the offences committed at night, the Government has committed to undertake further research into post-midnight drinking patterns and their impact on crime and disorder.

Perceptions of crime

Perceptions of crime are an important factor in social welfare as it is often perceptions, rather than reality, that determines how much individuals are willing to spend in anticipation of crime in order to reduce either the likelihood or impact of an incident.

The percentage of people who think drunk and rowdy behaviour is a fairly or very big problem in their area has risen, from 19% in 2003/4 to 25% in 2007/8. Perceptions of this problem are likely to be heavily influenced by young people drinking alcohol in public.

Younger people and alcohol

Since 2001, the proportion of young people aged 11-15 who, when asked, said they have never drunk alcohol has increased from 38% to 46%. 20% of those surveyed reported drinking some alcohol in the last week, down from 26% in 2001⁵. However, as Figure 1 shows, those who do drink appear to be drinking more frequently and in larger quantities. Average weekly consumption of alcohol by 11-15 year olds who drink alcohol has doubled from an average of 5 units per week in 1990 to 10 units per week in 2000 and has remained at a similar level since. Furthermore, in 2006, 49% of those pupils who had drunk in the last week claimed to have

² Table 3.11, Crime in England and Wales 2007/08, Home Office Statistical Bulletin 07/08. N.B. These percentages cannot be derived from the figures presented in Figure 1 due to the weightings used in the British Crime Survey.

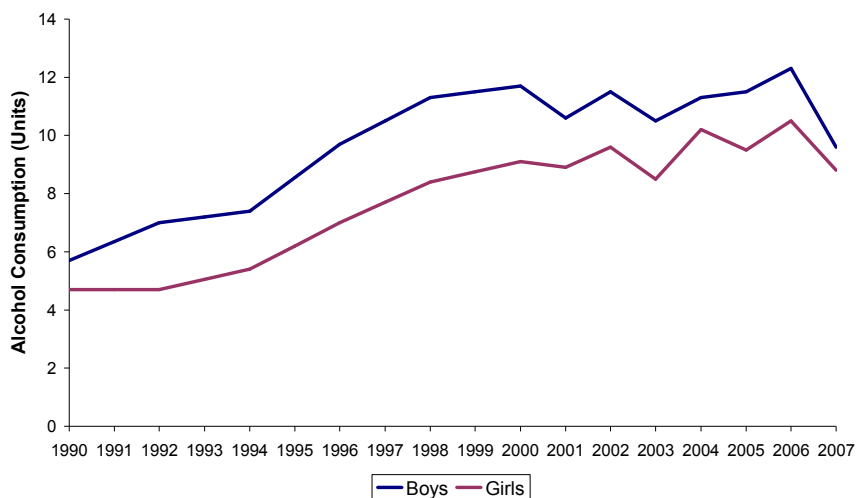
³ Published in the supplementary tables of *Crime in England and Wales 2006/07*

⁴ Based on a sample of 30 police forces, accounting for approximately 75% of recorded crime.

⁵ *Drug use, smoking and drinking among young people in England in 2007*, NHS Information Centre

drunk an average of more than 4 units (i.e. more than the recommended daily limit for adults) on each of the days on which they drank.⁶

Figure 3: Mean alcohol consumption (units) in the last week, 11-15 year olds who drank in the last week, 1990-2007



The Tackling Underage Sales of Alcohol Campaign showed an overall test purchase failure rate of 14.7%, an improvement of 20% from the failure rate at the end of 2006. However, 40% of premises tested sold to children on at least one occasion.

Following the success of a pilot campaign during October 2007, a major Confiscation of Alcohol Campaign was conducted in 165 out of the 227 police Basic Command Units (BCU) during February 2008. During the two week campaign, almost 21,000 litres of alcohol was confiscated from 5,143 young people, an average of over 4 litres per seizure. In total, some 23,621 young people were present at these incidents, a large proportion of whom would have been drinking alcohol.⁷

Public consultation

The consultation undertaken by the Department of Health in July 2008 received 2,790 responses.⁸ Consultation events involving a further 200 individuals and organisations also took place. The majority of respondents were from the public and third sector (police, health, local authorities). Alcohol producers and trade bodies provided a number of very detailed responses as well as participating in the consultation events.

When asked what are the most important issues that need to be addressed in an alcohol retailing code (unprompted) responses covered; restrictions on alcohol promotions, proof of age schemes, separate check-out areas, requirements to sell the smallest measure, mandatory standards, compulsory training, restrictions on advertising (particularly those aimed at young people), setting minimum prices, ending cut-price promotions providing information at point of sale and ensuring water and soft drinks were available at cheaper prices. A number of respondents (including those from alcohol trade bodies) argued that not enough emphasis has been placed on the sale of cheap alcohol by off-licenses.

The consultation also considered the following 3 options for how a new code of practice should be implemented and enforced:

⁶ *Smoking, drinking and drug use among young people in England in 2006*, NHS Information Centre

⁷ House of Commons Hansard Written Answers for 13 May 2008 (pt 0028)

⁸ *Safe, Sensible, Social - Consultation on further action*, Department of Health 2008

1. Government works with the licensed trade [and alcohol producers] to draw up and publish a revised code and makes no statutory changes but encourages enforcement agencies to take adoption of the code into account when assessing premises during inspection and review.
2. As option two, but also through statute, allow local authorities to agree mandatory restrictions or requirements on certain types of promotions and other activity to apply to a number (or even all) licensed premises in local areas which are experiencing problems.
3. Legislate to create a set of mandatory licensing conditions for all new or existing licenses or create a mandatory code for the alcohol industry, compliance with which is a mandatory condition of all licenses.

Around 90% of those who responded to the consultation question on whether a new alcohol retailing code should be made mandatory through further legislation felt that it should. However, the alcohol producers and trade bodies who responded argued that improvements could best be achieved through a system of co- or self-regulation with standards agreed between the Government and the alcohol industry.

We are sympathetic to these arguments and believe that self-regulation is a desirable choice when working with industry. However, we do not believe that a revised voluntary code would be any more effective than the one that large sections of the alcohol industry signed up to in 2005. An independent review by KPMG found that the existing voluntary code was not helping to reduce crime and disorder and that as well as not complying with the principles of the code many of those selling alcohol were actually breaching the law as well. Based on the evidence gathered by KPMG, the responses to the consultation and extensive discussions with stakeholders we have concluded that self-regulation alone is not a viable way forward.

Objectives

Clearly more needs to be done to ensure that the law is being obeyed by those selling and purchasing alcohol but the alcohol industry also needs to do more themselves to show that they are taking responsibility for the way in which alcohol is sold. Effective enforcement should not be a substitute for ensuring that those selling alcohol play their part. Both must happen if meaningful change is to occur.

The objectives of this policy are therefore to encourage the more responsible sale of alcohol in order to promote the four licensing objectives identified above. Voluntary standards have been shown to be ineffective in bringing about these objectives and so mandatory standards are now being considered. We anticipate that mandatory standards will result in increased compliance that will have a beneficial impact on levels of crime and disorder and on people's health in the short and long term. Hence, savings will be made by enforcement, licensing authorities, and the NHS.

Summary of proposals

As detailed above, the public consultation considered three proposals for revising and enforcing the alcohol industry's code of practice. Whilst the respondents from the alcohol industry preferred a system of co- or self-regulation, evidence from the KPMG review suggests that a voluntary code is no longer a viable option. 90% of respondents to that question felt that a mandatory code was the best way forward. Police, local authorities, trading standards and LACORS also wanted local licensing departments to be able to set specific conditions. The following option has been identified as the preferred way forward:

Preferred option following public consultation: To introduce an 'enabling power' whereby the Home Secretary can, in the future, draw up a code of practice for the alcohol industry which will permit the imposition of some mandatory licensing conditions and allow licensing authorities

to 'block apply' conditions to a number of premises at a time rather than conducting individual licensing reviews.

Costs and benefits of the current system

Costs

Body/ organisation	Annual Cost	Explanation of cost
Licensing authority	£21.6m	This estimate is based on a sample of 48% of authorities in 2007/08 ⁹ . The costs are net of the value of licensing fees collected as these are transfers
Alcohol related crime (including costs to the victims of crime)	£8bn -13bn	See explanation below
Trading standards and Police enforcement costs	Unknown	The costs of enforcement including inspections and reviews of premises licenses, test purchases, police prevention of sales of alcohol to under age drinkers and dispersal of drunk and rowdy crowds. It is not possible to extract these costs from other costs associated with upholding the Licensing Act
NHS ¹⁰	£2.7bn	Includes hospital inpatient and day visits (both wholly and partially attributable to alcohol), A&E costs, ambulance service costs, GP consultations and specialist treatment
Licensee (through compliance with licensing conditions) and Licensing fees	Admin costs of applying for licenses: £83.9m Licensing fees: £48.8m	The administrative costs were estimated by DCMS using BERRs standard cost model. Licensing fees are estimated using the same survey of licensing authorities as above. There will also be additional compliance costs but it is not possible to estimate these as they will vary for each premise depending on the conditions imposed.
Total	£12bn - £18bn	

Costs of alcohol related crime¹¹

Alcohol-related crime is not separately recorded by the police and so the exact volume is not known. The Offending, Crime and Justice Survey¹² asks offenders whether they were under the influence of alcohol at the time of the offence, and this figure can be used to estimate the 'attributable fraction' (i.e. the percentage of crime that is due to alcohol). This fraction can be combined with statistics on the volumes and types of crime committed to estimate the volume of alcohol-related crime.

⁹ The LGA/LACORS Licensing Fee Survey 2008, the results of which are published in *unfinished business: a state-of-play report on alcohol and the licensing act 2003*

¹⁰ Whilst health is not a licensing objective, the alcohol-related health costs are significant and are therefore still presented. See the impact assessment published alongside the consultation for further details of the calculations.

¹¹ See the impact assessment published alongside the consultation for further details of the calculations.

¹² Published in *Young People and Crime: Findings from the 2005 Offending, Crime and Justice Survey*, Home Office Statistical Bulletin 17/06

The Home Office has estimated the average cost of individual crime types.¹³ These estimates relate to all costs associated with a crime including the costs in anticipation of the crime, costs as a consequence of the crime and costs in response to a crime (including all costs to the Criminal Justice System).

Using this methodology, the costs of alcohol-related crime in 2007/08 were estimated at between £8bn and £13bn per annum (see Table 1). This is less than the estimated costs for 2006/07 (between £9bn and £15bn) but still significantly higher than the Cabinet Office estimate of £7.3bn¹⁴ published in 2003, as it includes the human costs of alcohol-related crime. However, this revised estimate is still likely to be an underestimate given that not all of the costs could be estimated. In particular, we do not know the proportion of anti-social behaviour that is attributable to alcohol but the figure is likely to be significant. A substantial proportion of the £3.4bn¹⁵ of the estimated cost of anti-social behaviour was therefore not accounted for in our estimate.

There is also likely to be a significant cost associated with the fear of alcohol related crime, particularly regarding the night-time economy. Dolan *et al.* (2007)¹⁶ estimate the monetary loss attributable to the immediate health loss due to the fear of crime come of between £776m and £2.01bn. However, as there are no robust estimates of the costs of the fear of alcohol-related crime it has not been included at this stage.

The costs of crime also include some of the health related costs and therefore some double counting is possible. However, it has not yet been possible to account for this.

Benefits

Each year, the total value of the UK alcoholic drinks market exceeds £30bn and the industry employs over 1 million people. Britons spend around £17bn in pubs each year, in comparison they only spend £7.2 on activities such as going to the cinema, theatre, museums and bingo combined. As a result of alcohol related activities the Exchequer benefits from £8bn in alcohol duty and another £7bn in VAT. There are a range of other significant benefits that need to be taken into account although these haven't been quantified:

- Regeneration and tourism into areas that are attractive to people to spend an evening
- Considerable consumer choice on available products
- UK consumers enjoy alcohol consumption as an integral part of their leisure time and spend more of their disposable income on alcohol than on personal goods and services, fuel and power or tobacco.

There are substantial net benefits of the alcohol industry in the UK. Changes to this baseline due to the preferred option are considered below.

Option Appraisal

Preferred option following public consultation

"To introduce an 'enabling power' whereby the Home Secretary can, in the future, draw up a code of practice for the alcohol industry which will permit the imposition of some mandatory licensing conditions and allow licensing authorities to 'block apply' conditions to a number of premises at a time rather than conducting individual licensing reviews."

¹³ *The economic and social costs of crime against individuals and households 2003/04*, Home Office Online Report 30/05

¹⁴ *Alcohol Misuse: How much does it cost?*, Cabinet Office Strategy Unit (2003)

¹⁵ *One day count of anti-social behaviour*, Home Office

¹⁶ Dolan *et al.* (2007), *Estimating the economic and social costs of the fear of crime*, British Journal of Criminology, Vol 47, p121.

Under this option, legislation would be introduced that would enable the Home Secretary to draw up a new code of practice for the industry in the future. Adherence to this code would be enforceable through the mechanisms established under the Licensing Act. The code would contain three broad sections:

- A:** a small number of licensing conditions that would become mandatory for all licensed premises;
- B:** a larger list of licensing conditions that would be applied to some licensed premises in an area experiencing problems (at the licensing authorities discretion)¹⁷;
- C:** statutory guidance which would be taken into consideration during a licensing review.

The advantage of introducing a code of practice through this mechanism rather than as a standalone Act of Parliament is flexibility. Given the evolving nature of the industry it is highly likely that amendments to the content of the code would need to be made in future to ensure it continues to meet the objectives set out above. It is expected that the content of the code would be laid before Parliament as a statutory instrument subject to the affirmative resolution procedure (i.e. where both Houses debate and then vote on whether to accept or reject the code). This power therefore allows Parliament the necessary scrutiny over future amendments, whilst avoiding the extremely lengthy and time consuming process of passing an Act of Parliament. Such conditions could ultimately relate to promotions, advertising and the management of premises and will be subject to further consultation.

This option would entail an amendment to the existing licensing mechanisms. At present, licensing authorities can only impose conditions on licenses on a case-by-case basis. However, as detailed above, the effectiveness of this power had been limited due to the difficulties responsible authorities face in establishing a clear link between local problems and a single premise. Therefore, we will enable the Licensing Act 2003 to allow licensing authorities, following discussions with the police and other responsible authorities, to impose the conditions which are listed in Section B of the code (the discretionary conditions) to a number of premises en masse without having to conduct individual licensing reviews. This amendment accords with the principles of better regulation and should result in a significant reduction in bureaucracy as it saves the authority from being required to conduct a vast number of potentially expensive reviews, and will also make it easier for them to impose conditions where they believe they are necessary.

We will publish some good practice guidance to help licensing authorities to use the new powers as efficiently and effectively as possible. It will set out what licensing authorities should do when initiating the process of the imposition of Category B conditions, how they should apply them and the types of evidence they would need to collect to support them.

Costs of preferred option

Whilst introducing these powers will have no direct costs or benefits themselves, the following analysis is based on an assumption of their likely usage in the future.

Enforcement

We anticipate that a code of practice is likely to lead to a small increase in the number of licensing conditions for the majority of licensed premises. This may result in a slight increase in the marginal cost of inspections and licensing reviews as they become potentially more complex and cover more issues. However, we do not anticipate this to be a significant additional cost and expect the marginal cost of inspections to remain largely as now.

There will be an additional implementation cost during the transition period as licensing authorities will have to decide whether or not to apply the conditions outlined in Section B of the

¹⁷ Hereafter referred to as Section B

code. In 2004, DCMS estimated that the cost of a license review was £1,100¹⁸. Under the current legislation, licensing authorities could potentially need to conduct a review of every licensed premises in the country (estimated at around 180,000) in order to make these decisions though in reality this won't be necessary since guidance will make it clear that they must concentrate on those premises which are posing the greatest risks to the Licensing Act objectives. The amendment to allow licensing authorities to 'block apply' conditions removes the need for a large number of reviews though there will be an initial cost as authorities will have to decide whether to apply conditions or not. The cost will depend on the number and type of conditions in the code and so cannot be estimated at this time, however we expect that the number of conditions will be limited and should be fully fundable by the efficiency savings from the simplified process to impose conditions. There will be an opportunity to revisit this in more detail when we consult on what the detailed licence conditions should be and carry out a further assessment of impacts. We will then be in a better position to estimate costs since we will have more clarity on exactly what conditions we are asking licensing authorities to impose and Responsible Authorities to enforce.

The licensee will be able to appeal a decision to impose targeted conditions to a magistrate's court and so there is the slight possibility that the expected cost savings do not materialise if there is a large increase in the number of appeals.

Industry

There will be a cost to the alcohol industry of complying with the additional conditions that are likely to be imposed upon them. The Government recognises that given the large number of licensed premises, depending on the content of the code, there is the potential for this cost to escalate significantly. The following calculations are intended to give a broad indication of the potential magnitude of such costs and these will be further refined as the content of the code is finalised through consultations with the alcohol industry and other stakeholders.

This Impact Assessment contains a technical appendix which contains estimates of the costs and benefits of a reduction in alcohol consumption. The appendix is based on the work conducted by the University of Sheffield during their independent review into price and promotions. Their calculations suggest that the benefits of a 1%¹⁹ one-off fall in consumption are £2.514bn over 10 years, and these significantly exceed the costs of £461m over 10 years. Hence, there is a net benefit over 10 years of £2.053bn.

The Regulatory Impact Assessment of the Licensing Act 2003 (Transitional Conversions Fees) Order 2005 and the Licensing Act 2003 (Fees) Regulations 2005 contains a detailed breakdown of the number of premises licensed to sell alcohol in England and Wales.

Table 1: Breakdown of licensed premises (2005 RIA)

	England	Wales	Total
Pubs, nightclubs, bars, wine-bars etc.	75,972	5,483	81,455
Restaurants	19,910	1,344	21,254
Residential	3,686	284	3,970
Combined residential and Restaurant	2,539	401	2,940
Proprietary membership clubs (commercial)	3,488	263	3,751
Proprietary membership clubs (non-profit making)	18,471	1,442	19,913
Theatres	201	17	218

¹⁸ This is simply the administrative cost of the review itself and does not account for the cost of any inspections or other activity that may lead to a review.

¹⁹ A 1% reduction in alcohol consumption is not the target for this policy, nor is it an estimate of any likely effects. It has simply been chosen to illustrate the relative magnitudes involved.

Supermarkets	10,179	501	10,680
Shops and stores	31,852	2,500	34,352
Garages / petrol stations	1,417	133	1,550
Total	149,244	10,926	160,170

Source: Department for Culture, Media and Sport (2005), "Regulatory Impact Assessment of the Licensing Act 2003 (Transitional Conversions Fees) Order 2005 and the Licensing Act 2003 (Fees) Regulations 2005". The totals in the bottom row are not a sum of the figures above, as a single premise may fall into more than one category. See <http://www.culture.gov.uk/images/publications/RIAFORFEESFINALVERSION.pdf>

In the above table, the bottom three categories (supermarkets, shops and stores, and garages / petrol stations) are all off-trade premises (46,582). The other (on-trade) premises comprise 133,501 premises. DCMS has published updated statistics, but these can not be broken down into on and off-trade and there are over 25,000 premises where the alcohol permissions are not known. As the new total of 155,360 premises is similar to the total in Table 1, this Impact Assessment is based on the figures in that table.

The following are *examples* of the type of conditions that might be included within a mandatory code of practice. We have included them to give an indication of the overall costs and benefits:

Irresponsible promotions:

As part of their independent review, KPMG visited 418 on-trade premises. 2 of the premises visited (approx 0.5%) were found to be offering unlimited drinks for a fixed entry fee, 1% of premises were offering free drinks in large quantities and 2% were offering free drinks to specific groups. The statistics above suggest there are around 81,455 pubs, bars and clubs in England and Wales and assuming these promotions are as prevalent nationwide as in the areas KPMG visited, there are approximately 390 premises offering unlimited drinks for a fixed price, 815 premises offering free drinks in large quantities and 1629 offering free drinks to specific groups. Whilst these practices are not widespread, there is evidence linking irresponsible promotions to excessive alcohol consumption and drunkenness, and also evidence linking alcohol consumption to crime and disorder. This will be particularly true with these types of promotions as the marginal cost of an extra drink is zero.

This regulation only imposes costs on those currently offering such promotions. Given the scale of the benefits presented in the appendix (and considering that alcohol sold in these circumstances is more likely to be consumed in a harmful quantity or way), the benefits of restricting each case of this activity will exceed the costs.

Mandatory server training:

Knowledge and awareness of the existing voluntary standards is low and there is evidence that the laws around the sale of alcohol are not being adhered to. There is an argument for making server training mandatory for all licensed premises. This training could cover the legislation around serving alcohol, the medical effects of alcohol as well as practical advice on how to spot and deal with underage or intoxicated customers, and could be administered by an accredited provider or through accredited in-house teams. The calculations below estimate the cost of this requirement to the industry in the first year could be between £37.7m and £151.0m, though could be much lower given that some licensed premises, particularly large retailers already have training schemes in place.

Number of staff	On-trade (from BBPA)	580,000
	Supermarkets (assume 10 each)	106,800
	Off licenses (assume 2 each)	71,804
	Total	758,604
Cost of training per person (depending on specifications)		£50 - £200

Total cost of training	£37.9m - £151.7m
Average cost per premises	£237 - £947

The cost to industry in subsequent years will depend on the rate of staff turnover. As the alcohol industry is dependent on a large number of casual or temporary staff, we estimate that this could be as high as 50%. Therefore, costs in subsequent years are estimated to be between £19m and £75.9m per annum. Even taking the upper estimate, based on the calculations presented in the technical appendix, which estimates the costs and benefits of reduced alcohol consumption, a reduction in alcohol consumption of just 0.037% would justify these costs.

However, whilst this will be an additional cost to the alcohol industry, there will be a significant benefit to the businesses who provide these courses. The likely increase in demand for training should allow them to benefit from economies-of-scale that would reduce the cost of such training in future.

Consumers having a choice of 125ml wine glasses:

A 2008 survey by CGA Strategy²⁰ has found that 70% of pubs do not offer 125ml glasses (up 3.5% from the year before) and 24% of pubs offer 250ml glasses (up 0.5%). Many people do not realise that a large glass of wine (equivalent to 1/3rd of a bottle) contains 3 units of alcohol, which is the recommended daily maximum for a woman. It is likely that this trend in glass sizes is contributing to the increase in alcohol consumption amongst young women.

The statistics above suggest that there are 133,501 on-trade premises in England and Wales. Applying the proportion from the CGA Survey to all on-trade premises yields an estimate of 93,451 potentially affected premises. Because many premises currently choose not to serve 125ml glasses, it would be an economic cost for them to purchase those glasses. Assuming that each affected premise purchases 20 125ml glasses (at £1 each) and that arranging for this and updating price lists will occupy one hour of the manager's time (using the 'restaurant and catering manager' wage rate from the Annual Survey of Hours and Earnings 2007 of £10.39 plus 30% to include other employment costs). This yields a potential cost of £34 per affected premise, or £3.1m across all affected premises. There could also be an additional cost for storage space if all available space is being used.

When asked about the number of glasses of wine drunk in the last year, 28.4% of respondents to the Omnibus Survey 2007 measured their consumption in small glasses (approx 125ml). This suggests there may be some unmet demand for smaller glasses. Based on the calculations presented in the technical appendix a reduction in alcohol consumption of just 0.0015% would justify the total costs estimated above.

Consumers having a choice of 25ml spirits measures:

A 2004 survey of 500 landlords by The Publican found that 42% of respondents use 35ml measures. Weights and Measures legislation prohibits the sale of both 25ml and 35ml measures and so the premises must not be offering 25ml measures. Given the above figure of 133,501 on-trade premises in England and Wales, and applying the 42% proportion, gives 56,070 potentially affected premises. This may be an underestimate if the strong upward trend in the use of 35ml measures before 2004 has continued. Assuming the average premise has 20 optics to change (at £10 each), and that arranging for this will occupy one hour of the manager's time (using the same 'restaurant and catering manager' wage rate from ASHE as above), yields a potential one-off cost of £214 per affected premise or £12.0 million across all affected premises. As optics have a limited service life, the costs of this policy would be reduced if the policy had a longer lead-in time as a number of optics would need to be replaced anyway as a matter of course

²⁰ Referred to at <http://www.thepublican.com/story.asp?storycode=59382>

This proposal could reduce overall consumption through customers switching from a 35ml measure to a 25ml measure and, based on the calculations in the technical appendix, an overall fall in consumption of 0.0058% would be sufficient to justify the costs estimated above. However, there is the possibility for a perverse outcome whereby customers switch from a 35ml measure to a 50ml (double) measure. If this is the case then expected falls in consumption may not occur.

Provision of point of sale information:

The exact costs of requiring premises to display information about units and the sensible drinking message at the point of sale will depend on the nature of the information which might be included (i.e. whether it is product specific) and who will be responsible for producing and distributing such signage. Hence, these costs have not been estimated.

There is a similarity in the benefits expected from point of sale information and improved alcohol labelling. An analysis of the latter is set out in the Impact Assessment accompanying 'Safe, Sensible, Social - Consultation on further action' and part of the argument is reproduced below.

- There is clearly scope for improving consumer knowledge of alcohol units and alcohol harm. Specifically, an Office for National Statistics publication notes that around a third of frequent beer drinkers and around a quarter of frequent wine drinkers were not aware of the number of units contained in what they were drinking. Although other measures (such as a social marketing campaign) are being used to address this, a multifaceted approach will likely deliver greater benefits.
- Concerning the link between health messages and reduced consumption, evidence shows that one in eight people will reduce their consumption to lower-risk levels on the receipt of brief advice .
- Even if a direct link between labelling and consumption has not been researched, it should be noted that a small effect would not be detectable in most analyses. It is shown later on in this impact assessment that only a very small reduction in consumption is needed to generate a net benefit. The proposed label format may also be more effective than those considered by existing studies (e.g. the US warning), given its content of alcohol units and health messages rather than 'warnings'.

Improved point of sale information acts in a similar way to improved labelling, in that both improve consumers' knowledge of the risks of drinking excessive alcohol, and are likely to lead to a reduction in harm (albeit unquantifiable). The two means of communication have different strengths and weaknesses, so point-of-sale information can generate an additional benefit on top of that associated with labelling (and vice-versa). For example, labelling is by its nature product-specific and small in size, whereas point of sale information can be of a larger size and provide more general advice. Point of sale information will also benefit consumers of non-packaged products (e.g. draught pints of beer) where labelling is not seen by the end consumer.

This Impact Assessment contains an updated version of the technical appendix set out in the labelling Impact Assessment; the benefits analysis is now derived from the recent independent review into the pricing and promotion of alcohol. The conclusions for point of sale information are similar to the labelling Impact Assessment; whilst there is likely to be a consumption impact, the precise extent of that impact cannot be identified. Nonetheless, only a small reduction in consumption will likely be sufficient to offset the costs.

Other conditions:

The following conditions could be appropriate in areas experiencing particular problems of alcohol related crime and disorder. As they would not need to be applied to every premises, or even the majority of premises, the costs are calculated for an individual premises. All staff costs have been estimated using the same 'restaurant and catering manager' wage rate as above plus 30% for other employment costs.

Table 2: Average costs for potential discretionary conditions

	Estimated hours per week	Cost per premises
Recording underage purchase attempts	3	£2,107
Recording incidents of disorder	3	£2,107
Risk assessment and mitigation	3	£2,107
Combating drug use	7	£4,917

It is not possible to estimate the number of premises where these conditions may be applied and so total costs cannot be calculated. Further analysis of the impacts of any conditions which are chosen to be in the code of practice will be carried out alongside the further consultation.

We recognise that these proposals will impose additional costs on the alcohol industry, and this could have adverse consequences particularly for small businesses and for the number of jobs in the industry. Allowing local authorities the discretion to apply some of these conditions will ensure that, to a large extent, these costs will be targeted at those premises which pose a real threat to the four licensing objectives. This is in accordance with the principals of Better Regulation.

The technical appendix estimates the cost to licensed premises of a fall in consumption, but we also recognise that there will be impacts for the wider alcohol industry, particularly the supply chain. Although these costs have not been estimated here, we are confident that they would be significantly less than the net benefit identified in the technical appendix. We will continue to consider this impact as the content of a revised code is drawn up.

Benefits of preferred option

The University of Sheffield has recently conducted an independent review into the effects of price and promotion on alcohol-related harms. Their work supports the conclusion that a reduction in alcohol consumption is associated with a reduction in crime harms, health harms and employment harms. The calculations in the technical appendix are based on their work.

Alcohol-related crime

The evidence presented above shows there is a clear link between alcohol misuse and crime, and so the primary benefits from increased compliance with existing legislation and the more responsible sale of alcohol would be a reduction in alcohol-related crime and disorder. Whilst the likely magnitude of any fall in crime will depend entirely on the content of the code, the scale of the costs to society identified above illustrate that any reduction is likely to have significant benefits. By allowing licensing authorities the flexibility to apply those conditions set out in Section B, this should ensure that the additional cost to the industry is minimised and therefore result in the most cost-effective reduction in alcohol-related crime and disorder.

Health

Whilst health is not an objective of licensing, this option will lead to significant collateral health benefits, both in the short and long run if a reduction in overall consumption is observed. As detailed above, it is estimated that alcohol costs the NHS £2.7bn per year. Therefore, we anticipate significant cost savings to the NHS with particular benefits to young people and binge drinkers, who are both at a high risk of developing alcohol related health problems.

Enforcement

As identified above, allowing licensing authorities to ‘block apply’ conditions will significantly reduce the costs of imposing conditions on a premise. Whilst there could be additional enforcement costs in the transition period these should be fully fundable by the efficiency savings from the simplified process to impose conditions. In subsequent years this amendment

with either reduce enforcement costs or allow a greater level of enforcement at the same cost due to reductions in alcohol related crime and disorder.

Industry

In the longer term, some areas of the alcohol industry, in particular the on-trade, could benefit from this option if it is successful in reducing alcohol-related crime and disorder and providing the implementation costs are not disproportionate. Anecdotal evidence suggests that some people are deterred from visiting licensed premises because of the problems that result from the irresponsible practices observed by KPMG and so by selling alcohol more responsibly, the industry may benefit by attracting more customers.

Monitoring

The effectiveness of the option to be taken forward in reducing the harms associated with alcohol misuse will be monitored using the British Crime Survey, hospital admissions data, licensing statistics and ongoing liaison with the police, LACORS, LGA and other stakeholders.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	No
Small Firms Impact Test	No	Yes
Legal Aid	No	Yes
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	Yes	No
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	No
Rural Proofing	No	No

Small Firms Impact

The alcohol industry comprises a large number of small businesses and, depending on the content of a revised code, the costs of complying with these conditions could be significant for these firms. The Government recognises this issue and the impact on small businesses will be taken into account when the revised standards are being drawn up. However, until this content is known, the impact of this option on small businesses cannot be assessed.

Legal Aid Impact

Failure to comply with the conditions laid down in a new code of practice could lead to prosecution for unlicensed licensable activity. However, the defendants will be treated as businesses and not as individuals and so would not be eligible for legal aid.

Equality Impact

A potential differential impact on different age groups and different races has been identified because of the different propensity of these groups to engage in binge drinking which may lead to crime and disorder. This impact is therefore justified in order to achieve the objectives. A potential disproportionate impact on women was identified as they have a similar propensity to binge drink yet are less likely to offend. However, the collateral health benefits of this policy more than outweigh this potential adverse impact.

A full Equality Impact Assessment is attached separately.

Technical Appendix: the costs and benefits of reduced alcohol consumption

1. This appendix considers the estimated costs and benefits of reduced population alcohol consumption.
 - Estimated benefits are drawn from the consumption and harm element of the independent review by SchARR (2008). Following Phase 1 of this review, there is a wide range of evidence linking changes in alcohol consumption to changes in various health, crime and employment harms, although the evidence base is significantly more developed for health than it is for crime. Therefore, the potential impacts on crime presented below should be interpreted with caution. The modelling from Phase 2 of the review is used to assess the likely impact of reduced consumption on these harms.
 - Estimated costs are drawn from appropriate market data.
2. To illustrate the results of the calculations and modelling, the impacts of a 1% one-off reduction in population alcohol consumption are considered below. This is a hypothetical reduction chosen purely to illustrate the results of the analysis, and is neither a target nor the estimated outcome of any specific policy intervention. As noted below, the link between consumption reduction and benefits or costs is modelled to be largely linear (at least for consumption reductions of 10% or below), with an x% reduction in consumption having roughly x times the costs and benefits set out below.

Benefits

3. SchARR (2008 - Phase 1, Review 3) identifies 32 systematic reviews and meta-analyses concerning the link between alcohol consumption and harm outcomes. Evidence of a

relationship is found in numerous areas; the following evidence statements are reproduced from the summary document²¹ for convenience.

- *Evidence statement 13: There is consistent evidence to suggest that alcohol consumption is associated with substantially increased risks of all-cause mortality even in people drinking lower than recommended limits, and especially among younger people. High levels of alcohol consumption have detrimental effects. The evidence is more equivocal, however, where it relates to establishing cut-off points for lower risk versus harmful levels of consumption. There is an ongoing controversy as to whether or not there are beneficial (cardio-protective) effects at low levels of alcohol consumption.*
- *Evidence statement 14: There is moderate, but methodologically disputed, evidence to suggest that light alcohol consumption is associated with a decreased level of risk from coronary heart disease. High levels of alcohol consumption (defined here as 100g/day) have detrimental effects (RR = 1.13 (95% CI 1.06-1.21)).*
- *Evidence statement 15: There is strong evidence that heavy alcohol consumption increases the risk of stroke. Light or moderate consumption may be protective against total and ischaemic stroke, although the evidence on this is not as clear and it is important to acknowledge that this effect is not consistent for all types of stroke.*
- *Evidence statement 16: There is strong evidence for statistically significant associations with a wide range of cancers including some of the most common cancers in the UK. However the evidence is not consistent across all neoplastic conditions. Further research is required for stomach and lung cancer in particular.*
- *Evidence statement 17: There is a significant and consistent effect between alcohol consumption and serious injury and for heavy drinking and road accidents. Heavy drinking levels of 5 drinks or more were found to be positively predictive of injury.*
- *Evidence statement 18: There is moderate and consistent evidence to suggest that alcohol dependence is associated with increased risks of suicide (OR 2.13 95% CI 1.18-3.85) and suicide attempts (OR 2.50 95% CI 1.38-4.52). There are methodological difficulties in making an attribution of suicide to the harmful effects of alcohol.*
- *Evidence statement 19: There is moderate evidence (from eight out of eleven studies included in a systematic review) to suggest that alcohol consumption is associated with increased incidence of sexually transmitted diseases. Because there are other possible explanations for risk behaviours there are significant difficulties in establishing a consistent mechanism for direct causal effects. However, this finding is supported by studies directly associating taxation or pricing changes for alcohol with changes in rates of sexually transmitted diseases including gonorrhoea.*
- *Evidence statement 20: There is a consistent and statistically significant effect of alcohol on violence and injury at even quite low levels (25g/day) of consumption. Further research of higher quality using more rigorous designs is required to establish a robust causal explanation.*
- *Evidence statement 21: There is a strong and consistent association between alcohol consumption and marital dissatisfaction, a risk factor for subsequent divorce. Further research is required to establish the direction of cause and effect.*
- *Evidence statement 22: No recent systematic reviews or meta-analyses were identified that examined the effects of alcohol on crime other than violence or on employment-related outcomes such as unemployment or absenteeism. There is sufficient non-review evidence to suggest that a significant proportion of criminal behaviour can be associated with alcohol misuse. However it is methodologically difficult to ascertain the alcohol attributable fraction for this association.*

²¹ ScHARR (2008), 'The Independent Review of the Effects of Alcohol Pricing and Promotion. Summary of Evidence to Accompany Report on Phase 1: Systematic Reviews (PDF, 176K)'. See http://www.dh.gov.uk/en/Consultations/Closedconsultations/DH_086412

4. Building on the findings of the systematic review, part of Phase 2 (ScHARR, 2008) quantifies the estimated links between alcohol consumption and health, crime and employment harms. In the model, risk functions are set for each type of harm; the impact of changed consumption on morbidity, mortality, hospital admissions, crime and employment is then aggregated. Reduction of chronic health harms is modelled to occur gradually (based on medical evidence for a number of specific conditions), with roughly 10% of the full chronic harm reduction feeding through in each year after a consumption change; reduction of other harms is modelled to occur immediately. Because of the nature of the risk functions, estimated harm reductions largely increase proportionally with the level of consumption reduction (e.g. an x% reduction in consumption has roughly x times the estimated benefits set out below, at least for smaller consumption reductions such as below 10%). All reductions are costed using appropriate evidence, arriving at an overall monetary benefit figure.
5. In this appendix, the model is used to estimate the impact over time of a 1% one-off fall in population alcohol consumption. In line with the model's outputs, benefits are stated for the first year after the reduction (T=1), the tenth year after the reduction (T=10), and for the total across these 10 years (discounted appropriately). The difference in benefits between T=1 and T=10 is driven by the gradual pass-through of chronic harm reductions, as explained above.
6. Quality Adjusted Life-Years (QALYs) saved are valued at £81,000 if due to reduced crime (following the appropriate Home Office appraisal value for victims of crime); all other QALYs saved are valued at the Department of Health appraisal value of £50,000.
7. Future life-years saved are discounted at 1.5%, which is derived from the standard Green Book rate of 3.5%. (Part of the 3.5% figure is comprised of an assumed long-term real economic growth rate of 2%; because the value per life-year saved can also be expected to grow in line with this growth rate, the effects cancel out, leaving a 1.5% discount rate). The unadjusted 3.5% discount rate is used for all other benefits.
8. The results of the modelling exercise are presented in table A1 (N.B. Table A1 contains the estimated benefits to England only as this is the scope of the ScHARR model). Harm reductions monetised at £2.375 billion are estimated to occur over a 10-year period following a 1% one-off reduction in population alcohol consumption. Figure A1 illustrates how this benefit is broken down into its component parts.

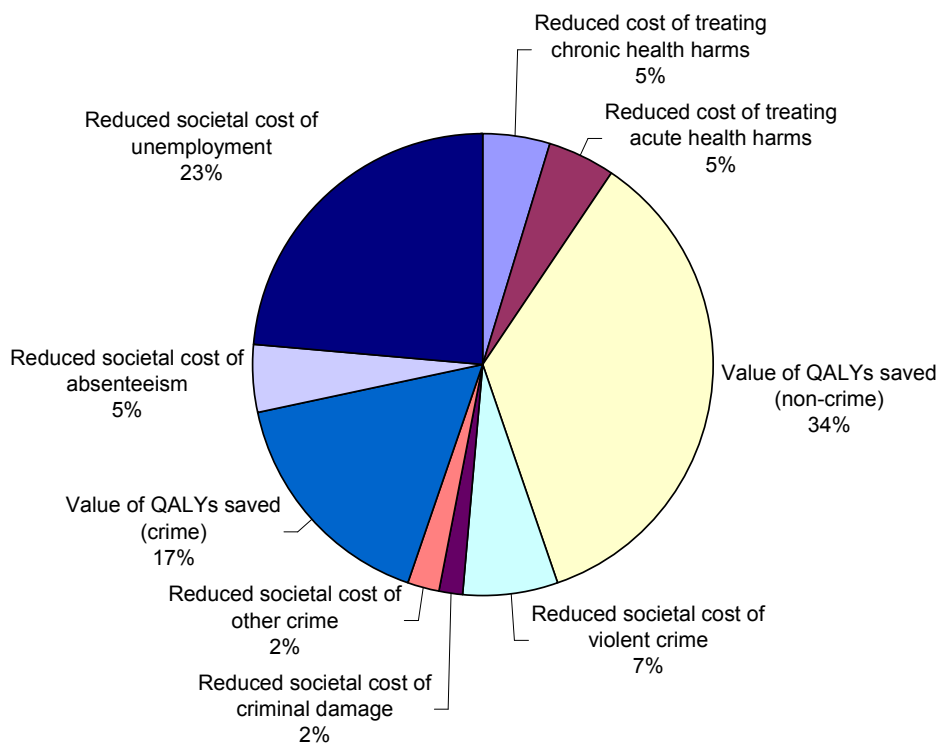
Table A1: Estimated benefits (over 10 years) of a 1% one-off reduction in alcohol consumption in England.

			T+1	T+10	10yr cumulative
Health	Deaths	Chronic	-28	-359	-1,448
		Acute	-43	-44	-359
	Sick	Chronic	-416	-5,047	-20,593
		Acute	-2,236	-2,282	-18,819
	Admissions	Chronic	-843	-10,291	-41,904
		Acute	-2,560	-2,598	-21,489
	Costs (£)	Chronic	-2,353,148	-28,169,197	-115,374,331
		Acute	-12,773,310	-13,036,638	-107,504,926
	QALYs		884	3,115	16,723
	Value of 'saved' QALYs		44,195,232	155,768,190	836,162,096
Crime	Volume	Violent	-6,865	-6,865	-57,096
		Criminal damage	-12,208	-12,208	-101,529
		Other	-8,569	-8,569	-71,269
	Cost (£)	Violent	-19,513,344	-19,513,344	-162,284,784
		Criminal damage	-4,822,158	-4,822,158	-40,103,982
		Other	-5,848,736	-5,848,736	-48,641,633

	QALYs	Violent	369	369	3,400
		Criminal damage	71	71	656
		Other	88	88	811
		Total	528	528	4,867
Value of 'saved' QALYs			42,744,602	42,744,602	394,198,607
Employment	Volume	Absenteeism	-138,798	-138,798	-1,154,329
		Unemployment	-2,847	-2,847	-23,679
	Cost	Absenteeism	-12,903,272	-12,903,272	-107,311,423
		Unemployment	-67,777,310	-67,777,310	-563,677,140
Total of health, crime and employment costs (£)			-125,991,279	-152,070,656	-1,144,898,219
Total of health, crime and employment costs and QALYs saved (£)			-212,931,112	-350,583,448	-2,375,258,922

Source: Simulation run by Department of Health using unadjusted spreadsheet model by SchARR (2008)

Figure A1: Contribution of different harm reductions (over 10 years) to the monetised benefit arising from a 1% one-off reduction in alcohol consumption.



Source: Simulation run by Department of Health using unadjusted spreadsheet model by SchARR (2008)

9. As this Impact Assessment covers both England and Wales, a population scaling factor of 1.058 (derived from ONS 2007 mid-year population estimates) is applied to the above benefit, yielding an estimate of £2.514bn over 10 years for England and Wales.

Costs

10. At present, the only costs of reduced alcohol consumption that have been estimated are the potential impact on profits for the alcohol industry, and the subsequent reduced government revenue. We recognise that a reduction in consumption may potentially have significant impacts on both small businesses and the number of jobs in the industry above and beyond those impacts considered here. These impacts will be assessed in greater detail as the content of a revised code is drawn up.

11. The following data has been used:

12. AC Nielsen data for Great Britain in 2007 (compiled for the Scottish Government, 2008) indicates average consumption per category of drink, average ABVs, average prices and so on. The following table presents data on per capita consumption of 'pure alcohol equivalent' by drink type. Alcoholic drinks vary in strength and size, hence the use of pure alcohol equivalent (which adjusts the results into a common currency).

13. The quantity (in litres) of pure alcohol equivalent in a given drink is equal to its volume (in litres) multiplied by its ABV (expressed as a proportion). One litre of product at 40% ABV therefore contains 0.4 litres of pure alcohol equivalent. One 'alcohol unit' is defined as 10 millilitres of pure alcohol equivalent.

14. Pricing data is also included below, as this is needed to estimate the impact of reduced consumption on the industry. Prices per litre of pure alcohol equivalent can be calculated by dividing the price per litre of natural volume by the appropriate ABV (expressed as a proportion).

Table A2: Summary alcohol consumption and ABV data (Great Britain)

	Annual consumption (litres of pure alcohol equivalent per capita aged 16+)	Average ABV (%)	Average price per litre of natural volume (on-trade, £)	Average price per litre of natural volume (off-trade, £)	Average price per litre of natural volume (weighted average, £)
Spirits	1.9	36.10	62.45	13.83	24.45
RTDs	0.1	4.50	9.34	3.73	6.37
Fortified Wines	0.2	17.00	40.54	5.66	7.30
Cider	0.7	5.50	4.67	1.48	2.81
Perry	0.1	7.50	10.08	1.68	1.74
Light Wines	2.8	12.45	19.06	5.67	7.82
Beers	4.4	4.33	4.31	1.75	3.31
All Alcoholic Drinks	10.2	6.99	6.12	3.52	4.81

Source: AC Nielsen, 2007

15. It should be noted that the above figures differ slightly from HMRC data²², which indicate higher annual alcohol consumption (in 2005/6, 11.4 litres of pure alcohol equivalent per capita aged 16+). The above Nielsen data is used in this Impact Assessment for consistency with the pricing data; in any case, it is more conservative.

The cost of a 1% one-off fall in consumption in terms of reduced retail sales revenue and profit:

16. The impact on retail sales revenue (after duty and VAT) is intended to be illustrative of the effect on industry. Table A3 uses HMRC 2008/9 UK net receipts forecasts²³ for beer, wine, spirits, cider and perry to calculate the levels of duty per litre of pure alcohol.

Table A3: 2008/9 UK duty revenue

	Net receipts (duty, 2008/9 forecast, UK, £m)	Hectolitres of pure alcohol (UK)	Implied duty per litre of pure alcohol (£)
Spirits	2,300	993,200	23.16
Perry and cider	233	388,104	6.00

²² See <http://www.uktradeinfo.com/index.cfm?task=factalcohol>

²³ See http://www.hmrc.gov.uk/stats/tax_receipts/menu.htm

Wine	2,918	1,510,331	19.32
Beer	3,209	2,151,091	14.92
All alcohol	8,660	5,042,727	17.17

Notes: RTDs (Ready-To-Drink products, e.g. alcopops) have been included in the category of 'spirits', given that the majority are spirits-based; the category of 'wine' includes fortified wine. UK pure alcohol consumption has been estimated by increasing the AC Nielsen data for Great Britain by a population scaling factor of 1.0296, as derived from mid-2006 ONS data.

17. Table A4 subtracts this duty and VAT (at 17.5%) from the aforementioned average prices (AC Nielsen, expressed per litre of pure alcohol equivalent), and illustrates the reduction in sales revenue (after duty and VAT) that would occur if consumption were to fall by 1%.

Table A4: Revenue lost by a 1% reduction in consumption (England and Wales)

	Annual consumption (litres of pure alcohol equivalent per capita aged 16+)	Average price per litre pure alcohol (£)	Of which VAT (£)	Of which duty (£)	Amount after tax/duty per litre pure alcohol (£)	Revenue lost by a 1% reduction in consumption (£)
Spirits	1.9	67.73	11.85	23.16	32.72	27,618,919
RTDs	0.1	141.56	24.77	23.16	93.63	4,059,738
Fortified Wines	0.2	42.94	7.51	19.32	16.11	1,477,440
Cider	0.7	51.09	8.94	6.00	36.15	11,277,369
Perry	0.1	23.20	4.06	6.00	13.14	456,489
Light Wines	2.9	62.81	10.99	19.32	32.50	40,904,336
Beers	4.4	76.44	13.38	14.92	48.15	92,594,056
All Alcoholic Drinks	10.3	68.81	12.04	17.17	39.60	178,388,346

18. This yields an estimate of the lost sales revenue from a 1% fall in consumption of £178 million for England and Wales.

19. In the longer run, the economy will adjust; money that was previously spent on alcohol will be spent elsewhere, resources that were previously employed in the alcohol (or related) industry will be employed in some other way, and profits will be earned elsewhere. Only a part of this lost revenue is therefore a true economic cost, as argued in Cabinet Office (2003)²⁴. However, we recognise that in the short run, there is the potential for significant transitional costs including job losses and the closure of small businesses. This effect will be further assessed as the content of a code is drawn up.

20. To approximate the economic impact of the reduction in sales, it is instructive to consider the impact on industry profit before tax. To the extent that there is a supernormal component to the profit that could not be earned elsewhere, the profit impact (before tax) is indicative of the economic cost associated with the reduction in sales. Given that part of the profit is taxed, the burden of the economic cost would be shared between the industry and the Treasury. Analysing profit after tax would fail to capture this latter impact.

21. Given recent financial accounts of major drinks companies, it is reasonable to assume a 20% margin (on retail sales after duties and VAT) for profit before tax. An additional 10% is allowed for profits earned elsewhere in the supply chain.

²⁴ Cabinet Office (2003), 'The economic cost of alcohol misuse in England'. See http://www.cabinetoffice.gov.uk/strategy/work_areas/alcohol_misuse/background.aspx

22. Therefore, the results above imply that a 1% fall in consumption would result in a £53.5 million reduction in industry profits per annum (i.e. 30% of £178 million).
23. Summed over 10 years and discounted at the Green Book rate of 3.5%, the costs total £461m.

Balance of costs and benefits

24. It has been shown that the benefits of a 1% one-off fall in consumption (of £2.514bn over 10 years) significantly exceed the costs (of £461m over 10 years), thus yielding a net benefit of £2.053bn.

The impact of a 1% one-off consumption reduction on Government revenues:

25. Alcohol is taxed through both duty and VAT. VAT is levied on the total price (including the duty), so 10p in duty revenue will also attract (17.5% of 10p = 1.175p) of VAT revenue. It is assumed that if a consumer buys less alcohol, they will spend the savings (including the saved duty) on other VAT-eligible products and so the Exchequer therefore only faces a reduction in duty revenue, rather than any reduction in VAT revenue.
26. Duty revenue is a transfer from drinkers to the community (the Exchequer). As such, lost duty revenue has not been treated as a cost. However, as the Government would need to account for this reduction through either raising taxes elsewhere or reducing public spending, it is of interest to policymakers and so the potential reduction has been calculated below.
27. HMRC 2008/9 UK net receipts forecasts for beer, wine, spirits, cider and perry were presented in Table A3. The total amount of duty revenue for 2008/9 is forecast at £8.66bn. A uniform 1% fall in alcohol consumption would therefore lead to a reduction in duty revenue of £86.6m.
28. This Impact Assessment only covers England and Wales, whereas the above figures cover the whole UK. A population scaling factor of 0.887 (derived from ONS mid-2007 population figures) is therefore applied to the above impact of £86.6m per annum.
29. Therefore, a 1% fall in population consumption of per capita equivalent is estimated to result in £76.8m per annum in lost duty revenue.
30. Summed over 10 years and discounted at the Green Book rate of 3.5%, the lost duty revenue totals £661m.