



# Response to

The Low Pay Commission's consultation to inform their recommendations to the Government on minimum wage rates in 2026 and beyond.

30<sup>th</sup> June 2025

## Introduction

The emergence and rapid growth of the well-functioning umbrella market has been a positive contributor to UK growth, productivity and wealth. Compliant bona fide umbrellas – also known as Specialist Payment Intermediaries (SPIs) – provide certainty and security to the workers engaged by them, ensuring that; they receive the full protections required by employment law, their tax affairs are simplified, and all required taxes are remitted to HMRC.

The Freelancer & Contractor Services Association (FCSA) is the UK's leading professional membership body dedicated to raising standards and promoting supply chain compliance for the temporary labour market. Our members provide umbrella employment (via an Overarching Contract of Employment), self-employed services, accountancy, and business support solutions to the contingent workforce.

At time of writing, FCSA has more than 80 Accredited Members who collectively represent circa 220,000 workers engaged as employees; making them, collectively, one of the largest employers in the UK. Around 1 in 3 of the workforce represented by FCSA are women. Annually, FCSA members alone collect circa £12.5 billion in taxes and NICs which are timeously remitted to HMRC.

FCSA has worked extensively with government and other stakeholders to promote the highest possible standards in the industry, most recently providing labour market intelligence and umbrella regulation advice to directorates in the Department for Business and Trade (DBT), such as Labour Market Enforcement and Employment Agency Standards and HM Treasury, as well as working with HMRC across a number of areas including the off-Payroll Working Forum.

It has also assisted Parliament, giving evidence to the All-Party 'Parliamentary Loan Charge and Taxpayer Fairness Group', 'Modernising Employment Group', and the House of Lords Finance Sub-Committee, as well as being an expert advisor to the DBT-supported JobsAware initiative, the Better Hiring Institute.

FCSA continues to promote compliance within the sector for the benefit of individual workers, HM Government, and the supply chain. As a representative of a unique subsection of the labour market, it has also submitted various bodies of evidence to Government with market-led recommendations on how to drive non-compliance out of the supply-chain.

This submission outlines FCSA's position and recommended approach to the setting of minimum wage rates for the UK in 2026 and beyond.

## Executive Summary

FCSA support the concept of the National Minimum Wage (NMW) as we feel it is helpful to have a clear minimum standard that Government expect all employers to adhere to.

That said, it is of critical importance to the functioning of our economy – and wider society – that these rates are set at a sustainable level, and that the impacts of rate rises are properly understood. It is from this perspective that FCSA are able to provide insights and inform policy development.

Employers are currently facing cost pressures from multiple fronts. Including; the recent increase in Employer's National Insurance Contributions, inflationary pressures and the added costs and obligations that the Employment Rights Bill will bring. The Office for National Statistics (ONS) have estimated that the number of available jobs fell by 63,000 between March and May 2025, to 736,000. Unemployment is estimated to have risen from 4.5% to 4.6%, the highest level in almost four years.

The trend the ONS have identified highlights how vulnerable employers are to further costs pressures and this demonstrates the importance of taking a proportionate approach to increasing NMW and the National Living Wage (NLW). After all, the benefit to employees of increasing NMW and NLW rates is only felt if employment can be maintained. It is also important to note that the rise in the average wage was 5.2% between February and April 2025, this is down from 5.6%.

FCSA also raise concerns around policies that relate to young people entering the work force. Sadly, the proportion of young people that are economically inactive has never been higher. It is important that these trends are properly understood, and that NMW and NLW rates are adjusted to reflect the aim of increasing youth employment. We all want to see young people realise their potential and build their stake in society.

We believe it is important to maintain the difference between NMW/NLW rates across the age ranges. The main effect of setting the wage of someone who has newly entered the workforce at the same rate as someone who has been in the workforce for 3 years or more is that they will be less likely to secure employment. Employers value experience, and without a difference in price, someone looking to secure their first job is unable to compete, which must be very disheartening for them.

As a general principle, we recommend that any increases in the NMW and NLW are linked to inflation and that attention is paid to adjustments to state benefits – it is important that being in work is incentivised, when compared to being on benefits.

FCSA realise that setting these rates is never easy, and we welcome the Low Pay Commission's evidence-based approach to making recommendations to Government.

# Consultation Questions

- 1. Please provide information about yourself or your organisation. If possible, include details about your location, the type of job or business (occupation and/or sector) you are involved in, your workforce if you are an employer (including number of minimum wage workers), and anything else you think is relevant.**

Please see the introduction section of this response for background on FCSA. Please note, we do not have sight of individual members' numbers of NMW workers.

FCSA receive contractor number data but not NMW data. FCSA mandate that all contractors are paid at least NMW, and every FCSA Member company has a process flag in their system to ensure NMW is being met. Umbrella Companies have often been known to sacrifice their margins in order to prevent NMW breaches.

- 2. What has been the impact of the NLW in the past year, particularly the most recent 6.7 per cent increase to £12.21 in April this year?**

The labour market is facing a perfect storm at the moment; combined with the increase to NICs and new costs that will emerge as a result of the Employment Rights Bill (ERB), a large NLW increase of 6.7% comes at a time when employers can least afford it. It is important to remember that for the employer, this is not just a face value 6.7% increase, there is also the increase of the NICs on top of that extra 6.7%, as well as the original base wage.

As all taxes are based on a percentage, all employment costs also increase by the same percentage i.e. there is an additional 6.7% of NICs and Apprenticeship Levy.

There are likely to be unintended consequences across the board but these will be felt disproportionately in particular localities depending on local factors. In particular, there are likely to be consequences and knock on impacts to the construction industry, particularly those engaged via the Construction Industry Scheme (CIS) as their rates tend to be set within localities to reflect local markets.

For example, an employed labourer's new going rate is £12.21ph, this is a competitive wage in a less affluent area, in a competitive industry. However, this NMW increase could have made that make that wage unviable and therefore these workers may have been forced into self-employment at perhaps £11.50ph.

To counter this, FCSA make the CIS Umbrella rates £0.25/hour higher than NMW – as we have to make sure the self-employed rate is higher to prevent abuse. Umbrellas also have to make sure they can prove they meet off-payroll working rules.

**3. To what extent has the NLW affected different groups of workers? In particular, are migrant workers affected differently or do effects differ by protected characteristics?**

We have no evidence or research that underpins this beyond anecdotes. However, NLW pressures could be creating a market for modern slavery and more cash-in hand undeclared jobs. The rise in employer costs is hurting more and more people and businesses to the point where they can't cope – so they evade.

FCSA only really focus on NMW and not NLW – so it is very difficult to give specific NLW comments. However, we think it is clear that bringing 18 year olds into scope will likely cause more harm than good, as it concentrates their competitive disadvantage (less skills but the same price).

**4. Employer National Insurance (NICs) has risen at the same time as the NLW. How have employers responded to this, and how has this interacted with the NLW change? Which is the bigger impact?**

The biggest impact is the NIC change, as it affects all existing members of staff – as well as making it more expensive to hire new staff. Whereas NMW/NLW has closed wage gaps, which makes entry level staff the same (or similar) value as experienced staff. This also makes it harder to give more experienced staff pay rises because the budget is being forced to be spent at the bottom of the pay scales.

Our umbrellas are compliant and therefore they do not tend to operate at the lower end of the market as there is no uplift for the employment costs provided by the end-client – the firms operating at the bottom end of the wage market tend to be paid directly, rather than through an umbrella, and those that are sometimes involved in some form of non-compliance – generally tax related.

The temporary labour market includes mass scale of lower skilled workers, with significant “churn”; for example, fruit pickers, and other lower skilled jobs – this is where the NMW is most relevant. FCSA do not tend to see many instances of these as many of these industries have non-compliance built into their business models, so an FCSA umbrella is not engaged.

It is important to be conscious that a change of even just £1 a week can force workers down a non-compliant route because it can make compliant models unviable. FCSA have seen instances of agencies moving workers payroll affairs based on such small changes.

It is important to remember that higher skilled workers are unaffected by NMW considerations – lower skilled workers are and these tend to be the markets/jobs that involve large scale churn and therefore greater opportunity for firms engaged in non-compliant practices to conceal what they are doing, or for the worker to have moved on before any action can be taken.

## **5. How has the NLW's impact varied across different areas of the UK?**

Less affluent areas tend to feel the cost pressure and struggle more, as there is often not the money there to meet the increases. It is important to remember, it is not just the NMW that goes up, it is all related employment costs – i.e. it is on a multiplier as all costs relate to a percentage of the wage.

NLW increases – particularly significant ones like the 6.7% – can force firms to become liable to pay the Apprenticeship Levy, as it can push a whole company's pay bill over £3Mn/annum. The moment that £3Mn threshold is crossed, it adds 0.5% to the entire wage bill. This will disproportionately impact SMEs and areas that have high concentrations of SMEs that employ low wage workers.

## **6. At what level should the NLW be set from April 2026?**

FCSA think the fairest way to do this would be to link any increases with inflation. Increasing the NMW more than inflation is likely to be inflationary and could stagnate the economy. It is also important to remember that many low paid public service employees such as Teaching Assistants have had increases that are less than inflation, and many employees will not have had any wage rise at all.

## **7. Where do employers get their information about the NLW and future projections?**

Many employers will not look for this ahead of time, they will simply check on Gov.uk as and when needed. Trade bodies such as FCSA and other organisations will include details about NLW/NMW in their external communications where relevant. This will also be the case for external experts such as CIPP, NMW specialists (such as Jeni Morris), HMRC's NMW policy team (soon to be FWA) also cascade information.

## **8. Recent increases in the NLW have exceeded increases in average prices. How far has this helped workers at or close to the minimum wage to meet their living costs?**

This will be heavily dependent on where any given individual lives and their individual circumstances.

Given the variation between various towns, cities and rural areas, it would be difficult to meaningfully assess this and any conclusions formed by looking at data on a national or regional basis would probably be misleading.

It is also important to consider that NLW increases (and other increased employment costs) are already affecting businesses ability to create and maintain

jobs – so in this context the NLW could be preventing some individuals from meeting their living costs.

**9. What has happened to quality of work recently? For example, have workers experienced changes in contract types, flexibility, workplace harassment and work intensification?**

FCSA cannot provide tangible evidence for this. However, it is clear that workplaces are now less inclined to hire new staff when needed and this can increase the workload of the existing staff. This potentially means that staff are feeling overworked.

It is also apparent that there have been moves by some in certain industries to try and move employees to become self-employed to avoid NMW rules, and therefore some workers have unfairly lost their employment rights. FCSA codes of conduct actively prevent this, but we do not have a hold on the whole market and are concerned about non-compliant operators and an increase in worker exploitation.

**10. What has happened to wider benefits available to workers (including premium pay and non-pay benefits across the workforce)?**

FCSA do not have sufficient sight of this to comment.

**11. What are the barriers preventing workers from moving to a new job, particularly one that is better-paid?**

This will vary and depend on the individual worker and their particular mix of circumstances. However some common factors will include:

- Job security and employment rights – workers may be less inclined to move when they realise they will be less secure and protected for the first few years of their new job.
- Some people are naturally more cautious and more fearing of the unknown, while others thrive on change/have a preference to change jobs more often.
- Financial and family commitments are also a key factor that affect mobility.
- Location is a significant factor. The quality of and access to transport impacts what jobs a worker can put themselves forwards for.
- Linked to this is job availability – if there is a lack of firms hiring, this significantly limits the number of prospects a worker can pursue.
- Lack of transferable skills – often similar skilled jobs will all be around the same wage bracket. Wages with higher rates expect higher skill sets and experience. This will likely limit what a worker can realistically put themselves forwards for.

**12. How has access and cost of childcare and transport affected workers' ability to move into work or to a better-paying job?**

Childcare is often far too costly for mothers to be able to work. It is not uncommon for a mother to have just £50 left from her net wage, after paying childcare costs. If the father is the lower earner, they will often opt to be the stay-at-home parent. There is now also a more diverse range of family and living arrangements – parents and guardians alike will be impacted by the cost of childcare, and it will feature in their job searching decisions, regardless of their characteristics.

There is also a problem of unconscious bias, that affects new mothers. Businesses will be aware of the rights and indeed the responsibilities mothers have; for instance 18 weeks' of Unpaid Parental Leave for each child and adopted child, up to their 18th birthday. Sadly, this will mean that some firms are less likely to higher new mothers due this unpredictability and potential risk to business operations. This can make it quite difficult for mothers to move into roles that meet their aspirations.

**13. What opportunities are there for progression to better-paid work for low paid workers and how common is promotion?**

This will depend entirely on the business, the sector and the skill level and capabilities of the employee.

**14. What has been workers' experience of the Universal Credit system and how the minimum wage interacts with it?**

N/A

**15. The Government wishes to move to a single adult rate of the minimum wage for all workers aged 18 and over. The supporting annex lays out some options for achieving this. We welcome any comments on these options, including:**

FCSA employ people based on their experience – whoever is right for the job. Our main concern with this proposal is, 'how would an 18-year-old have the same experience and competence as a 22-year-old? Or even a 19-year-old?'

We have never had so many economically inactive 18–25-year-olds. We are concerned that this trend could be made worse by undermining the demand for these workers by raising the cost to equate to older more experienced peers.

A sensible intervention that would help young people would be to bring University placements into scope of the NMW. There are many young people that are literally paying (through university fees) to go to work, this includes professions such as

Nurses. The work these students are doing is real, and of societal value - it should be recognised by applying NMW.

**a. How will reducing the age threshold for the NLW affect you, your members or others?**

As highlighted, it will skew hiring decisions. It is important to remember that there are already business costs associated with hiring younger people, not just because they require more training. Things like motor insurance cost more for a new driver employee, compared to an older more experienced worker. As a rule, 18-year-old costs more to employ and produce less. If that can't be reflected in the wage, then there is less likelihood of the young worker gaining employment.

**b. Are there particular benefits or risks associated with the options presented here (or other options we have not considered)? Do you have views on the best approach to changing the age threshold?**

We just think the difference should be maintained. Bands of 16-17, 18-21, 21-25, 25+ are practical and sensible. We do not see a good way of implementing the policy as it stands. We are concerned about the harm it could cause.

A key risk is that more 18-year-olds are taken on and terminated in probation as they are not meeting the expected standard (compared to more experienced workers). If there is a difference in price, there can be a difference in expected productivity/utility. A lot of employers find building up young people's skills to be highly rewarding, but it also needs to be commercially viable for them.

**c. Do you have views on the pace of the transition to an NLW starting at age 18?**

Slow it down. We don't understand why this is important, as an 18-year-old does not have the same financial responsibilities – most still live at home and don't pay rent. It is better that they get into work, build their skills and then their employability – and therefore the wage they can naturally command without state assistance. Should an employer choose/be able to offer more for the role, then that should be their choice.

**d. What approach should the LPC take to the gap between the 16-17 Year Old Rate and the minimum wage for 18 year olds?**

Maintain the difference and keep increases capped to inflation.

**e. How should we evaluate the impact of the steps that we take to move towards an NLW starting at age 18?**

A key metric should be: “How many 18-year-olds are in employment now, and how many were previously?”

**16. The 18-20 Year Old Rate increased by 16.3 per cent in April to £10.00. The 16-17 Year Old Rate increased by 18 per cent, to £7.55. How have recent changes in the minimum wages for young people affected their employment prospects?**

The problem is psychological, not financial. The change has increased their expectations of their first job – and the lifestyle it can provide – to be completely unrealistic. A well-intended policy has sadly set too many young people up to fail.

Too many young people are now applying for jobs they are not qualified for because their expectations have been raised due to their higher NMW and NLW. We now have a great many lower skilled young workers applying for jobs in the range of £35,000, facing repeated rejections and, feeling disheartened. This policy serves neither their long-term nor short-term interests.

**17. How do the youth minimum wage rates influence employers’ decisions about hiring and pay, and young people’s decisions about employment?**

Employers will predominantly look for experience. Making young people too expensive, makes employers more likely to higher the experienced worker, as they are basically the same price but capable of significantly more, with less guidance.

**18. What other factors determine pay for young people aside from the rates? For example, job role, skills or length of time in the job.**

Location is often a key factor – supply and demand within a particular locality. Firms need to pay higher wages if there is less of a supply of workers with the right skill set.

**19. Why do employers make use of the youth rates (including pay rates above the youth minimum wages, but below the NLW)? To what extent has this been affected by the recent tight labour market?**

N/A – Don’t know

**20. Employer National Insurance has risen at the same time as the NLW, but workers below 21 do not attract employer NICs. Has this affected employers' recruitment decisions?**

If firms are feeling the pressure of employment costs, they are more inclined to run leaner operations. For example, they would rather have 5 experienced people working at a high level of productivity, rather than 7 younger less experienced workers that they need to offer more guidance and support to. The NIC saving is proportionately lower than the benefit of experience.

**21. At what level should the youth rates be set from April 2026?**

Increases should be in line with inflation.

**22. The Apprentice Rate increased in April by 18 per cent, to £7.55. What do you expect the effects of this increase to be?**

If under 19, the worker is on the apprentice rate, but if they are 19 or over and on their second year of apprenticeship, they must then receive NMW. When firms realise they are only paying the apprenticeship rate for only part of the apprenticeship (because NMW has kicked in when over 19 and in the second year) they are going to be less likely to take on an apprentice.

There is also the employer liability to consider, there are significant new burdens from the Employment Rights Bill, including day 1 rights.

This will particularly impact 1-man-bands taking on an apprentice. There are also things like holiday pay to consider – a builder cannot force his apprentice to take their holiday at the same time as they do. There are many practical difficulties to consider and work through to make apprenticeships more viable for small employers. Smaller businesses are now less likely to take on an apprentice due to changes in the Employment Rights Bill.

**23. What is the outlook for the recruitment and employment of apprentices? What are the drivers of employers' decisions on this?**

Combined with the Employment Rights Bill, recent tax changes and increases in wage rates, recruitment of apprentices has been significantly disincentivised.

It is important to remember that there are additional financial and time costs. For example, employers have to invest time to meet their apprentice's tutors, go through documents and explain things to – and coach – their apprentice. While many find this extremely rewarding, it is a big commitment from an employer and it needs to be made financially viable.

It is also important to consider that apprentices have to have 20% of the working week off the job to attend classes. This makes an apprentice's effective hourly rate £9.44, which makes them more expensive per hour than their non-apprentice counterparts on NMW aged under 18 and there's only 56p/hour difference between the apprenticeship rate and the 18-20 NMW. Given these numbers we have concerns about the ongoing viability of the apprenticeship model.

**24. How do employers set pay for apprentices? How does this differ from other parts of the workforce?**

Employers tend to pay their apprentice a salary, as it is easier to incorporate them into existing business practices. The apprenticeship rate is used as a basis for determining the salary – in all likelihood this means that many apprentices will be being paid marginally more than the apprenticeship rate.

**25. Our advice to the Government on the future of the NMW recommended significant changes to the treatment of apprentices, including the replacement of the Apprentice Rate by a discount against the relevant NMW age rate. We welcome any comments on these recommendations.**

There needs to be greater clarity as to the date at which NMW should be applied. There are two key relevant dates, the individual's birthday and the date the rate is amended in law. In practice, firms try to implement the change to the pay check after the individual's relevant birthday, as not to disrupt the wage calculation in previous weeks. It would be helpful to have case studies that explain what should happen if someone is payrolled on the cusp of a tax year.

We support efforts to address the conflict between the apprenticeship rate and NMW – we have highlighted some of the anomalies this can create in earlier questions. We do not see any issues with the idea of applying the rate as a discount.

**26. What issues are there with compliance with the minimum wage and what could be done to address these?**

The guidance is not sufficiently clear. Providing case studies would be very helpful.

It is important to remember that firms must incorporate under 21s birthday's into their business processes, as that's when the higher pay rate kicks in. This must take effect from at least the pay reference period after the birthday.

6<sup>th</sup> April and birthdays are two relevant legal dates that cause complication – we have no suggested solution for this, without deeming the birthday to be less relevant.

**27. What comments do you have on HMRC’s enforcement work?**

As previously mentioned in FCSA’s various consultation responses that relate to the 2025 Spring Statement, we believe HMRC should share case studies and educate, rather than just punish and publicly shame those found to be non-compliant.

We need to know the how and why so that lessons are learnt. *How* and *what* is often more relevant than *who* – case studies need to provide practical steps to avoid others making the same mistakes. Case studies/reporting needs to be reader friendly and not overly technical. This will also make HMRC prosecutions easier, as HMRC can point to guidance and say “You have been shown how to do it”.

There is currently too much of an enforcement focus on larger firms to find errors to punish. HMRC often miss the firms in the middle who are deliberately breaking rules (bigger fish often wont – mistakes). Name and shame list seems to have a lot of firms that have made mistakes, rather than flagrant rule breakers.

**28. The Accommodation Offset increased by 6.7 per cent in April, to £10.66. What has been the effect of recent increases in the offset on employers’ decisions on the provision of accommodation?**

N/A

**29. What impact does the offset have on workers? What are the hours, pay and working conditions of workers for whom the offset is deducted?**

N/A

**30. What are your views on the economic outlook and business conditions in the UK for the period up to April 2026?**

There is a lack of optimism. We are already seeing concerning economic data, particularly in relation to the jobs market.

The increase in NICs, lack clarity around the impacts of the Employment Rights Bill, and how it is going to impact work in practices, as well as the actual cost increases. It is concerning that we are still seeing government responses saying that “SSP is only costing £15 per worker” – this is not true and it is important that the true costs to business are properly understood. Other costs are hard to quantify in terms of money. For instance, unfair dismissal and HR issues use a lot of worker hours and there is an opportunity cost to that – they could have been using that time to do something more productive.

**31. To what extent have employers been affected by other major trends in the economy and labour market: for example, tariffs, inflation, Brexit, the shift to homeworking or changes in the numbers of migrant workers in the UK?**

Inflation is perhaps the biggest of the above factors as it is all encompassing.

The proposal for the 3-year exemption of NIC on workers from India is a big concern, as it creates a disparity within the labour market.

It is also important to assess how different trade deals interact with each other: In a global market, many businesses have interests in three or more countries (markets), which means that multiple trade deals will apply to their operations. It is therefore important to understand what opportunities and risks these create, and who bears the costs or benefits from them, and how? A key question to ask is: 'are there any market distortions as a result?'

**32. Apart from the minimum wage, what are the key drivers of pay decisions in low-paying sectors and occupations?**

Location and proximity to work and amenities is key.

NMW increases are forcing budgets to push pay rises at the bottom and neglect higher up where it is needed in order to maintain and attract workers (supervises etc). It is now fairly common for there to be a matter of pence per hour between a worker and their supervisor's earnings. This contributes to high churn in these sectors, as many supervisors come to the realisation, there is no reward for the extra responsibility.

There also appears to be a cultural shift among the next generation of young workers. They appear to be more culture orientated, rather than predominantly money motivated: Whilst it is true that they probably will be better off financially by being in work, psychologically this new generation do not feel it – and that is an important problem to address in order to build their work ethic.

**33. How do employers balance pay pressures for low-paid workers with those for others higher up pay scales?**

It is a struggle. Big organisations will do this on a percentage basis but every business will operate differently. A key factor is being careful not to close the bands as not to devalue experience. It is important to maintain a meaningful responsibility to pay ratio. Most businesses will look at all pay packets holistically all at once in order to keep to their budget.

**34. How has inflation and the cost of living factored into wage setting? What has been your experience of wage growth and inflation in the last year, and what are your views on forecasts for the next couple of years?**

The period of higher inflation became very difficult to manage because increasing wages created more inflation. If a firm's wage bill increases significantly, there often comes a point where prices have to go up. However, this can mean that demand goes down. It is a very difficult balance to strike, and it often means that margins are squeezed. It often becomes hard to see how the situation improves for many firms, and this can impact their ongoing viability.

It is important to keep NMW pay increases capped at inflation. There should also be a relationship between state benefit increases and NMW increases, to ensure that it is always better to be in work than it is to be on benefits. The ONS have already reported increase in the number of people coming off of payroll; this could in part relate to the reduced incentive to work.