The NEET challenge: insights from employers

Youth unemployment is not a new problem in the UK, but in recent years it has become more acute. In May 2026, the number of 16-24 year-olds not in education, employment, or training (NEET) exceeded one million for the first time since 2016.

The Milburn Review has brought welcome attention to the issue of youth unemployment and the structural reforms needed to stem the growth in the NEET rate. While its Interim Report focused heavily on diagnosing the issues underlying the rise in young people disengaging from the labour market, it also acknowledged the importance of the supply side, noting that "if employers are being asked to take on more of the work of induction, confidence-building and support, they need a system around them that makes doing so easier, not harder… If public policy aims to increase youth participation, it has to minimise risks and maximise incentives."

While building a welfare and employment support system which better encourages and supports young people to search for work will be crucial to bringing down the youth NEET rate, greater focus needs to be given to the reforms that enable employers to hire young people. Employer appetite for hiring has been eroded by a series of reforms since 2024 – to the minimum wage and National Insurance contributions, and via the Employment Rights Act – which have cumulatively increased the cost and risk of hiring young people.

Without both acknowledging and addressing the negative impact which recent policies have had on young people's employment prospects, reforms to the employment support and welfare systems risk moving young people from the NEET to the unemployed category rather than into work.

Research undertaken with IoD members offers insights into how employers view the interaction between various tenets of government employment policy and the rise in youth unemployment.

The impact of minimum wage policy

In addition to the sharp increases to the headline National Living Wage (NLW) rates – a 37% increase between 2020 and 2026 – which took place to meet the government's commitment that the NLW would be at least two thirds of the national median wage, changes to youth minimum wage policy have increased the cost of employing young people even more sharply.

The abolition of the 21-25 minimum wage bands, in addition to the steps already taken to close the gap between the 21+ and 18-20 bands with a view to having a single 18+ NLW band, mean that the cost of employing an 18 year-old on the minimum wage has increased by 51% between 2020 and 2026. During the same period, the apprentice minimum wage has increased by 63%.

An IoD survey in May 2026 found that 25% had responded to the 2026 minimum wage increases by reducing employment. For 13%, they had reduced their employment of 16-20 year-olds relative to other age groups (Figure 1).

Figure 1: IoD Policy Voice results: May 2026, 615 responses

In April 2026, the National Living Wage increased from £12.21 to £12.71 an hour. At the same time the National Minimum Wage for 18–20-year-olds rose from £10 to £10.85 an hour. At the same time, both the National Minimum Wage for 16–17 year-olds and Apprentice Rate rose from £7.55 to £8 per hour.

Which action/s, if any, has your organisation taken, or is planning to take, in response to these increases? Please select all that apply.

Absorbed part or whole of the cost through reduced profits	31.1%
Offset costs by reducing employment	24.7%
Offset costs by raising the prices of goods/services	23.1%
No actions taken	21.6%
N/A	20.7%
Increased investment in new technologies and/or automation	17.9%
Offset costs by reducing business investment in other areas	15.3%
Reduced employment of 16-20 year-olds in relation to other age groups	13.3%
Increased employee productivity through higher investment in training	8.0%
Offset costs by reducing other employee benefits	7.0%
Other	5.6%

The same survey found that any further narrowing of the gap between the NLW and youth rates would lead 41% of businesses to reduce their recruitment of young people, with 45% saying it would have no impact (Figure 2).

Figure 2: Policy Voice results, May 2026 (470 responses)

If the gap between the National Living Wage and youth rates were narrowed further, how would this affect your organisation's approach to recruiting young people?

Increase recruitment of young people	1.7%
No impact	44.8%
Reduce recruitment of young people	40.7%
Don't know	12.8%

Qualitative feedback to the surveys emphasised how the increased costs of employing young people was negatively affecting how many organisations approach youth employment:

> "The increase of the national minimum wage has made apprenticeship / youth employment wholly unaffordable and has pushed business more into exploring the use of AI to deal with entry level / routine roles that would usually be filled by new entrants."

> "Providing training programmes to youth employees is now extremely expensive, particularly given the much lower productivity output when employees are required to be paid for their training time. This is now prohibitive, particularly as they can leave soon after being trained and you have no way of recouping the high training costs and support time invested." – 10-49 employees, Financial services, Scotland

> "We have stopped employing under 25's - what's the point when you've got to pay everyone the same rate of pay now?"

Intersection with employment law reforms

At the same time as minimum wage hikes have significantly increased the direct costs involved in employing many young people, employment law reforms have significantly reduced many employers' appetite for taking risks when hiring. This trend

is having a negative effect across the labour market but most acutely for individuals on the fringe of the labour market, for example due to a lack of experience.

The 2025 Employment Rights Act (ERA) contains dozens of reforms which cumulatively make employing staff riskier. Of particular concern in relation to youth employment are the shortening of the qualification period for additional unfair dismissal protections from two years to six months and the right to guaranteed hours for individuals on zero or low hours contracts. The former gives employers little time to establish whether a new hire is right for the role, reducing their willingness to take risks when hiring, while the latter look set to make offering zero or low hours contracts so complicated and risky for employers that many will simply stop offering them.

Government's assumption throughout the design and implementation of the Employment Rights Act appears to be that employers will simply redesign all existing roles to comply with the reforms. While that will be the case for many jobs, many others will be lost – or simply not created – as a direct result of the changes.

An IoD survey in February 2026 found that the ERA has made two thirds (63%) of businesses less likely to hire new staff and 57% more likely to invest in automation (Figure 3).

Figure 3: Policy Voice results, February 2026 (545 responses)

What impact, if any, are the Employment Rights Act reforms having on your organisation's approach to the following:

	Hiring new staff	Investing in automation	Making redundancies	Outsourcing roles/operations to other countries
More likely	7.16%	56.51%	30.83%	39.63%
No impact	27.16%	34.86%	58.17%	47.34%
Less likely	63.30%	4.22%	4.22%	4.95%
Don't know	2.39%	4.40%	6.79%	8.07%

While the figures painted a picture of businesses being discouraged from creating jobs, qualitative data from our research emphasises the impact that the ERA is having on employers' willingness to hire young people:

> "We find young staff are not ready for work and we already have to provide more support to them, the new laws mean we don't want to take the risks we used to."
>
> "The Employment Rights Act is a significant disincentive to employ people of any age, but especially unproven young people, sadly."
>
> "We have ceased to employ apprentices after 21 years of doing so, it isn't just the salary, it is the cost / welfare / parenting the youth - the new employment laws make it more a risk to employ than not. So we either employ at our international offices, use AI or seek senior staff who are more efficient." – 100-249 employees, Information and communication, South East England

While the sharp increase in the youth NEET rate in recent years predates the design and implementation of the ERA, our research suggests that employment law reforms are contributing to a difficult situation; without also addressing the impact that these reforms are having, government attempts to tackle the NEET problem are less likely to bear fruit.

Are hiring incentives the answer?

The government's recent focus on the youth NEET issue is a welcome acknowledgement of the seriousness of the issue, and this focus was reflected in its announcement of a youth employment package in March 2026 designed to incentivise employers to hire young people.

However, IoD research suggests that the incentive package is unlikely to engender the kind of change in employer behaviour necessary to make a material dent in the youth NEET figures. A survey of IoD members in April 2026 found that the package made only 20% of employers more likely to hire young people while 58% said it would not make a difference (Figure 4).

Figure 4: IoD Policy Voice results, April 2026, 900 responses

The government has announced a package aimed at reducing the number of 16- to 24-year-olds not in education, employment, or training, including:

- *Youth Jobs Grant – businesses will receive £3,000 for each 18–24-year-old hired who has been on Universal Credit and seeking work for 6+ months.*
- *Jobs Guarantee – government will fund 25 hours/week work placements for 18–24-year-olds who have been on Universal Credit for 18+ months.*

- *Apprenticeship Incentive – SMEs will receive £2,000 for each new 16–24-year-old apprentice.*

In relation to your organisation's hiring plans for the next 12 months, to what extent will this package make you more or less likely to hire 16-24-year-olds?

Significantly more likely	3.00%
Somewhat more likely	17.30%
No change	57.60%
Somewhat less likely	3.10%
Significantly less likely	5.60%
Unsure/need more information	3.70%
N/A	9.80%

The qualitative feedback highlighted two key underlying reasons for this lack of impact on employer behaviour. First, the cumulative costs of recent employment rights reforms and minimum wage hikes far outweigh the financial incentives on offer. Second, some employers consider the bureaucracy attached to receiving such payouts from government significant enough to negate much of the benefit of the incentives.

> "The issue is far more the worry of all other costs, including wage rises, employee absence rights and pensions provision" – 2-9 employees, Financial and insurance activities, Yorkshire and the Humber

> "Whilst the government is trying to help, the cost / impact / risk of employing what might a problematic employee has already increased under the new employment laws. As a company we do not want to take that risk, we have already stopped our apprenticeship scheme which we ran for 20 years but the latest tax rises and employment law changes have made us rethink our strategy."

> "[Government] would have far more success if they stopped increasing the cost of employing young people, rather than offering discounts that come with too many strings attached."

Summary

Addressing the NEET challenge will require a long-term, cross-government, and properly funded strategy from government to ensure that young people are work ready and incentivised to enter the labour market.

Greater emphasis must be placed on the factors underlying employers' decision-making when it comes to hiring young people to ensure that reforms are effective. Through the ERA and minimum wage hikes in particular, recent government policy has made it more costly to hire young people. It is crucial that policy measures which support and push young people towards employment work equally hard in making the decision to hire young people easy for employers.