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27 October 2025

The Rt Hon Sir Keir Starmer KCB KC MP
Prime Minister
10 Downing Street, London, SW1 2AA

The Rt Hon Peter Kyle MP
Secretary of State for Business and Trade
Department for Business and Trade, Old Admiralty Building, London, SW1A 2DY

Dear Prime Minister and Secretary of State,

NATIONAL LIVING WAGE AND NATIONAL MINIMUM WAGE RATES FOR 2026

1. I write with the Low Pay Commission's (LPC) recommendations for the rates of the National Living Wage (NLW) and National Minimum Wage (NMW) to apply from April 2026. This letter summarises the rationale for our recommendations, which are the agreed view of the whole Commission.

2. We recommend that the following rates apply from 1 April 2026:

	NMW Rate	Increase (£)	Increase (%)
National Living Wage (21 and over)	£12.71	50p	4.1
18-20 Year Old Rate	£10.85	85p	8.5
16-17 Year Old Rate	£8.00	45p	6.0
Apprentice Rate	£8.00	45p	6.0
Accommodation Offset	£11.10	44p	4.1

3. This is my second set of recommendations as Chair, but it is the first time since October 2022 that we have made these recommendations with a full complement of Commissioners. So, I want to thank the Department for filling the vacant worker Commissioner position this year.

4. I also would like to thank my fellow Commissioners for approaching this year's negotiations with rigour, professionalism and mutual respect. As ever, the evidence we heard from employers, workers and their representatives has been invaluable and we thank them all for their support and insights.

The National Living Wage

5. Our remit from the Government asks us to do the following when recommending the National Living Wage rate for 2026:

- a. Ensure that the rate does not drop below two-thirds of median earnings for workers in the National Living Wage population.
- b. Take account of the cost of living, including inflation forecasts between April 2026 and April 2027.
- c. Take account of the impact on business, competitiveness, the labour market and the wider economy.

6. It is our responsibility to balance these considerations. In talking to both workers and businesses over the year, it is clear that both are under pressure.

7. GDP growth has been mixed over the last 18 months or so, following the downturn at the end of 2023. Forecasts are for GDP growth in 2025 and 2026 (around 1.4 and 1.2 per cent respectively) to improve on what we saw in 2023 and 2024 – but remain below the norms of the 2010s and the 2000s. Productivity growth has remained sluggish. Stakeholders tell us that growth has been constrained by general economic uncertainty, restrictive monetary policy and low consumer demand, particularly in the consumer-facing services where many low-paid workers work.

8. Workers and their representatives told us of their ongoing struggles with the cost of living. Workers and unions feel that NLW increases have been insufficient to mitigate higher living costs, particularly food, energy and housing, leaving workers struggling with financial insecurity. We also heard about the difficulties caused by the interactions between the NLW and the tax and benefits system. Unions highlighted continued insecurity over hours and limited progression opportunities. Some workers are experiencing work intensification while many are not able to secure the additional hours they want. Others are working very long hours just to make ends meet.

9. Employers told us they are struggling with higher labour and other input costs as well as subdued household spending. They are also concerned about future policy and geopolitical uncertainties. In addition, they said it is getting harder to absorb rising costs in their profits. More businesses – particularly small ones – said they are reducing investment and adopting a cautious approach to headcount. The pressure on investment budgets is making employers more nervous about future growth and productivity increases.

10. The labour market has softened since last year. When we made our recommendations last year, HMRC's Pay-As-You-Earn Real Time Information (PAYE RTI) data showed payroll employment was still growing, albeit at a slower rate. We now know it fell from the end of 2024 to the summer of 2025 – though it appears to have stabilised since then.

11. However, on other measures the labour market has weakened: unemployment has risen and vacancies have fallen below pre-pandemic norms. While some job vacancy indicators have stabilised or improved slightly in recent weeks, this has yet to translate into improving job numbers or falling unemployment. Lower vacancy rates and weak recruitment but only mild rises in unemployment and redundancies have led to the characterisation of the labour market as “low hire, low fire”.

12. Some lower-paying industries have weakened to a greater extent. Vacancies in retail and hospitality are well below pre-pandemic levels (in both sheer numbers and as a share of jobs in those industries). Hospitality stakeholders have been clear that the sector is struggling; PAYE RTI data suggest the hospitality sector has lost over 70,000 jobs since the summer of 2024 and GDP data show that it has never recovered pre-pandemic levels of output.

13. A key challenge this year has been separating out the causes of the changes we have seen in the low-paid labour market, due in part to the continued weaknesses in the evidence base. Greater job losses in low-paying sectors may suggest a minimum wage effect, but there are also other forces at work. In particular, the changes to employer National Insurance Contributions (NICs) caught firms off guard, compounding the effects of the NLW increase by raising costs in lower-paying parts of the economy. We heard that while the NLW can be a challenge, it is at least something that is expected and planned for. This was not the case with the NICs changes. Evidence from the Chartered Institute of Personnel and Development (CIPD) suggests that even among firms who say the NLW has a large impact on their wage bill, more thought the NICs increase was the bigger cost.

14. Having comprehensively considered the available evidence base, our judgement is that the recent NLW increases have not had a significant negative impact on jobs. The number of jobs covered by the NLW rate actually fell slightly, when we had expected it to rise. Also, those parts of the country with higher NLW coverage have tended to see their employment (as measured by PAYE RTI) fall by less than other parts of the country. Furthermore, there was an uptick in workers leaving the wage floor for higher-paid work (though fewer moved employer), suggesting some demand is still there.

15. We heard that passing on the cost of NLW rises to consumers via price increases was an increasingly common response. However, while the NLW is no doubt an important cost driver in some industries, the CIPD's summer Labour Market Outlook survey found that NICs and energy cost increases were bigger drivers of costs overall. Our most recent analysis confirms our previous assessment that the NLW has a minimal impact on inflation.

16. Determining a recommended rate that meets the remit's target of "not below" two-thirds of median earnings involves a series of judgements. It requires us to estimate what median hourly pay will be in a year's time (October 2026). For this, we rely on data on earnings that involve estimates and forecasts. Navigating the uncertainty around these estimates and forecasts requires judgement. There are also ongoing problems with a wide range of official data sources that inform our decisions. In addition, Commissioners need to make wider judgements about the impact of their decisions on workers, the economy and the labour market.

17. We note the Government's ambition for a genuine living wage. The remit asks us to take account of the cost of living, including inflation forecasts between April 2026 and April 2027. In response, we have continued to consider a range of cost of living measures. In addition, we have examined the NLW's impact on poverty.

18. Balancing all of these factors, we recommend an NLW increase of 4.1 per cent to £12.71 (a 50 pence per hour increase). This increase meets the Government's target of two-thirds of median earnings for those aged 21 and over in 2026, reflects prevailing economic and business conditions, and exceeds expected inflation between April 2026 and April 2027, giving workers a real-terms pay rise.

Youth rates of the National Minimum Wage

19. The remit sets out the Government's desire to balance its ambition to lower the NLW age of entitlement to 18 with its concern about current levels of youth unemployment.

20. The youth labour market is of concern to us. A "low hire, low fire" labour market is a challenge for young people as they are more dependent on vacancies. Older workers are more likely to already be in work and so are more protected in a "low fire" labour market. There has also been a concerning rise in the rate of young people not in education, employment or training (NEET).

21. Young people are also more likely to work in hospitality and retail, which have seen significant falls in vacancies and employee numbers. In practice though, it is difficult to separate out the NMW effects from other pressures on these sectors, such as consumer spending, NICs changes and monetary policy. The last two increases in the 18-20 Year Old Rate were large in both cash and percentage terms. And while coverage has increased, our assessment is that the evidence is not sufficient to say that these increases have affected young people's employment overall.

22. Commissioners are mindful though that meeting the Government's ambition to lower the NLW age threshold to 18 within this parliament necessitates large increases in the wage floor for 18-20 year olds. In our consultation this year, we asked for stakeholders' views on ways of doing this, including moving 20 year olds onto the NLW in 2026, which would have meant an increase of over 25 per cent in their wage floor. Given the state of the youth labour market and

stakeholder feedback, we think this is too risky and have decided against making this change this year. Instead, we recommend keeping the 18-20 year olds together for another year.

23. We have debated how and when to best deliver the changes needed to meet the Government's ambition to lower the NLW age to 18. In light of youth labour market conditions, we judge it better to take a cautious approach and backload the increases needed to reach alignment. We therefore recommend a rate of £10.85 per hour for the 18-20 Year Old Rate, a rise of 8.5 per cent (85 pence). This is lower than the double digit increases we have recommended in recent years and the increase of over 25 per cent that 20 year olds would have needed if they were to become eligible for the NLW in 2026.

24. Our proposed pathway to meeting the Government's ambition is to reduce the NLW eligibility age to 20 in 2027. The evidence, including our consultation, suggests that the labour market treats 20 year olds differently to 18 and 19 year olds, and that around 70 per cent of 20 year olds are already paid at or above the NLW. Thereafter we also propose that 18 and 19 year olds will move together so that the NLW age will be lowered to 18 in 2028 or 2029. However, all of this will be subject to economic conditions and Government policy towards young people at the time. We will consult further with stakeholders on this approach.

25. For 16-17 year olds we recommend an increase of 6 per cent (45 pence) to £8.00 per hour. This recommendation balances the weaker labour market for this age group with the need to ensure their rate does not become unmoored from the adult rate, particularly as Government policy is to remove the 18-20 Year Old Rate entirely, thus creating a larger gap with this rate.

Apprentices

26. We recommend keeping the Apprentice Rate aligned with the 16-17 Year Old Rate, meaning a rate of £8.00 per hour. We continue to see apprenticeship starts among the youngest age groups perform weakly; this is a long-term, complex trend where we do not believe the minimum wage to be a driving factor. We note the Government's policy intention to refocus the apprenticeship regime on this younger cohort. We await further details on the Growth and Skills Levy and Youth Guarantee. In the longer term, we continue to believe there is merit to reform of the Apprentice Rate, including exploring the idea of an apprentice minimum wage that is a discount against NMW age rates, and we will continue to discuss this with stakeholders in more detail in the coming year.

Accommodation Offset

27. We recommend increasing the Accommodation Offset in line with the NLW to £11.10 (an increase of 44 pence or 4.1 per cent). This is in line with the conclusion of our review of the offset in 2022, where we stated that: "*The value of the offset as a proportion of the NLW will not increase significantly until we have some assurance that there are robust minimum standards in place for accommodation quality and that these are enforced.*" We note that

stakeholders, including UK Hospitality, have offered their assistance in establishing a solution to the question of how quality is assured in accommodation.

Other issues and recommendations

28. A year ago we noted that adult social care workers continued to raise the matter of sleep-in shifts, and we recommended that pay arrangements for these shifts should be addressed within the planned Fair Pay Agreement for the sector. We note the Government is currently consulting on the process for establishing an Adult Social Care Fair Pay Agreement. It remains our recommendation that the FPA's remit should include how workers are paid for sleep-in shifts. We will respond to the consultation to reiterate this.

29. Finally, the remit asked for our views on the criteria that would need to be met in order for the baseline target of the National Living Wage rate to increase beyond the current two-thirds of UK median earnings level within this Parliament. We will provide further information in the new year.

30. These recommendations show the value of the Commission's independence and social partnership model in reaching consensus on key policy decisions. We are grateful to the employers, workers, their representatives and other experts who gave us invaluable evidence and testimony over the year.

With kind regards,

A handwritten signature in blue ink, reading "Philippa Stroud", written over a horizontal line.

Baroness Philippa Stroud

Chair of the Low Pay Commission

Copied to:

Kate Dearden MP, the Minister for Employment Rights and Consumer Protection