Office for
Budget Responsibility

Briefing Paper No.10

Accounting for the supply-side effects of policy

November 2025

Contents

1 Introduction

The supply-side effect of policy measures

1.1 In addition to their direct effects on receipts and spending, government policy measures can also have indirect effects on our fiscal forecast via their impact on the economy. As summarised in our November 2023 article on *Dynamic scoring of policy measures in OBR forecasts,* these indirect effects can affect either aggregate demand, or both aggregate demand and aggregate supply. We capture the demand-side impacts of the whole package in a given Budget or fiscal statement based on our published fiscal multipliers,[1] and wider macroeconomic impacts, for example on inflation or earnings, via adjustments to our economy forecast.[2] This paper focuses *solely* on our approach to incorporating the supply-side impact of policies that are likely to have a meaningful, lasting effect on the productive potential or 'potential output' of the economy.

1.2 As discussed in the final chapter of *Briefing paper No.8: Forecasting potential output – the supply side of the economy*, the OBR has, in recent years, taken a more transparent approach to accounting for the supply-side effects of policy measures. We have taken account of the impact of major spending, tax, regulatory, or other policies in our potential output forecasts since 2010. However, over the past three years, enhancements to our forecasts of the drivers of potential output, and additional resources have enabled us to more explicitly reflect the supply-side impacts of a wider array of policy measures in our medium-term forecasts. Beginning in March 2023, we have made specific adjustments to our potential output forecasts for 19 different tax, spending, and regulatory measures in five successive *Economic and fiscal outlooks* (*EFO*s) where those policies have met the four criteria set out in *Briefing Paper No.8*.

1.3 This paper reviews experience with the application of our more transparent approach to scoring the supply-side effects of policies over the past three years. In doing so, it responds to our latest 2025 *External review*, whose fifth recommendation called for the OBR to review and clarify its criteria and approach for scoring supply-side effects.[3] This paper covers the:

- **background** to our approach to supply-side scoring, covering the criteria we established and policies that we have scored over the past three years;
- **findings** of our review of incorporating supply-side effects into our potential output forecast; and
- **conclusions** for refining our approach in the November 2025 and future forecasts.

[1] See Box 2.2 of our December 2019 *Forecast evaluation report* and Box 2.1 of our November 2020 *Economic and fiscal outlook*.
[2] In some cases we instead incorporate the effects of policy-driven changes to particular macroeconomic variables via behavioural adjustments within the fiscal policy costings themselves, particularly when the policy affects a specific group of individuals or firms, and where the change to the overall macroeconomic variable would not be material to our economy forecast. See: OBR, *Briefing Paper No.6: Policy costings and our forecast*, March 2014.
[3] The sixth *External review* recommendation also called for the OBR to conduct an evaluation of its use of 'dynamic scoring', which we have committed to do in the next two years following the implementation of the findings of this review. See Van Geest, L., *External Review of the Office for Budget Responsibility*, February 2025, and OBR, *Third external review: Response and implementation plan*, July 2025.

2 Background on our approach

2.1 Published in November 2022, *Briefing paper No.8* set out the four criteria we use to determine whether a government policy measure warrants an explicit adjustment to our potential output forecast.[4] In the five *EFO*s we have published since, we determined that 19 policies met those criteria. This section provides more background on both.

Criteria for incorporating supply-side effects of policy

2.2 We always account for the direct fiscal effects, demand-side economic effects, and any material wider macroeconomic effects of government fiscal policy measures. For a policy to also merit an explicit supply-side adjustment to our potential output forecast, the November 2022 criteria set out that a policy must be:

- **Significant** in magnitude, such that it could make a material difference to the very large stocks of labour or capital, or the efficiency with which they are combined, known as total factor productivity (TFP) – which are the three determinants of the supply potential of the economy.

- **Durable** in timescale, such that it is likely to have a lasting impact on the longer-run productive capacity of the economy.

- **Additional** in nature, such that the policy being introduced represents something more than a continuation of previous government efforts to support the supply side of the economy, albeit in a slightly different form. Our baseline potential output forecast implicitly captures an ongoing level of government effort to, for example, promote skills and labour force participation, encourage investment, and support research and development. So, to materially alter the future level of potential output, the policy needs to deliver a substantial change in either the level or effectiveness of such activity.

- **Evidence-based**, such that there is clear empirical and analytical support for the effectiveness of the policy in raising or reducing potential output in the UK or comparable countries.

[4] This set of criteria apply specifically for supply-side adjustments for policy given potential output is the key driver of our medium-term economy and fiscal forecasts, and faces greater uncertainty in estimation since it cannot be directly observed or measured.

Policies whose supply-side effects have been estimated

2.3 In the five *EFO*s from March 2023 to March 2025, we have judged that 19 policies meet the above criteria and hence have incorporated their effects on our potential output forecast (Table 2.1). Of these:

- 16 were judged to have a **positive impact** on potential output and three were judged to have a **negative impact**.
- The estimated supply-side **impacts were relatively modest by our five-year forecast horizon**. In net terms, these 19 policy measures had an average impact on the level of potential output of 0.04 per cent in the fifth year of our forecast and a total impact of 0.7 per cent. The most significant measures, the freezing of personal tax thresholds from 2021 to 2028, reduced potential output by 0.25 per cent.
- A number of measures were judged to have **larger effects beyond out forecast horizon** as the impact on potential output grew over time. This was the case, for example, with planning reforms whose impact on potential GDP we judged could rise from 0.2 per cent after five years to 0.4 per cent after ten years.[5] We also estimated that the impact of the increase in public investment could grow from a 0.1 per cent boost to potential output after five years to 0.2 per cent over ten years.[6]

2.4 The 19 policy measures can also be classified according to the **nature of the intervention**, with:

- Six **tax policy** measures including changes to both employee and employer National Insurance contributions (NICs),[7] freezes to personal tax thresholds, changes to the capital allowance regime for business investment,[8] and revisions to the tax allowances for personal pension contributions.
- Five **welfare policy** measures which altered the generosity, eligibility, or conditionality of universal credit (UC) and other welfare benefits, focused on parents, carers, and people with health problems and disabilities.
- Seven changes to **departmental expenditure limits (DEL)** designed to expand eligibility for free childcare, increase public investment,[9] and launch or expand various employment support and health programmes.

[5] See paragraphs 3.44 and 3.45 of our March 2025 *Economic and fiscal outlook*.
[6] See paragraphs 3.70 and 3.71 of our October 2024 *Economic and fiscal outlook*.
[7] See OBR, *The labour supply effects of the Autumn 2023 National Insurance Contributions cut*, February 2024 for further information on how we estimated the impact of lower employee NICs.
[8] See OBR, *The economic effects of full expensing*, February 2024 for further information on how we estimated the impact of changes to the capital allowance regime.
[9] See Suresh, N., R. Ghaw, R. Obeng-Osei, and T. Wickstead, *OBR Discussion paper No.5: Public investment and potential output*, August 2024 for more information on our approach to modelling the impact of public investment on potential output.

- One change to **regulatory policy**, in the form of reforms to the residential planning system designed to increase the rate of housebuilding.[10]

2.5 The 19 policies can also be classified according to which of the three **components of potential output** they primarily act upon in our forecast:

- 16 policies operated primarily by increasing or reducing **labour supply**, with the estimated impact on annual average-hours equivalent (AHE) employment in year five varying from a high of 98,000 (March 2024 employee NICs cut) to a low of 3,000 (Restart programme for the long-term unemployed).

- Two policies operated primarily by increasing the **capital stock**, either by boosting private investment (full expensing) or public investment (increase in the capital DEL envelope). The estimated impact of these measures on the size of the whole-economy capital stock in the fifth year of the forecast was around 0.2 per cent for full expensing and 0.4 per cent for the increase in the capital DEL envelope.[11]

- One policy, residential planning reform, operated primarily through its impact on **TFP**. The impact of the higher housebuilding these reforms would enable was estimated to increase potential output by 0.2 per cent at the forecast horizon, two-thirds of which resulted from higher construction sector productivity.

[10] See Lam, L., *The supply-side impact of planning reforms – land value uplift and construction sector productivity*, August 2025 for more detail on our judgement of the reforms' supply-side impact.
[11] There are time lags associated with the fiscal and economic impacts of government spending plans, so the increase in capital stock refers to the stock of completed and fully utilised government capital, and includes the increase in market-sector capital stocks owing to the endogenous market-sector response.

Table 2.1: Policy measures with supply-side effects included in our forecast

Policy measure	Description	Type	Supply-side channel	Supply-side impact (per cent of GDP)
March 2023				
Universal Support	Employment support programme for disabled and disadvantaged people	DEL	Labour	0.01
30 free hours of childcare	30 hours per week free childcare (aged nine months to two years)	DEL	Labour	0.15
Universal credit (UC) childcare	Upfront payment of childcare costs support for UC recipients	Welfare	Labour	0.02
UC conditionality	Strengthens work requirements for parents on UC	Welfare	Labour	0.01
Pensions allowances	Raises annual and lifetime pension tax allowances	Tax	Labour	0.03
November 2023				
Restart	Intensive employment support for the long-term unemployed	DEL	Labour	0.00
Universal Support extension	Expands access to Universal Support	DEL	Labour	0.01
Individual Placement and Support (IPS)	Work placement and support for those with severe mental illness	DEL	Labour	0.01
Talking therapies	Expands access to talking therapies for people with mental health conditions	DEL	Labour	0.01
Work capability assessment (WCA) reforms	Restricts eligibility for incapacity benefits by tightening WCA criteria	Welfare	Labour	0.01
Employee NICs cut	Reduces employee National Insurance contributions	Tax	Labour	0.17
Full expensing	Full expensing of qualifying investments within corporation tax regime	Tax	Capital	0.08
March 2024				
High income child benefit charge (HICBC)	Raises threshold for HICBC	Welfare	Labour	0.03
Employee NICs cut	Reduces employee National Insurance contributions	Tax	Labour	0.18
Tax thresholds	Freezes income tax and NICs thresholds	Tax	Labour	-0.25
October 2024				
Public investment	Increases public sector investment in infrastructure	DEL	Capital	0.14
Employer NICs	Increases employer National Insurance contributions	Tax	Labour	-0.09
March 2025				
WCA reversal	Reverses previous WCA reforms	Welfare	Labour	-0.01
Residential planning reforms	Reforms the National Planning Policy Framework	Regulation	TFP	0.21

Note: Supply-side impact is the impact on potential output in the fifth year of our forecast.
Impacts have been rounded to two decimal places, including for the Restart policy measure whose estimated supply-side impact was 0.004.
Source: OBR

Box 2.1: Comparison with other fiscal councils' approach to supply-side scoring

The OBR is not unique among independent fiscal institutions (IFIs) in taking explicit account of the impact of policy measures on potential output in its economic forecasts, but the practice is relatively rare. Of the 54 IFIs covered by the IMF, less than a third (17) produce their own macroeconomic and/or fiscal forecasts. And of these IFIs that produce their own forecasts, only 11 assess the impact of government policies as part of their official remit.[a]

However, most IFIs are relatively new institutions, with close to two-thirds having been established in the past 15 years. It is notable that it tends to be the larger and more established institutions, such as the CPB Netherlands Bureau for Economic Policy (established in 1945), Belgian Federal Planning Bureau (established in 1959), and the US Congressional Budget Office (CBO, established in 1974), that capture the supply-side effects of selected policies in their economy forecasts.

Among those IFIs that produce both their own macroeconomic forecast and policy analysis, the US CBO has an established practice of what they term 'dynamic scoring'. Specifically, it incorporates the macroeconomic effects of policy measures into its cost estimates for 'major' legislation, defined as legislation which either:

- has a gross budgetary effect, before macroeconomic effects are incorporated, equal to or greater than 0.25 per cent of GDP in any year over the next 10 years; or
- has been designated as such by the Chairman of the House Budget Committee or the Vice Chairman of the Joint Committee on Taxation.[b]

For such legislation, the CBO first develops a 'conventional' cost estimate within the constraint that the size of the economy remains unchanged.[c] A dynamic cost estimate is then produced where the legislation's impact on the US economy is incorporated and fed back through its various costing models. While relatively few of the CBO's cost estimates incorporate dynamic scoring, given the strict conditions under which it is triggered, its dynamic estimates of the *One Big Beautiful Bill Act* is a recent example.[d]

More generally, best-practice guidelines from the OECD state that IFIs *"should undertake such dynamic scoring only if provided for under a clear mandate…, and only if they have effective tools and sufficient time to carry out the analysis"*.[e] Provided these are met, only *"large, economy-shaping measures with an ex ante cost that is a significant percentage of GDP"* should be dynamically scored, with such estimates produced in a transparent manner.

[a] See IMF, *Fiscal Council Dataset: The 2024 Update*, 2024. Whilst producing both their own forecasts and policy analysis aren't sufficient conditions for IFIs to incorporate the effects of policy into their macroeconomic forecasts, they are necessary ones.
[b] See CBO, *Dynamic Scoring at CBO*, 2015.
[c] These 'conventional' cost estimates incorporate potential behavioural responses to the legislative proposal.
[d] See CBO, *H.R. 1, One Big Beautiful Bill Act (Dynamic Estimate)*, 2025.
[e] See OECD, *Journal on Budgeting, Volume 2023 Issue 1*, 2023.

Monitoring and evaluation of supply-side effects

2.6 Together with the Treasury and departments responsible for implementation of the various policy measures, we have established transparent processes for the monitoring and evaluation (M&E) of the supply-side impacts of most policies scored in our past five *EFO*s. Such M&E arrangements are important both to verify that the policies are being implemented as planned, and that their impacts on labour supply, investment levels, or other relevant forecast variables (e.g. housing delivery) are unfolding in line with those assumed in our forecast. And when clear evidence arises that scored policies are not having the expected impact, we will adjust the forecast accordingly. Table 2.2 summarises the departments responsible for the policies and the type and timing of their evaluations, with the supply-side impacts of most policies expected to take a few years to fully materialise and be evaluated.

Table 2.2: Policy evaluation timeline

Department	Policy measure	Type of evaluation	Publication date	
			Interim	Final report
DHSC	Talking therapies	Quasi-experimental evaluation	-	2030
	Individual Placement and Support	Quasi-experimental evaluation	-	2028
DfE	30 free hours of childcare	Quasi-experimental impact evaluation, complemented by surveys	2026	2027
DWP	Universal Support (Connect to Work)	Quasi-experimental impact evaluation	2026	2031
	Restart	Quasi-experimental impact evaluation	2025	2027
	UC conditionality	Difference-in-difference	-	2026
MHCLG	Residential planning reforms	TBD based on feasibility study (due to be completed March 2026)	2026	-
HMRC	Employee NICs	TBD	-	2027
	Employer NICs	TBD	-	2027
	HICBC	TBD	-	2027
	Pensions allowances	TBD	-	2027
	Full expensing	TBD	-	2027

Note: Publication dates are expected. Evaluation plans have not been set out for every one of the 19 policies scored as some will be jointly evaluated (e.g. Universal Support and its subsequent extension), and some have already been largely or wholly taken out of our forecast (e.g. WCA reforms and its subsequent reversal).
Source: OBR

3 Findings of our initial review

3.1 Three years after setting out our more transparent approach to incorporating the supply-side effects of policy, we have conducted a review of our initial experience in applying it in the previous five *EFO*s. This initial review was informed by the findings and recommendations of our latest *External review* led by Laura van Geest,[12] as well as an October 2024 report by the Institute for Government,[13] both of which focused on the application of our new supply-side scoring framework.

3.2 We considered experience with the application of the new framework to the 19 policies detailed in the previous chapter, with a particular focus on:

- How the estimated **scale** of the supply-side impacts varied across policies and in relation to the analytical resources deployed to estimate those impacts. This has helped to shed light on how to calibrate our **significance** criterion.
- Whether the **implementation** of the policies was in line with the timetable and intensity assumed in our forecasts. This has helped to shed light on how to better apply our **durability** criterion.
- How the policies related to the **baseline** level of activity and **other policies** acting on the same objective. This has helped to shed light on how to better apply our **additionality** criterion.
- How well supported the estimated supply-side impact of the policies was by relevant, empirically grounded, and high-quality **analysis.** This has helped to shed light on how better to apply our **evidence** criterion.

Estimated scale of supply-side impacts

3.3 Over the past five *EFO*s, the 19 policies for which we made an explicit supply-side adjustment had an average absolute impact on the level of potential output in the fifth year of our forecast of 0.07 per cent. In net terms, these policies had an average impact of 0.04 per cent. Among these:

- **13 policies had an estimated absolute impact on potential output of less than 0.1 per cent in the fifth year of our forecast**. The average absolute estimated impact of these set of measures was a 0.02 per cent change to potential output and the net cumulative impact 0.13 per cent. The smallest individual impact was a +0.004 per cent increase

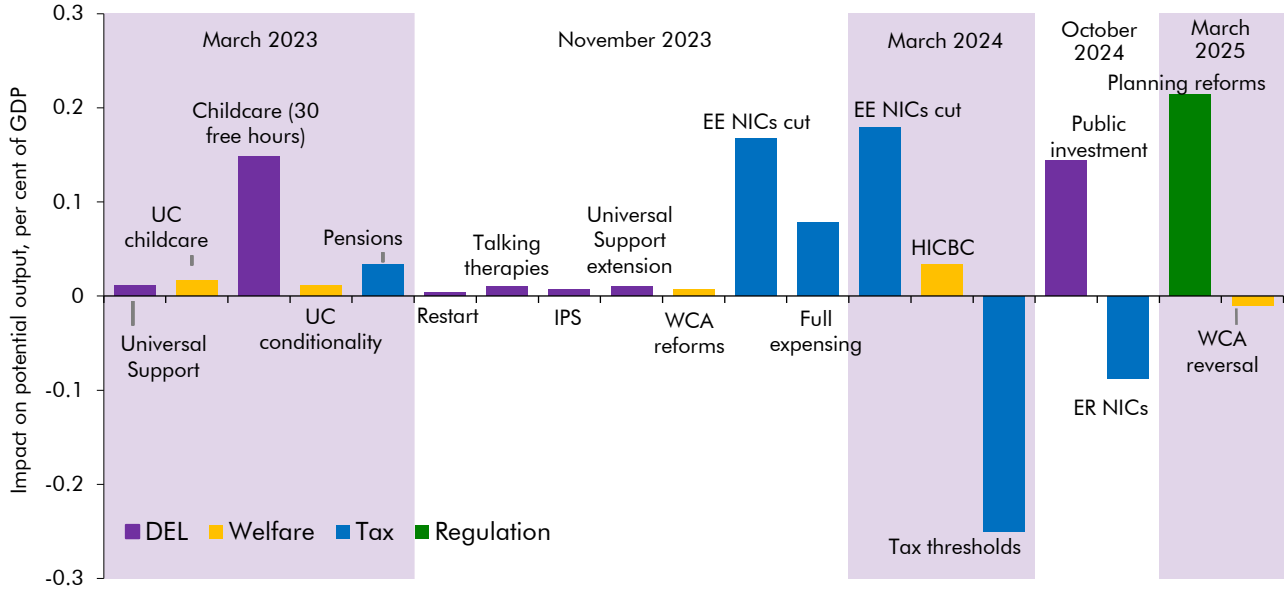
[12] See Van Geest, L., *External Review of the Office for Budget Responsibility*, February 2025.
[13] See Institute for Government, *How can the OBR improve the way it judges the supply-side effects of policy?*, October 2024.

in potential output from the Restart programme for the long-term unemployed. Welfare reforms and employment programmes tended to have the smallest estimated supply-side effects due in part to the relatively small numbers of people reached by the policies and relatively uncertain changes in their work incentives.

- **Six policies had an estimated absolute impact on potential output of more than 0.1 percent in year five.** The average absolute estimated impact of these set of measures was a 0.18 per cent change to potential output and the net cumulative impact of 0.6 per cent. The largest effects were the 0.21 per cent estimated increase in potential output from the reforms to the residential planning regime and the 0.25 per cent estimated reduction in potential output from freezes to personal tax allowances and thresholds. Personal tax measures, also including changes to the headline rates of employee and employer NICs, had relatively large estimated impacts, partly due to the large numbers of people affected by them. Tax and spending policies aimed at promoting private and public investment and expanding access to childcare also had larger estimated impacts.

- **Over time, successive governments' supply-side interventions have focused on a smaller number of policies with more significant estimated impacts** (Chart 3.1). The first two *EFO*s in March and November 2023 included five and seven supply-side policies respectively, while later *EFO*s in October 2024 and March 2025 included just two each.

Chart 3.1: Impact of previously scored policies on potential output



Note: Bars show the impact on potential output in the fifth year of the forecast.
Source: OBR

3.4 This analysis shows that the scale of many scored policies' supply-side impact has in practice been very low and not sufficiently material to be transparently disaggregated in our post-measures potential output forecast (which we report to one decimal place). Despite

this, for many of these measures, it has required significant time and resource to produce robust estimates of these very small supply-side impacts.

3.5 For these reasons, we have concluded that there is value in establishing a more explicit materiality threshold for this analysis.[14] This would also go with the grain of recent fiscal events in which governments have tended to focus on a smaller number of more significant supply-side policies. The conclusions chapter of this paper therefore provides further clarity about the application of our significance criteria in the form of a numerical materiality threshold for a policy to warrant an explicit adjustment to our potential output forecast.

Implementation of supply-side policies

3.6 Monitoring of the implementation of the 19 supply-side policies incorporated into our forecasts over the past five *EFO*s indicated that, at present, around two-thirds are being delivered broadly in line with the assumptions included in our initial forecast. Of the one-third of policies whose delivery has diverged from our initial forecast assumptions, these relate to welfare and departmental spending policies overseen by the Department for Work and Pensions. The main reasons for the divergence between our initial assumptions and the current delivery status of these six policies include:

- **One policy was reversed**. Specifically, the reforms to the **work capability assessment (WCA)** announced by the previous Government in November 2023 were cancelled in March 2025.

- **Three policies experienced delays in implementation**. These included the rollout of Universal Support (prior to its redesign as Connect to Work) and higher conditionality for UC claimants who are parents and carers. The above-mentioned WCA reforms were also initially delayed due to a judicial review, prior to their reversal in March of this year.

- **Two policies saw significant changes to their design, delivery, or targets prior to their launch**. For example, funding initially allocated to the Universal Support employment programme announced in March 2023, and then its subsequent extension in November 2023, was ultimately redirected to a new programme called Connect to Work.

- **Five policies experienced operational challenges in take-up or delivery following their launch.** These included the very low take-up of the upfront childcare costs support in universal credit and the lower-than-anticipated volume of mandatory work coach appointments for parents and carers of one- and two-year-olds claiming UC (one element of the UC conditionality measure) announced in March 2023.

[14] This would also be in line with OECD guidelines for independent fiscal institutions and the approach taken by the CBO. See OECD, *OECD Journal on Budgeting, Volume 2023 Issue 1*, 2023.

3.7 On two occasions, we have adjusted our potential output forecast to take account of sufficiently significant delays or reversals in the implementation of policies. Specifically:

- In the October 2024 *EFO,* we downgraded our labour supply forecast in 2028-29 by 15,000 AHE people in work to reflect the downside risks from slower-than-anticipated implementation of Universal Support, the delivery challenges with higher conditionality for UC claimants who are parents or carers of young children, and low take-up of upfront childcare costs support in UC.[15]

- In March 2025 we revised our forecast for labour supply downwards by 8,000 AHE to reflect the reversal of the WCA reforms.[16]

3.8 Many of the implementation challenges identified above relate to welfare policies that entail intricate changes to specific benefit rates and rules. Uncertainty about both the actual size of the target population and their responses to such changes, as well as issues in expanding the delivery of key policy mechanisms (such as work coach appointments), means there is a greater risk that the implementation of these policies deviates from our original assumptions. By contrast, changes to headline tax rates, allowances, and thresholds can be implemented immediately and immediately affect the disposable incomes and economic incentives of often large numbers of people.

3.9 DEL spending policies also faced challenges in their implementation. Such policies are more prone to diverge from the assumptions underpinning our initial scoring judgements, because their implementation depends on the department responsible prioritising the resources and scaling up the activity required to deliver the policy. DEL spending policies are also more subject to continual changes in design. This suggests a need for clearer initial specification, an assessment of delivery and operational risks, and more active ongoing scrutiny of DEL spending policies to ensure their implementation is consistent with the assumptions included in our forecast.

3.10 Both the welfare and DEL spending policies which were not being delivered as expected were all initially estimated to have a relatively small supply-side impact. Therefore, the proposal to introduce a more clearly defined significance threshold would also likely help to reduce the risks around scored supply-side policies not being implemented on time.

Additionality of supply-side policies

3.11 The additionality criterion is necessary to ensure that policy measures being considered for an explicit adjustment to our potential output forecast are delivering more than the existing level of government effort implicit in our baseline economy forecast. The starting point for our baseline economic forecast is outturn data and recent trends that will reflect any impact

[15] See Box 3.2 of our October 2024 *Economic and fiscal outlook*.
[16] See Box 3.1 of our March 2025 *Economic and fiscal outlook*.

of prior and existing government effort to support potential output. Governments are always undertaking activities that preserve, support, and sometimes diminish the supply capacity of the economy. These include education, employment, and training programmes; public investment and private investment incentives; regulatory changes; and direct funding and indirect support for research and development. To make a significant difference to our post-measures potential output forecasts, a policy needs to deliver a material change, positive or negative, relative to the baseline level of government activity aimed at, for example, supporting employment, promoting investment, or encouraging innovation.

3.12 Our initial review has found that our additionality criterion has been relatively straightforward to apply to tax and welfare policies. Tax and welfare spending forecasts include explicit assumptions about the counterfactual 'pre-measures' rates, allowances, and thresholds for all tax and welfare policies. We can therefore be more confident that the supply-side impacts generated by any tax or welfare policy changes will be additional to those assumed in the baseline forecast. The magnitude of these changes can be calculated by, for example, applying the change in the post-measures incomes of individuals to an empirically estimated elasticity to generate the estimated change in employment. For firms, the impact of a measure on investment could be calculated using the pre- to post-measures change in the expected rate of return relative to the cost of capital.

3.13 The additionality criterion has been more challenging to apply to departmental spending. Unlike for tax and welfare, we generally forecast departmental spending top-down, based on the overall departmental expenditure limits set by the Treasury for 18 individual government departments. Within their overall DEL totals, departments are generally free to alter both the allocation of funding between different spending programmes and the design and delivery of individual spending programmes. And departments will typically have large numbers of different spending programmes that are wholly or partly contributing to achieving a particular policy objective.

3.14 This makes it more difficult to: (i) establish the baseline level of resources and activity a department has been devoting to a particular policy objective both over the recent past and over our five-year forecast horizon; (ii) assess the additional impact of an individual new policy programme on the delivery of that policy objective; and (iii) verify that any additional funding given to the department for a specific programme is not reallocated to other purposes at a future date. This is especially challenging outside a Spending Review period when no detailed departmental budgets are set.

3.15 Similar challenges apply to assessing the additionality of regulatory policy changes. Notwithstanding the Government's commitment to reducing the administrative costs of regulation for business by 25 per cent by the end of the Parliament,[17] there is no current or forecast baseline level of the *overall* regulatory burden on the economy. Moreover, as with departmental spending, there is an ongoing process of regulatory change across multiple departments and regulatory bodies which may, at any time, be increasing or reducing the regulatory obligations on a given sector of the economy (in a way that is not made visible to us as a function of the forecast process, in contrast to tax and welfare changes). And the economic impact of those regulatory changes can be complex to assess, for example

[17] See HM Treasury, *New approach to ensure regulators and regulation support growth*, 2025.

because estimating the impact on businesses' incentives, and therefore their investment and employment decisions, is more challenging than for a tax change.

3.16 With both departmental spending and regulatory policy changes, there is also heightened risk that the supply-side impact of an individual policy may be partially or fully offset by other policy changes. We need to be assured that additional spending on a new programme, for example to support employment among economically inactive people, is not being funded by reductions to spending elsewhere in government which directly or indirectly deliver the same objectives, for example to support employment among unemployed people. Similarly, we need to consider whether the potential output impact of a specific regulatory change, for example to boost housebuilding, risks being offset by other regulatory changes aimed at delivering other policy objectives, such as environmental protection or housing affordability. In the case of both spending and regulatory policy, this is challenging because there is no mechanism that allows us to make an overall assessment of the net effect of all related policy changes at any specific point in time. This contrasts with taxation and welfare policy where all policy changes are brought together and costed at fiscal events and the baseline outturn and forecast is clearly specified.

3.17 Overall, these factors make it more likely that we would judge that the additionality criterion is not met with sufficient certainty in the case of regulatory and departmental spending policy.

Evidence base for supply-side impacts

3.18 Any estimated supply-side impacts from government policies that are included in our forecast need to be based on robust, publicly available, empirical evidence. For example, in forming our judgement on the labour supply effects of the Individual Placement and Support (IPS) expansion, we drew on a published meta-analysis of 17 studies on the effectiveness of similar schemes in other advanced economies.[18] Similarly, a meta-regression analysis of empirical studies on the output elasticity of public capital informed our framework for public investment and potential output.[19]

3.19 Where we have made a new judgement or there is public interest in more information about a given supply-side judgement, we have often published additional analysis to explain these judgements. This has included articles covering our approach to estimating the supply-side effects of changes to the capital allowance regime,[20] detail on our judgement of the impact of residential planning reforms,[21] and a discussion paper on our approach to public investment and potential output.[22]

[18] Modini, M., et al., *Supported employment for people with severe mental illness: systematic review and meta-analysis of the international evidence*, July 2016.
[19] Bom, P., and J. Ligthart, *What have we learned from three decades of research on the productivity of public capital?*, December 2014.
[20] See OBR, *The economic effects of full expensing*, 2024.
[21] See Lam, L., *The supply-side impact of planning reforms – land value uplift and construction sector productivity*, August 2025.
[22] See Suresh, N., R. Ghaw, R. Obeng-Osei, and T. Wickstead, *OBR Discussion paper 5: Public investment and potential output*, August 2024.

3.20 Given the relatively limited time available in which to come to most supply-side judgements, we typically have to rely on existing published studies. In most cases, the OBR is formally notified of the major policy measures that the Government plans to announce in a given fiscal event only two-to-four weeks before the event. In a few cases, as with residential planning reforms, the policy has been passing through several stages of consultation and legislation prior to its inclusion in our forecast. However, in all instances, there is very little time in which to initiate novel empirical or modelling work on which to base any supply-side judgments. This means we have to rely on existing empirical studies and modelling drawn either from UK or international experience. The next section includes a conclusion on how that standing evidence base on the growth effects of government policies can be strengthened.

3.21 For departmental spending policies, there are additional challenges in establishing a robust evidence base. The effectiveness of these policies is heavily dependent on operational and delivery mechanisms, meaning details are difficult to assess in advance and subject to change upon implementation. Such policies are also likely to be bespoke in design to fit the current environment and, as such, difficult to compare against previous programmes with similar transmission mechanisms operating during different time periods. These challenges increase the degree of uncertainty in establishing evidence of effectiveness for spending programmes.

4 Conclusions

4.1 In light of the findings of our initial review summarised in the previous chapter, we have concluded that the four criteria set out in *Briefing paper No.8* for incorporating supply-side effects of government policies remain appropriate. However, there is a need to provide greater clarity and specificity concerning their application and to foster a more extensive evidence base on which to draw for future supply-side judgements. This final chapter sets out our four conclusions for further refining our supply-side scoring framework, as well as a restatement of our criteria to reflect them. This refined framework has been put into effect from our November 2025 forecast.

Conclusion 1: Defining significance

4.2 The significance criterion is key in establishing whether a policy measure will have a material supply-side impact and, as such, a benchmark for determining whether its supply-side effect should be incorporated via an explicit, separately recorded adjustment to our potential output forecast. It is important to emphasise that the demand-side impacts of *all* government policies will continue to be captured in our economy forecast via the application of our fiscal multipliers to the whole policy package in a given fiscal event. Wider economy effects from policies – for example, on inflation – will also continue to be incorporated where these are material. Our overall potential output forecast will also continue to reflect the cumulative effect of all previously announced government policy – which we regularly review, including via our annual 'supply stocktakes'.

4.3 Informed by our initial review, we are clarifying that the definition of a **'significant' supply-side impact** is that a policy should be estimated to **increase or decrease potential output by at least 0.1 per cent by the fifth year of the forecast.**[23] Our legislated remit of producing a five-year forecast means that, in order for us to explicitly incorporate a policy's supply-side impacts, it must materialise to a significant degree by the five-year forecast horizon. This threshold is higher than the one that was implicit in our supply-side scoring over the past five *EFO*s. However, the inherently limited time and analytical resources available to understand, scrutinise, and estimate the supply-side impacts of policy measures and the need to ensure that the validity of those estimates is verifiable via ex-post evaluations, means there is a need to establish a higher threshold.

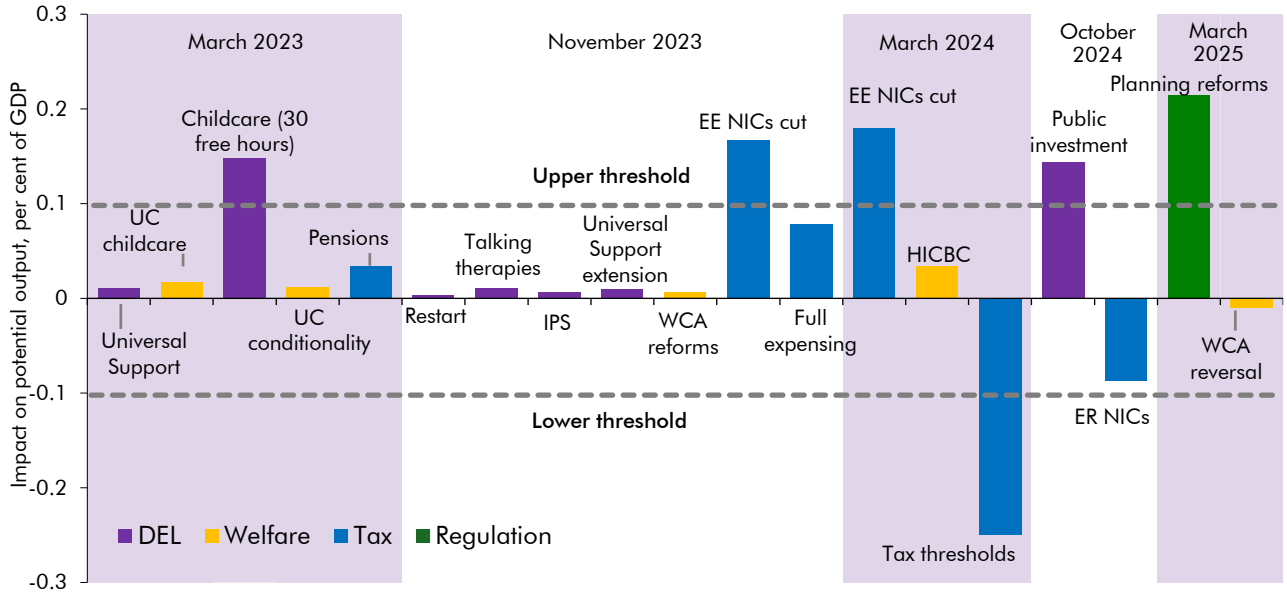
4.4 A retrospective application of the 0.1 per cent threshold shows that it would have retained 80 per cent of the cumulative supply-side impact we have scored since the March 2023 forecast (Chart 4.1), despite only six of the 19 policies clearing this threshold. The

[23] The Cobb-Douglas production function which can be used to characterise our potential output forecast means that a 0.1 per cent change in potential output would require a greater than 0.1 per cent change in either labour or capital inputs or a 0.1 percentage change in total factor productivity.

cumulative net impact of all 'significant' policies on the level of potential output after five years was 0.6 per cent. These policies were: (i) the March 2023 extension of 30 hours of free childcare to parents of children aged nine months to two years; (ii) the November 2023 cut to employee NICs; (iii) the March 2024 cut to employee NICs; (iv) the ongoing freeze to personal tax thresholds scored in March 2024; (v) the October 2024 increase in public investment; and the (vi) March 2025 reforms to the residential planning regime.[24]

4.5 These six 'significant' policies have also generally proven more durable, in that they are, so far, being implemented broadly as expected. Also, their additionality has generally been more straightforward to establish as the baseline counterfactual (higher or lower tax rates and allowances, lower public investment spending, and lower provision of free childcare) was clearly specified in our pre-measures forecast. Moreover, this set of policies' estimated supply-side impacts have generally been supported by stronger and longer-established evidence-bases. This suggests that the 0.1 per cent threshold will also help to reinforce the application of the other criteria: durability, additionality, and evidence-based.

Chart 4.1: Previously scored policies relative to our significance criteria



Note: Bars show the impact on potential output in the fifth year of the forecast.
Source: OBR

4.6 In assessing whether a policy will meet the significance threshold, we will also consider the aggregate impact from a complementary 'package' of measures. To qualify as a 'package', policies should:

- be announced and/or implemented at the **same or similar times**;

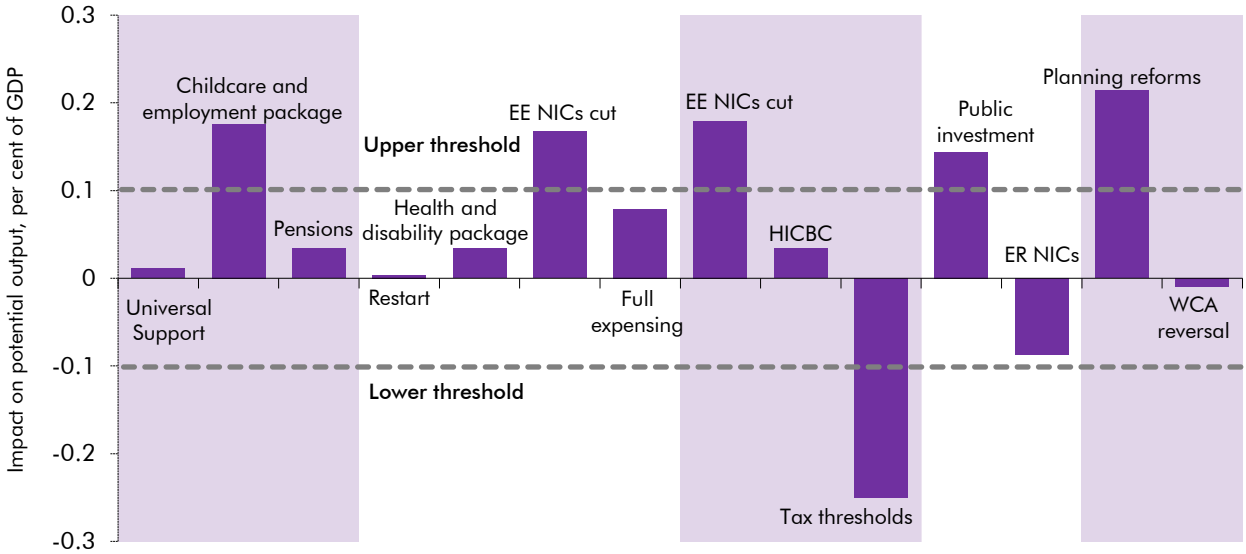
[24] Given the ex-ante uncertainty of the supply-side effects of policy measures, we will continue to scrutinise potentially significant measures, such as the November 2023 full expensing of plant and machinery investment and the October 2023 increase in employer NICs, to assess their potential economic effects and judge whether an explicit forecast adjustment is warranted.

- affect the supply incentives of **similar groups of individuals, businesses, or economic agents**; and

- reinforce or counteract each other via **similar or complementary economic channels and policy mechanisms**.

4.7 Chart 4.2 shows a retrospective application of this approach to defining packages to previously scored policies. A set of policies from the March 2023 forecast would have constituted a 'childcare and employment package' targeting the labour supply of parents. The combined supply-side impact of this package primarily arises from the free childcare measure which, on its own, had a significant supply-side effect. A set of policies from the November 2023 forecast would have constituted a 'health and disability package' consisting of a set of policies targeting the labour supply of (largely) welfare benefit recipients with long-term health conditions. However, the combined supply-side impact of this package would still have been far from the significance threshold.

Chart 4.2: Previously scored packages relative to our significance criteria



Note: Bars show the impact on potential output in the fifth year of the forecast. We have grouped the UC Childcare, 30 free hours of childcare and UC conditionality policies into a 'childcare and employment' package'. In addition, Talking therapies, the Universal Support extension, IPS and WCA reforms form a 'health and disability package'.
Source: OBR

Conclusion 2: Tracking implementation and impact

4.8 As discussed above, the establishment of a higher and more explicit significance threshold would have ruled out most of the policies that were included in one of our previous potential output forecasts only to then be delayed or reversed subsequently. However, there is still a need to track the implementation of the measures already in our forecast and those scored in future forecasts.

4.9 Monitoring and evaluation arrangements have been established for most measures scored to date. However, it has taken time to put these in place and, in some cases, they do not directly correspond to the original assumptions underpinning our judgement on supply-side impacts. Looking ahead, we will require that all policies potentially meriting an explicit supply-side adjustment (whether proposed by departments or identified by the OBR) be accompanied by a monitoring and evaluation plan approved by the departmental head of analysis. This should set out a timeline for evaluations and interim reports to be completed and published. A draft version of this, setting out key elements, should be submitted alongside other policy details at the relevant fiscal event. The plans should specify the leading indicators to be tracked, the timing of data collection, and be published within six months of the *EFO* in which the policy is first scored. We will work with government departments in advance of the next fiscal event to implement this process.

4.10 The plans must also establish analytically robust arrangements for early, continual evaluation of how actual supply-side impacts compare with our forecast assumptions. This will enable timely adjustments to the relevant forecast variables, if necessary. In the near term, this will involve enhanced monitoring and early-stage evaluation of key impact metrics or macroeconomic variables. For example, in the case of the employer NICs increase, relevant indicators may include wage growth and sectoral employment trends; and for planning reforms, the volume of approved residential applications and housing starts. Over the medium term, we will rely on a thorough, analytically robust evaluation to assess the ultimate impact on potential output. Evaluations, as the default, will need to be concluded and published within five years of the initial scoring, with interim reports in all cases. However, for policies where the effect is likely to take time to materialise and for data covering that effect to be available, the evaluation may require more time to meet Magenta Book standards. These cases will be agreed between the government and the OBR as part of the monitoring and evaluation plan. Here, two interim reports will be published within five years of the initial scoring, with the timing of both the interim and final reports agreed between OBR, the Treasury and the lead department. Lessons from monitoring and evaluation will continue to inform the future development and application of our supply-side scoring framework.

Conclusion 3: Ensuring additionality

4.11 The higher and more explicit significance threshold will also help to reduce the number of, mainly smaller, departmental spending policies whose additionality is more difficult to estimate ex ante and verify ex post. However, there will still be a need to ensure the additionality of all policies which meet the significance threshold. For the reasons discussed in Chapter 3, it is more likely that we would judge that the additionality criterion is not met with sufficient certainty in the case of departmental spending and regulatory policy.

4.12 For departmental spending, sufficient evidence of additionality would, at the minimum, require departments to provide evidence of: (i) the baseline position, through a clear, comprehensive and well-evidenced assessment of the programmes and resources dedicated to achieving the relevant policy objective over at least the past 15 years; (ii) an agreed,

sufficient, specified, and clearly additional funding and resource plan for the new policy for the full time period of the programme, with mechanisms in place to ensure those resources are not diverted to other uses; and (iii) an accompanying assessment of programmes and resource devoted to wider government activities that could support or constrain the policy objective in question.

4.13 There is currently no baseline estimate of the *overall* regulatory burden in different sectors, given the challenges in establishing a holistic assessment of the cumulative impact of regulation. Within these constraints, the Regulatory Policy Committee provides independent scrutiny of the Government's estimates of the costs and benefits of *specific* regulatory proposals. However, these cost estimates are often limited to the microeconomic impacts of implementing the specific regulatory changes and leave out the, often larger, wider macroeconomic costs that matter for our potential output estimates. We plan to scrutinise findings from the 'baselining exercise' conducted by the Government to assess levels of administrative burden on business from regulation, to inform our benchmark against which we will judge the additionality for future regulatory changes. In considering scoring of such changes, we will require the Government to set out its assessment of whether and how the current regulatory environment, and any recent changes to that regulatory environment, impose a meaningful constraint on the output of the relevant sector. Where such barriers exist, there is a greater likelihood that efforts to reduce this regulatory burden will have a material and additional impact on economic activity.

Conclusion 4: Developing the evidence base

4.14 Both the Government's efforts to boost potential output and our efforts to evaluate the supply-side impacts of their policies would benefit from a richer evidence base on which to draw. As discussed above, there is very limited time in the run-up to a given fiscal event in which to analyse and estimate the supply-side effects of a given policy proposal. For this reason, we tend to rely heavily on the existing theoretical and empirical literature on a given topic, coupled with discussion with subject-matter experts where Budget confidentiality restrictions allow.

4.15 We will therefore be publishing, for the first time, our areas of research interest (ARIs) in the coming months. This will include a number of areas where we have identified gaps in the theoretical and empirical literature as it relates to the impact of various government policies on the different components of potential output. Publication of our ARIs will also address another recommendation of our 2025 *External review*, which stated *"The OBR should consider mechanisms to signal to academic and practitioner community key areas of upcoming interest and review high-quality submissions."* We will keep our ARIs up to date as the focus of the Government's stated policy agenda evolves. More generally, we want to encourage the economic community to pursue and share analysis on the mechanisms through which government policy can most effectively support potential output growth.

Updated criteria for incorporating supply-side effects

4.16 In line with the conclusions above, we have restated our original criteria set out in 2022 for explicitly incorporating the supply-side impact of a given policy on potential output as follows. The policy in question must be:

- **Significant** in magnitude, such that they could make a material difference to the very large stocks of labour and capital, and the efficiency with which they are combined, known as total factor productivity (TFP) – which are the three main components of the supply potential of the economy. Specifically, a policy, or a complementary package of policies, should be estimated to increase or decrease the level of potential output by a minimum of 0.1 per cent by the fifth year of the forecast.

- **Durable** in timescale, such that they are likely to have a lasting impact on the longer-run productive capacity of the economy. In most cases, although not always, this will mean that we will only score permanent supply-side impacts from permanent changes in tax, spending, or other policies. We will regularly assess departmental monitoring and evaluation of their policies to track their implementation and impact, and to judge whether a subsequent adjustment to scored supply-side effects is warranted.

- **Additional** in nature, such that the policies being introduced represent something more than a continuation of previous government efforts to support the supply-side of the economy, albeit in a slightly different form. Our baseline potential output forecast implicitly captures an ongoing level of government effort to, for example, promote skills and participation, encourage investment, and support research and development. So, to materially alter the future level of potential output, there needs to be a substantial change in either the level or effectiveness of such activity. Further, the net impact of a policy must also be additional after accounting for wider policy changes which may have offsetting economic effects. This is particularly relevant for regulatory and departmental spending policies, where there must be a well-defined policy baseline, a clearly specified funding and resource plan for the new policy, and clear evidence that the impact of the new policy will not be offset by other spending or regulatory changes.

- **Evidence-based**, such that there is clear empirical and analytical support for the effectiveness of a policy in raising or reducing potential output in the UK or similar countries. Where a given policy has not been attempted before, its supply-side impact should be capable of quantification based on plausible mechanisms which have been empirically demonstrated in other comparable contexts.

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