The National Minimum Wage (Amendment) Regulations 2025

Lead department	Department for Business and Trade
Summary of proposal	This proposal is to increase the National Living Wage and National Minimum Wage on 1st April 2025, in line with recommendations from the Low Pay Commission. There is a relatively higher increase in the 18-20 rate, under-18 rate and apprentice rate, with the intention of eventually achieving a single adult rate.
Submission type	Impact Assessment – 14 January 2025
Legislation type	Secondary legislation
Implementation date	1 April 2025
RPC reference	RPC-DBT-25025-IA(1)
Date of issue	3 February 2025

RPC opinion

Rating	RPC opinion
Fit for purpose	The assessment outlines a sufficient rationale, focussed on equity and employer market power. The IA considers a shortlist of two options, based on recommendations from the Low Pay Commission (LPC). The SaMBA provided is sufficient. The assessment includes a reasonable justification for the preferred way forward, based on a full analysis of the preferred option and assessment against the Department's policy objectives. The assessment includes a good regulatory scorecard however could be improved with a greater consideration of potential risks, such as the impact on innovation, vulnerable workers and international competitiveness. There is a satisfactory monitoring and evaluation plan, which could benefit from discussing plans on evaluating the NLW and NMW as a whole.

RPC summary

Category	Quality	RPC comments
Rationale	Green	The assessment makes a sufficient case for continued intervention, based on the need to ensure equity for workers and to prevent welfare loss caused by employer market power.
Identification of options (including SaMBA)	Green	The Department use a shortlist of two options for its appraisal, however does provide a discussion of potential alternatives. This consideration of options is sufficient given the previous consideration of potential options conducted by the Low Pay Commission (LPC). The SaMBA is sufficient, providing a good description of impacts, mitigation and justification for non-exemption.
Justification for preferred way forward	Green	The IA justifies its preferred option using both a qualitative discussion on the Department’s policy objectives and a monetised appraisal of the preferred option against the ‘do nothing’ scenario. This could be improved with further assessment of risks, such as the impact on sectors with low pay and low evidence of monopsony.
Regulatory Scorecard	**Good**	The scorecard provides a good summary of expected impacts of the preferred option, including an overall estimated NPSV figure and a summary of monetised impacts to business and households. The Department could do more to consider the impact on innovation, start-ups and international competitiveness.
Monitoring and evaluation	**Satisfactory**	The IA explains how the LPC, DBT and HMRC will continue to monitor, evaluate and review the levels of the national minimum, and living wage rates. The plan could be improved by explaining how the Department plans on evaluating the NLW and NMW as a whole.

Summary of proposal

The national minimum wage (NMW) was introduced in April 1999. The national living wage (NLW) was introduced in April 2016. These measures set minimum hourly wage levels, protecting low-paid workers while providing incentives to work. The Low Pay Commission (LPC) reviews these rates and makes recommendations to government annually.

The proposal would increase the NLW (from April 2025 applying to those aged 21 years and older) and the NMW rates for development (18-20 years), youth (16-17 years) and apprentices. All proposed increases are in line with the LPC's recommendations.

The proposal meets the Government's target for the NLW to not drop below two-thirds of median earnings. The proposal also narrows the gap between the NMW rate for 18-20 year olds and the NLW, towards a long term goal of achieving a single adult rate.

LPC NMW/NLW rate recommendations for April 2025

	LPC recommendation	Current rate	Annual percentage increase
National Living Wage rate (21+)	£12.21	£11.44	6.7%
18-20 year old rate	£10.00	£8.60	16.3%
16-17 year old rate	£7.55	£6.40	18.0%
Apprentice rate	£7.55	£6.40	18.0%
Accommodation offset (per day)	£10.66	£9.99	6.7%

It is proposed that the new rates should come into force on 1 April 2025. NMW and NLW rates were last increased in April 2024.

Rationale

Problem under consideration

The Department builds on it case set out in previous IAs, which sets out the problem under consideration as exploitation in the labour market. Employers may abuse unequal bargaining power to pay unacceptably low wages, particularly where workers have a lack of experience, skills, mobility or opportunities. The NMW and NLW therefore set a legal minimum pay floor across the UK to prevent this.

Argument for intervention

The Department's continued case for intervention is based on equity and employer market power. The argument for equity is focussed on the government's aim to reduce wage inequality and ensure that low paid workers benefit from economic growth, with the LPC being set the target of ensuring the NLW does not fall below two-thirds of median earnings. The rationale for a lower minimum wage for younger workers has been consistently based on the need to protect their employment given lower levels of experience, skills and concentration in lower paying or entry level roles. However, the Department argues that as younger adult workers face the similar cost of living pressures and undertake similar work to their older counterparts, the disparity in minimum wage is unfair. As a result, the LPC was asked to recommend a NMW that reduced the disparity between the NMW and NLW. The IA could be improved with a greater discussion of the trade-off between ensuring equity between younger and older workers and potential negative employment effects for younger workers, in light of evidence suggesting that younger workers are at higher risk of being priced out of jobs than older workers due to their lower experience and levels of productivity.

The IA also makes the case for intervention citing the welfare loss caused by employer market power in the labour market. The Department includes a discussion of monopsony power being a feature of various parts of the UK labour market, which can lead to employers supressing workers' pay due to their increased bargaining power. The IA argues that in this case this supports the need for government intervention to prevent this suppression of pay, whilst also resulting in fewer employment effects. The assessment could be improved by considering the potential employment effects in less concentrated labour markets, given the CMA and LPC research suggesting minimum wage workers are more likely to work in these sectors. The IA would also benefit from discussing and possibly quantifying the level of monopsony power in different sectors, showing where it is prevalent and where it is not using numerical evidence. Furthermore, the assessment should consider the impacts on sectors where there is not monopsony and so are likely to be more affected such as hospitality and leisure.

Objectives and theory of change

The Department's has set out six policy objectives. These are: to protect and boost low earnings, build towards the creation of a genuine living wage, deliver inclusive growth, ensure that the NLW does not fall below two-thirds of UK median hourly earnings, build towards the removal of adult age bands and to provide under-18s and apprentices with the highest possible minimum wage. The IA should include more detail on how these objectives meet the SMART framework (Specific, Measurable, Achievable, Realistic, Time-limited). The IA could also be improved with the inclusion of a logic model setting out how the process by which the policy objectives will be achieved.

Identification of options (inc. SaMBA)

Identification of the 'long-list' of options

The IA states that the LPC has considered a range of options for the 2025 NMW and NLW rates, making final recommendations as a result of a balance of the potential risks, policy intent and objectives set out by the Government. As the LPC has conducted this policy development work in order to inform its recommendations, the Department has not replicated this with a longlist of potential rates and moved straight to a shortlist. The IA does provide a description of potential alternatives to the shortlisted options, including setting rates that are higher or lower than the LPC's recommendations and a set of non-regulatory alternatives. The Department describes the potential impact of setting rates either higher or lower than the LPC recommendation for the NLW, 18-20 NMW rate and the under-18 and apprentice rates, demonstrating how a higher rate could have adverse effects on the economy, competitiveness and employment, whereas a lower rate would fail to meet the policy objectives.

The IA includes a shortlist of only two options, a 'Do nothing' counterfactual option or implementing the LPC recommendations in full. The counterfactual option would involve keeping the NMW and NLW rates as they are now. The implementation of the LPC recommendations would increase the NMW and NLW to those set out in the summary on 1st April 2025. As consideration of alternative rates has already been conducted by the LPC, it would be disproportionate for the Department to replicate this in full as part of this IA. As a result, the shortlisted options presented in the IA are reasonable, however the IA could be improved by providing a more comprehensive justification of this two-option shortlist.

Consideration of alternatives to regulation

The IA considers a set of alternative options to regulation. These include an information campaign, self-regulation, guidance, or non-statutory Codes of Practice. The Department observes that while these non-regulatory options could raise awareness and lead to higher pay for low-paid workers, this would not meet the policy objective of ensuring minimum hourly pay of those entitled to the NLW is two-thirds of median earnings. Therefore, these alternatives to regulation have not been carried forward to the shortlist, however a communications campaign is expected to be used to complement the Department's preferred option. More generally, as legal minimum wage rates are set out in legislation, it is not possible for a policy option that does not include legislative change to meet the policy objectives.

SaMBA and medium-sized business (MSB) assessment

The SaMBA is sufficient. Small and micro businesses are estimated to employ 36 per cent of employees and incur approximately 39 per cent of the total cost of the proposals. The IA explains clearly why they should not be exempt from the proposal, as this would violate the principle that all workers have the right to be paid at least the minimum wage regardless of who they work for. The IA refers to a set of mitigations the Department plans on undertaking, with a planned set of employer-targeted communications and guidance and using previous LPC projections of the NLW and the announcement of the new rate 5 months in advance allowing for business adjustment.

Medium-sized businesses considerations

The IA usefully includes consideration of impacts on medium-sized businesses, which are estimated to employ 15 per cent of employees and incur approximately 16 per cent of the total cost of the proposals. The Department includes the same justification and mitigations for medium-sized businesses as it does for small and micro businesses.

Justification for preferred way forward

Appraisal of the shortlisted options

The Department has conducted a full monetised analysis of the preferred option against the baseline counterfactual scenario, which serves as the only alternative shortlisted option. This analysis builds on the methodology used in previous IAs. The Net Present Value is estimated as -£6.4m (2024 prices, 2025 present value), based on the familiarisation costs to business adjusting to the new rates. The two options have also been assessed qualitatively against the Department's policy objectives.

<u>Counterfactual</u>

The IA uses the same approach as recent IAs in using forecast growth in median earnings to construct counterfactual wage growth. As with the IA for last year's regulations, the present IA uses the average of independent forecasts for median earnings growth, as monitored by the Treasury. The Department's use of a range of independent forecasts rather than the methodology recommended by NIESR appears to reflect economic and labour market circumstances and prospects reasonably. The Department assumes it takes six years for earnings in the counterfactual to 'catch-up' with the new minimum rates, which is consistent with the approach used in the previous year. IAs on future upratings should continue to review the appropriateness of the approach and assumptions used. The IA would also be improved by including a discussion as part of its counterfactual on the amount of catch-up time required specifically for rates for younger workers, given the relatively larger increase compared to the NLW than previous years.

<u>Evidence and data</u>

The IA describes how the LPC recommendations for NLW and NMW rates are underpinned by extensive consultation, analysis, and evidence-gathering. The LPC received responses from over 100 various organisations either through written consultation, oral evidence sessions or visits across the UK. The Department has continued to engage with leading labour market academics and updated its literature review.

The Department has previously noted differences between its estimates of the number of people in NMW/NLW jobs and ASHE outturn data and had committed to continue to monitor this area and potentially develop its analysis. This commentary does not feature in this updated IA, despite no apparent methodological change, which could lead to an overestimate of the measure's impacts. The IA should reflect this potential overestimate and the RPC considers further discussion and development of the methodology to be a priority for future IAs.

Uncertainty, risks and assumptions

The IA appropriately includes low and high estimates (and, for counterfactual wage growth, additionally estimates based upon OBR and Bank of England forecasts) and extensive sensitivity analyses around several key variables (such as the extent of spillovers to higher levels of the pay distribution). These variations are discussed in each relevant section and summarised clearly in the IA.

The IA could be improved by considering of the impact on 'hidden' unemployment, e.g. individuals transitioning to benefits or remaining on benefits in deprived areas of the UK. In particular, the IA does not consider the potential for individuals to be displaced by NMW and onto health-related welfare benefits, such as such as Employment and Support Allowance (ESA) or Universal Credit with a Limited Capability for Work and Work-Related Activity designation. A more detailed assessment of the impact of NMW increases on marginalised groups would be helpful.

Selection of the preferred option

Overall, the monetised qualitative options appraisal of the proposed measures is appropriate to justify the selection of the preferred option. The IA has adequately demonstrated the relative impacts of each of the options and set out how they perform against the Department's policy objectives and why this has led to the selection of the preferred option.

Regulatory Scorecard

Part A

The Department estimates the Equivalent Annual Net Direct Cost to Business (EANDCB) as £235.2m (2024 prices, 2025 present value), which is lower than previous years reflecting the greater focus on increasing rates for younger workers rather than the NLW. The figure consists primarily of the cost to private sector employers of having to pay more to employees currently earning less than the proposed relevant minimum wage, with a small component accounting for transitional costs to employers of familiarising themselves with the new rates.

An additional, indirect, cost to business is the pay impact on employers maintaining pay differentials above the NLW and NMW, totalling £664 million. Taken with the cost of the pay increase for employees currently earning below the NLW and NMW (£1,291 million) and transitional costs to employers of familiarising themselves with the new rates (£6.4 million), this results in an overall business Net Present Value of -£1,961 million (2024 prices, 2025 present value).

The policy is expected to have the opposite effect for households, with the Equivalent Annual Net Direct Cost to Households (EANDCH) estimated at -£212.3 million (2024 prices, 2025 present value). This is driven by benefits of £1,171 million caused by the aforementioned increases to pay for individuals earning below the proposed rates. An indirect benefit to households is the pay impact for employees who have maintained pay differentials above the NLW and NMW, estimated at £621 million. Overall this produces a household Net Present Value of £1,792 million (2024 prices, 2025 present value).

The Net Present Social Value of the measure overall has been estimated at -£6.4 million (2024 prices, 2025 present value). The total cost component of this is estimated at £2,175 million, based on the £1,961 million business impact and a further £214 million in increased pay costs to public sector employers. The benefits of the policy are estimated at £2,168 million, made up of the £1,792 million in households benefits and £376 million in 'non-wage impacts', which the Department describes as a combination of benefits to workers (e.g. higher pension contributions) and to the Exchequer (e.g. higher employer paid National Insurance contributions). As a result, the NPSV only reflects the familiarisation costs faced by employers as a result of the change, with the other impacts netting out as a transfer from employers to employees.

The IA would benefit from further assessment or discussion of the impacts of the gig economy (as distinct from zero-hours contracts) and part-time work, where workers are self-employed and not entitled to NMW/NLW protection. The Department could also consider the impact of this lack of entitlement, as a high NMW could create an incentive for businesses to use the gig economy and self-employed workers rather than employing workers themselves.

The IA does well to consider the regional impacts of the measure, with the North East of England and Northern Ireland set to benefit the most, whereas London business are set to be minimally affected as wages are already high. The Department also discusses the potential positive impact on younger workers as a result of the increase to the 18-20, under 18 and apprentice rates, however the assessment would benefit from highlighting in more detail the evidence which sets out that there is no expected negative employment effect for these workers. The assessment could also be improved by considering the effect of the increase on how often young workers change jobs and their retention rates.

The IA could do more to assess the impact of the proposed policy at a more disaggregated level, considering sectors, markets and regions where the NMW has the potential for a more disproportionate impact. One area that could be considered is the impact on vulnerable workers, such as people with disabilities trying to obtain a first or new job, or those on Universal Credit receiving additional payments for health issues.

Part B

The Department considers the potential impact on the business environment for the proposed intervention, suggesting that the impact is uncertain as the cost to employers is relatively small compared to total labour costs in the economy and government communications mean that businesses will be appropriately ready. The assessment could have been improved by considering in greater detail the potential negative impacts on the business environment that could occur given the significant cost to business.

The IA could also benefit from a more detailed assessment of dynamic effects such as the suppression of innovation and new business formation, wage compression impacting career progression and potential automation trends driven by rising labour costs. The assessment could also be improved with the inclusion of a broader macroeconomic analysis, to understand the overall impact on unemployment, economic inactivity wages and productivity.

The IA includes a summary of international considerations, acknowledging that they are expected to be negligible. This includes the potential for exporters to pass the cost of wage increases through to prices, however the IA notes that the nature of the UK workforce means this impact is unlikely to undermine overall export competitiveness. As the NMW and NLW are now among the highest in the world, the IA could consider the potential impact of a reduction in growth and innovation. This could occur due to a reduction in UK competitiveness compared to other countries, caused by a lack of affordable labour required by start-ups.

Monitoring and evaluation

The IA explains how the LPC will continue to monitor, evaluate and review the levels of the various minimum wage rates, and states that future recommendations by the LPC will be based on extensive monitoring and evaluation of the current rates. More specifically, the IA states that the LPC will undertake an assessment of the impact of the proposed 2025 minimum wage rates in Autumn 2025. This will include an extensive consultation, new research projects and analysis of a range of economic, labour market and business data.

The IA also contains information on the monitoring and evaluation work that DBT intends to undertake. This usefully includes a focus on the potential impacts on employment, particularly for young workers, given the relatively high increases in the rates for workers under the age of 21. Given that the changes taking effect in April 2025 will achieve the Government's stated objectives for the level and coverage of the NLW, the IA would benefit from providing more details on how the NLW as a whole policy on a cumulative basis will be evaluated and reported on, rather than simply assessing each year's incremental increase. Given the high NLW and NMW rates compared to other countries, the PIR could look at international benchmarks and evidence to support this.