

The National Minimum Wage (Amendment) Regulations 2026

Lead department	Department for Business and Trade
Summary of proposal	This proposal is to increase the National Living Wage and National Minimum Wage on 1 st April 2026, 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 – 6 January 2026
Legislation type	Secondary legislation
Implementation date	1 April 2026
RPC reference	RPC-DBT-26124-IA(1)
Date of issue	30 January 2026

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 policy objectives. The Department has updated its counterfactual methodology from previous IAs. The assessment includes a good regulatory scorecard however could be improved with a greater consideration of potential risks, such as the impact on innovation. 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 it 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. The Department has updated its counterfactual methodology from previous IAs. 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.
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.

This proposal is to increase the NLW (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.

LPC NMW/NLW rate recommendations for April 2026

	LPC recommendation	Current rate	Annual percentage increase
National Living Wage rate (21+)	£12.71	£12.21	4.1%
18-20 year old rate	£10.85	£10.00	8.5%
16-17 year old rate	£8.00	£7.55	6.0%
Apprentice rate	£8.00	£7.55	6.0%
Accommodation offset (per day)	£11.10	£10.66	4.1%

It is proposed that the new rates should come into force on 1 April 2026. NMW and NLW rates were last increased in April 2025.

Rationale

Problem under consideration

The Department builds on the 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 hourly 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 references a discussion included in the previous NMW IA¹ of monopsony power being a feature of various parts of the UK labour market, which can lead to employers suppressing 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 Department makes the case that this still holds in today's markets, though the IA would benefit from providing some brief detail on this. The assessment would have benefitted from building on this discussion from last year to consider the potential employment effects in less concentrated labour markets, given the Competition and Markets Authority (CMA) and LPC research suggesting that 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.

Objectives and theory of change

The Department's has set out six policy objectives. These are: to protect and boost low earnings, build towards a genuine living wage, deliver inclusive growth, ensure the NLW doesn't fall below two-thirds of median hourly earnings, build towards removing adult age bands and 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 options

The IA states that the LPC has considered a range of options for the 2026 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

¹ [The National Minimum Wage \(Amendment\) Regulations 2025](#)

Department has not replicated this with a longlist of potential rates and moved straight to a shortlist. The IA does helpfully 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 could elaborate on the scale of the risk of the less ambitious option for the NLW not achieving the target of two-thirds of median earnings.

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 2026. 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 briefly considers some 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 provided is sufficient. Small and micro businesses are estimated to employ 41 per cent of affected employees and incur approximately 38 per cent of the total cost of the proposals. The IA could comment on the fact that these figures have increased since the previous uplift. 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 Department plans on undertaking some mitigations, with a planned set of employer-targeted communications and guidance, and using previous LPC projections of the NLW and the 5-month lead in time to allow for business adjustment.

Medium-sized businesses considerations

The IA usefully includes consideration of impacts on medium-sized businesses, which are estimated to employ 16 per cent of employees and incur approximately 18 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 -£6.9m (2025 prices, 2026 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.

Counterfactual

The Department has adjusted its approach to estimating the counterfactual in this IA, using inflation forecasts as a proxy for wage growth at the bottom of the income distribution rather than wage growth forecasts. This is due to labour market cooling likely resulting in a slowing of wage growth in low-paying jobs, meaning that using a wage growth forecast could lead to overestimating the counterfactual. The IA should provide more evidence to support this claim. The IA uses the HMT panel of independent forecasters, applying an average to a range of forecasts. The Department's use of a range of independent forecasts appears to reflect economic and labour market circumstances and prospects reasonably. The Department assumes it takes four years for earnings in the counterfactual to 'catch-up' with the new minimum rates, which is lower than the six years used in more recent IAs, due to the more modest proposed increase. IAs on future upratings should continue to review the appropriateness of the approach and assumptions used. The IA does well to break down its catch-up time for different rates, with a longer catch-up time anticipated for NMW rates than the NLW.

Evidence and data

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 various organisations either through written consultation, oral evidence sessions or visits across the UK. Much of the evidence has been summarised in a 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. Whilst the IA does note issues with ASHE data and discuss steps taken to mitigate these issues, the IA would benefit from further discussion considering why this data varies with the Department's own estimates.

Uncertainty, risks and assumptions

The IA appropriately includes low and high estimates (and, for counterfactual wage growth, additional estimates based upon OBR and Bank of England forecasts) and extensive sensitivity analysis 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 the impact on 'hidden' unemployment, e.g. individuals transitioning to economic inactivity 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.

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 £157.6m (2025 prices, 2026 present value), which is lower than previous years reflecting continued 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 £583 million. Taken with the cost of the pay increase for employees currently earning below the NLW and NMW (£637 million), this results in a cost to employers due to increased labour costs of £1,220 million (2025 prices, undiscounted). The IA should have included discounted figures for these costs to demonstrate the calculation of the NPSV and business NPV.

The policy is expected to have the opposite effect for households, with the Equivalent Annual Net Direct Cost to Households (EANDCH) estimated at -£137.4 million (2025 prices, 2026 present value). This is driven by benefits caused by the aforementioned increases to pay for individuals earning below the proposed rates of £522 million. An indirect benefit to households is the pay impact for employees who have maintained pay differentials above the NLW and NMW, estimated at £478 million. Overall this produces a household benefit of £1,000 million (2025 prices, undiscounted). As before, the IA should have included discounted figures for these benefits to demonstrate the calculation of the NPSV and household NPV.

The Net Present Social Value of the measure overall has been estimated at -£6.9 million (2024 prices, 2025 present value). This is based on a total cost to employers of £1,220 million, being offset by £1,000 million in increased wages to workers and £220 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 because of the change, with the other impacts netting out as a transfer from employers to employees.

The IA does well to consider the regional impacts of the measure, with the North East of England 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 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 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. The Department acknowledges the NMW and NLW are now among the highest in the world, however 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. The IA states that the LPC publish its next steps for this process in Spring 2026. This is expected to 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 2026 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.

Regulatory Policy Committee

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