

Graham Leadbitter MP
House of Commons
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Richard Hughes
Chair

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9 May 2025

Dear Mr. Leadbitter,

Thank you for your email of 21 March 2025 in response to my letter of 25 November 2024 concerning the OBR's forecast of spirits duty revenue.

In your latest email, you raise three main concerns:

1. That our one-year-ahead forecast errors appear to be correlated with the policy decisions made, such that duty freezes and cuts were more likely to be associated with underestimates and duty increases were more likely to be associated with overestimates.
2. That our five-year-ahead forecast of 2021-22 receipts represented a substantial underestimate.
3. That the increases we project in spirits duty between now and 2029-30, where receipts reach £5.7 billion in our latest forecast, may be an overestimate.

Let me address each of these in turn.

First, the observed correlation in the difference between our forecasts and subsequent outturns and duty-rate changes seems to be relatively small, and we believe it is most likely explained by factors other than the assumed behavioural response to the rate change. You identify that over the past ten years, there has been a small correlation between whether a one-year-ahead forecast underestimated or overestimated spirits duty receipts and whether spirits duties increased, were frozen, or were cut (where we believe the cut announced in the March Budget 2015 to have primarily taken effect in 2015-16).

Our assessment of all OBR forecasts for which such a comparison can be made over the past 13 years suggests that when you compare one-year-ahead forecasts with outturn, this apparent correlation becomes even weaker as duty increases become more evenly split between underestimates and overestimates, as set out in the table below. Over the full period of OBR forecasts which can be assessed, one-year-ahead forecasts were underestimated two out of the five times spirit duties increased, and five out of the eight times spirit duties were cut or frozen.

Table: One-year ahead spirits duty forecast differences by category

	1-year ahead forecast revisions: past 10 years		1-year ahead forecast revisions: past 13 years	
	Underestimate	Overestimate	Underestimate	Overestimate
Cut	0	1	0	1
Freeze	5	2	5	2
Increase	0	2	2	3

These differences between forecasts and outturns will be associated with a wide range of factors that drive spirits duty revenues. The primary drivers of the differences between forecasts and outturn in our spirits duty forecast in recent years were the rise seen in spirits consumption, particularly gin, between 2018-19 and 2021-22, which led to our forecasts generally being revised upwards in these years, and then a fall in spirits consumption, particularly gin, in 2022-23 to 2024-25 that has led to our forecasts being revised down for these years. The sharp rise was responsible for many of the underestimates in spirits duty receipts in years where duty rates were frozen. We believe these recent rises and falls in

consumption are unlikely to primarily relate to duty rate changes. This is due to the large scale of the changes observed, their specific concentration in gin, and the fall beginning during a period in which spirits duties were frozen. As set out in our previous correspondence, the approach we use to estimate the behavioural response to duty rate changes is based on econometric techniques that seek to isolate the impact of price changes on spirits consumption from all other drivers of the demand for spirits. We continue to believe that this approach is best practice.

Second, you ask about our March 2017 forecast of 2021-22 spirits duty receipts representing an underestimate, despite this March 2017 forecast assuming duty rate increases that did not materialise. This reflects very strong growth in spirits consumption over this period. As discussed above, we do not see evidence that this rise in consumption primarily relates to the policy decision to freeze spirits duties, but rather other factors potentially including changing tastes and the impact of the pandemic. Had the planned spirits duty upratings materialised, our central judgement is that spirits duty receipts in 2021-22 would have been higher still.

Third, you ask about the increase in receipts that we project between now and 2029-30. We agree that there is uncertainty around this forecast. However, the assessment in our latest forecast is that, while there has been a fall in spirit demand in recent years, we expect that over the forecast period spirits consumption will grow broadly in line with historical growth rates, rather than these recent declines persisting. This growth, combined with rising duty rates, is responsible for the growth in receipts we expect over the forecast. This assumption will be reviewed in our next forecast alongside all our key forecast assumptions.

In line with OBR policy, I will be publishing this reply, along with our previous correspondence (included in the annex), on our website.

Yours sincerely,



Richard Hughes
Chair

Annex: Previous correspondence

21 March 2025

From: Graham Leadbitter MP

To: Richard Hughes, Chair, OBR

Dear Richard,

Many thanks for your response of 25 November on the OBR's forecasts for spirit duty revenue. As you rightly point out there are likely a number of factors that can result in forecasts not being realised and there is inherent uncertainty around all fiscal forecasts.

In your response you highlight that in the past ten years for which there is outturn data on spirits revenue receipts, five years exceeded the one-year ahead forecast and five years in which it was below the one-year ahead forecast. However, there is a tendency for the one-year forecasts to underestimate excise duty receipts in years of excise duty decreases and freezes and to overestimate receipts in years of excise duty increases. For the only calendar year with an applicable excise duty decrease within the 10-year period (2016/2017), spirits receipts exceeded the one-year forecast. In contrast, for the years with an applicable excise duty increase (2017/2018 and 2023/2024) the OBR's one year forecast overstated actual receipts. For the years with an applicable excise duty freeze the OBR underestimated outturns 4 out of 7 times. This indicates that the OBR elasticities don't accurately account for the decrease in sales volumes caused by an increase in duty receipts and prices, and that the elasticities are therefore too low. This results in your modelling incorrectly reflecting the changes in demand as a result of changes in duty rates and subsequent prices.

In your response you also outline that you have previously estimated that decisions to freeze alcohol duty rates have decreased duty receipts. If we consider your March 2017 forecast, which will have assumed duty increases in subsequent years, it anticipated spirits duty receipts would rise to £4bn by 2020/21. Spirits duty receipts reached £4.4bn that year, without those subsequent duty increases, so I'm unclear as to how you determine that duty receipts were lost as a result of not increasing duty rates. I would suggest that your review of the methodology to forecast spirits duty receipts has actually increased the unreliability of your forecasts for spirits duty receipts rather than improved it. I understand that since the 10.1% duty increase on Scotch Whisky and other spirits in August 2023 real revenue receipts from spirits have fallen by over £250m. Given that decrease in revenue receipts, why do you believe your most recent forecast of a 37% increase in receipts from spirits, from £4.1bn to £5.6bn, by 2029/30 will be achieved?

Of course, I understand that for the OBR spirits duty receipts are a small part of a bigger picture when it comes to total revenue receipts, but for my constituency these overestimates of receipts impact real jobs and livelihoods.

When the Chancellor is making decisions on whether to cut, freeze, or increase duty she will look at what the expected revenue impact of those decisions would be. If she's told, just as the last Chancellor was, that raising duty will bring in hundreds of millions of extra revenue that subsequently never materialises, and in its place a key pillar of my constituency's economy like Scotch Whisky is undermined, we have a problem. Indeed, had Chancellor Jeremy Hunt been told in March 2023 that raising excise duty on spirits in August 2023 would lose him £250m in the two years since that decision rather than raise the £600m the forecasts suggested at the time, I would imagine he may have made a different choice.

Could I ask that you look again at your forecast methodology and consider, given the evidence above,

whether it is fit for purpose and reflects the real world data on past duty receipts following different Budget decisions on excise duty rates.

Yours sincerely

Graham

Graham Leadbitter MP
Member of Parliament for Moray West, Nairn and Strathspey

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Richard Hughes
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25 November 2024

Dear Mr. Leadbitter & Mr. Logan,

Thank you for your letter regarding the OBR's forecasts for spirits duty revenues. In answer to your questions:

First, you asked for our view of the differences between modelled projections for spirits duty and actual revenue. We acknowledge that all fiscal forecasts are inherently uncertain and we use a variety of approaches in our reports to illustrate the scale and nature of risks to our central forecasts and policy costings. Our tax forecasts can differ from actual revenue due to policy changes announced by the government after the point at which the forecast was made, due to differences in economic performance relative to the economic forecast that was used to project tax receipts, and due to other forecast differences, for example the degree to which consumer demand responds to changes in duty rates.

However, we have no reason to believe our forecasts of spirits duty have unusually large differences with outturn or are biased. We publish our historical forecasts of tax receipts including spirits duty in our "Historic official forecasts database" [here](#). This shows that of the past ten years for which we have outturn data on spirits duty receipts, in five years the outturn exceeded our one-year ahead forecast, and in five years outturn was below our one-year ahead forecast. (Note: an example of a "one-year ahead" forecast here would be the March 2023 forecast of 2023-24). However, we will continue to monitor the performance of the forecast going forward and the performance of all our forecasts is subject to regular review in our annual *Forecast evaluation reports*.

On your second and third questions, we have recently reviewed in 2023 the methodology we use to forecast spirits duty revenue at different rates of spirit duty. The methodology includes an estimate of the extent to which demand for spirits is affected by a price change (including due to a duty rate) using price elasticities estimated using an econometric model based on the Living Costs and Food Survey, which we last updated in the 2023 review. For further information on that change please see [Supplementary forecast information release- Alcohol duty elasticities](#). More information on the methodology used can be found in an earlier 2014 HMRC working paper: "Estimation of price elasticities of demand for alcohol in the United Kingdom".

On your fourth question, our estimates of the exchequer impacts of previously announced government policies are published in our "Policy Measures Database" here: [Data - Office for Budget Responsibility](#). It shows that we have estimated that previous policy decisions to freeze alcohol duty rates have decreased alcohol duty receipts.

Yours sincerely,



Richard Hughes
Chair



For the attention of: Stephen Farrington, Chief of Staff, Office for Budget Responsibility

14 November 2024

Dear Stephen,

Re: Spirits Duty Changes

Following the recent budget decision by the Chancellor of the Exchequer to raise Spirits Duty further, discussions with industry representatives and others have highlighted a concern that, over the past decade and more, forecasts spirits revenue have not matched the reality.

As with any tax that directly impacts the sales price of a product there is a 'sweet spot' beyond which revenue can start to fall due to rising prices depressing demand, however it has been observed to us that the OBR's model does not seem to factor this or that, if it does, it does not do so well.

Such modelling is obviously important in influencing the Chancellor's decision making, therefore we would be grateful if you would address the following points.

1. What is the OBR's view of the differences between modelled projections for spirit duty and the actual revenue collected over the last decade?
2. Has the OBR reviewed the model that used to project Spirit Duty Revenue in different scenarios?
3. If the answer to 2.) is 'no' then do you consider that such a review may be prudent at this stage?
4. Does the OBR have any other observations on correlation or otherwise between Spirit Duty increases and Revenue achieved from such increases?

Our objective is to better understand the modelling being used and whether it is fit for purpose, given the significant concerns being raised by the sector, which employs thousands people both directly and indirectly in our 2 constituencies alone and more across Scotland the UK.

Thank you in advance and we look forward to your reply.

Yours sincerely

Graham Leadbitter
Member of Parliament for Moray West, Nairn and
Strathspey

Seamus Logan
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