ASH and SPECTRUM representation to Spring Budget 2023

Closing date: 1st February 2023
Budget: 15th March 2023

Introduction

1. This Budget representation is from ASH and SPECTRUM. SPECTRUM is a public health research consortium of academics from 10 UK universities and partner organisations. Action on Smoking and Health (ASH) is a public health charity set up by the Royal College of Physicians in 1971 to advocate for policy measures to reduce the harm caused by tobacco.

2. ASH receives funding for its full programme of work from the British Heart Foundation and Cancer Research UK. SPECTRUM is funded by the UK Prevention Research Partnership.

3. The authors of this submission are Deborah Arnott, Chief Executive, Howard Reed, Landman Economics, consultant to ASH; and Dr J Robert Branston University of Bath for SPECTRUM. None of the authors have any direct or indirect links to, or receive funding from, the tobacco industry, except for nominal shareholdings in Imperial Brands and BAT for research purposes held by Deborah Arnott and Dr Branston.

Policy rationale, costs, benefits and deliverability of proposals

4. This Budget representation sets out the economic benefits from achieving the Government’s ambition of a smokefree England by 2030, which will increase government revenues, grow the economy, increase employability, deliver a net benefit to public finances and mitigate the cost of living crisis for some of the most disadvantaged in society.

5. The Government’s ambition is to achieve a Smokefree 2030, meaning smoking rates of 5% or below, recognises the importance of tackling smoking.1 2 However, at current rates of decline Cancer Research UK estimate that it would take until 2039 to get there.3

6. Funding a comprehensive tobacco control strategy backed up by ratcheting up regulation has previously proven effective in reducing prevalence.4 From 2007 until 2019, the UK was recognised as the leading European country in its funding and implementation of tobacco control policies.5 This was accompanied by much faster declines in smoking prevalence than the rest of Europe. In 2006 smoking rates in the UK were slightly higher than the EU average, by 2020 they were 50% lower.6

7. However, no new policy measures have been introduced since 2019, and in 2022 the UK lost its position as the leading country in Europe for tobacco control.7 The most recent published data show smoking rates flatlining for the last three years,8 so even the CRUK estimate that England will be smokefree by 2039, could be overoptimistic.

8. The evidence shows that what is needed is an updated comprehensive strategy.9 10 11 Javed Khan’s Independent Review published in June 2022, recommended such a strategy, backed up by additional Government funding for tobacco control of £125 million a year.12 Compared to the costs of smoking and the benefits of achieving the Government’s smokefree 2030 ambition, this is a small investment.
9. A new analysis for ASH of the costs of smoking in the UK in 2022 found the public
finance costs were nearly twice as much as the revenues from tobacco taxation (£21
billion compared to £11 billion in taxes). The analysis, commissioned from Howard Reed
of Landman Economics and submitted with this representation, was based on the most
up to date evidence of the costs of smoking to the economy, society and public finances.

- The burden smoking puts on the NHS (£2.2 billion) and social care (£1.3 billion)
is demonstrated to be only a small part of the £21 billion total cost to the public
purse.
- The biggest burden, £17 billion, is due to reductions in taxes and increases in
benefits as a result of the sickness, disability and premature death caused by
smoking.
- Smoking doesn’t just harm public finances, it also damages the wider economy at
a total cost of £173 billion in 2022.

10. Net present values (NPVs) of achieving a Smokefree 2030 (smoking rates of 5% or
below) were modelled based on the assumption that applying Khan’s recommended
investment from 2022 to 2030, increased by CPI from 2022 onwards, would deliver this
outcome. There were immediate benefits over the lifetime of the investment of £5.3
billion in NPV to public finances between by 2030 compared to the scenario based on
extrapolation of current trends forecast by CRUK, where smoking rates would still be
more than 8% in England in 2030.

11. Moreover the longer-term costs to the whole economy also need to be taken into
account, as recommended in the Green Book, as it can take many years for the full
harms of smoking and benefits of quitting to crystallise. People who don’t smoke or who
quit by 35, have on average ten years additional healthy life expectancy compared to
lifelong smokers. A long-term cost-benefit analysis in line with that required for
Government investment decisions found a NPV over 50 years of £775.7 billion.

12. Furthermore to correct for any risk of ‘optimism bias’ about the level of investment
needed, the results from doubling the Investment in tobacco control recommended by
Khan (to £250 million a year) were also modelled. The benefits of achieving a smokefree
2030 are so great that even then the NPV to public finance by 2030 would be £4.1
billion and the NPV to the economy as a whole would be £167.1 billion.

13. For the detailed methodology and rationale see the Landman Economics guide to the
ASH Cost Benefit and Public Finance Model of Smoking Version 2, which is submitted
with this Budget representation.

14. The necessary funding could be secured by implementing a corporation tax surcharge on
tobacco manufacturers profits in this Budget, which could raise ~£74 million, and then
legislating to implement a ‘polluter pays’ levy on manufacturers to cap their prices and
profits, which it is estimated could raise up to £700 million annually.

15. See below for a summary of the recommendations by ASH and SPECTRUM for funding
tobacco control, with further detail provided in subsequent paragraphs set out below.

**Recommendations for Tobacco Control funding (paras 23-40)**

1) DHSC should be provided with the £125 million to implement the Khan review
recommendations to deliver a smokefree 2030. (paras 23-29)
2) HMT should implement a corporation tax surcharge on tobacco manufacturers’ profits in this Budget, which could raise ~£74 m to the public purse. (paras 30-32)

3) The government should legislate to impose a ‘polluter pays’ levy on tobacco manufacturers which could raise up to £700 million a year for the public purse and help reduce smoking prevalence. (paras 33-40)

Taxation

16. The Government has committed to making tobacco less affordable, which is effective at raising government revenues while at the same time reducing smoking prevalence.  The last increase was in the October 2021 Budget, so another increase is overdue.

17. Our recommendations for taxation, which also include a recommendation on e-cigarettes as well as tobacco products, are set out in summary below with more detail in subsequent paragraphs:

Recommendations (paras 41-59)

4) Revise the tobacco tax escalator so that it is 2% above average weekly earnings rather than RPI. (paras 41-43)

5) Enhance the hand rolling tobacco (HRT) tax escalator on factory made (FM) cigarettes and HRT by 10 percentage points at every budget until tax per average HRT cigarette is equivalent to that of factory made. (paras 44-45)

6) Increase Minimum Excise Tax (MET) for FM cigarettes annually by 4% above the average weekly earnings. (paras 46-47)

7) Update HMRC tobacco elasticity estimates which have not been updated since 2015. (paras 48-50)

8) Eliminate duty-free allowances for tobacco, or at a minimum reduce the HRT allowance from 250g to 100g to be consistent with the allowance for FM cigarettes. (paras 51-53)

9) Introduce an excise tax on disposable (single use) e-cigarettes to disincentivise their use, so lessening their environmental impact and reducing their use as an entry product into vaping by children under 18. (paras 54 -59)

Impact of smoking on society and benefits of stopping

18. There are still 6.6 million smokers in the UK, more than one in eight of the adult population, and while smoking rates have been going down for over a decade, in recent times the decline appears to be slowing.

19. Smoking is concentrated in the poorest and most disadvantaged in society who can significantly increase their disposable household incomes by stopping.  The average cost of smoking (£2,451 a year) is now equivalent to the average household’s annual energy bills (£2,500). The cost of smoking as a percentage of average disposable household income is 9%, with the highest average figure 11.4% in the North East, where the proportion of households living in poverty is also highest.

20. Up to two thirds of people who smoke die prematurely from smoking. Smoking is responsible for around a quarter of premature deaths among people of working age. Stopping smoking by the age of 35 reduces the risks of premature death to those of non-smokers. Life expectancy is reduced proportionately depending on the age of quitting for those stopping after 35, but stopping smoking increases life expectancy even for
those who have been diagnosed with serious smoking-related diseases such as lung cancer.27 28

21. People who smoke of any age are more likely to be off work, on lower wages or unemployed, and more likely to be sick or disabled, on average needing social care ten years earlier than non-smokers.29

22. The Government has committed to narrow the gap in Healthy Life Expectancy (HLE) between local areas where it is highest and lowest by 2030,30 and by 2035 to have extended healthy life expectancy by five years.31 It can only do this by delivering a smokefree England as smoking is the leading cause of premature death and differences in smoking rates are responsible for half the difference in life expectancy between rich and poor.

Recommendations on Tobacco Control Funding

1) HMT should provide the £125 million funding to implement the Khan review recommendations to deliver a smokefree 2030

23. NHSE recognises that only 20% of health outcomes are determined by the ability to access good quality healthcare and the wider determinants of health play a crucial role,32 an area where local government rather than the NHS is a system leader.

24. An analysis by the University of York suggests that the expenditure through the public health ring-fenced grant is three to four times as cost-effective in improving health outcomes than if the same money had been spent in the NHS baseline.33 A systematic review of the return on investment (ROI) of public health interventions found the median ROI was 14.3 to 1, and median cost-benefit ratio (CBR) was 8.3.34

25. Funding for public health has been substantially cut in both real and nominal terms over the last decade or so, with the burden of cuts falling hardest on tobacco control at national, regional, and local level. The Health Foundation estimated in October 2022 that the real terms cuts in the local authority public health budget since 2015-16 had been 24%, with the highest cuts to tobacco control of 41%.35

26. The transfer value for smoking cessation and tobacco control from the NHS to local authorities was calculated on the basis of current spend in the NHS in 2013-14, which was estimated to be £148.5 million. In today’s money that would be £191.7 million36 compared to the 2022 allocation of £92 million.37 This is less than half what it should be, amounting to a real terms cut of ~£100 million. The Khan review recommended an additional £70 million for local authority stop smoking services and £8 million for regional work.

27. Moreover, a key component of local authority tobacco control work is enforcement by trading standards funding to prevent illicit and underage sales of tobacco and vaping products. Specific data are not available for spend on tobacco and vaping products but the overall cuts to enforcement have been substantial. Trading Standards lost 56% of full-time equivalent staff between 2009 and 201638 and funding had been cut from £213 million in 2009 to £105 million in 2018/19, a real terms cut of ~60%.39 The Khan review
recommended an additional investment into local trading standards tobacco enforcement of £15 million a year.

28. Mass media campaigns to encourage smoking cessation are a key component of effective tobacco control programmes. The most recent confirmed figures of national spending were £660,000 in 2021-2, less than a third of the £2.2 million spend in 2019-20 quoted in the Khan review, and only 4% of the Khan recommendation of £15 million a year to deliver a smokefree 2030.

29. However, we recognise that even £125 million is potentially difficult to find in the current straitened financial circumstances. The tobacco transnationals make excess profits from the sale of lethal and addictive combustible products, in 2022 alone imposing net costs of £9.5 billion to public finances and £30.7 billion in lost productivity to the UK economy. Therefore we recommend that they should be made to pay to deliver a smokefree future.

2) **HMT should implement a corporation tax surcharge on tobacco manufacturers’ annual profits in this Budget, which could raise ~£74 m to the public purse**

30. In the forthcoming Budget the Government should apply a levy on the profits of the Big 4 tobacco transnationals, in the form of a corporation tax surcharge. This would be a temporary measure which would only be needed until the following recommendation for a ‘polluter pays’ levy comes into effect. Furthermore, as a temporary measure it would be unlikely the industry would try to restructure their operations to avoid it, given the time and costs involved to do so.

31. Detailed analysis has revealed that between 2009 and 2016 Imperial Brands, the British company which is the market leader in the UK, received £35 million more in corporation tax refunds/credits than it paid in tax. It has been estimated that a corporation tax surcharge on profits could raise £74 million from tobacco transnationals.43

32. The surcharge on profits should be used to help pay for implementation of the Khan review recommendation as the manufacturers are only able to extract such excess profits because the products they sell are both highly addictive and lethal. Two thirds of those trying one cigarette go on to become daily addicted smokers, and most smokers become addicted as children.42

3) **The Government should legislate for a ‘polluter pays’ levy on tobacco manufacturers to raise up to £700 million a year**

33. The Big 4 tobacco transnationals, British American Tobacco, Imperial Brands, Japan Tobacco International, and Philip Morris International, are responsible for over 95% of UK tobacco sales and make around £900 million in annual profits in the UK. Operating profit margins are on average around 50%, much higher than the average for manufacturing industries in the UK which is ~10%.45

34. Legislation to implement a ‘polluter pays’ levy should be applied to combustible tobacco products, which cause premature death, disease and disability, which our analysis shows impose massive costs on public finances and the wider economy. The levy should be based on sales volume which is proportionate to the harm caused by these products.
Some if not all of the funds raised should be used to fund a comprehensive tobacco control strategy. Given that the consumers of tobacco products suffer serious health harms from smoking, and are addicted to tobacco from a young age, this is only just.

35. The amount raised by the levy would decline over time, as smoking prevalence and sales of combustible products decline. The legislation should contain a sunset clause such that when the government’s objective of making smoking obsolete is achieved the levy is abolished.

36. In 2015 HMT consulted on levying additional tax on manufacturers, in recognition that “Smoking imposes costs on society, and the Government believes it is therefore fair to ask the tobacco industry to make a greater contribution.” However, it decided not to proceed because it concluded that manufacturers and importers would fully pass the levy to consumers by raising retail prices, and the behavioural effects of price rises would almost completely offset the revenue raised by the Levy.

37. Our proposal seizes an opportunity provided by EU exit. Having left the EU the Government can prevent the manufacturers from passing on the costs of the levy, by setting prices and profit levels for manufacturers. This was previously prohibited by the EU Tobacco Tax Directive, which is no longer in force in Great Britain.

38. Analysis carried out for the APPG on Smoking and Health has estimated that a ‘polluter pays’ levy could raise £700m in year one, if tobacco industry profits were limited to a maximum of 10%, not unreasonable given the margins on other consumer products. This could be implemented through primary legislation, backed up by more detailed regulations. The levy would apply throughout Great Britain and therefore the appropriate proportion should be allocated to the devolved nations.

39. DHSC has the expertise to monitor company profits and close loopholes. Indeed, it already does this for medicines as part of the pharmaceutical pricing scheme, and the tobacco market and tobacco products are much simpler. We recommend that the ‘polluter pays’ levy be based on volume sales, as is the case with the US user fee system. The detailed surveillance of the complete tobacco supply chain already in place, including comprehensive tracking and tracing down to individual pack level would facilitate, and reduce the costs of, implementation.

40. The new Office of Health Improvement and Disparities (OHID) has the knowledge and expertise to allocate funding to tobacco control measures to deliver a Smokefree 2030. This would require just a few paragraphs of primary legislation to give the Secretary of state profit and pricing powers over the tobacco industry, with the detail set out in secondary legislation.

**Recommendations on taxation**

**4) Tobacco tax escalator**

41. Revise the tobacco tax escalator so that it is indexed to average weekly earnings rather than RPI, and fulfil the commitment to a tax escalator of +2% for this parliament.
42. A primary purpose of increasing tax above inflation is to reduce the affordability of tobacco products. However, RPI is not a good measure of affordability particularly at the current time when wages are not keeping pace with inflation.

43. A better measure of affordability is average earnings, as is used in Australia\(^5\) and we recommend that the UK switch from using RPI to average weekly earnings increase as the foundation for the tobacco tax escalator. The OBR estimates that average weekly earnings will have grown by 5.4% in the fiscal year 2022-3, and are expected to grow by 4.2% in 2023, while the figures for RPI are 13.0% and 8.3%.\(^4\)

5) **Enhanced tobacco tax escalator for handrolling tobacco**

44. HMT recognises that tax paid on HRT has not kept pace with that paid on factory made cigarettes and has implemented an additional tax uplift on HRT in recent Budgets.\(^5\) However, there is still a significant gap which encourages downtrading from factory made to handrolling tobacco, which means lower tax revenues to government without reducing smoking prevalence.

45. We recommend that HMT close the gap between taxation on factory made and HRT as typically used, by 10 percentage points at every Budget until the tax levels are equivalent. Equivalence should be assessed using the average weight of tobacco per HRT cigarette, which has been calculated at 0.5g for the UK.\(^2\)

6) **Increase Minimum Excise Tax**

46. In 2017 a minimum excise tax (MET) for factory made (FM) cigarettes, indexed to the escalator, was put in place.\(^3\) Evidence indicates the MET has worked as intended, contributing to a decline in sales and the end of the previous growth in in cheap cigarette brands that appealed to young and price conscious smokers.\(^4\)

47. HMT has recognised that the MET will need to increase in order to further close the gap in price between the cheapest and most expensive products.\(^5\) In November 2020 the MET was uprated by 2% above the tobacco escalator and in October 2021 by 1%. We recommend an additional 2 percentage points above the tobacco tax escalator be implemented in the forthcoming Budget and in subsequent budets for the remainder of this parliament.

7) **Update HMRC elasticity calculations**

48. The OBR calculates the impact of changes in tobacco excise tax based on the elasticity of demand for duty paid consumption. However, the elasticities used at the last Budget have not been updated since 2015, despite significant changes in the market. and the time is long overdue for the elasticities to be reviewed.

49. Current elasticities use quarterly time series data as the dependent variable. The original analysis in 2010 concluded that short-run elasticity was -0.57 and long-run elasticity was -1.05.\(^5\) In 2015, at the time of the Osborne consultation on the tobacco levy the long-run elasticity calculations were updated to include data up to 2014q3 and was estimated to be -1.19, while the short-run elasticity remained -0.57.\(^5\)
50. There have been significant changes in the market since 2014 which require elasticities to be reviewed, including:

- May 2016: introduction of standardised packaging and minimum pack sizes in May 2016, with differential affects on average price per pack between factory made and HRT.\(^{58}\)
- March 2017: Introduction of Minimum Excise Tax for cigarettes\(^ {59}\)
- May 2019: all cigarettes and HRT packs required to have tracking and tracing markings as an aid to prevent diversion of product into the smuggled market.\(^ {60}\)
- May 2020: Menthol flavoured cigarettes and handrolling tobacco are banned.\(^ {58}\)
- January 2021: on leaving the EU the right to bring significant quantities of duty paid tobacco into the UK from EU MS for personal use was removed. While we were in the EU the minimum indicative levels were 800 cigarettes, 200 cigars and 1 kg of smoking tobacco/HRT. On leaving the EU this was replaced it with a standard duty free allowance of 200 cigarettes or 250g smoking tobacco.\(^ {61}\)
- Reductions in the tax differential between factory made and HRT during this period, while use of e-cigarettes as an alternative to smoking grew.\(^ {52}\)

8) **Eliminate duty-free allowances for tobacco**

51. Prohibiting the importation of duty paid tobacco for personal use from EU Member States was a positive step. However, the Government should go further and remove all duty-free allowances for tobacco products, which when we left the EU were extended to cover travel to GB from EU countries.

52. Access to cheap tobacco, whether illicit or cross-border shopped, encourages smokers to continue to smoke as the price of tobacco is a major incentive to quit. Allowing duty free from any country costs government tax revenues, and is not in alignment with the Government’s policy objective of "maintaining high tobacco duty rates as an established tool to reduce smoking prevalence and to ensure that tobacco duties continue to contribute to government revenues."\(^ {63}\)

53. However, if the Government decides not to remove duty-free allowances, it is still important, as with excise taxes, to ensure treatment of HRT is consistent with that of FM cigarettes. Currently smokers are allowed 200 cigarettes but 250g of HRT which is the equivalent of 500 cigarettes,\(^ {52}\) and therefore at a minimum the allowance for HRT should be reduced to 100g.

9) **Introduce an excise tax on single use (disposable) vapes**

54. Single use disposable vapes are cheap and attractive, and their use has grown rapidly in the last couple of years. There are strong environmental arguments for disincentivising the use of disposable vapes by introducing an excise tax. These products contain a lithium battery in a plastic device, and they are being discarded in large numbers, with most ending up in landfill. It’s been estimated that over a million disposable vapes are thrown away every week, amounting to 10 tonnes of lithium a year, equivalent to the lithium in the batteries inside 1,200 electric vehicles.\(^ {64}\)

55. Furthermore, while youth vaping has grown rapidly in the last year or so, the most rapid growth by far has been in the new disposable e-cigarettes which have come on to the market in the last few years. They are cheap and very widely available. These are now
the most used product among young people who currently vape, up more than 7-fold from 7% in 2020 and 8% in 2021, to 52% in 2022.65

56. Increasing the price through taxation will make products less attractive, particularly for children whose incomes tend to be limited. Currently disposable vapes are the cheapest e-cigarettes on the market and can be bought for under £5, below the hourly minimum wage for 16 and 17 year olds in 2023,66 and well within the budget of most teenagers.67 There is good evidence that making products less affordable is the most effective method of reducing uptake and encouraging quitting for smoking, and the same will be true for e-cigarettes.

57. For example, the most popular e-cigarette disposable among young people in 2022, Elf Bar, costs around £4.99 for a single use device containing a 2 ml e-liquid pod with 2% nicotine, while the equivalent reusable Elf bar, the Elfa Bar pod kit, costs £7.99. On a widely used vaping product website, the most popular Elf Bar products by far are disposables, with refill pods costing £5.99 for a pack of 2 the next most popular, and the Elfa rechargeable pod kit coming much further down the list.68

58. Affordability could be reduced relatively quickly and easily through taxation. We recommend making e-cigarettes an excisable product and setting a tax on disposable vapes, while retaining a zero rating for the re-chargeable and refillable products which are the main products used by adult ex-smokers who used e-cigarettes to help them quit.

59. The excise tax levied on single use (disposable) products should be specific and set at a level to raise the price above the average price of equivalent re-usable products while ensuring they are still cheaper than the minimum price for a pack of factory made cigarettes. For example, if the tax were £4 it would increase the price for Elf bar disposables to £1 more than rechargeable Elfa Bars pod kit, which is still lower than the current lowest price cigarettes on sale which cost around £10.69

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