UKHospitality response to the Low Pay Consultation 2025

Executive summary

Hospitality is a leading employer across all parts of the United Kingdom, employing almost one in ten of the working population. As outlined in the UKHospitality Social Productivity Index[1], hospitality is an inclusive, accessible, meritocratic and geographically diverse sector to work in.

The sector offers career opportunities for people from all walks of life, and dramatic career progression for those that want it, but, as a provider of entry-level jobs, it has a significant number of roles at, or just above, minimum wage rates.

Payroll is the highest cost to hospitality businesses, typically between 25-35% of net turnover, but it can be much higher. As a sector that thrives on personal interactions, we are naturally labour-intensive. Changes to employment costs therefore have a substantial impact on the profitability of hospitality businesses and in turn on the number of jobs created.

The changes that came into effect from April 2025 were particularly difficult for hospitality businesses. The NLW and NMW rates all increased substantially above expected levels (partially due to ONS data revisions) which came as a shock, especially in a cost-of-living crisis where disposable spend remains weak.

The changes to Employer National Insurance Contribution thresholds and rates were devastating. As the sector that is proud to provide the highest proportion of part-time, flexible roles across the economy, the change in the threshold from £9,1000 to £5,000 hit hospitality especially hard. We estimate that this brought 774,000 employees into scope for the first time.

This aggregate cost burden is critical to understand; minimum wage rates cannot be considered in isolation. This is as pertinent in April 2026, as the first parts of the Employment Rights package come into effect, especially the introduction of Statutory Sick Pay as a day one right.

Hospitality has been a great jobs success over the last fifteen years, notwithstanding enforced closure and restrictions during the Covid period. Employment grew strongly post-financial crisis and bounced back impressively once the Covid pandemic had been contained. That is now at risk. ONS data[2] shows that from October 2024 (Autumn Budget) to May 2025, hospitality reduced its number of jobs by 69,000. In the same period 12 months earlier, employment had grown by 18,000. Clearly, employment costs were not the only reason, but they are likely to have been extremely significant.

The impact runs counter to the objectives of the Low Pay Commission, to maintain employment levels while increasing pay, and against the stated aims of the Government. It damages high streets, which are starved of investment, it lowers the employment rate, counter to the Government's target of 80% and it makes it harder to employ those furthest from the labour market, reducing prospects for the long-term unemployed to find a job role.

The hospitality sector remains at the heart of the nation's economic and social lifeblood and it is important that it is given the opportunity to thrive, by reducing the cost pressures it faces. We will put forward fiscal measures at the Budget to address these: around business rates, employer NICs and VAT. However, wage rates clearly feature in the cost mix. We make the

[1] https://www.ukhospitality.org.uk/work/social-productivity-index-measuring-the-value-of-hospitality/

[2] Earnings and employment from Pay As You Earn Real Time Information, UK: June 2025, tab 23

following recommendations, with the ambition to secure and grow jobs for people of all ages, while continuing to increase wages for the lowest paid.

Recommendations

- Due to the staggering impact on employers of part-time and lower-paid workers from Employer NICs, we believe the LPC should take a more cautious approach to the setting of minimum wage rates for April 2026.
- UKH supports the principle of maintaining the 66% of median earnings in the medium-term but believe that an increase of no more than CPI + 0.3% should be implemented in April 2026 – thereby providing scope for a real-terms pay increase without unduly threatening employment levels. This is a direct result of the April 2025 change to EmNICs.
- The increase in NEETs in recent years is a cause for concern and a reason for taking a more gradual approach to increasing youth rates.
- Given the pressure on employment costs, we believe a patient approach should be taken to abolishing the 18-20 rate. We believe the target date should be deferred to when the circumstances are judged not to be damaging to the prospects for youth employment. This should not be a linear approach and there should be a slower level of increase in the next two years while the labour market stabilises.
- There is a preference for the 18-20 rate to be abolished through a combining of the rate with the NLW rate, rather than through a piecemeal approach year-by-year, as the latter would risk additional compliance issues.
- The 18-20 rate should increase by no more than CPI + 2%, allowing real-terms increases, a narrowing of the difference between 18-20 rate and the NLW.
- The 16-17 rate should increase at the same rate as the 18-20 rate in percentage terms.
- We support the LPC proposal to align the apprentice rate with the age rate, alongside a discount
- Minimum wage rules remain confused and complicated, even for sophisticated businesses, leading to businesses being caught out by technical errors, we reiterate our request that HMRC (or the Fair Work Agency) works with the sector on clearer rules on the key infringement issues.
- The Accommodation Offset remains woefully low for the quality of provision within the hospitality sector, creates distortions in disposable income and disincentivises investment in more and better living provisions. We note previous LPC recommendations that Government investigates a standard for staff accommodation and reiterate our willingness to support this work.

Consultation questions

About you

UKHospitality is delighted to contribute to the 2025 consultation of national minimum wage. We have found the in-person consultation sessions in London, Dundee, Swansea and Exeter extremely constructive and welcomed the collegiate approach from commissioners and the secretariat. We look forward to participating in the session in Newcastle and giving oral evidence to the commissioners later in July.

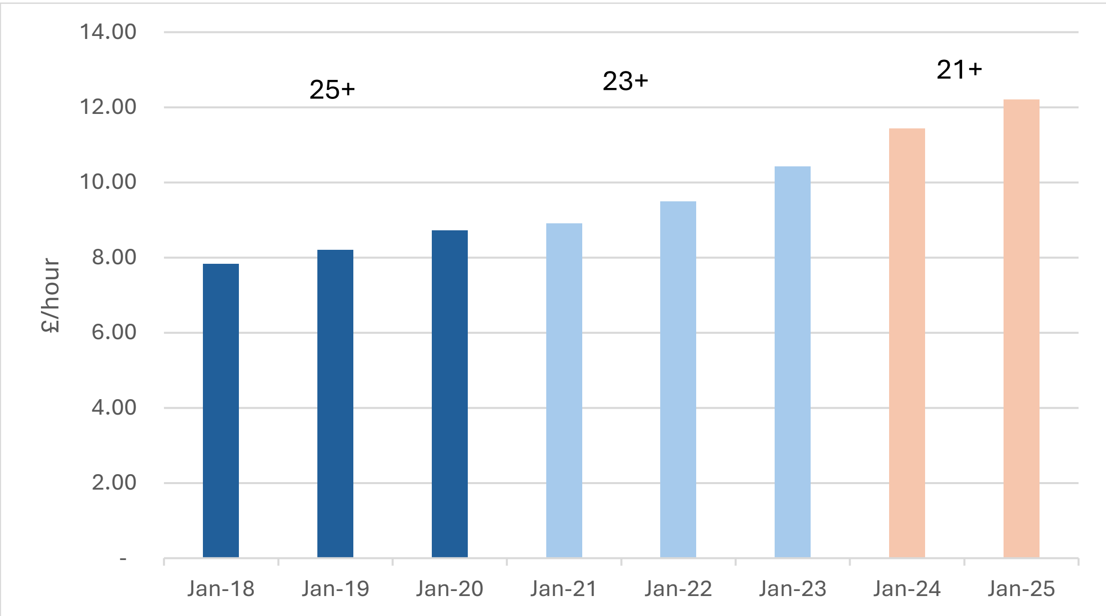
UKHospitality is the national trade body for the hospitality sector across the UK. We are headquartered in London and have offices in Edinburgh and Swansea. We partner closely with Hospitality Ulster in Northern Ireland. We have approximately 700 member companies (including industry suppliers), owning and/or operating around 100,000 venues.

Across the broad hospitality sector, we estimate there are 3.5 million jobs. This is higher than the ONS measures of accommodation and food services as we include some agency workers, a broader definition that ONS' SIC code and other differences as highlighted in the Economic Contribution report[3].

The National Living Wage

The National Living Wage increased to £12.21 per hour in April 2025, another supra-inflationary increase, of 6.7%. The NLW has now increased by 56% since April 2018. It is considered to be amongst the highest minimum wages in the world, measured as a percentage of median earnings.

Chart 1: Change in the adult minimum wage rate, 2018-25

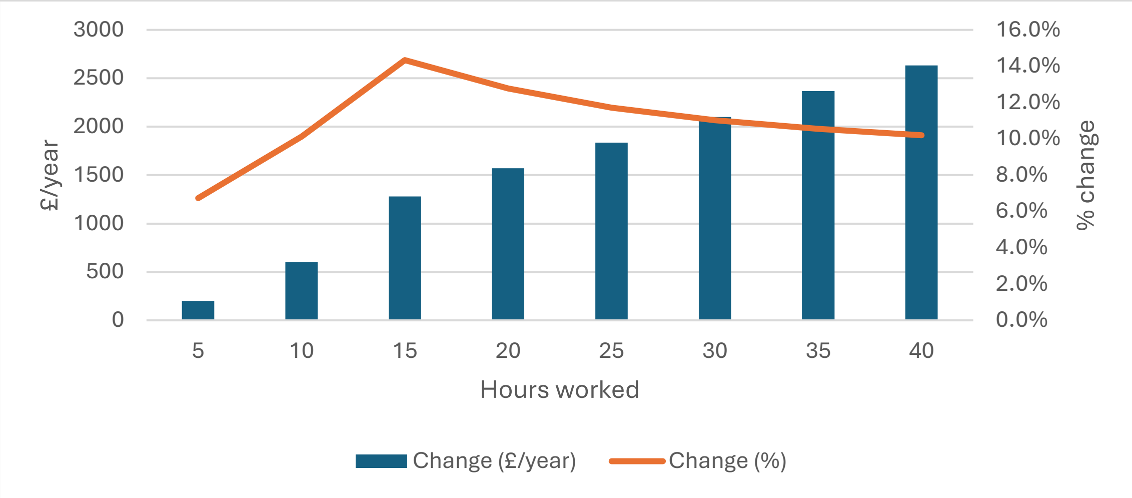


Source: Gov.uk

Of course, this was not the only change that occurred at April 2025, with changes to the Employer NICs regime. This added to the aggregate costs of employment.

[3] https://www.ukhospitality.org.uk/insight/economic-contribution-of-hospitality/

Chart 2: Change to the aggregate cost of employment, by hours worked by NLW workers



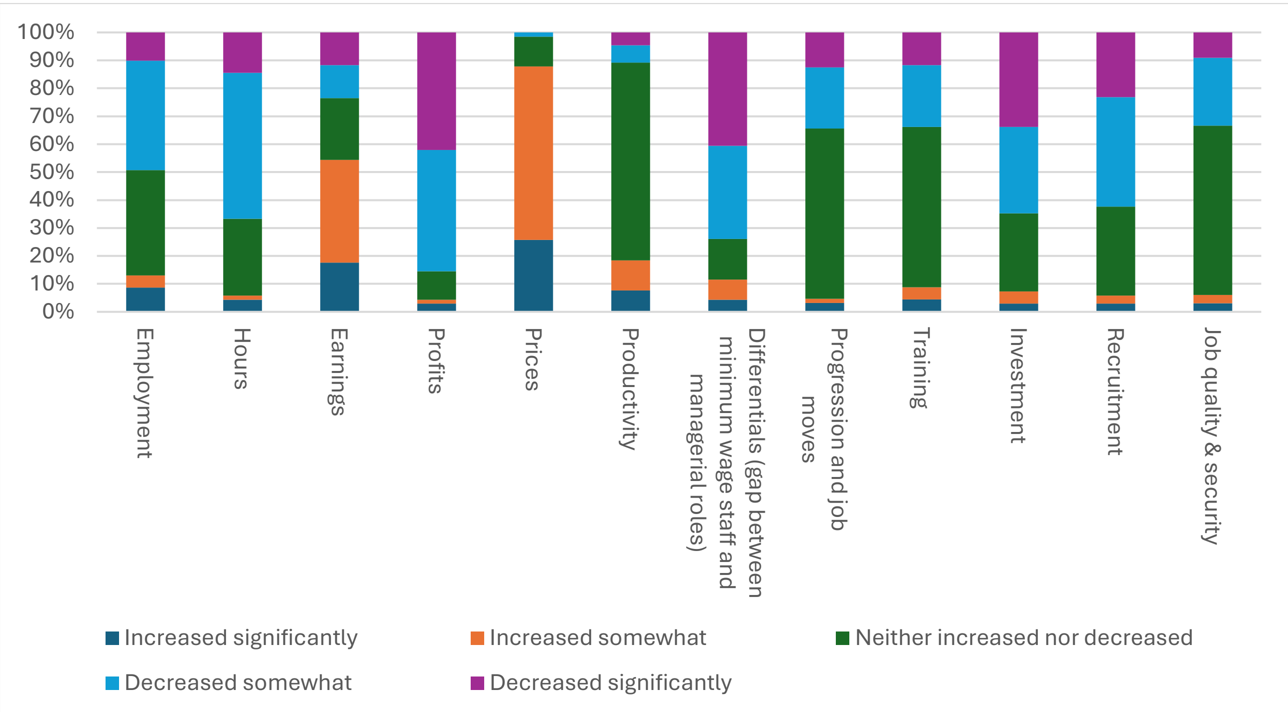
Source: UKH analysis

The chart shows that the average full-time worker (at 40 hours per week) will cost over £2,600 more to employ in 2025/26 than the previous year. This is an increase of over 10% into a difficult trading environment. The percentage increase in costs is higher at lower levels of earnings, reflecting the impact of reducing the Employer NICs threshold.

<u>Impact of the 2025 NLW change</u>

We asked members to feedback on the consequences of the 2025 NLW change. While the question focused on the NLW, it was almost impossible for businesses to disaggregate the combined impact of NLW changes from those from the EmNICs regime. The results are as follows.

Chart 3: Business and workforce impact of 2025 NLW change



The chart above outlines the impacts businesses have felt from the increase in the NLW (as above, some of this will take into account the aggregate cost changes). The results are very striking in terms of the negative impact on the number of jobs and total hours available. The bigger negative impact on hours versus employment suggests that those working are working fewer hours, and are therefore earning less.

There are also negative impacts on job quality and job progression, as well as training. A reduction in profits is shown by around 85% of businesses, reflected in a drop in investment for around 66% of businesses.

How has the NLW's impact varied across different areas of the UK?

The NLW continues to affect businesses outside of London the hardest, where the "bite" of median earnings is much higher due to lower median earnings levels. This will be where the business pressures are most severe and jobs are most at risk.

<u>Views on the April 2026 level of NLW</u>

UKHospitality has supported the principle of hitting the target of 66% of median earnings though always cautioned that this needed to take into account wider market conditions (eg Covid, energy crisis) and not be a fixed point. We continue to support the principle but the huge increase in aggregate labour costs in April 2025, driven by a higher-than-expected increase in NLW (and NMW rates) and the regressive reforms to EmNICs means the labour market needs time to adjust.

We propose that the NLW increases by no more than CPI +0.3%. This provides scope for real terms increases and does not move too far from the median earnings target, but allows businesses some breathing space to adapt to changes in the tax burden.

This figure broadly represents where hospitality businesses are in terms of what they believe is fair. We asked in our survey what level the NLW should be set at and the mean was £12.46 and the mode £12.50. The range was from a freeze at £12.21 to £13.33. This suggests that for many the maintenance of the 66% rate is not sustainable.

The imposition of Statutory Sick Pay as a day one right from April 2026 should also be considered as an additional cost burden. This is likely to disproportionately affect the hospitality sector.

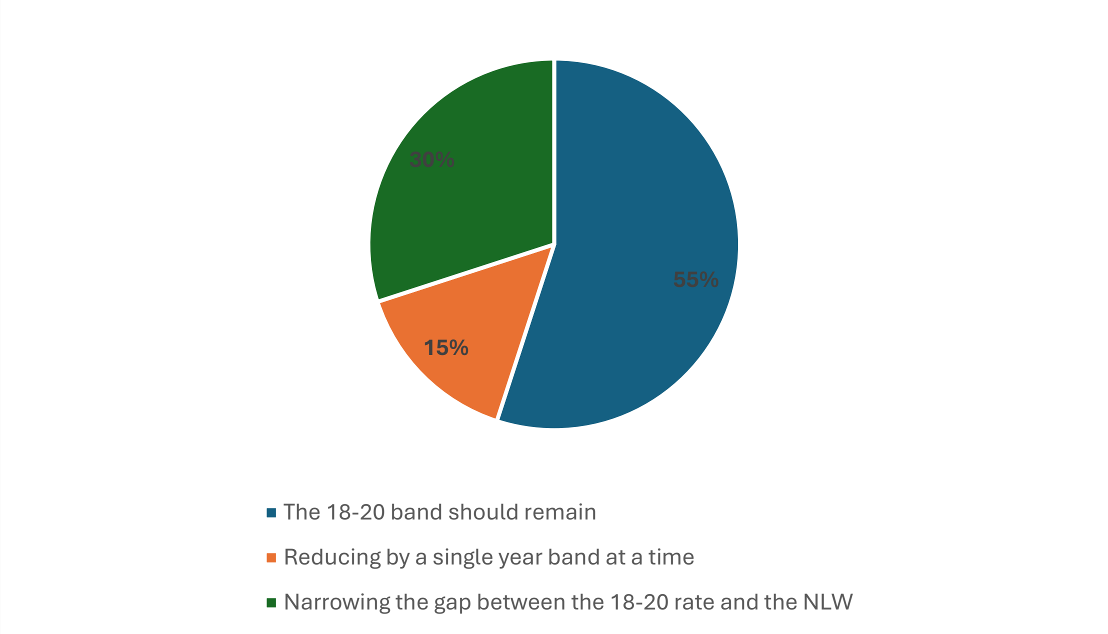
We asked businesses what impact an increase to £12.65 (the central estimate at the time) would have on their payroll costs and the weighted average came back at 5.3% so even a lower level of increase would drive higher costs.

Lowering the age of entitlement to the National Living Wage to 18

We acknowledge that the Government has committed to ensuring the NLW applies to all adults, aged 18 and over, and that this is a longstanding recommendation of the LPC. As noted above, the cost pressures on businesses are making it increasingly hard to absorb employment costs, and it is likely this has had an impact on the increase in the number of NEETs.

To avoid pricing more young people out of the labour market, we believe the LPC should urge patience with regards to the speed at which this is implemented. There should be no fixed date applied to the merging of the NLW and the 18-20 year old rate, rather this should only occur when the circumstances are not damaging to youth employment.

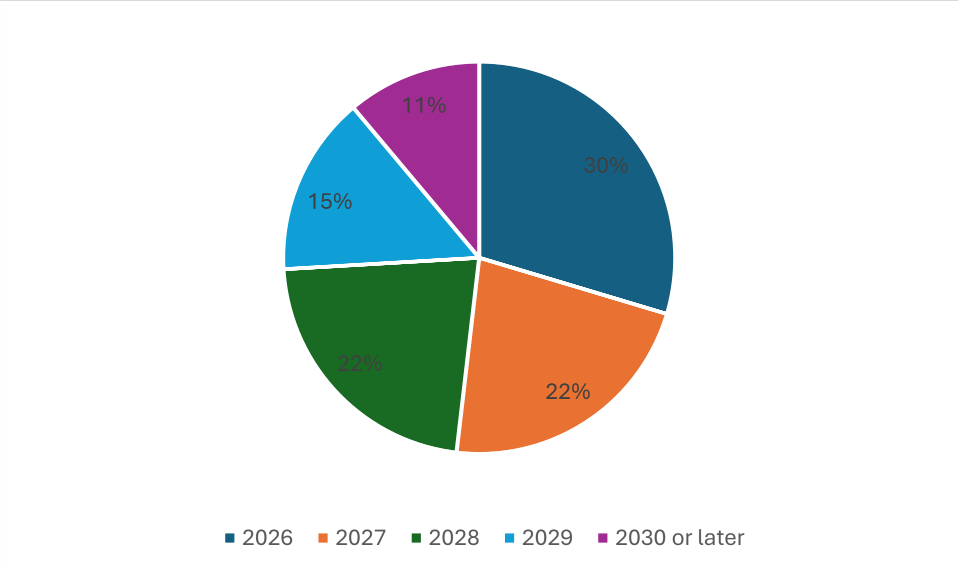
Chart 4: Member views on method of 18-20 abolition and speed



As our survey shows, in the chart above, there is a clear majority in favour of maintaining the 18-20 band, reflecting current business pressures and a view from a lot of businesses that employing younger people comes with additional business resources.

Of the two options presented, we believe that the merging of the two rates is preferable to slicing off one year at a time from the 18-20 rate. The latter risks causing administrative burden and creates greater risk of non-compliance as age thresholds is one that is often cited as a reason for underpayment of the right minimum wage rate.

Chart 5: Timing of abolition of 18-20 rate (only those who support its abolition)



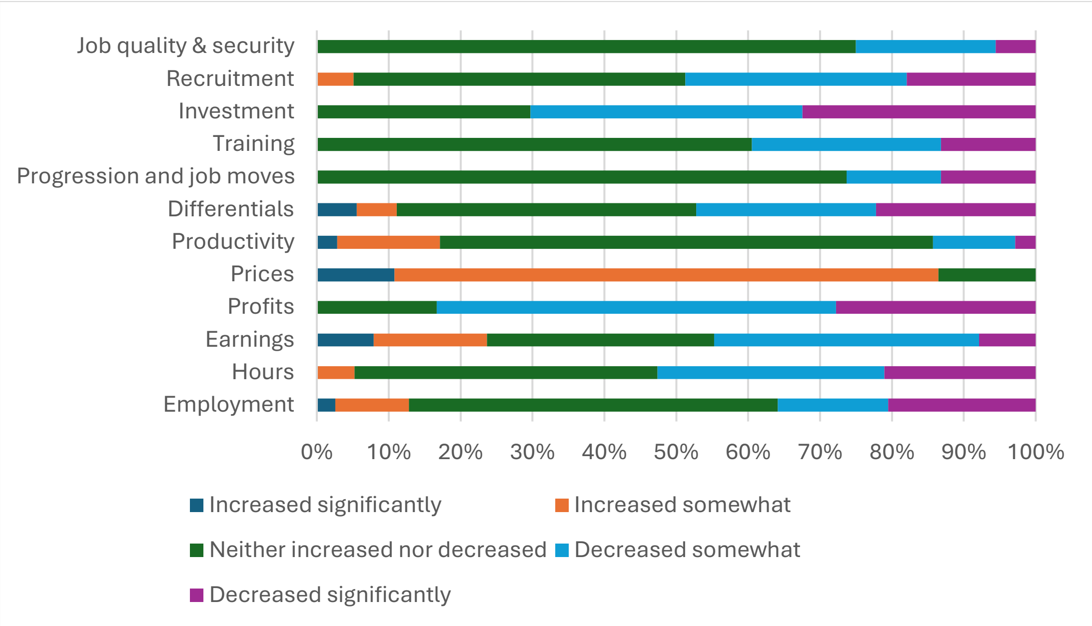
Consistent with the previous question, there were a majority of respondents (56%) who did not agree that the 18-20 age band should be abolished. The above chart excludes these and so only includes those who tend to agree that it should be phased out. Nearly a third (30%) believe it should be abolished as early as 2026 (these tend to be those who do not use the rate). There was close to a 50-50 split between those who believed it should be abolished before 2027 and those who stated afterwards, of the minority who believe it should be abolished.

In the short-term we believe that the 16-17 year old rate should increase in lockstep with the 18-20 rate in percentage terms.

Young people

The increase in youth rates in April 2025 were exceptionally high, and, again, caught businesses by surprise. The feedback we have received is that this has been negative for youth employment in the sector, notwithstanding the exemption from EmNICs at this age and wage level.

Chart 6: Impact of increases in youth rates



As with the NLW, it was felt that the increase in the youth rates had negative impacts on jobs, with a reduction in hours, employment and earnings, though there was a more balanced picture, potentially due to the favourable EmNICs position. In terms of businesses, it had a negative impact on profits and investment, with price increases for nearly nine in ten businesses.

For businesses, there will be a range of factors that impact the rates of pay for young people, in particular. The length of employment is key. Many young people will be taken on at the youth rate as they learn the trade, given that for many this will be their first job, and then they will rise up the pay scales.

For the reasons set out above, we remain concerned that the labour market will continue to be challenging for young people. While higher youth rates are beneficial to those young people in work, it can be a barrier to overall youth employment.

We therefore do not believe increases to the degree we saw in April 2025 should be considered. We propose that increases in the 16-17 and 18-20 year old rates of no more than CPI + 2% should be recommended. This would deliver real-term pay increases and close the gap with the NLW, but would cap the additional employment cost of young people, ensuring that more people can be employed and hospitality and other sectors can provide opportunities.

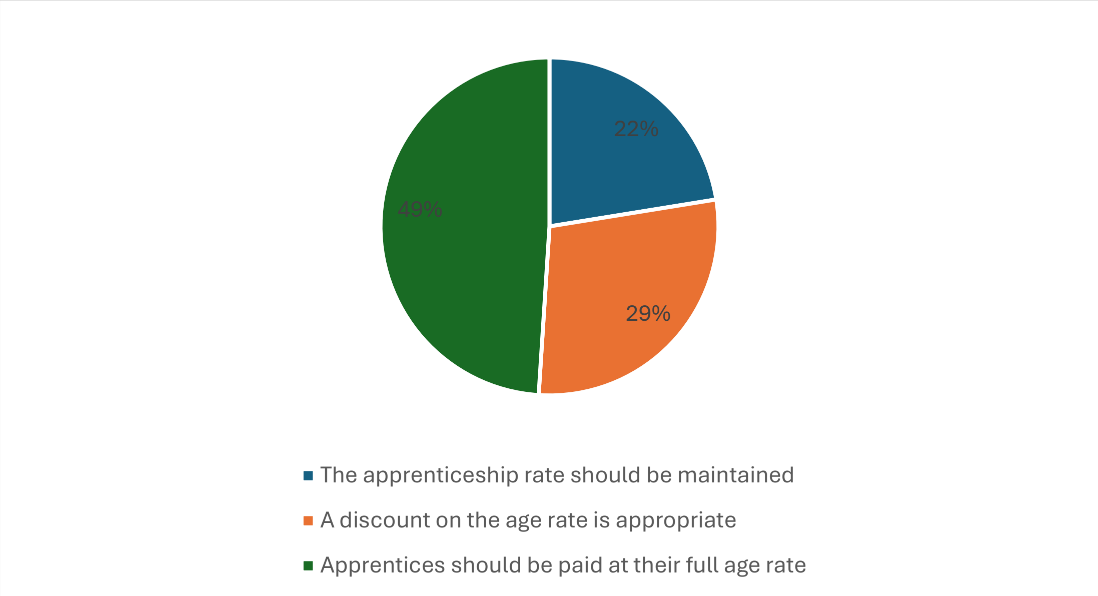
This is broadly in line with the averages from the member survey, as shown below.

For the 18-20 rate the mean answer was £10.74 (an increase of 7.4%) and a median of £10.37 (3.7%). For the 16-17 rate, the mean was £8.47 (12.2%) and the median was £8.00 (6.0%). The means were inflated by those who answered with a figure in line with the NLW.

Apprentices

There is a division within the membership around whether the apprenticeship is used by our members, and this influences their overall view of the rate and its future levels. Our survey showed that of those who did employ apprentices, nearly 5 in 6 (82%) did not use the apprentice rate.

Chart 7: Views on the apprentice rate



Just over one in five businesses supported the maintenance of the apprenticeship rate and three in ten support the LPC proposal of a discount on the relevant age rate. Half of respondents proposed that apprentices are paid the full rate applicable to their age.

Pay is only one element that influences businesses' appetite to employ apprentices. Arguably, from the data we have received, the lower rate has limited influence in hospitality about the likelihood to employ apprentices. The apprenticeship system itself is a more significant driver. Government has promised significant reforms to the apprenticeship system, replacing the Levy with a Skills and Growth Levy. Details remain sparse, though some early signs are positive.

We broadly support the recommendation of the LPC that the apprentice rate is replaced with a discount on the relevant age rate.

Compliance and enforcement

The hospitality sector continues to have concerns around the compliance and enforcement regime that surrounds the minimum wage system. Our members fully support the principles underpinning the regime and agree that there should be penalties for those who blatantly cheat the system and their employees.

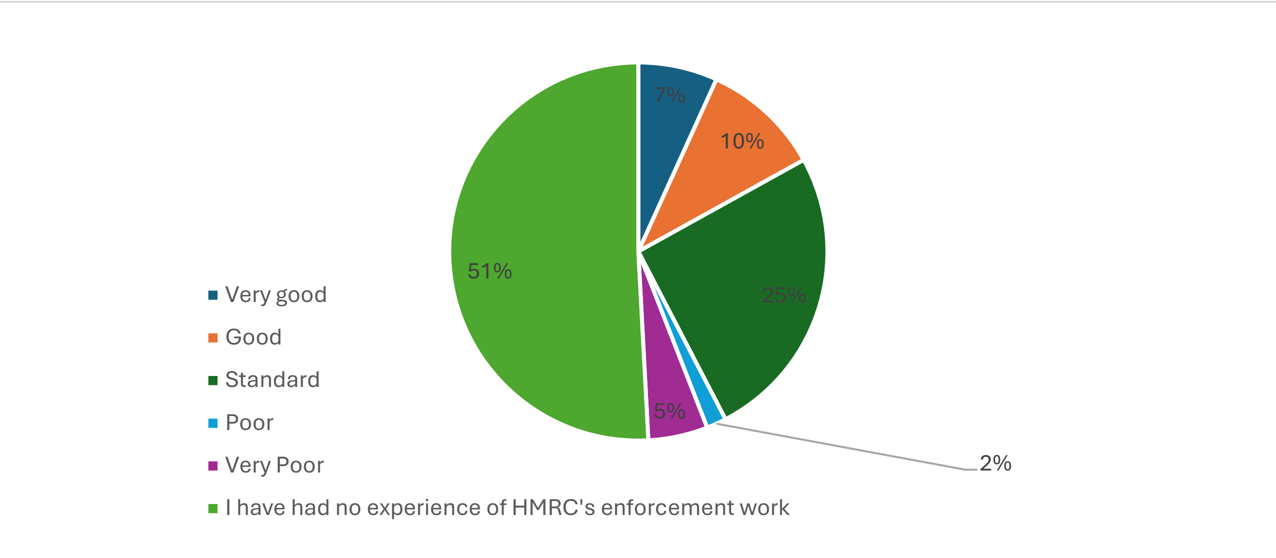
The problem faced is that there is a complete lack of clarity on many of the rules surrounding the minimum wage rates and what is offset against wage levels. This has been an issue that we have raised for nearly a decade, and it is imperative that a resolution is found. The vast majority of transgressions against the NLW are for technicalities where the rules are unclear.

Where investigations take place there are frequently complaints about how they are conducted. It is felt that they are inconsistent, they are overly intrusive and burdensome and take too long – with examples of inspectors being replaced many times during investigations, which effectively have to start from scratch.

It is imperative that the Government, through HMRC or the new Fair Work Agency, works with the hospitality industry to ensure that the rules are clear and businesses can comply with the law and avoid having to go through lengthy audits and be named and shamed for miniscule errors.

While the majority of businesses have had no experience of HMRC enforcement work, around half of those who have report a “standard” experience. Of those that give a view either way, more rate it as good than poor, though those reporting negatively express strong views about the process.

Chart 8: Views on HMRC enforcement



Accommodation Offset

The LPC has urged the Government to review the Accommodation Offset in previous years. We agree that it needs review. The system is non fit for purpose as it does not adequately reflect the cost of providing live-in accommodation.

The consequence is significant. It creates major distortions in the disposable income of employees. Live-in team members on minimum wage effectively end up with the equivalent income of much more senior team members who rent privately in local areas.

The low level of the accommodation offset also provides a disincentive for hospitality businesses to invest in additional accommodation, and improving the quality of existing stock. A stronger incentive could lead to a relatively significant increase in housing stock in rural areas, benefiting local residents.

In previous years, we have offered to co-develop and trial an accommodation standard that would allow differential levels of accommodation offset. We understand that having eight workers living in a caravan should not be subsidised. However, this reiterates our point that where high-quality accommodation is provided, this should be rewarded.

Economic outlook

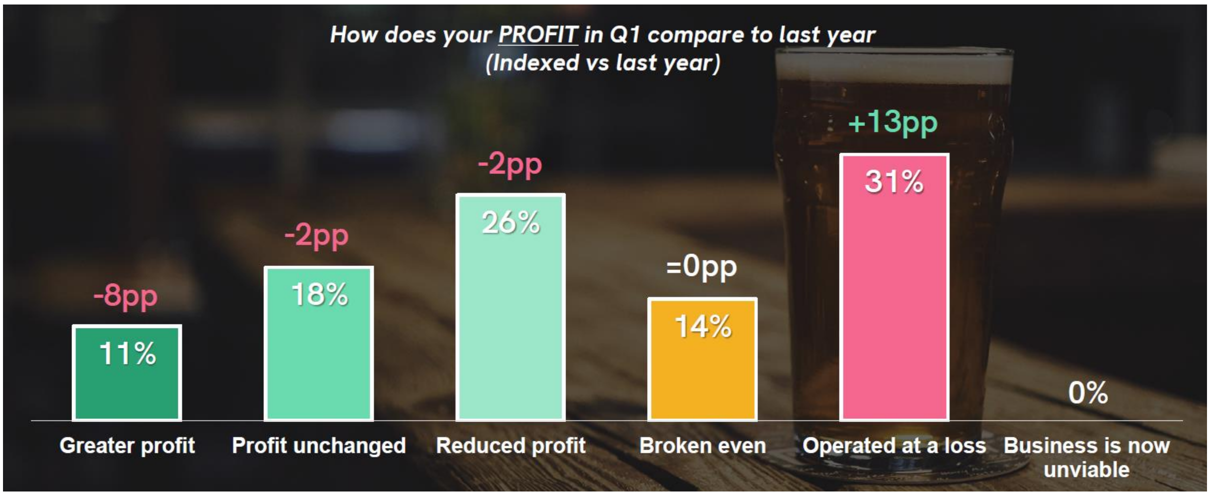
The economic outlook for hospitality businesses feels relatively bleak. A member survey we carried out in April showed very low business confidence though this was marginally improved on Q1 2025 (which was a post-Covid low)

Chart 9: Business confidence, Q2 2025

Source: Industry groups survey, Q2 2025

In the same survey, there was a significant surge in businesses operation at a loss, up 13 percentage points, to 31%.

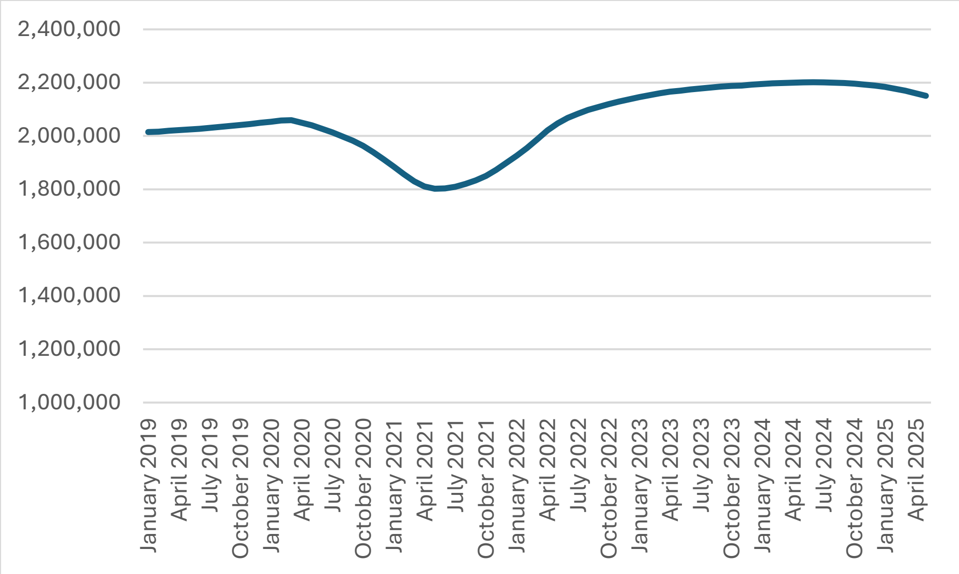
Chart 10: Business profitability, Q2 2025



Source: Industry groups survey, Q2 2025

The labour market is starting to feel the impact of the 2025 Budget.

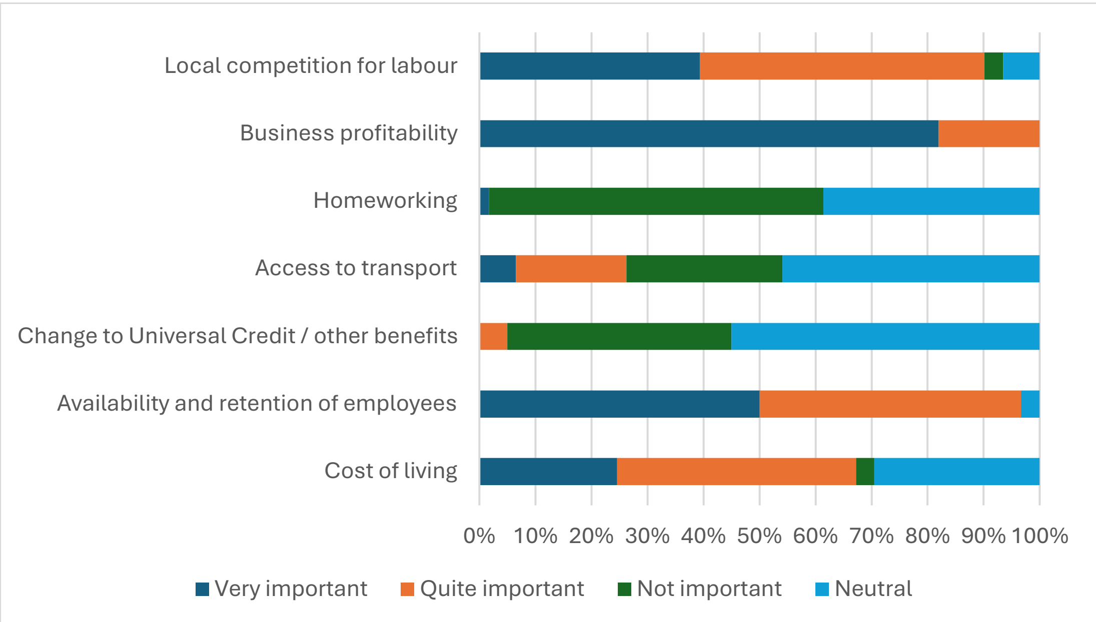
Chart 11: Employees in the accommodation and food services sector (MAT)



Source: Earnings and employment from Pay As You Earn Real Time Information, UK: June 2025, tab 23

After a strong recovery in jobs post-pandemic this has now reversed from around the Autumn Budget of 2025. The chart above shows the moving annual trend in employment in hospitality. In absolute terms, the number of jobs has fallen by 69,000, a fall of 3.2%. This is three times higher than the rest of the economy, reflecting the nature of jobs in the hospitality sector. There are fears this trend will continue, reflecting the evidence on business confidence represented earlier in this submission.

Chart 12: Factors influencing pay decisions



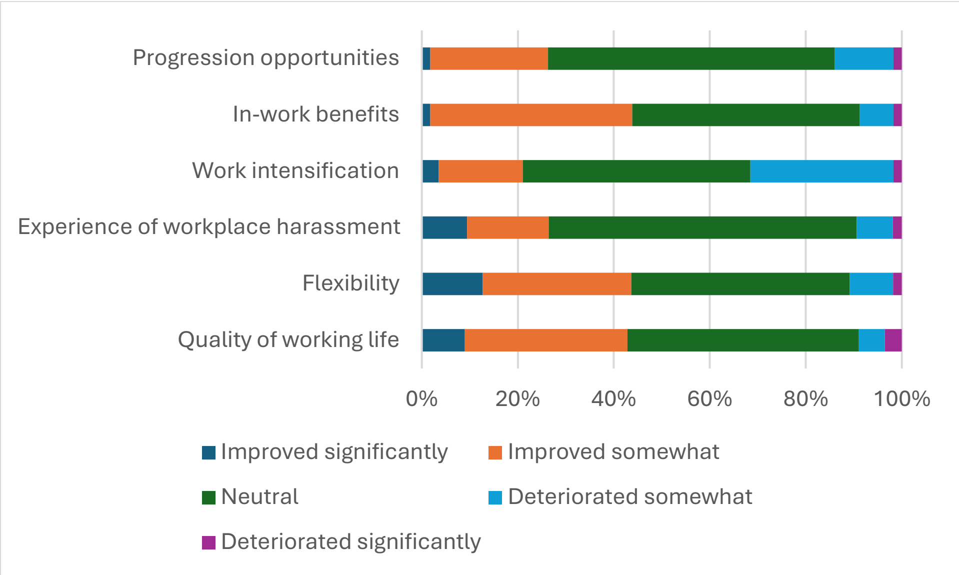
The chart above indicates the key factors that influence pay decisions. The most significant factor by far is business profitability. In earlier charts, on the impact of changes to minimum wage rates and reported business profitability, this is clearly being negatively impacted so we are likely to see negative pay outcomes at an aggregate level going forward as businesses simply cannot afford higher costs.

Local factors, including competition and availability of labour are also important considerations, as is the cost-of-living.

Experience of work

Broadly speaking, our members report that the experience of work has improved for their employees. This is in addition to higher minimum wage rates for those on them.

Chart 13: Business views on employee experience of work



The amount of flexibility and quality of working life, as well as in-work benefits have seen significant net increases. The one measure that has gone the other way is work intensification, likely to be a result of reduced employment levels leading to more demands on employee time.