

Financial implications of the Public Health (Minimum Price for Alcohol) (Wales) Bill

February 2018



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About the Committee

The Committee was established on 22 June 2016 to carry out the functions of the responsible committee set out in Standing Orders 18.10, 18.11, 19 and 20 of the National Assembly for Wales.

Under Standing Orders 19 and 20, the committee's responsibilities include considering any report or document laid before the Assembly concerning the use of resources, or expenditure from the Welsh Consolidated Fund. This includes undertaking budget scrutiny of the bodies directly funded from the Welsh Consolidated Fund.

Under Standing Orders 18.10 and 18.11, the committee's responsibilities include oversight of the governance of the Wales Audit Office, as set out in the Public Audit (Wales) Act 2013.

The committee also considers any proposals for, and the progress of the devolution of fiscal powers to Wales as part of its responsibilities.

The committee may also scrutinise legislation introduced to the Assembly.

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Recommendations

Recommendation 1. The Committee expects the revised Explanatory Memorandum published after the Bill is amended during Stage 2 to reflect the changes to the expected costs and benefits of introducing the Bill as a consequence of the updated modelling. The Committee recommends that this be done before the deadline for tabling amendments during Stage 3. Page 13

Recommendation 2. The Committee recognises that the decision on the level to set a MUP will have an impact on trading standards, and recommends that the Welsh Government continue its discussions with trading standards representatives to ensure that the resources allocated for the enforcement of the Bill are available to local authorities in the most effective way..... Page 22

Recommendation 3. The Committee recommends that the Welsh Government negotiates with HM Treasury about the impact of a potential reduction in revenue from alcohol sales. It would expect a resolution on the impact on the Fiscal Framework to be in place before the Assembly's final vote on the Bill at Stage 4. Page 23

Recommendation 4. The Committee recommends that the Welsh Government considers how a voluntary levy could be placed upon large retailers where a proportion of the additional income it receives as a result of introducing a MUP be directed to a fund to be used for public health purposes. The amount of money paid by each retailer should be made public..... Page 27

Recommendation 5. The Committee recommends that regulations relating to setting the level of MUP are subject to a super affirmative procedure, and should be accompanied by a robust financial assessment. Page 32

1. Background and overview

1. The **Public Health (Minimum Price for Alcohol) (Wales) Bill** (the Bill) was introduced on 23 October 2017 by Rebecca Evans AM, Minister for Social Services and Public Health. The First Minister authorised Vaughan Gething AM, Cabinet Secretary for Health and Social Services (the Cabinet Secretary), as the new Member in Charge of the Bill, from 9 November 2017.
2. The **Explanatory Memorandum** (EM) sets out that the Bill provides for a minimum price for the sale and supply of alcohol in Wales, and makes it an offence for alcohol to be sold below that price.¹
3. The Bill proposes:
 - The formula for calculating the applicable minimum price for alcohol by multiplying the percentage strength of the alcohol, its volume and the minimum price per unit of alcohol (referred to as minimum unit price/MUP). The proposed formula (see Section 1 of the Bill) is minimum unit price x strength x volume.²
 - Powers for Welsh Ministers to make subordinate legislation to specify the MUP.³
4. Sections 5-7 of the Bill set out how the formula would apply to special offers, including multi-buys and where alcohol is supplied with other (non-alcohol) goods or services and where some of the alcohol supplied in a special offer is of a different strength.
5. The EM states that the ultimate objective of the Bill is to tackle alcohol-related harm, including alcohol-attributable hospital admissions and alcohol-related deaths in Wales, by reducing alcohol consumption in harmful and hazardous drinkers.⁴
6. It also sets out that the Welsh Government commissioned the Sheffield Alcohol Research Group at the University of Sheffield to model the potential impact to Wales of a range of alcohol pricing policies. On 8 December 2014 the

¹ Explanatory Memorandum, paragraph 4

² Public Health (Minimum Price for Alcohol) (Wales) Bill, section 1

³ Explanatory Memorandum, paragraph 5

⁴ Explanatory Memorandum, paragraph 14

report **Model-Based Appraisal of Minimum Unit Pricing for Alcohol in Wales** was published. The EM also states that the model is being updated with the most recent alcohol consumption data and revised estimates of the impact of the range of pricing policies will be available in early 2018.⁵ **Updated modelling**, with the most recent alcohol consumption data and revised estimates of the impact of the range of pricing policies was published on 22 February 2018.

7. A Regulatory Impact Assessment (RIA) is contained in the EM, which presents the estimated costs and benefits resulting from the Bill. An illustrative minimum unit price of 50p is used in the EM and RIA.

8. The Committee took evidence from the Cabinet Secretary on the financial implications of the Bill on **7 December 2017**.

⁵ Explanatory Memorandum, paragraph 17

2. Financial implications of the Bill

9. The EM compares the costs of three options:

- Option 1: Do nothing;
- Option 2: Strengthen the current policy approach;
- Option 3: Introduce a minimum price for which alcohol can be sold or supplied in Wales.⁶

Option 3 is the Welsh Government's preferred option.⁷

10. The preferred option would involve the Welsh Government introducing a minimum price under which alcohol could not be sold or supplied to a person in Wales. This would not increase the price of every drink, only those which are sold at below the applicable minimum price.⁸

11. The Explanatory Memorandum states:

“the Welsh Government acknowledges that the actual impacts of an MUP in Wales will only be known by implementing the policy.”⁹

12. The estimated costs and benefits referred to in the EM are calculated on the assumption of a MUP of 50p. The formula for calculating the minimum sale price is as follows:

Minimum unit price x S (percentage strength of alcohol) x V (volume of alcohol)

13. An example of a £0.50 minimum unit price of alcohol (for a 0.75 litre bottle of wine with a strength of 12.5%) would be calculated as follows:

$£0.50 \times 12.5 \times 0.75 = £4.69^{10}$

14. The RIA states that there will be a net benefit of £880 million over the 20 years after the Bill comes into force.¹¹ It states that while there will be costs for the

⁶ Explanatory Memorandum, paragraph 240

⁷ Explanatory Memorandum, paragraph 330

⁸ Explanatory Memorandum, paragraph 271

⁹ Explanatory Memorandum, paragraph 24

¹⁰ Explanatory Memorandum, paragraph 273

Welsh Government and retailers of £2.3 million¹² (discounted to Net Present Value), these will be outweighed by benefits of £882 million (in Net Present Value). The benefits will be made up of £489 million health benefits, £248 million benefits from reduced crime, £131 million from reduced direct healthcare costs and £14 million benefits from reduced workplace absence.¹³ Revised figures were provided as a result of the updated modelling, published in February 2018.

2. 1. Modelling undertaken by the Sheffield Alcohol Research Group at the University of Sheffield

15. The estimated impacts of the minimum pricing proposals set out in the RIA are based on the 2014 **alcohol policy model of the** Sheffield Alcohol Research Group (SARG), based at the University of Sheffield. This looked at MUP policies ranging from 35p-70p per unit. Table 8 on page 116 of the RIA states that if there is a 50p MUP the impacts outlined above will lead to:

- Over 20 years there will be an estimated reduction of 4.8% in direct healthcare costs leading to benefits of £131 million; health benefits of 8.15 million quality adjusted life years (valued at £60,000 each) leading to benefits of £489 million; lower crime benefits due to 3,684 fewer offences being committed per year and valued at £248 million; and reduced workplace absence of 10,000 days per year by year 20 leading to benefits of £14 million.
- Increased receipts of £25 million per year for off-trade retailers, and £2 million per year for on-trade retailers. While consumption will fall, the increase in average price per unit consumed will lead to increased receipts. The RIA notes that there is considerable uncertainty around the response of retailers to a MUP, with the possibility of changes to prices and products.
- A reduction of 1% in Alcohol Duty Revenue (£5.8 million per year) due to decreasing off-trade duty receipts from lower alcohol consumption. While there are increased receipts outlined above, as less units of alcohol are consumed this will lead to lower duty revenues.

¹¹ Explanatory Memorandum, paragraph 309

¹² Explanatory Memorandum, page 120, Table 10

¹³ Explanatory Memorandum, paragraph 309

16. The EM, dated October 2017, says that the model is “currently being updated with the most recent alcohol consumption data. Revised estimates of the impact of the range of pricing policies will be available in early 2018”.¹⁴ An interim update to the modelling was published in November 2017, which included some conclusions which differed from the original modelling:

- For a 50p MUP, the estimated per person reduction in alcohol consumption for the overall population is 3.6%. This equates to an annual reduction of 22 units per drinker per year – less than in the original modelling.
- For a 50p MUP the estimated reductions in consumption are 6.8% for high risk drinkers, 3.0% for increasing risk drinkers and 1.1% for moderate drinkers. The figures for high risk and moderate drinkers are lower than in the previous modelling, while those for increasing risk drinkers are higher.
- For all modelled policies, spending across the whole population is estimated to increase, for example by £8.30 (1.4%) per drinker per year for a 50p MUP alongside a consumption change of -3.6%. Spending changes also differ across the population, with high risk drinkers estimated to spend an extra £48 (1.7%) per year whilst moderate drinkers’ spending increases by £3 (1.1%) at a 50p MUP. The figures for high risk and moderate drinkers are higher than in the previous modelling, while those for increasing risk drinkers are lower.

17. The updated modelling was published on 22 February 2018, and the Committee was given sight of this on 30 January 2018. Prior to its publication, the Cabinet Secretary told the Committee that the updated modelling would “help to inform our approach to setting a minimum unit price”.¹⁵ In response to questioning about when he would expect to provide an updated RIA to take account of the updated modelling, the Cabinet Secretary said:

“I don’t want to try and second-guess when, but I think we’ll want to take the opportunity to update the impact assessment during the passage of the Bill, because, by the time people are asked to vote for a

¹⁴ Explanatory Memorandum, paragraph 17

¹⁵ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 7

final Bill, I want people to be up to date and informed on the Government's thinking."¹⁶

18. The updated modelling demonstrated some differences from the original 2014 model, including:

- Overall societal benefits have reduced from an estimated £882 million to £783 million in the 2018 modelling.¹⁷ This is mainly due to smaller estimated reductions in direct healthcare costs and costs associated with crime.
- Retailers are estimated to see a smaller increase in profits (£17.8 million)¹⁸ than was shown in the 2014 modelling (£27 million).
- Annual revenue to the Exchequer from duty and VAT receipts on alcohol in Wales is estimated to fall by 0.4% or £1.9 million following the introduction of a 50p MUP.¹⁹ In the 2014 modelling, revenue to the Exchequer was estimated to decrease by 1% (equivalent to £5.8 million).

19. Some respondents to the Health, Social Care and Sport Committee's consultation were critical of the Sheffield modelling, Christopher Snowdon from the Institute of Economic Affairs stated:

"What is being proposed is unprecedented and it is impossible to predict how consumers will react to a 50p minimum unit price. The data do not exist for a reliable model to be created. But a lack of evidence does not mean that we should trust anything that calls itself evidence. The SARG reports are based on assumptions that are often dubious and sometimes manifestly incorrect. It brings the policy-making process into disrepute when an unrealistic computer model designed by vocal advocates of minimum pricing is treated with the same respect as scientific evidence."²⁰

¹⁶ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 12

¹⁷ Model-based appraisal of the comparative impact of Minimum Unit Pricing and taxation policies in Wales: Final report, paragraph M22

¹⁸ Model-based appraisal of the comparative impact of Minimum Unit Pricing and taxation policies in Wales: Final report, Table 21

¹⁹ Model-based appraisal of the comparative impact of Minimum Unit Pricing and taxation policies in Wales: Final report, paragraph M16

²⁰ Written evidence, Health, Social Care and Sport Committee, **MPA 10. Institute of Economic Affairs**

20. The Cabinet Secretary explained the Welsh Government’s rationale for using the modelling conducted by the University of Sheffield as a basis for the estimating the costs and benefits of introducing a MUP:

“the University of Sheffield have the greatest relevant expertise in modelling this type of work and that’s why the Scottish Government chose them. Also, given the work they’ve done in Scotland, it seemed the sensible thing for us to do.”²¹

21. He added:

“when you look at the reports that Sheffield have done, they go through in some detail, actually, how they’ve arrived at their assumptions and the model that they’re providing.”²²

22. The Cabinet Secretary provided details of the peer review conducted on the Sheffield Alcohol Policy Model in his letter of 21 December to the Committee.²³

Committee view

23. The Committee acknowledges that the introduction of a MUP for alcohol is a novel concept, and consequently there are currently no precedents from elsewhere which could provide a firm indication of the cost and benefits of such a policy initiative. The Committee understands why the estimates in the RIA are based on modelling, but relying on assumptions rather than statistical evidence makes it difficult to consider the financial impact of the Bill. There is no certainty that consumers will respond to the introduction of a MUP in the way indicated by the modelling, therefore there is no certainty that the costs and benefits of the policy will match the estimates outlined in the RIA.

24. The Committee notes that the estimated costs and benefits included in the RIA are based on modelling published in 2014 by the University of Sheffield and that the updated modelling, published following the Bill’s introduction, noted variations to the figures in the original modelling. It is unhelpful that the Committee was required to base its scrutiny of legislative proposals on out of date modelling.

²¹ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 15

²² Finance Committee, Record of Proceedings, 7 December 2017, paragraph 18

²³ **Letter from the Cabinet Secretary for Health and Social Services to the Finance Committee, 21 December 2017**

25. The conclusions of the updated modelling which was published midway through the scrutiny period produced some variances on the impact of introducing a MUP since the original modelling, and whilst these were mostly small changes, it demonstrated the importance of having the most up to date information available. The Committee understands the rationale for the timing of the Bill's introduction to allow the Stage 1 scrutiny to be completed before 1 April 2018, when the devolution settlement will change as a result of the Wales Act 2017.

26. The Committee appreciates that the updated modelling is more accurate to Welsh needs, so it was important that this information was available. However, it was unhelpful that the Committee was unable to consider the final updated modelling in great detail as this was not publically available until a week before its deadline for reporting on the Bill. Whilst acknowledging that Welsh Government officials were available to provide a briefing to Members on the updated modelling, it is unhelpful that this crucial report was not available until such a late stage in the Committee's scrutiny. The Committee believes the Welsh Government should have further extended the Stage 1 reporting deadline to allow evidence to be taken from the Cabinet Secretary on the implications of the updated modelling on the estimated costs and benefits of the Bill.

27. Although the updated modelling was made available before the end of the Stage 1 scrutiny period, the Explanatory Memorandum which details the costs and benefits of introducing a MUP has not been revised to reflect the updated information.

Recommendation 1. The Committee expects the revised Explanatory Memorandum published after the Bill is amended during Stage 2 to reflect the changes to the expected costs and benefits of introducing the Bill as a consequence of the updated modelling. The Committee recommends that this be done before the deadline for tabling amendments during Stage 3.

2. 2. Financial impact on specific groups such as people on low incomes and heavy drinkers

28. The EM states that:

“Consumers who currently buy alcohol at less than the applicable minimum price will be directly affected.”²⁴

²⁴ Explanatory Memorandum, paragraph 275

Financial impact of the Bill on hazardous and harmful drinkers

29. The Sheffield model estimates that:

“costs will fall largely on hazardous and harmful drinkers who tend to favour cheaper alcohol which is most affected by an MUP.”²⁵

30. The EM therefore estimates the additional cost to consumers as:

“A harmful or hazardous drinker will spend approximately £32 more per year, with the greater effect being the anticipated drop in consumption. In contrast, moderate drinkers will spend on average £2.37 more per year.”²⁶

31. The updated modelling suggested that a MUP would result in all groups spending more on alcohol, with an increased spend of £3 for moderate drinkers an increase of £18 for hazardous drinkers and an increase of £48 for harmful drinkers.²⁷

32. The Sheffield model concluded that high-risk drinkers are estimated to reduce their consumption much more than increasing risk or moderate drinkers.²⁸

33. A report published by the Adam Smith Institute in 2012 was critical of the conclusion drawn by the Sheffield model, stating:

“Amongst the problems with the Sheffield model is its false assumption that heavy drinkers are more likely to reduce their consumption of alcohol as a result of a price rise.”²⁹

34. The consultation response provided by the Institute of Fiscal Studies also presented a contrasting view to the conclusion of the Sheffield model that price increase would reduce alcohol consumption among heavy drinkers:

“although the heaviest-drinking households are more willing to switch away from a given product in response to an increase in its price, they

²⁵ Explanatory Memorandum, paragraph 275

²⁶ Explanatory Memorandum, paragraph 275

²⁷ Model-based appraisal of the comparative impact of Minimum Unit Pricing and taxation policies in Wales, Table 19

²⁸ Explanatory Memorandum, paragraph 19

²⁹ Adam Smith Institute, The minimal evidence for minimal pricing

are much more likely to switch to another alcohol product, rather than to choose not to buy alcohol at all.”³⁰

35. The Welsh NHS Confederation, in its response to the consultation, highlighted the need for appropriate treatment and support services to be in place should the Bill result in dependent drinkers lowering their alcohol intake, saying:

“It is possible that NHS costs could increase in the short term, as additional services for alcoholics who wish to quit may be required.”³¹

36. The Royal College of Psychiatrists also noted that the number of referrals to Community Mental Health Teams as well as Community Drug and Alcohol Teams may rise initially as a result of the Bill stating that:

“We would need to ensure that CMHTs and CDATs could cope with a possible increase in patients seeking help.”³²

37. The EM acknowledges the findings of a study of heavy drinkers’ perspective on MUP in Scotland, and noted that:

“MUP is likely to affect dependent drinkers, some of whom may be unable to cut down on their alcohol consumption. There may be others who have to reduce their drinking drastically and within a short time period following the introduction of an MUP, which may lead to increased pressure on associated support services, at least initially.

Furthermore, low income households which consume low-cost alcohol will be unable to trade down and find alternative (cheaper) products. Snowdon (2014) and O’May et al. (2016) have highlighted that there may be substitution effects, such as the purchase of illicit alcohol or illegal drugs, which have health hazards associated with them.”³³

38. In relation to a possible substitution effect, the EM concluded that:

“The Welsh Government does not consider the increase in price associated with an MUP is likely to be sufficient to incentivise these

³⁰ Written evidence, Health, Social Care and Sport Committee, **MPA 34, Institute of Fiscal Studies**

³¹ Written evidence, Health, Social Care and Sport Committee, **MPA 04, Welsh NHS Confederation**

³² Written evidence, Health, Social Care and Sport Committee, **MPA 06, Royal College of Psychiatrists**

³³ Explanatory Memorandum, paragraphs 227 & 228

kinds of activity, which are not currently a significant problem in Wales. The risk of this is therefore considered to be low but will remain under review.”³⁴

39. The Cabinet Secretary acknowledged the criticism of the Sheffield modelling by the Adam Smith Institute, but referred to a “discord” between some of the terms being used:

“When the Adam Smith Institute talk about ‘heavy drinkers’, Sheffield talk about ‘hazardous and harmful drinkers’, and I think the Adam Smith Institute, with respect, are really talking about dependent drinkers, and there’s a big difference between people who are doing harm and those who are actually dependent on alcohol as well.”³⁵

40. He went on to say that he accepted that increasing the price of alcohol was unlikely to change the behaviour of dependent drinkers:

“I don’t think this measure is really going to significantly address dependent drinkers because people who are generally addicted to alcohol, I don’t think, are the most likely category of drinkers to have their behaviour changed, but there are other people who aren’t dependent on and addicted to alcohol who are still acquiring significant harm, and it’s that group of people that we think this measure is most effective at targeting.”³⁶

41. In response to the suggestion that introducing a MUP could lead to an increase in people accessing support service as they reduce their alcohol consumption, the Cabinet Secretary said in his letter of 14 November:

“we do not expect large numbers of people to be accessing services in light of withdrawal from alcohol. For harmful drinkers, an MUP of 50p is estimated to reduce mean weekly consumption by 7.2% – or an estimated 5.6 units per week. It is unlikely that this type of reduction would result in a significant number of people requiring treatment for withdrawal.”³⁷

³⁴ Explanatory Memorandum, paragraph 229

³⁵ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 55

³⁶ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 57

³⁷ **Letter from the Cabinet Secretary for Health and Social Services to the Health, Social Care and Sport Committee, 14 November 2017**

42. However, the Cabinet Secretary went on to say:

“if we do see an increase in the number of people accessing substance misuse services as they reduce their levels of consumption, what we also expect to see is a reduction in alcohol-related deaths. This is something that we intend to monitor closely.”

It is also important to recognise that MUP is not intended or expected to work in isolation. We will work with relevant stakeholders to signpost relevant services ahead of the implementation of MUP.”³⁸

Financial impact on people with low incomes

43. The EM sets out how it would expect the introduction of MUP to impact on people with low incomes:

“The 2014 analysis by the University of Sheffield on the impact of an MUP specifically looked at impacts on households living in poverty. Households living in poverty are more likely to be abstinent or low-consumption drinkers. As a result, the amount they spend on alcohol is unlikely to be disproportionately affected by the introduction of a minimum price for alcohol. Nor is the policy estimated to be overly-burdensome on moderate drinkers in poverty. According to the Sheffield model, the impact on this group is an increase in spend of £2 per year, plus a reduction in consumption of 10 units per year.

At the same time, it is important to recognise that harmful drinkers living in poverty tend to purchase more alcohol at less than the MUP, than other groups. However, although the costs are higher for those in poverty who are harmful drinkers, the impact of MUP on consumption is also higher and so the benefit is significant.”³⁹

44. Asda, in its consultation response to the Health, Social Care and Sport Committee, referred to the potential for people on a tight budget being effected by the introduction of a MUP:

“Minimum pricing also fails to target irresponsible drinking: when calculating the elasticity of alcohol products, the Sheffield model’s

³⁸ **Letter from the Cabinet Secretary for Health and Social Services to the Health, Social Care and Sport Committee, 14 November 2017**

³⁹ Explanatory Memorandum, paragraphs 208 & 209

analysis shows that, overall, heavier drinkers are least responsive to price changes. Responsible drinkers on a budget will be hit harder than irresponsible drinkers with higher incomes.”⁴⁰

45. In his letter of 14 November to the Health, Social Care and Sport Committee, the Cabinet Secretary re-iterated that people living in poverty are disproportionately likely to abstain from alcohol, and drink less than those above the poverty line. He also stated that:

“A 50p MUP was previously estimated by the University of Sheffield to have greater reductions in deaths and hospital admissions per 100,000 drinkers for those in poverty than those not in poverty: five fewer deaths and 120 fewer hospital admissions per 100,000 drinkers for those in poverty, compared to two fewer deaths and 50 fewer hospital admissions per 100,000 drinkers for those not in poverty.

We understand and have noted the concerns raised by some regarding potential adverse impacts, which could arise as a result of the proposals set out in the Bill. For example, there have been concerns expressed that low-income households which consume low-cost alcohol will be unable to trade down and that household budgets could be affected if harmful and hazardous drinkers continue to consume alcohol at the same level as before MUP was introduced.”⁴¹

46. The Cabinet Secretary told the Committee that the modelling done by the University of Sheffield “recognises that there would be a differential impact on lower socio-economic groups on price and on spend”, however, he went on to say that there is a “disproportionate health gain to be made there as well”.⁴² The Cabinet Secretary acknowledged that people would make different choices when faced with paying more for alcohol:

“There’s a recognition in the modelling done that people would make different choices, and we actually think that most people will make a choice not to consume as much alcohol. But I could not look anyone in

⁴⁰ Written evidence, Health, Social Care and Sport Committee, **MPA 48, Asda**

⁴¹ **Letter from the Cabinet Secretary for Health and Social Services to the Health, Social Care and Sport Committee, 14 November 2017**

⁴² Finance Committee, Record of Proceedings, 7 December 2017, paragraph 64

the eye and say that no drinker will make a choice where they actually compromise on other areas of spending to continue drinking alcohol.”⁴³

47. The Cabinet Secretary told the Committee that his confidence that introducing a fiscal measure would change people’s behaviour stemmed from a recognition that “people are sensitive to price, and it does change people’s behaviour”.⁴⁴

48. In response to questions as to whether there was any statistical evidence to support the conclusion of the Sheffield modelling that introducing a MUP would lead to a reduction in the consumption of alcohol, the Cabinet Secretary said:

“It’s modelled evidence. It’s a model and it’s based on a series of assumptions, but, then, if you’re only looking for statistical evidence on the impact of a measure like this, it hasn’t happened anywhere yet. And so we’re at the novel end of policy and legislation, and that’s accepted. In the Government’s case, we don’t say there is hard statistical evidence of a comparable system and we can look at that and the choices that people will make. But, again, that’s why you have assumptions and that’s why you have modelled evidence. And we do know, for example, that people do make different choices, depending on income groups, about the price of goods and services. So, I think there’s a reasonable basis to do so, but I couldn’t tell you that we have statistical evidence on this measure, for this income group, in real time, because it’s a novel policy. We will, though, as I say, have real-time evidence from spring onwards about the position in Scotland.”⁴⁵

Committee view

49. The Committee is aware that all estimates in the EM are based on modelling, and that there is no statistical evidence that introducing a MUP will lead to a reduction in alcohol consumption. Whilst the Cabinet Secretary asserts that the Bill is targeted at reducing alcohol consumption in “harmful” and “hazardous” drinkers, there will be a financial impact for those groups, and particularly for dependent drinkers. There is no firm evidence that those groups would not prioritise spending on alcohol over other expenses such as rent or food, which in turn could lead to social problems such as homelessness or malnutrition. The

⁴³ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 73

⁴⁴ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 76

⁴⁵ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 79

Committee is therefore concerned that this could potentially have a negative impact on public spending, as if there is no reduction in the alcohol consumed, the estimated health benefits will not be seen.

2. 3. Financial impact on local government

Enforcement costs

50. The EM outlines the estimated costs for local authorities of implementation the provisions in the Bill, and anticipates that compliance inspections for minimum pricing will become part of the current inspection regime for premises selling alcohol. It refers to research undertaken in 2015 which estimated that the cost of an inspection visit by an environmental health officer or licensing officer is approximately £125, and says that there may also be an additional cost for local authorities due to the need for longer or more frequent checks, particularly in the early days of the legislation. It also says that there may be some additional administration costs in issuing fixed penalty notices for non-compliance with minimum pricing, but adds that this will be off-set to some extent for local authorities which will keep the fixed penalty notices paid. The EM states that these compliance costs are unknown.⁴⁶

51. The EM goes on to say:

“Discussions are ongoing with local authorities and the Wales Heads of Trading Standards on potentially funding additional inspection activity, particularly during the first year of implementing the legislation. Costs associated with this activity have not yet been confirmed, but early discussions suggest that £150,000 will need to be allocated by Welsh Government to cover additional inspection activity in the first year of implementation – followed by £100,000 in year 2 and £50,000 in year 3.”⁴⁷

52. In terms of prosecution costs, the EM states that local authorities will face administrative and legal costs and that the legal costs of bringing the prosecution are generally reclaimable against those being prosecuted if the case is successful. It expects that overall costs for the enforcement of minimum pricing will to be low, however, these costs are unknown.⁴⁸

⁴⁶ Explanatory Memorandum, paragraph 296

⁴⁷ Explanatory Memorandum, paragraph 297

⁴⁸ Explanatory Memorandum, paragraph 298

53. The Chair of the Wales Heads of Trading Standards, told the Health, Social Care and Sport Committee that:

“Initially, when we looked at the number of premises that we would need to get round in Wales, that did seem like a reasonable option. Having reviewed that, I think it may be difficult to get round all of those premises with that budget, but, if it would be possible to use the budget, which I understand was proposed to be over three years—if that could be more sort of front-weighted so we could get round more in the first year and less in the second and third, then that would help us make sure that we had complete coverage of the premises that we believe to be of highest risk of non-compliance in the early period.”⁴⁹

54. In his letter of 21 December, the Cabinet Secretary said that:

“Discussions between officials and Trading Standards are currently ongoing about the most appropriate expenditure profile within the three-year allocation (2019-2022) of £300,000.”⁵⁰

Committee view

55. The Committee notes that the Bill will place new responsibilities on local authorities, and believes that it will be crucial for sufficient funding to be put in place to allow them to undertake the additional workload. The Committee notes the comments made by trading standards representatives in relation to front-weighting resources in order to allocate more of the funding earlier on, and welcomes the discussion between the Welsh Government and trading standards. The Committee believes that it will be important that trading standards are able to use the resources available to them in the most effective way.

56. The Committee notes that the Cabinet Secretary has committed to providing further details about how the funding will be profiled within the overall allocation of £300,000 once it has formally been agreed.

57. The Committee acknowledges that the cost to local government will be proportionate to the level at which a MUP is set.

⁴⁹ **Health, Social Care and Sport Committee, Record of Proceedings, 23 November 2017, paragraph 232**

⁵⁰ **Letter from the Cabinet Secretary for Health and Social Services to the Finance Committee, 21 December 2017**

Recommendation 2. The Committee recognises that the decision on the level to set a MUP will have an impact on trading standards, and recommends that the Welsh Government continue its discussions with trading standards representatives to ensure that the resources allocated for the enforcement of the Bill are available to local authorities in the most effective way.

2. 4. Financial impact of the Bill on the Welsh and UK Governments

58. The EM provides estimated costs to the Welsh Government for implementing the provisions in the Bill for five years, including costs for providing guidance, communication, training for local authority staff and evaluation and reviewing the legislation. The EM states that the costs should be discounted over a 20 year period to be consistent with the benefits. It states that this would translate into total costs of £428,000 for the Welsh Government.⁵¹ Table nine in the RIA also highlights the potential for additional costs of up to £300,000 in the first three years for funding inspection and enforcement.

59. The estimated costs include £100,000 for communication purposes. The EM states that this will include £80,000 for publicising the change to businesses via direct mail, websites, social media and trade publications and £20,000 for a campaign to raise public awareness.⁵² In his letter of 21 December, the Cabinet Secretary added that the Welsh Government recognises the importance of investing in communications to raise awareness of the requirements of the legislation.⁵³

60. The EM also notes that UK Government revenue from alcohol duty will fall by £5.8 million per year as a result of the estimated reduction in alcohol consumption. The updated modelling provided the revised estimate of a decrease of £1.9 million reduction in revenue collection.⁵⁴ The **Fiscal Framework** agreed between the Welsh and UK Governments in December 2016 discusses policy “spill-over” effects, which may occur where a decision by one government has an impact on the tax or spending of another.

⁵¹ Explanatory Memorandum, paragraph 323

⁵² Explanatory Memorandum, paragraph 323

⁵³ **Letter from the Cabinet Secretary for Health and Social Services to the Finance Committee, 21 December 2017**

⁵⁴ Model-based appraisal of the comparative impact of Minimum Unit Pricing and taxation policies in Wales, Table 21

61. The Cabinet Secretary said in his letter of 21 December that Welsh Government official met with Home Office officials and that:

“Discussions are ongoing about any impact on the fiscal framework.”⁵⁵

Committee view

62. The Committee notes the estimated costs for the Welsh Government and concurs that communication campaigns will be crucial to raising awareness among businesses and the public.

63. The Committee is concerned that the EM identifies an estimated reduction in revenue from alcohol duty, yet the impact of this on the Welsh Block does not appear to have been considered in light of the Fiscal Framework. Whilst it realises that Home Office officials would be the lead liason on alcohol policy, it would have expected that Welsh Government officials would have discussed the impact of a potential reduction in alcohol duty with HM Treasury and the consequences of this on funding.

Recommendation 3. The Committee recommends that the Welsh Government negotiates with HM Treasury about the impact of a potential reduction in revenue from alcohol sales. It would expect a resolution on the impact on the Fiscal Framework to be in place before the Assembly’s final vote on the Bill at Stage 4.

2. 5. Financial impact of the Bill on retailers

Estimated additional costs and benefits for the alcohol retail sector

64. The EM estimates that a MUP of 50p would result in additional receipts of £27 million per year for retailers, comprising increased receipts of £25 million for off-trade retailers, and £2 million for on-trade retailers. In the updated modelling, these figures were revised to estimate benefits of £16.8 million for off-trade retailers and £1 million for on-trade retailers.⁵⁶ While consumption will fall, the increase in average price per unit consumed will lead to increased receipts. The

⁵⁵ **Letter from the Cabinet Secretary for Health and Social Services to the Finance Committee, 21 December 2017**

⁵⁶ Model-based appraisal of the comparative impact of Minimum Unit Pricing and taxation policies in Wales, Table 21

RIA notes that there is considerable uncertainty around the response of retailers to a MUP, with the possibility of changes to prices and products.⁵⁷

65. The EM also estimates additional costs of £1.822 million to retailers over a 20 year period. These costs include additional staff costs to implement the change of £455,700 in the first year after the legislation, costs of £300,700 for staff to familiarise themselves with the legislation in the first year after the Bill comes into force, and ongoing costs of £75,000 for this purpose.

66. The EM notes that smaller businesses may face higher implementation costs, particularly those without head office support, but goes on to state that this cost may be offset by increased revenues and better ability to compete on cost against larger retailers. It notes that whilst an estimated implementation cost has been included, specific costs or increases in revenue are unknown.⁵⁸

67. Evidence provided by Asda stated an expectation of higher costs to retailers than estimated in the EM, including implementation costs and increase in theft:

“A large proportion of in-store theft already occurs in our beers, wines and spirits aisle, with a particular concentration on spirits, and we expect this to increase should prices rise with the introduction of minimum pricing.

In addition to the likelihood of increased thefts and the impact of cross-border sales, there are significant costs for businesses in Wales – large and small – associated with the implementation of complex new systems to handle minimum pricing. As an indication of the scale of these costs, preparing our pricing systems for the implementation of minimum pricing in Scotland cost Asda more than £1million and took approximately three years.”⁵⁹

68. The Cabinet Secretary told the Health, Social Care and Sport Committee that he believed the estimated implementation costs in the RIA were “robust and reasonable”. He went on to say:

“I would suggest that we should take with a pinch of salt a large retailer like Asda or others who are suggesting there’ll be an enormous cost to changing the price of a range of products. Asda themselves change

⁵⁷ Explanatory Memorandum, paragraph 321

⁵⁸ Explanatory Memorandum, paragraph 290

⁵⁹ Written evidence, Health, Social Care and Sport Committee, **MPA 48, Asda**

prices on a regular basis—you see a difference between, say, roll back, price cut. It's not difficult for them to do that in individual stores or across the country. Every time there is a budget and whoever is the Government of the day changes taxation on products, by the next day they're able to manage that and to deal with it.”⁶⁰

Potential ways of ensuring the public sector is able to share in the additional revenue generated by retailers

69. The EM notes that the Institute for Fiscal Studies has been critical of the fact that MUP leads to increased revenues being kept by the industry, rather than tax revenues going to the government.

70. The Royal College of Psychiatrists' evidence to the Health, Social Care and Sport Committee called for the Welsh Government to explore working with retailers and alcohol producers to ring-fence a share of retailers' anticipated revenue gains for alcohol treatment services. They noted that these services are currently stretched, and likely to experience an increase of referrals as a result of the legislation.⁶¹

71. The Committee is aware of the recent initiative by the Scottish Government where it introduced a Public Health Supplement, which was levied on the business rates of large retailers who sold cigarettes and alcohol. This was a temporary measure which raised around £95 million between 2012-13 and 2014-15. The additional funding was allocated to preventative spend. Under this measure, retailers with a rateable value of £300,000 paid a supplement of 9.3 pence in the pound in 2012-13, and 13 pence in the pound in 2013-14 and 2014-15.⁶²

72. The Committee is also aware of the Scottish Government's past consultation⁶³ on a potential social responsibility levy that would apply to licensed retailers. This would have contributed to the costs of local authorities in addressing their licensing objectives.

73. The Cabinet Secretary told the Committee that the challenge around introducing a voluntary levy was that he was not “robustly confident that retailers

⁶⁰ Health, Social Care and Sport Committee, **Record of Proceedings, 11 January 2018, paragraph 139**

⁶¹ Written evidence, Health, Social Care and Sport Committee, **MPA 06. Royal College of Psychiatrists**

⁶² www.parliament.scot/S5ChamberOffice/WA20171024.pdf

⁶³ Scottish Government, **Initial Consultation on Social Responsibility Levy**, November 2010

would voluntarily offer up part of the additional profits they could expect to make” as a result of a MUP for alcohol.⁶⁴ In relation to the temporary Public Health Supplement introduced in Scotland, the Cabinet Secretary said:

“larger retailers, even though they weren’t happy about it, they frankly swallowed it and continued to sell alcohol and tobacco and it didn’t change the price of alcohol or tobacco in those outlets. And equally from the Scottish Government’s point of view, they couldn’t demonstrate that all the money being raised had gone into the public health agenda.”⁶⁵

74. The Cabinet Secretary went on to say that he would not expect to get voluntary agreement from retailers on a voluntary levy in a matter of weeks, particularly as the provisions in the Bill are yet to be agreed.⁶⁶ He committed to discussing the issue with the Welsh Retail Consortium, and reporting back to the Committee.⁶⁷ He said that the introduction of a MUP in Scotland would allow the impact of changes in consumer behaviour to be seen, and that if retailers did agree to voluntary measures in Scotland, “then it’ll be difficult for them to avoid doing so here as well”.⁶⁸

Committee view

75. The Committee appreciates that there could be up-front costs to retailers in implementing the new system, but believes that in the long term, the introduction of a MUP will lead to increased revenue. It acknowledges that these up-front costs are likely to be more burdensome for small independent retailers and that the level of revenue increase is unknown as it will depend on customers’ spending behaviour, which is impossible to accurately predict.

76. The Committee draws attention to the prospect of retailers, particularly those with already high profits, profiting further from the introduction of a MUP. Whilst the level of increased profit is unknown, and the updated modelling suggested that the increase wouldn’t be as high as originally anticipated, it remains a

⁶⁴ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 125

⁶⁵ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 126

⁶⁶ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 145

⁶⁷ **Letter from the Cabinet Secretary for Health and Social Services to the Finance Committee, 21 December 2017**

⁶⁸ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 146

significant increase without having to contribute any resources towards the public health agenda.

77. The Committee notes that the public health supplement introduced in Scotland was temporary, yet it made a considerable contribution of £95 million over a three year period. It accepts that there may be an unwillingness on the part of retailers to voluntarily agree to a reduction in profits, but it is the responsibility of the Welsh Government to work with retailers so that they realise that it is not acceptable for their profits to significantly increase as a consequence of a public health measure.

78. The Committee notes the Cabinet Secretary's assertion that in the Scottish example it was difficult to know how much of the money collected was allocated for public health spend, and is aware that should any levy be directed to the Welsh Government, it would be viewed as a tax on alcohol, which would be outside of the Assembly's current competence. However, the Committee believes that should the Bill be passed, there will be sufficient time prior to implementation for the Welsh Government to implement a mechanism whereby revenue collected from a levy on large retailers could be re-directed for the purpose of improving public health, for example to alcohol or substance misuse charities.

Recommendation 4. The Committee recommends that the Welsh Government considers how a voluntary levy could be placed upon large retailers where a proportion of the additional income it receives as a result of introducing a MUP be directed to a fund to be used for public health purposes. The amount of money paid by each retailer should be made public.

2. 6. Financial impact on alcohol producers

79. The EM does not set out any additional costs or benefits for alcohol producers. The Competition Assessment set out in the RIA (pages 123 to 148) discusses the impact of the Bill on alcohol producers. It highlights that the introduction of a MUP may potentially lead to difficulties for firms to enter the alcohol production market if market prices are below the MUP level. There may also be a reduction in demand for own-brand or value products as MUP may lead to their price rising to similar levels of products recognised as more premium brands. The assessment does note however, that MUP may provide incentives for firms to innovate by producing lower strength alcohol products that could be sold at a relatively lower price.

80. The RIA also notes that it is difficult to ascertain the financial impact of the Bill on producers as the reaction on the supply side and where additional revenue will accrue in the supply chain is not known.

81. In relation to the potential impact on microbreweries operating in Wales, the Cabinet Secretary told the Committee that he was not aware of microbrewers who are “particularly engaged in the high-strength, very cheap end of the market”. He said that as they don’t compete with own-brand, very cheap alcohol, he didn’t believe that it would be an issue for them.⁶⁹

Committee view

82. The Committee notes the difficulties in ascertaining the impact of introducing a MUP on alcohol producers, but that the extent of the impact will be dependent on the level at which a MUP is set, as a higher level would have a greater impact.

2. 7. The impact of cross-border purchasing

83. The EM recognises that different regimes in Wales and England “may have a small effect on purchasing behaviours”, but states that “these changes are expected to be minimal”.⁷⁰ It says that the amount spent on groceries, including alcohol, in English border areas using debit or credit cards registered in Wales has been analysed and stands at £44.4 million per year which is 4.91% of the total in Wales.⁷¹

84. Some of those who responded to the Health, Social Care and Sport Committee’s consultation raised concern that introducing a MUP in Wales could result in consumers crossing the border to purchase alcohol at a cheaper price in England. The written response from Asda stated:

“The likelihood of cross border trade is significant, as demonstrated by our experience in Northern Ireland. As well as being the top performers in the chain, our border stores significantly outperform the rest of the chain on alcohol sales, with many customers driving over an hour and a half from across the Republic of Ireland. Importantly, when they travel they also do so for their wider grocery shopping. Retailers with no

⁶⁹ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 156

⁷⁰ Explanatory Memorandum, paragraph 233

⁷¹ Explanatory Memorandum, paragraph 235

physical presence in the Republic of Ireland now have almost 2% of the grocery market due to cross border trade.

We have nine Asda superstores within 40 minutes' drive of Welsh borders, including two superstores within five miles of the Severn Bridge – where tolls will soon be scrapped – and three within five miles of the border in North Wales. We would expect distortions in trade in these concentrated areas where customers are likely to make purposeful trips to buy alcohol in England. In these circumstances, we expect some customers will divert their entire grocery shopping away from Welsh stores, putting trade and potentially jobs at risk.”⁷²

85. The Association of Convenience Stores said in its response:

“Cross-border sales will also impact retailers. The Bill’s Impact Assessment currently estimates that 4.91% of the total Welsh grocery spend is spent in England and not anticipated to increase following the introduction of MUP. However, as MUP has yet to be introduced elsewhere, and without understanding Welsh consumers’ current alcohol spend in England the full impact of cross-border sales is unknown.”⁷³

86. In response to these concerns, the Cabinet Secretary was clear that he did not believe that introducing a MUP for alcohol would have a significant impact on Welsh customers crossing the border to buy their alcohol in England:

“there are few places where you can walk over the border in a reasonable distance, then what really makes a difference is people’s time and the additional time they’d need to use, the additional cost of taking their own transport or public transport and the saving that they would make to buy cheaper alcohol over the border. I am sceptical about the likelihood of people making a cross-border booze cruise to collect large amounts of alcohol, because we’re talking about the very cheap, high-strength end of the market that is likely to be changed. I think it unlikely that we’ll see a significant cross-border impact.”⁷⁴

⁷² Written evidence, Health, Social Care and Sport Committee, **MPA 48, Asda**

⁷³ Written evidence, Health, Social Care and Sport Committee, **MPA 35, Association of Convenience Stores**

⁷⁴ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 152

Committee view

87. The Committee notes the Cabinet Secretary's view that introducing a MUP for alcohol is unlikely to result in a significant increase in Welsh consumers buying their alcohol from stores in England, however it will be a concern for those retailers located a short distance from the border. It is a real possibility, particularly when finances are tight, that consumers could choose to purchase alcohol and other groceries at larger supermarkets in England rather than from convenience stores in Wales. The Committee acknowledges that the impact on cross-border purchasing could be greater should a MUP be set at a high level, and would be concerned if, as a consequence of this Bill, small retailers experience a reduction in trade.

3. Subordinate legislation

88. The Bill does not specify the level at which a MUP will be set, instead this will be specified in subordinate legislation to be brought forward by the Welsh Government at a later date. This will be in the form of regulations, subject to an affirmative procedure.⁷⁵

89. The Cabinet Secretary told the Committee that, in bringing forward regulations, the Welsh Government will need to “set out the potential between 35p and 70p” as modelled in the report by the University of Sheffield and why it has elected to select a particular level. When asked by the Committee whether he would expect to be in a position to make the chosen level known prior to the Assembly voting on a final Bill, the Cabinet Secretary said:

“I’d expect that we would set that out, and we’d then consult on our proposal. So, we’d have a proposal to consult on.”⁷⁶

Committee view

90. The Committee is mindful that the substantial provision of the Bill will be made by future regulations rather than being on the face of this primary legislation. It understands the rationale for this, however, it is concerned that it is giving a view of the financial implications of introducing a MUP when the level of MUP is unknown. The level of MUP is central to the success of the Bill and therefore the Committee believes that relevant committees should have the opportunity to robustly scrutinise the regulations on setting the level in draft form. The Committee believes that the regulations should be made by a super-affirmative procedure to allow sufficient time for committees to consider these, question the Cabinet Secretary, and report before the Assembly is required to vote on them.

91. The Committee has previously raised concern that provisions proposed to be implemented through secondary legislation do not receive the same level of financial scrutiny as those implemented through primary legislation. It believes that, should the provisions in this Bill be passed by the Assembly, when the subsequent regulations to set a MUP are brought forward, they should be accompanied by a robust financial assessment. It also believes that when the

⁷⁵ Explanatory Memorandum, Table 5.1

⁷⁶ Finance Committee, Record of Proceedings, 7 December 2017, paragraph 105

regulations are laid, there should be an opportunity for it to undertake financial scrutiny with the Cabinet Secretary prior to the Assembly voting on the regulations.

Recommendation 5. The Committee recommends that regulations relating to setting the level of MUP are subject to a super affirmative procedure, and should be accompanied by a robust financial assessment.