

Written evidence submitted by the Society of Independent Brewers (SIBA)

1. Overview

The Society of Independent Brewers (SIBA) was established in 1980 to represent the growing number of independent breweries in the UK. Today SIBA has around 750 brewery members, responsible for 80-85% of the country's independently brewed beer.

SIBA's membership encompasses a broad range of brewers from very small nano-breweries to larger firms owning some pubs. In 2019 our members produced 493 million pints, approximately 6% of the beer produced and consumed in the UK. The vast majority of UK beer production is in the hands of four global breweries, which account for 88% of the entire market. The balance in between is made up of other internationally owned brands and a number of large, regional 'family' brewers.

Small breweries in the UK employ about 6,000 full time equivalents and directly contribute around £270 million to GDP each year. The brewing sector as a whole is a major contributor to the Treasury, responsible for approximately 30% of overall alcohol receipts. Small breweries employ a considerable number of people and generate a disproportionate amount of Treasury revenue through other direct taxes as a result. They also contribute directly to local economies, local communities and are forces for good in the world.

The industry has been hit hard by the Covid-19 pandemic, with our members losing 80% of their sales through the first lockdown following the enforced closure of pubs in March. With the reopening of pubs in July sales in some areas have been 50% down on normal trading. Since September, with new lockdown arrangements, sales in those affected areas have fallen to a third of what would be expected. The latest lockdown restrictions in November have meant yet again small breweries have lost the majority of their sales. On average two small breweries each week have been closing for good.

2. SIBA response

SIBA has specifically responded to two questions outlined in the Terms of Reference focusing on the effectiveness of the Government's support for the small brewing sector during the Covid-19 crisis.

3. How effective is the Government support to businesses and individuals across different regions and sectors? Does the effectiveness of the Government support vary across different regions?

Despite being seen as a key part of the hospitality sectors, small breweries have often slipped through the gaps in terms of Government representation and support. This may be because the sector does not fit neatly into the existing Government departmental structures and is partly covered by DEFRA, BEIS, HMRC and Treasury. For example, this meant that DEFRA was willing to introduce a specific dairy support scheme¹ but would not contemplate

similar support for small breweries. Neither did breweries fit within the scope of hospitality support.

While the financial package of support from the Government has been significant, there have been limitations on its reach, scale and scope particularly given the further restrictions imposed on the hospitality sector and the resilience of Covid-19. The Government's approach often appears to favour larger chain businesses, such as supermarkets and larger hospitality companies, rather than small businesses such as breweries and community pubs. In reality, the limits on support provided for hospitality businesses have in turn created even greater stress for their suppliers but without even the help provided for hospitality.

Evaluation of Government support

The Business Rate Relief for retail, leisure and hospitality was limited to those with a rateable value of less than £51,000 and did not include small breweries, 75% of whom have a taproom or shop or own a pub to sell their products directly to consumers,² because their premises are classed as light industrial. Equally the Retail, Hospitality and Leisure Grant was not open to those that sell directly to pubs, such as small breweries. Small breweries were able to apply for Local Authority Discretionary Grants, but the small amount of money provided and the discretionary nature of this assistance led to varying results for small breweries. This means that there are small breweries that have not received any grants during the Covid crisis.

Recently several leading supermarkets have committed to repaying Business Rate grant support. These funds could be used to extend Business Rates holidays to breweries and to establish a pub and brewery recovery fund.

In the Summer Economic Update, the Chancellor announced a VAT cut to 5% and the Eat Out to Help Out scheme. Both schemes excluded alcoholic drinks and did not assist the 64% of the UK's pubs which are "wet-led"³ and reliant on drinks sales to make ends meet. Small breweries rely heavily on these community wet led pubs for their sales. Under the latest restrictions, small breweries have yet again been left to discretionary grants through the Additional Restrictions Grant.

During the first lockdown, breweries disposed of 70 million pints of spoilt beer, with approximately 5 million pints from small breweries⁴. This included beer in pub cellars but also in breweries' storage facilities. While breweries could reclaim the duty element from HMRC, they did not receive compensation for the cost of production which SIBA believes that the Government should do. When pubs reopened in July 2020, Global producers were able to provide replacement beer free of charge. Many small breweries were asked to do

¹ <https://www.gov.uk/government/news/new-funding-to-support-dairy-farmers-through-coronavirus>

² SIBA Craft Beer Report 2020 - <https://www.siba.co.uk/SIBA-British-Craft-Beer-Report-2020.pdf>

³ Thousands of local pubs warn of closure risk after alcohol VAT cut exemption, Business Matters, 9 July 2020 - <https://www.bmmagazine.co.uk/business/thousands-of-local-pubs-warn-of-closure-risk-after-alcohol-vat-cut-exemption/>

⁴ <https://www.siba.co.uk/2020/10/12/rishis-5-million-bar-tab-needs-paid-save-small-breweries/>

the same and we have had reports that some of those who were unable to do so, because of financial constraints, then lost future business with these venues.

In addition, this spoiled beer is counted towards production volumes for the purposes of the Small Breweries' Relief (SBR) scheme. SBR enables small breweries to pay a proportionate amount of beer duty to the Treasury, but the amount a small brewery pays is based on the total production for the previous year. Spoilt beer, even if it never left the brewery and remained in duty suspense, in due course being destroyed, will count towards this year's production volume thereby penalising brewers who have borne the cost of first producing then destroying the beer. HMRC should change the rules so that this can be excluded from production volume and grant an allowance in the form of a tax relief for the cost of producing beer which had to be destroyed.

During the Covid crisis, the Government has also proposed changes to SBR which will have a negative impact on small breweries. In July 2020 the Treasury announced that the cap for the 50% duty rate will be reduced from 5,000 hectolitres (approximately 900,000 pints) to 2,100 hectolitres (370,000 pints)⁵. This means that at least 150 small breweries will have to pay more to the Treasury while some bigger competitors will pay less. However, the Government has not told them how much more they will have to pay, creating uncertainty in the industry as they continue to battle the Covid-19 crisis. They also intend to put in on a 'cash basis' which will erode the support small breweries receive over time. Instead of being on a percentage, the Chancellor gets to decide the cash rate at each Budget and there is no guarantee the rate will change at all or keep up with inflation. 58% of small breweries are already delaying investment, 51% are delaying employing new staff, 49% delaying increasing capacity because of SBR uncertainty.⁶

While during lockdown small breweries were allowed to remain open for takeaway only, these direct sales could never compensate small breweries for the collapse in sales to pubs. The current trading conditions under the tiered restrictions also favour sales of beer into keg containers which have a longer shelf life than the cask beer that makes up 60% of what SIBA members produce. Under the Business and Planning Act, the Government has extended off licences to on-licensed retail venues, however 1 in 4 small breweries do not currently have any way to sell directly to the public. During the Bill debate, the Government was unwilling to extend the support to assist these small breweries.⁷

SIBA's recommendations

To support the industry during the Covid-19 crisis, SIBA believes that the Government should:

- Revise the proposals to SBR and neither reduce the 50% rate to 2,100hl nor introduce the cash basis

⁵ <https://questions-statements.parliament.uk/written-statements/detail/2020-07-21/HCWS400>

⁶ <https://www.siba.co.uk/2020/09/28/small-brewers-pushed-breaking-point-beer-sales-plummet-taxes-set-rise/>

⁷ See <https://hansard.parliament.uk/Lords/2020-07-06/debates/AE09E65E-6CDA-4BA5-907D-ABDBAD68503F/BusinessAndPlanningBill>

- Extend the support provided to the hospitality sector to small breweries, including the business rates holiday and grant package
 - Use the funds returned by supermarkets to provide a pub and brewery recovery fund
 - Extend the VAT cut to include beer sales in pubs
 - Extend the time breweries have to pay beer duty to the Treasury to 60 days instead of 30 days, so they can pay after they themselves get paid by customers
 - Provide compensation for the millions of pints which had to be destroyed as a result of Government restrictions
 - Change the rules to allow spoilt beer to be removed from production figures this year
- 4. What impact will a second lockdown have on the economy? How should the Government best support the economy if intermittent lockdowns become a feature over the next year?**

Small breweries cannot simply turn production on and off like a tap, it takes several weeks to make a product which should be consumed fresh. They need adequate notice of when rules are going to change to prepare or if this is not possible adequate compensation including for spoilt beer and should be included in the business rates holiday.

Despite requests, the Government has not provided a full rationale for the restrictions on the hospitality sector including the curfew. These are venues which have had to adapt to changing rules, invested heavily in becoming Covid compliant but have been severely restricted despite a lack of evidence. If the Government continues to restrict the hospitality sector, it will require new financial assistance.

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