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30/06/2025

Low Pay Commission
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Dear Baroness Stroud,

IoD response to Low Pay Commission Consultation 2025

About the IoD

The IoD is an independent, non-party political organisation representing approximately 20,000 company directors, senior business leaders, and entrepreneurs. It is the UK's longest-running organisation for professional leaders, having been founded in 1903 and incorporated by Royal Charter in 1906. Its aim is to promote good governance and ensure high levels of skills and integrity among directors of organisations. It campaigns on issues of importance to its members and to the wider business community with the aim of fostering a climate favourable to entrepreneurial activity in the UK.

The IoD welcomes the opportunity to respond to Low Pay Commission Consultation 2025. Ensuring that NMW and NLW rates are set at sustainable levels is of considerable interest to the IoD and its membership, and we are therefore pleased to present our views.

Specific questions

What has been the impact of the NLW in the past year, particularly the most recent 6.7 per cent increase to £12.21 in April this year?

While the full impact of the recent increase to the NLW is yet to be fully seen, IoD research has identified how employers have responded to the increase so far. An IoD survey of 483 business leaders in May 2025 (Appendix: Figure 1) found that the most common response of businesses to the April 2025 minimum wage increases was to offset costs by raising the price of goods/services (32%), followed by reducing employment (28%) and absorbing the costs through reduced profits (26%). Other commonly cited responses were to invest in automation (21%) and reduce business investment in other areas (18%).

Above-inflation increases to wage bills are difficult for businesses to absorb when not accompanied by increases in productivity because they erode profit margins over time. In addition to engendering challenges on the individual business level, above-inflation increases to employment costs and stagnating growth threaten the UK's economic competitiveness:

> "Without structural reform, a supportive industrial strategy, and serious investment in national productivity, we fear these well-meaning wage interventions may trigger long-term damage to competitiveness and employment—especially for the youth and low-skilled workers they aim to protect." – 250+ employees, Manufacturing, London

A common theme in qualitative responses was the difficulties faced by employers in sectors with already fine margins, particularly those in the third sector and those reliant on government contracts. The capacity for such employers to absorb above-inflation NLW increases is limited given their inability to pass on costs to their customers:

> "[We have] tenders for government funded work – [we have to] reduce outcomes and outputs to compensate for the higher costs" – 2-9 employees, Administrative and support services, East Midlands

> "Without substantial increases in either grant or contract values then it is a significant challenge for the voluntary sector to keep pace with these improvements in social policy. Simply thinking that the market will adjust is naïve" – 10-49 employees, Education, Scotland

Even for employers with more elasticity in the prices they can charge customers in the long term, for those bound by prices in fixed contracts, sudden and sharp increases in employment costs can significantly reduce, or even erase, their profit margins and cause financial difficulties in the short term:

> "When we have fixed contract pricing in the automotive industry its really difficult for us to pass this onto our customers, so unfortunately we have to suffer the burden or our employees do." – 100-249 employees, Manufacturing, South East England

> "No choice but to absorb as sales prices already set. Another blow for business" – 10-49 employees, Manufacturing, Wales

A further concern cited by some business leaders is the diminishing pay gap between the lowest-paid workers and those in more senior positions, which risks disincentivising individuals from progressing to more senior roles. Underlying this trend is the reduced inability of employers to meaningfully link pay and performance/productivity at the lower end of the salary spectrum:

> "The large annual increase on the minimum wage is devaluing wages of staff that are worth more and paid more. The gap between them and those less skilled or useful is becoming smaller and smaller." – 10-49 employees, Manufacturing, South East England

The negative impacts of recent NLW and NMW increases on business have been exacerbated by other government policies which are increasing the cost and risk associated with employment (further details in response to question 2).

For some employers, however, the impact has been minimal, whether because they do not employ lower paid workers or because they are able and choose to pay above NLW and NMW rates:

> "The minimum wage needs to continue to rise until there is no need for universal credit type benefits to supplement wages." – 0-1 employees, Professional, scientific and technical activities, East of England

> "I agree with this increase, and it should probably go further. We look to pay ahead of these levels in any case." 50-99 employees, Manufacturing, West Midlands

Employer National Insurance (NICs) has risen at the same time as the NLW. How have employers responded to this, and how has this interacted with the NLW change? Which is the bigger impact?

The increase in ENICs has been the bigger of the two impacts, primarily because it represents a significant inflationary pressure on a greater proportion of salaries. The negative impacts of the ENICs increase have been particularly acute for employers already struggling financially and those in labour-intensive and/or low-margin sectors:

> "We're on a very very low profit level and have no other option but to reduce employment or close the business. We will have no working profit to innovate and or grow the business" – 0-1 employees, Administrative and support services, North West England

> "We operate with a large staff in low margin business areas and therefore we are having to reduce staff and raise prices." – 250+ employees, Wholesale and retail trade, South East England

As with the above-inflation NLW increase – but to an even greater extent – the negative impacts of the ENICs increase were exacerbated by the lack of time for employers to adjust to the significant additional labour costs. Employers already contractually committed to delivering goods or services at given prices have no choice but to absorb the additional costs until able to pass them on in future contracts, undermining their profitability, investment capacity, and potentially their financial viability in the meantime. Underlying this difficulty is frustration within the business community at sudden and detrimental changes in government policy which undermine their ability to confidently plan their activities and finances. While the publication of a 10-year Industrial Strategy is a welcome step to introducing more certainty in the business environment, sudden shocks such as the ENICs increase undermine business confidence in their ability to plan for the long term.

An IoD survey of 687 business leaders in March 2025 (Appendix: Figure 2) found that the most common planned response (47%) of employers to the ENICs increase was to reduce employment, followed by plans to increase prices (41%). Almost four in 10 (39%) of business leaders also reported planning to reduce wage increases in response.

> “We feel like this government is out of touch with the business and the way economy works. We have had massive inflation pressures this increase will only make things worse. We will be reviewing our staffing levels and may consider redundancies.” – 10-49 employees, Manufacturing, West Midlands

> “We do not feel we can reduce wage increases without damaging our ability to recruit and retain the talent that we need. Out of 18 budget requests for hires in 2025, we can only afford six. This would have been eight or nine without the increase in NI costs.” – 50-99 employees, Financial services, London

> “Prior to the budget, it was our plan to expand our headcount by 7.5 - 10%. We now have freeze on recruitment and, if we lose any staff naturally, we will not replace them.” – 10-49 employees, Construction, Yorkshire and the Humber

Qualitative responses also highlighted outsourcing of jobs as a common trend in response to increased labour costs in the UK:

> “With the National Insurance Increases and the planned changes to employment rights, we have also chosen to recruit in our International Offices instead of the UK for many roles” – 100-249 employees, Information and communication, South East England

> “In some of the businesses I am involved in they will certainly look at moving labour reliant parts of the business abroad.” – 100-249 employees, Construction, South West England

> “We are recruiting in Amsterdam for posts originally to be based in Swansea.” – 250+ employees, Information and communication, Wales

While the effects of both the ENICs and NLW increases have hitherto for the most part been described in isolation, and government policy has tended to treat them as such, employers are not experiencing them separately. These increases, along with the measures in the Employment Rights Bill and wider Make Work Pay package, are combining to make employment of staff a significantly costlier and riskier proposition for businesses.

IoD research into the views of business leaders on various aspects of employment reforms over the past year identified a common theme of frustration at the cumulative impact of the reforms; members frequently reported that it is the combination of two or three of the big changes – NLW, ENICs, and the ERB – which were leading them to make redundancies and/or scale back hiring plans. Many employers have the capacity to absorb additional employment costs where they are infrequent and introduced gradually, but the rapidity and scale of recent changes have significantly damaged hiring intentions:

“The additional cost [of NICs], coupled with the minimum wage increase, is dramatically affecting our business plans and will stifle our growth” – 100-249 employees, Professional, scientific and technical activities, North West England

“This [NICs increase] alongside the minimum wage increase is extremely damaging to our business. We have long term programmes to do the right thing for our employees and the local community, but this Government doesn't understand heaping more burden on business will ultimately hurt the very people it proclaims to protect.” – 100-249 employees, Manufacturing, South West England

“[The government has] imposed a double hit: higher taxes alongside a minimum wage increase. The combined effect of these measures has been severely underestimated, creating further challenges for businesses already struggling to stay afloat.” – 10-49 employees, Construction, London

“And the employment rights bill just adds fuel to fire - why would any small business increase the number of employees at the moment?” – 2-9 employees, Manufacturing, South East England

“This change [ENICs] adds a significant cost to our business which needs to be responded to, and I'm also concerned about the new employment bill coming and the risks that brings. The two changes combined (NI and Employment rights) led us to delay recruitments and reduce staff where we can.” – 50-99 employees, Other services, West Midlands

The IoD has warned government on multiple occasions that the combined effect of its employment policies will be job losses and damaged hiring intentions; the June labour market figures provide early evidence of these warnings becoming reality, with the number of payrolled employees falling by 115,000 between April 2024 and April 2025 and a further estimated month-on-month decrease of 109,000 to May 2025[1].

At what level should the NLW be set from April 2026?

Given the numerous other factors serving to increase the cost and risk of employing staff – particularly at the lower end of wage scales – increasing the NLW in line with CPI would be the most balanced approach. However, in light of the LPC’s remit to set the NLW at two thirds of the median wage, our favoured approach would be to increase the NLW in line with the rise in the median wage in September – the month typically used for uprating benefits. Increasing it at a faster rate would exacerbate the inflationary impact on employers and serve to further discourage hiring.

Do you have views on the pace of the transition to an NLW starting at age 18?

[1]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/june2025

In light of the scale and impact of the various employment reforms being implemented over the next few years, the pace of the transition to an NLW starting at age 18 should be as gradual as is feasible. Giving employers more time to plan for, and adjust to, the increased costs would help to alleviate some of the negative impacts of the change. Government should therefore commit to aligning the 18–20 year-old rate with the NLW by 2029, rather than 2027.

The 18-20 Year Old Rate increased by 16.3 per cent in April to £10.00. The 16-17 Year Old Rate increased by 18 per cent, to £7.55. How have recent changes in the minimum wages for young people affected their employment prospects?

In addition to the aforementioned negative cumulative impact that various changes to employment policies are having on job creation, IoD research found that 13% of business leaders responded to this year's significant increases in the youth minimum wage rates by reducing the employment of 16-20 year-olds relative to other age groups (Appendix: Figure 1). Candidates with a limited employment history are both less likely to already possess the requisite knowledge and skills for a given role, but also more widely represent a bigger risk for employers because they have less information to base hiring decisions on. The lower rate of NMW for young people hitherto helped to offset that risk; it is therefore unsurprising that a significant minority of employers are now less inclined to hire young people in NMW roles.

More widely, qualitative feedback from IoD members suggests that recent increases in the costs and risks associated with employment have had a negative impact on many employers' appetite to hire young people and/or those without experience. The interaction of expanding day one protections against unfair dismissal and significant increases to the youth minimum wage rates, in particular, have made the employment of young people with minimal work experience a weaker proposition for employers.

What is the outlook for the recruitment and employment of apprentices? What are the drivers of employers' decisions on this?

It is clear from business leaders that the changes in the NIC rate and threshold, along with the size of the rise in the minimum wage and the closing of the gap are the dominant factors driving the desire to hire apprentices. On the one hand, the ERB and increases to ENICs make the employment of apprentices more appealing to employers, due to the exemption of apprentices under 25 from ENICs and the more flexible nature of the employment relationship vis-à-vis employees:

> "We are still working through increased NICs and it is a mixture of the above [potential responses]. All our employees are above the National Living Wage and we do not have any employees currently in the 18-20 age range. Apprenticeships are being considered." – 10-49 employees, Manufacturing, South East England

At the same time, the increased cost burden being placed on employers by employment reforms has in many organisations reduced the amount of money available for training budgets. Wages are a small proportion of the cost of training an apprentice to an organisation; costs related to staff time – and training, if not funded by the Apprenticeship Levy – are much more significant, particularly in the early stages of an apprenticeship when the apprentice's work is less likely to contribute financially to an organisation. Squeezed margins resulting from higher employment costs therefore reduce the amount available to subsidise training of all kinds, including apprenticeships:

> "The problem with the minimum wage as structured is that it kills the ability to hire and train staff as the costs in the first few years is prohibitive. We need the minimum wage to reflect the worth of the person in the business and maybe 3-year apprentices with a zero cost of NI and zero tax to the employee" – 10-49 employees, Manufacturing, South East England

> "This [minimum wage increase] has caused a direct impact reducing employment of apprenticeships and money available for investment." – 50-99 employees, Administrative and support services, North West England

What are your views on the economic outlook and business conditions in the UK for the period up to April 2026?

The combination of domestic policies and geopolitical instability are making for a bleak outlook for UK businesses. Business confidence remains at historically low levels; in June 2025 the IoD's Director's Economic Confidence Index[2] stood at -52, compared to +7 in July 2024 and -69 in April 2020. The same survey found that more business leaders planned to reduce investment than to increase it, and that more planned to reduce headcount than increase it. Analysis by Business leaders frequently cite the domestic policy environment as presenting a major headwind for their businesses. The sheer number and scale of increases in the cost at employment implemented seems to be undermining the UK economy to a greater degree than foreseen by the OBR, according to analysis by former HMT and OBR economists at Flint Global[3].

Consumer confidence remains suppressed by concerns over inflationary pressures and the Bank of England finds that savings for emergencies have increased. Meanwhile, the latest ONS data on the economy shows that savings are being eroded by ongoing inflationary pressures.[4] The rapid weakening in the labour market also presents a risk to the outlook for consumer confidence and spending – it may yet be the case that the emergence of AI imposes greater negative effects on aggregate employment than expected. However, consumer spending will continue to be sorted by past and ongoing reductions in interest rates, real earnings growth, and still high savings. The weight of consumer spending in the UK economy means that the outlook for the consumer has a profound impact on growth.

As a small open economy, the UK is relatively exposed to the rise in geopolitical uncertainty in 2025. While a relatively small proportion of UK firms (only 12%) actually export, and the value of the UK's goods trade with the US (at £183 billion) is dwarfed by the EU market (£353 billion), the UK's direct and

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[2] The Director's Economic Confidence Index is calculated by subtracting the number of surveyed business leaders feeling pessimistic about the UK economy from the number feeling optimistic.

[3] Andy King, Ellen Brett and Surjinder Johal, "Has the employer National Insurance rise proved to be a tax on jobs?", Flint Global 12 June 2025: https://flint-global.com/blog/has-the-employer-national-insurance-rise-proved-to-be-a-tax-on-jobs/

[4] Office for National Statistics, "GDP quarterly national accounts, UK: January to March 2025, 30 June 2025: https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/januarytomarch2025

indirect exposure to the US has been valued as £210 billion or 8% of GDP.[5] The UK's global trade performance will be undermined both through the direct impact of a higher level of average tariffs between the UK and the US and the impact on our trading partners of higher tariff levels and uncertainty. Meanwhile shocks to oil prices arising from developments in the Middle East present a further risk to growth.[6]

Business investment will be helped by past and ongoing interest rate cuts. And attempts by the government to stabilise the policy environment for business through long-term strategies, accompanied by the removal of blockers to growth from regulation and planning, should bear fruit over time. But heightened uncertainty arising from the sharp deterioration in the domestic business environment and from global economic developments is slowing decision-making and impacting activity. Meanwhile the rise in business taxation will also hit profits and investment. The OBR additionally consider that the increase in public sector spending and investment will to some degree crowd-out domestic investment. Therefore, the contribution from business investment to UK economic growth is expected to be subdued.

The contribution of public sector spending (excluding interest payments) will be greater than the prior four years for the fiscal years 2025-26 and 2026-27, which will provide some compensating support to growth. Amidst multiple headwinds, the average independent forecast for the UK suggests growth in 2025 and 2026 will be much the same as for 2024 at around 1%. It is worth noting that the OBR's forecast is for growth of 2% in 2026, which presents a significant risk that further revenue raising measures may be required in the Autumn Budget. This would present a further hit to the growth outlook.

I hope you have found our comments helpful. If you require further information about our views, please do not hesitate to contact us.

With kind regards,

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[5] Megan Greene (Bank of England MPC), "Not such an island after all," speech at the Institute of Directors, 12 February 2025: https://www.bankofengland.co.uk/speech/2025/february/megan-greene-speech-at-the-institute-of-directors

[6] Office for Budget Responsibility, "Oil prices and the economy", Economic and Fiscal outlook, March 2015: https://obr.uk/box/oil-prices-and-the-economy/

Appendix

FIGURE 1: IOD MEMBER SURVEY RESULTS: MAY 2025 (483 RESPONSES)

In April 2025, the National Living Wage increased from £11.44 to £12.21 an hour. At the same time, the National Minimum Wage for 18–20-year-olds rose from £8.60 to £10 an hour and the National Minimum Wage for Under 18s rose from £6.40 to £7.55 per hour.

What actions, if any, has your organisation taken, or is planning to take, in response to these increases? Please select all that apply.

Row Labels	
Other	4.1%
Increase employee productivity through higher investment in training	10.8%
Reduce employment of 16-20-year-olds relative to other age groups	12.6%
N/A	13.5%
Offset costs by reducing business investment in other areas	18.2%
Increase employee productivity through higher investment in new technologies and/or automation	21.3%
No action taken	23.2%
Absorb part or whole of the cost through reduced profits	25.5%
Offset costs by reducing employment	28.2%
Offset costs by raising the prices of goods/services	32.1%

FIGURE 2: IOD MEMBER SURVEY RESULTS: FEBRUARY 2025 (567 RESPONDENTS)

As we get closer to the changes in employer NI following the October Budget, we are again seeking your feedback on how you are planning to respond to these changes.

You said the changes will increase your employer National Insurance bill. How do you plan to respond to the resulting higher costs of employment?

Row Labels	
Reduce employment	47.09%
Increase prices	40.92%
Lessen wage increases	38.62%

Absorb the increase in lower margins	29.63%
Seek to increase productivity	24.87%