

Katie Lam MP  
House of Commons  
London  
SW1A 0AA

**Professor David Miles and Tom Josephs**  
*Budget Responsibility Committee*

102 Petty France  
London SW1H 9AJ  
obr.uk

2 February 2026

Dear Katie Lam,

Thank you for your letter of 7 January 2026 concerning the OBR's forecast of alcohol duty and the UK wine sector. You asked for clarification on the following points that are addressed in turn below.

**1. *How has the OBR adjusted its forecasting model in light of repeated past discrepancies between projected and actual alcohol duty receipts?***

Discrepancies between alcohol forecasts and eventual outturn can be attributed to several factors including changes to policy, divergences between forecast and actual trends in the economy, and differences due to features of the forecast model.

In recent years, there have been numerous policy changes, including alcohol duty freezes and cuts, that were not anticipated in prior forecasts and can help explain a share of these discrepancies. In addition, since the pandemic, alcohol consumption, or clearances, have mostly been below our forecasts. We had previously anticipated that alcohol consumption would rise in line with longer-term averages after the pandemic, but it has instead fallen in each year since 2021-22. The impact of falling consumption on alcohol duty receipts has been partially offset by increases to duty rates, meaning alcohol receipts remained broadly flat at around £12.5billion between 2022-23 and 2024-25.

In response to these trends, and to lower-than-expected in-year receipts in 2025-26 up to September 2025, we reduced our alcohol receipts forecast in our most recent [November 2025 Economic and fiscal outlook \(EFO\)](#), by an average of £1.7 billion a year relative to March 2025 (see paragraph 4.41 of the November 2025 EFO). We implemented this change primarily through lowering our forecast for growth in alcohol consumption to reflect the recent trends. We also raised our medium-term forecast for alcohol prices, reflecting increases seen in recent price data, which has the effect of further reducing forecast consumption. As we set out in the EFO, the recent decline in consumption could be due to a number of factors, such as substitution to no- and low-alcohol alternatives, evidence of lower alcohol consumption in younger age groups, and cost-of-living pressures. There remains a significant degree of uncertainty around the forecast for alcohol receipts, especially given that the degree to which each of these potential factors contribute to the recent decline in consumption is unclear.

**2. *Are the current elasticity assumptions (for how consumption response to duty changes) considered robust for wine, where producers cannot alter ABV in response to taxation?***

The forecasting model does not assume producers reformulate in response to duty increases in line with RPI. Increases in duty rates are assumed to fully pass through to changes in alcohol prices, resulting in a fall in consumption which is calculated using an estimate of the elasticity of price to consumption for different alcohol products. The elasticities do not capture any reformulation effects from alcohol duty changes, although these effects are separately accounted for where appropriate.

The elasticities applied here were outlined in detail in a [July 2024 supplementary release](#) that is available on our website and are consistent with [wider academic literature](#). They were estimated in 2023 by HMRC using an econometric model based on the Living Costs & Food Survey (LCFS) dataset. The general

approach used is set out in a 2014 HMRC working paper “Estimation of price elasticities of demand for alcohol in the United Kingdom”.

**3. How confident is the OBR in its five-year alcohol duty forecast, given the sector’s volatility and past forecasting challenges?**

There is significant uncertainty and risk around all economic and fiscal forecasts. We produce extensive analysis of these uncertainties and risks in each *EFO* through fan charts, sensitivity analysis, scenarios, and specific risk analysis. We also undertake in-depth analysis each year of the reasons for differences between forecast and outturn in our annual *Forecast evaluation reports* (FER), and apply the lessons learned from this analysis to our forecast methodology development program.

We also produced a [Working paper No 19: The OBR’s forecast performance](#) which analyses the performance of our forecasts since the OBR was established in 2010. Updated analysis building on *Working paper No 19* suggests that alcohol receipts at the five-year horizon have always come in lower than forecast by an average of £1.0 billion (8.2 per cent of forecast) (Note: an example of a “five-year ahead” forecast would be the March 2020 forecast for 2024-25). This updated analysis also shows that the average forecast difference for alcohol receipts at the five-year horizon (8.2 per cent for all OBR forecasts between June 2010 and March 2020) is higher than the average forecast difference for total receipts of 3.7 per cent. The average *absolute* forecast difference, which is also 8.2 per cent of forecast, is only slightly above the overall total receipts average *absolute* forecast difference of (7.1 per cent).<sup>1</sup> This could suggest the volatility of alcohol receipts around its trend is broadly similar to that seen for other receipts.

As set out in response to your first question, these differences likely reflect a significant impact from policy changes between our forecasts and eventual outturn, with numerous freezes to alcohol duty rates that could not have been considered in forecasts prior to policy announcements. There is additional uncertainty at the five-year horizon as this is the final year of our forecast, with a greater likelihood of economic (e.g. inflation) and policy changes. Since the pandemic we have also had an overoptimistic forecast for consumption over the medium-term, which we have now revised down to be more in line with recent trends, as set out above.

**4. Do you have any reason to think that ABV-based tax has any influence whatsoever on consumer’s wine choices for more premium bottles (costing, say, £15 or more a bottle)? How does this factor in your modelling?**

The elasticities that are used to estimate a change in consumption in responses to price changes are applied at an aggregate level and reflect the overall change in wine consumption, and do not capture changes within alcohol types (e.g. between different brands). Other things equal, a higher price will lead to a reduction in consumption. For the purposes of producing the forecast and policy costings we do not typically consider disaggregated potential behavioural responses such as the one raised in your question.

***Submitting proposals and evidence***

The OBR has no role in policy development or advice. The OBR’s role in assessing the fiscal effects of policy is set out in the *Charter for budget responsibility*, which states that: “*The government is responsible for all policy decisions and for policy costings, i.e. quantifying the direct impact of policy decisions on the public finances. Subject to receiving sufficient information from the Treasury to do so, the OBR will provide independent scrutiny and certification of the government’s policy costings.*” Consistent with this, HMRC leads on producing tax policy costings, including those related to alcohol duty, and so should be the first

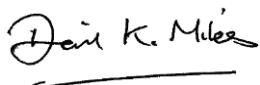
---

<sup>1</sup> Average absolute forecast difference is a measure of total accuracy which is the average of the absolute values of differences between outturns and the central (point) forecasts, ignoring whether the differences are positive or negative.

point of contact on analytical issues regarding these costings. We are happy to consider written evidence on analysis related to policy costings (this can be submitted to [enquiries@obr.uk](mailto:enquiries@obr.uk)). However, given our legislated role and limited resource we are restricted in the degree to which we can engage directly with stakeholders on such evidence. This is particularly the case in the period when we are preparing a forecast due to the need to ensure the confidentiality of the policy development process. We also welcome written evidence on our baseline fiscal forecasts and will consider the case for subsequent engagement with stakeholders on such evidence.

In line with OBR policy, we will be publishing this reply together with your original letter on our website.

Yours Sincerely,



Professor David Miles



Tom Josephs

**Members of the Budget Responsibility Committee**



Office for Budget Responsibility  
14T, 102 Petty France  
London, SW1H 9AJ

7th January, 2025

Dear Budget Responsibility Committee,

**Re: Alcohol Duty and the UK Wine Sector**

Following the decision to raise alcohol duty at Autumn Budget 2025, I am seeking clarity on the reliability of the OBR's alcohol duty forecasts, and on how forecast uncertainty is being reflected in policy decisions affecting the UK wine sector and wider alcohol sector.

In a parliamentary debate on alcohol duty, I raised concerns with the Exchequer Secretary to the Treasury about changes to the wine duty system, and about the Government making significant budgetary decisions based on OBR forecasts which have been shown to be unreliable.

The OBR has itself acknowledged that "alcohol duty receipts have come in weaker than many of our forecasts". Given this, I would be grateful for clarification on the following points:

1. How has the OBR adjusted its forecasting model in light of repeated past discrepancies between projected and actual alcohol duty receipts?
2. Are the current elasticity assumptions (for how consumption responds to duty changes) considered robust for wine, where producers cannot alter ABV in response to taxation?
3. How confident is the OBR in its five-year alcohol duty forecast, given the sector's volatility and past forecasting challenges?
4. Do you have any reason to think that ABV-based tax has any influence whatsoever on consumer's wine choices for more premium bottles (costing, say, £15 or more a bottle)? How does this factor in your modelling?

This is a critical moment for a young and fast-growing industry. I am worried that the Government will continue to make decisions that will undermine its viability, based on modelling which has been shown to be based on inaccurate assumptions.



My constituency, the Weald of Kent, is home to many of England's leading wineries, including Chapel Down, Gusbourne, Balfour, Biddenden, Westwell, Woodchurch, and Domaine Evremond (to name but a few). Many have strong views on how the current duty system is affecting them and the Minister has encouraged Members to submit evidence to inform the OBR's current forecasts and assumptions model.

Could you please advise on the most appropriate way to submit these proposals and evidence? To whom should they be directed, and when? I, along with many of the vineyards in my constituency, would be eager to contribute.

I look forward to your response.

Yours Sincerely,

Katie Lam MP  
Member of Parliament for the Weald of Kent