House of Commons Communities and Local Government Select Committee: Inquiry into Government Proposals on Business Rates

About ASH

1. Action on Smoking and Health (ASH) is a health charity working towards the elimination of the harm caused by tobacco. ASH receives core funding from the British Heart Foundation and Cancer Research UK and has received project funding from the Department of Health for work to support the Government's tobacco strategy for England.

Introduction

2. The Committee is seeking evidence on the possible impacts of the Government's proposal to allow local authorities to retain 100 per cent of the full stock of business rates by 2020. ASH is submitting evidence on two issues raised by the Committee, specifically what the effect of these proposals might be on:

    - Differences in outcomes in richer and poorer areas and inter-authority competition
    - Long-term future of redistribution to poorer areas and impacts on development

3. ASH is concerned about the impact of the Government's proposals on the future of the public health function, which in England was transferred to local government from April 2013 under the Health and Social Care Act 2012. In particular we are concerned about the possible effect on stop smoking services and other local tobacco control work for example enforcement. We make some specific recommendations at the end of this note on how this problem might be addressed.

Public Health Funding

4. In 2013/14, local authorities received £2.7 billion as a ring-fenced grant for public health services, in 2014/15 the grant was £2.79 billion, and the original grant for 2015/16 was also £2.79 billion (a reduction of 2% in real terms) [1] [2] However, in his 2015 Budget statement, the Chancellor announced a further in year reduction in the 2015/16 grant of £200 million, and in the Autumn statement progressive reductions of 3.9% annually over the next five years. [3]

5. The Department of Health has conducted a public consultation on how public health funding should be allocated between local authorities from April 2016 onwards. The consultation closed on 6th November 2015. [4] Analysis by the Faculty of Public Health suggests that the DH proposals could result in a reduction in the share of resources going to poorer local authority areas relative to richer ones, from a ratio of about 2.5 to 1 per head to about 2 to 1, making the impact on public health worst in those areas with the greatest problems, including the highest smoking prevalence rates. [5]

Impact on NHS

6. The current NHS England Five Year Forward (FYFV) view states that: *The future health of millions of children, the sustainability of the NHS, and the economic prosperity of Britain all now depend on a* ***radical upgrade in prevention and public health****."* (Our emphasis) The report also notes that this has been long called for: *"Twelve years ago, Derek Wanless' health review warned that unless the country took prevention seriously*

we would be faced with a sharply rising burden of avoidable illness. That warning has not been heeded - and the NHS is on the hook for the consequences." [6]

7. The FYFV forecast a £30 billion shortfall in funding for the NHS by 2020. Even after the £8 billion in additional funding now committed by the Government, there remains a predicted shortfall of £22 billion. [7] [8] This funding gap is highly unlikely to be closed through increased efficiency alone, since this would require the NHS to make efficiency savings of about 3% per year, a higher level of efficiency saving annually than it has ever achieved since its foundation. Therefore, some of the funding gap will have to be met through cuts in NHS services, longer waits for treatment, or through reductions in demand for NHS services. This latter possibility requires a sustained effort to improve public health, and to tackle the major causes of illness, in particular smoking.

Impact on Smoking Rates

8. The UK has seen a steady fall in smoking rates, as a result of the progressive introduction of tobacco control measures. Rates have more than halved since 1974, when 51% of men and 41% of women in Great Britain smoked. In 2015 the figures were 22% of adult men and 17% of adult women. [9] However, international evidence shows that where investment is reduced these declines can be reversed. In New York, for example, sustained investment in tobacco control measures from 2002 led to declines in smoking rates until 2010, when the decline ceased following funding cuts. Investment was reinstated in 2014 and the rates began to decline again.[10]

9. Furthermore, smoking remains the major cause of preventable premature death. It is still responsible for nearly 80,000 premature deaths every year in England, more than the next five causes put together, including obesity, alcohol and illegal drugs. Twenty times the number of smokers that die each year suffer from disease and disability caused by their smoking. Research looking at the social care needs of smokers found on average they needed care and support nine years earlier than ex-smokers and those who had never smoked. Smoking is responsible for half the difference in life expectancy between the highest and lowest socio-economic groups. It also has a major impact on the household incomes of poorer families. If the poorest smokers were to quit over half a million households would be lifted out of poverty. [11]

10. There are already wide variations in council spending on reducing smoking. Using local authority revenue expenditure and financing for 2015 to 2016, ASH calculated the intended spend per smoker by each local authority for this financial year. [12] The average intended spend is £21 per smoker and the range is from £4 per smoker to £49 per smoker (excluding City of London and Isles of Scilly). There is no strong correlation between local authority areas with high rates of smoking and their spending on reducing smoking. The average spend among the ten authorities with the lowest rates of smoking is £21 per smoker (ranging from £11 to £31). Among the ten authorities with the highest rates of smoking the average spend is actually lower at £19 per smoker (ranging from £6 to £38).

11. There is also evidence of disinvestment in tobacco control at both a regional and at a local level. Councils faced with cuts to their budgets are reducing their investment in stop smoking services and in other areas of tobacco control. England has three regional offices of tobacco control operating at a subnational level, funded by local authorities in the northeast, northwest and southwest. These have been found to be highly effective and cost-effective in increasing the rate of decline in smoking prevalence above the national average. The regional office in the southwest has just had its funding terminated with six months' notice. Funding for the offices in the northeast and northwest, both areas of deprivation with high smoking rates, are also under threat. Three local

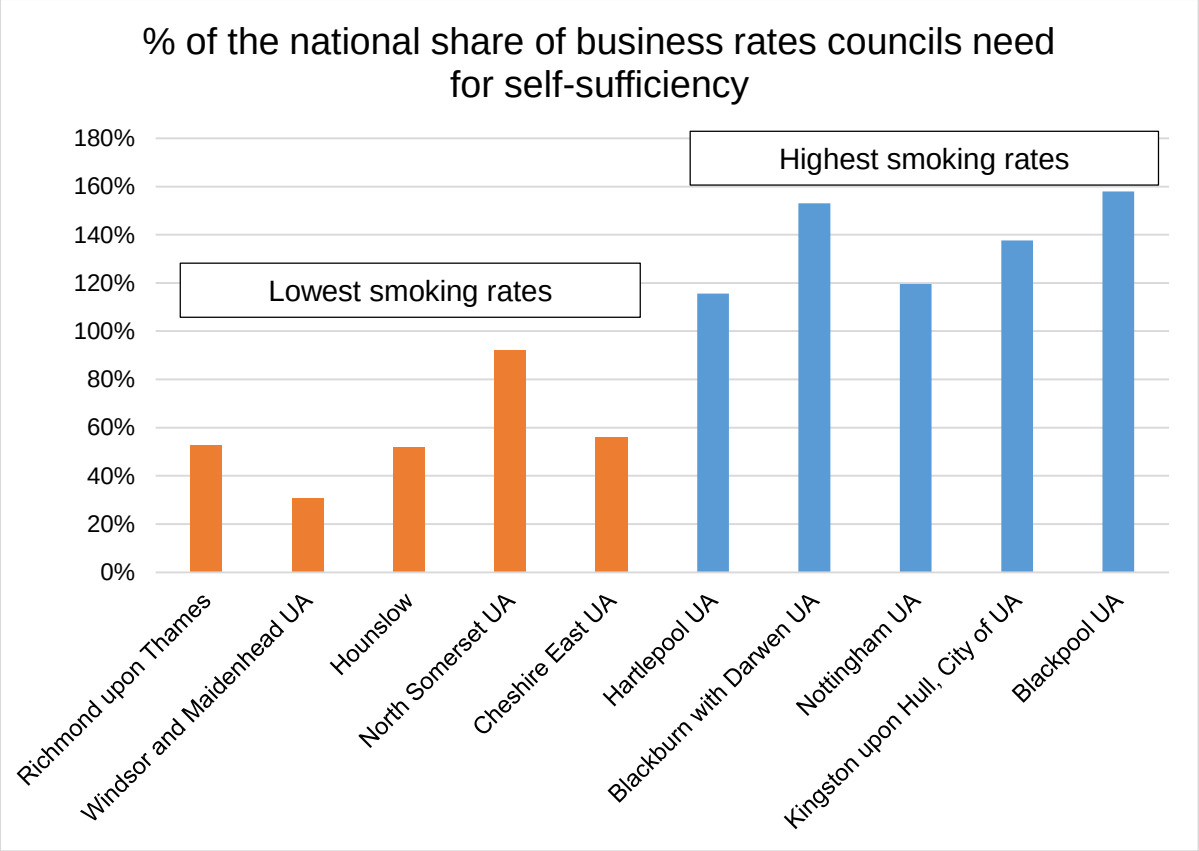
authorities in the northwest have already given notice of termination of funding for 2016/17. A survey by ASH and Cancer Research UK found that smoking cessation budgets were cut in 39% of upper-tier local authorities in England in 2015-16, including 29% where the cut was greater than 5%. Budgets increased in 5% per cent of local authorities. Wider tobacco control budgets were cut in 28% of local authorities and increased in 10%.[13]

12. Early indications are that funding cuts in mass media spend and public health budgets are already threatening to halt or even reverse the trend of reductions in smoking prevalence. The latest data from the Smoking Toolkit Study, a monthly household survey of representative samples of about 1800 adults per wave (16+ years old) in England suggests that smoking prevalence has stopped declining and may have started to rise again (headline figures are 18.5% in 2014 to 18.7% in 2015).[14] This is the first time since the survey started in 2007 that there has been an increase in the headline figure.

Potential Impact of Returning Business Rates to Local Authorities

13. In the 2015 Autumn Statement the Chancellor proposed that a future funding solution for public health could come through returning more of business rates to local authorities. Absent other measures, this could worsen health inequalities.

14. Local authority income from business rates varies widely, with richer authorities receiving more income than poorer ones. Richer areas generally have lower smoking rates than poorer ones. The Local Government Chronicle undertook an analysis in October 2015 to determine the 'winners' and 'losers' from returning the national share of business rates to local authorities while ending the Revenue Support Grant. [15] ASH has applied their analysis to smoking rates across the country. The five areas (excluding London) which are the biggest 'winners' from this proposal have an average smoking rate of 16% while the five biggest 'losers' have an average smoking rate of 20%. Looking at the areas of the country with the highest and lowest rates of smoking, those with the highest smoking rates are much more likely to lose out than those with lower rates. Using the LGC calculations the 5 councils with the highest smoking rates would, on average, need 137% of the national share of the business rates to be self-sufficient while the five with the lowest smoking rates would need only 57%.



15. Therefore, any funding solution for public health in the context of the return of business rates to local authorities will need to ensure that it is properly, and equitably, funded. This may require increases in the ring-fenced grant for public health, and changes in the way in which it is distributed.

16. In addition, policy work has already been done to determine alternative ways through which the necessary investment in tobacco control activity could be guaranteed. For example, a recent report published by the All Party Parliamentary Group on Smoking and Health sets out the evidence for higher investment in tobacco control, funded through higher rates of taxation on tobacco products. The report found that an increase of £100 million per year in funding to reduce smoking, combined with a 5% tax escalator on tobacco products, could deliver a return on investment of around 1100%, from various factors including gains in productivity, reductions in sickness absence from work, reductions in disability benefits, and reductions in costs to the NHS and to local authority social care budgets. [16]

17. A report for ASH by Mr Howard Reed of Landsman Economics suggested that £500 million a year could be raised through a tobacco levy of 25p per packet of 20 cigarettes in 2015-16, rising to between 28p and 29p per packet by 2019-20 (depending on assumptions made about how much of the levy would be passed on in price rises to consumers). Around four-fifths of the total levy payment would come from the two firms with the biggest presence in the UK tobacco market, Imperial and JTI. If the revenues from a tobacco levy were distributed equitably across health service providers in the four countries of the United Kingdom, England would receive around 83 percent of total revenues, compared with 10 percent for Scotland, 5 percent for Wales and 3 percent for Northern Ireland. [17]

Conclusions and Recommendations

18. Absent other measures, returning business rates to local authority control would disproportionately benefit local authorities in richer areas, and penalise those in poorer ones. It would add to existing financial pressure on local tobacco control activities, including stop smoking services. It would therefore be likely to lead a widening in health inequalities, and to a slowing, or even reversal, of the long-term decline in smoking prevalence across England. Such an outcome would be directly contrary to NHS England's (and the Department of Health's) stated objective of ensuring the future sustainability of the NHS through a *"radical upgrade"* in public health. It would be the polar opposite of joined up Government.

19. Therefore ASH would recommend that the Committee calls for:

    - A detailed published analysis by Government of likely "winners and losers" if the central share of business rates is returned to local authorities
    - Proposals to ensure that public health activity at a local level is not further reduced as a result of funding imbalances produced by returning the central share, including any required increase in the ring fenced public health grant, and changes in the way in which it is distributed
    - Specific consideration of how to fund local tobacco control policies, including but not limited to stop smoking services. As far as possible, the cost should be borne by the tobacco industry, which is highly profitable and whose products still kill around half of all lifetime smokers. This could be achieved through a further increase in the tobacco tax escalator, or a levy on tobacco industry profits, or through an increase in the corporation tax paid by the industry. [18]

20. We would be happy to provide the Committee with any further information and evidence it would find helpful.

REFERENCES

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[4] Public health formula for local authorities from April 2016: Department of Health consultation, first published 8 Oct 2015
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[7] NHS Funding Projections: The Health Foundation Jan 2015
[8] The NHS must focus on better value in 2016 to deliver the £22 billion productivity challenge: Chris Ham, Kings Fund 4 Jan 2016
[9] Smoking statistics: ASH Nov 2015
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[12] Letter to the Chancellor: Smokefree Action Coalition 26 Nov 2015
[13] Reading Between the Lines: results of a survey of tobacco control leads in local authorities in England: ASH and Cancer Research UK Jan 2016
[14] Smoking Toolkit Study. STS 140721. Top Line Findings from the STS. 31 December 2015.
[15] Business rates reform explained: Local Government Chronicle 7 Oct 2015
[16] Representation to the 2015 Spending Review: All Party Parliamentary Group on Smoking and Health Oct 2015

[17] A UK tobacco levy: The options for raising £500 million per year: A research report by Howard Reed, Landsman Economics Feb 2015

[18] Tobacco companies pay very little corporation tax in the UK. For example, British American Tobacco plc (BAT) and Imperial Tobacco Group PLC (Imperial) are both based in the UK. Imperial has reported £623m in adjusted operating profits in the UK market. BAT does not offer a profit breakdown by market, but is estimated to have made between £78.2m and £150m in operating profits in the UK. British American Tobacco paid no UK corporation tax in the 2013 financial year, while Imperial only paid £6m. The main rate of corporation tax on companies operating in the UK has 28 percent in 2010 to 20 percent in 2015 and is scheduled to fall further to 18 percent in 2020 as a result of changes announced in the July 2015 Budget. Tobacco manufacturers could be required to pay a surcharge to bring their corporation tax back to the rate set in 2010, of 28%.