Low Pay Commission 2026 consultation

Submission to the Low Pay Commission

Chartered Institute of Personnel and Development (CIPD)
August 2026

About the CIPD

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years.

It has 160,000 members across all sectors and sizes of organisation and provides thought leadership through independent research on the world of work and offers professional training and accreditation for those working in HR and learning and development.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers. It also seeks to promote and improve best practice in people management and development and to represent the interests of our members.

This response draws extensively on analysis of questions included in CIPD's summer 2026 Labour Market Outlook (LMO), as well as previous Labour Market Outlook surveys, and other quantitative and qualitative evidence from the CIPD.

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<u>Our response</u>

The National Living Wage

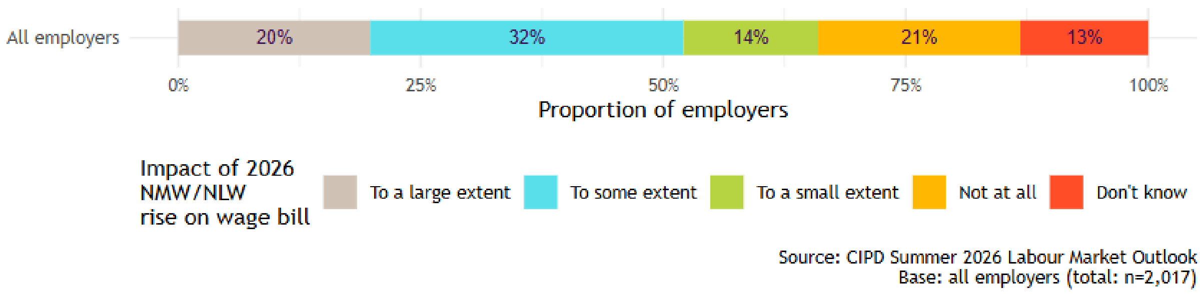
1) What has been the impact of the NLW in the past year, particularly the most recent 4.1 per cent increase to £12.71 in April this year? We are interested in the effect of the NLW on any of the areas listed below:

A. Employment
B. Hours
C. Earnings
D. Profits
E. Prices
F. Productivity
G. Pay structures and differentials
H. Other employee benefits
I. Progression and job moves
J. Training
K. Investment
L. Recruitment
M. Job quality and security
N. Demand in the economy

According to CIPD's summer 2026 Labour Market Outlook (LMO), 20% of respondents said that the rise in the National Minimum Wage (NMW) and National Living Wage (NLW) rates in April 2026 had increased their organisation's wage bill to a large extent. While 32% said the increases had pushed up the wage bill to some extent, Figure 1 shows a further 14% said that the NMW and NLW rises had increased the pay bill to a small extent. By contrast, 21% reported no impact following the increase of the Minimum Wage rate.

These numbers are almost identical to 12 months ago, where 22% of employers believed their wage bill increased by a large extent due to the April 2025 uprating. The same proportion of employers reported their wage bill increase by either some or to a small extent. Whilst 20% of employers were not at all affected 12 months ago.

Figure 1: Extent to which the increase in the National Minimum/Living Wage rates in April 2026 increased organisation's wage bills



Overall, in the private sector, 22% of employers report their wage bill has increased to a large extent due to April's rates increase. This compares to 11% of employers in the public sector, and 20% in the voluntary sector.

By firm size, Figure 2 shows that in the private sector, respondents working for small or medium-sized companies are more likely to report that the increase in minimum rates have increased their employer's wage bill to a large extent (24%) than respondents working for large companies (250 or more staff, 20%). The year before, the reverse was true: in the private sector, respondents for large companies were more likely to report that the increase had led to a higher wage bill to a large extent (29%) than those working for small or medium-sized companies (20%).

Figure 2: Extent to which the increase in the National Minimum/Living Wage rates increased the wage bill by public and private sector (SMEs and large organisations)

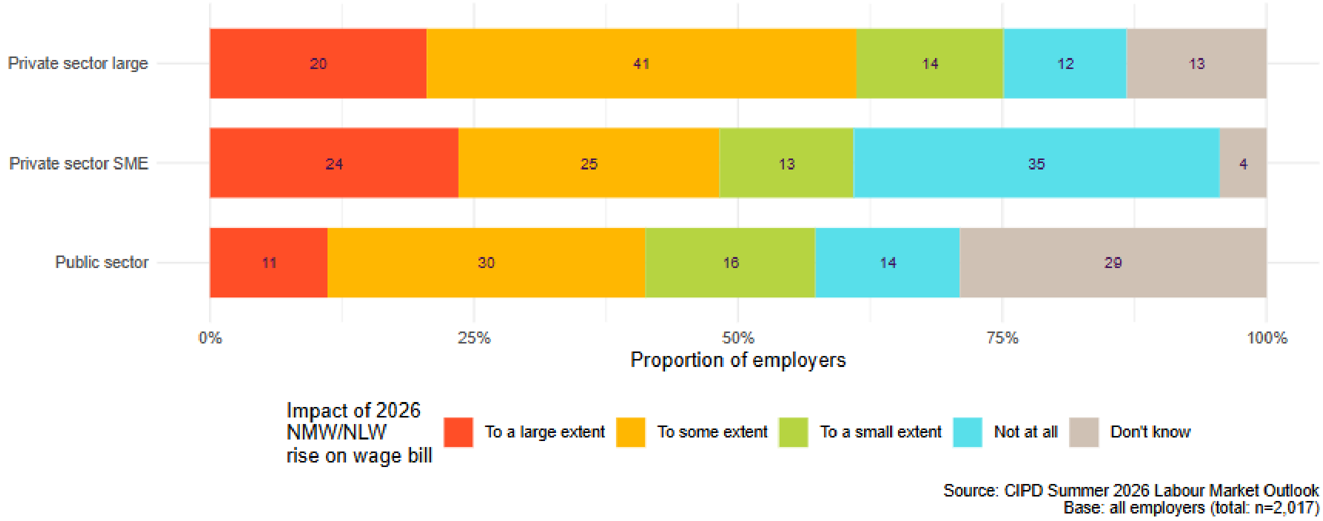


Figure 3 shows that two industries had a high percentage of respondents reporting that the rises notably affected their wage bill in 2026. In retail, 34% reported a large impact and a further 50% reported some impact, giving a combined total of 84%. Three quarters of employers in hospitality were impacted to a large or some extent, with 48% reporting they were largely impacted.

In 2025, hospitality and retail were also the top impacted industries: 60% of employers in hospitality reported a large impact and 24% some impact, and for retail this was 36% and 39% respectively.

Other highly impacted industries in both years were care, social work and other healthcare activities and wholesale and real estate. In 2025, 45% of employers in care, social work and other healthcare activities reported a large impact and 23% some impact (68% combined). In 2026, this is 27% and 36% respectively (63%). Whereas in 2025, 31% of employers in wholesale and retail reported being large impacted and 28% reported some impact, this is 28% and 30% in 2026.

In both years, 2025 and 2026, many respondents in IT indicate that they are impacted to some extent (54% in 2025 and 42% in 2026).

Figure 3: Extent to which the increase in the National Minimum/Living Wage rates increased the wage bill by industry

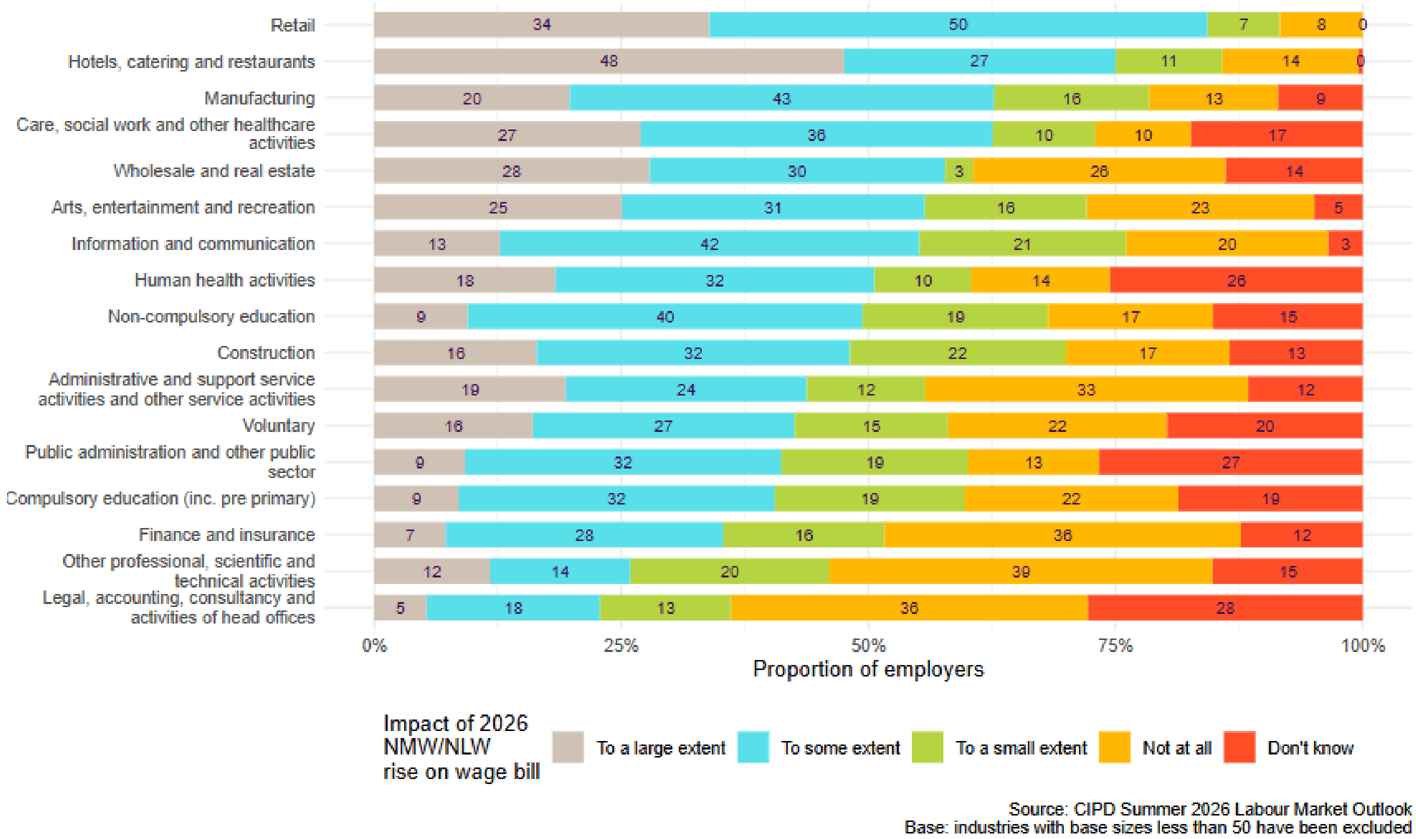
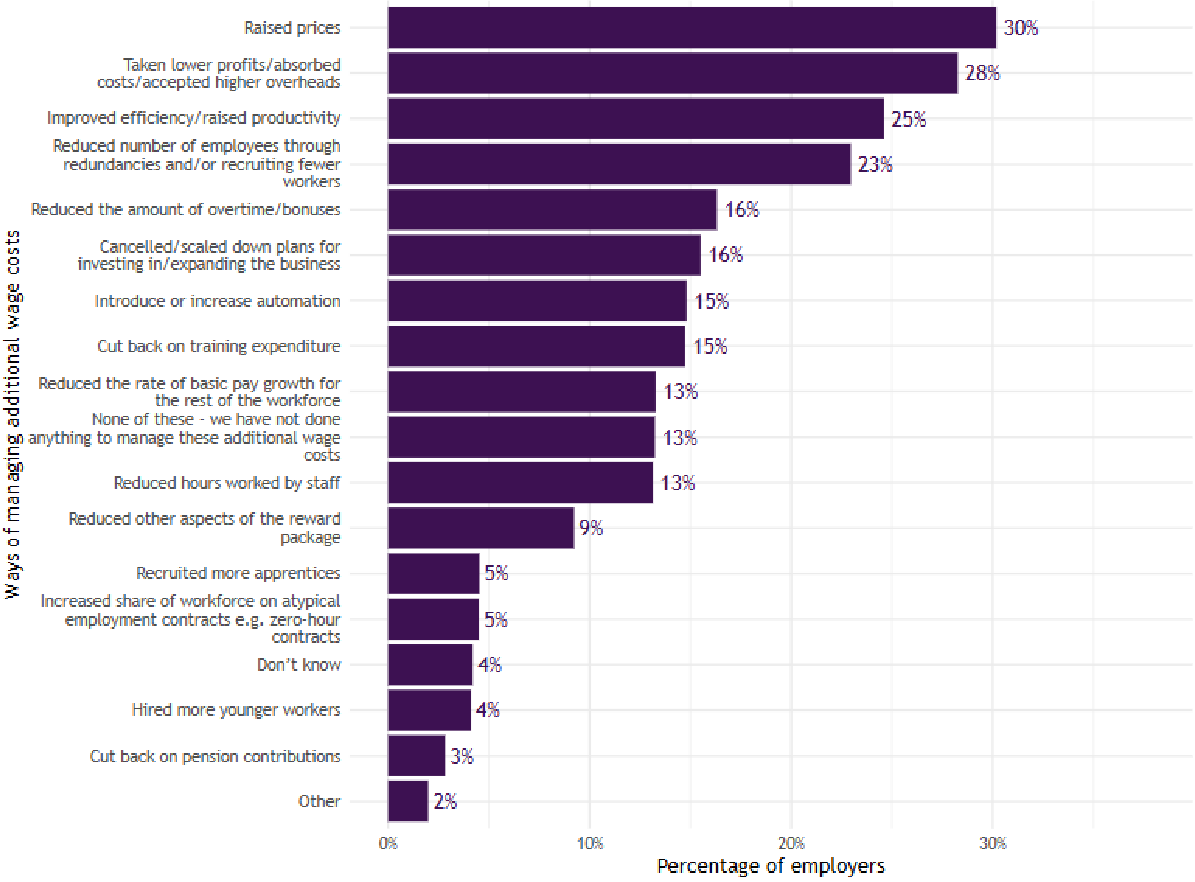


Figure 4 shows that the most common ways that employers have managed this year's increase in their wage bills due to the NMW and NLW were by:

- Raising prices (30%);
- Taking lower profits/absorbing costs/accepting higher overheads (28%);
- Taking steps to improving efficiency/raising productivity (25%);
- Reducing the number of employees through redundancies and/or recruiting fewer workers (23%); and
- Reducing the amount of overtime/bonuses (16%).

These five options were also the most common last year.

Figure 4: Ways organisations have managed additional wage costs in response to the increase in wage bill



Source: CIPD Summer 2026 Labour Market Outlook
Base: employers impacted by rise in NMW/NLW (total: n=1,190)

Overall, 83% of all employers affected to some extent by the increase in the NMW and NLW rates have taken some action to moderate the cost impact, compared to 86% the year prior. This ranges from 75% of all those reporting a small impact on their wage bill, to 86% reporting a moderate impact, and to 93% reporting a large impact.

Among employers that say that the minimum rates rises have had a large impact, the most typical ways they have been managing their additional wage costs are by:

- Raising prices (43%);
- Taking lower profits/absorbing costs/accepting hiring overheads (35%);
- Reducing the number of employees (35%);
- Cancelling/scaling down investment (30%);
- Reducing the amount of overtime/bonuses (29%)

These were also the most typical ways these organisations were managing additional wage costs in 2025.

A. Employment

23% of respondents have reduced the number of employees through redundancies and/or recruiting fewer workers in response to the increase in the wage bill. Among those employers reporting a large impact of the NLW/NMW rise on their wage bill, this proportion jumps to 35%. There is no longer a difference between the public sector and private SME employers. Whereas in 2025, 27% of public sector employers and 18% of private sector SMEs were managing costs this way, in 2026 this is 23% of employers for both sectors, and 22% of those in the voluntary sector.

Notably, only 4% of employers say that they have hired more younger workers in response to rises om the wage bill, significantly fewer than the 9% who said so the year before. Even among employers reporting a large rise in their pay bill, this figure only increases to 5% in 2026.

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B. Hours

13% of the employers surveyed in the 2026 summer LMO indicated having reduced hours worked by staff to manage the additional wage costs from the increase in the NMW/NLW, compared to 15% the year before (an insignificant difference). Compared to most other industries, 43% of employers in hospitality (hotels, catering and restaurants) took this measure, down from 51% last year. While 21% of wholesale and real estate employers reduced hours. Fewer employers in retail have taken this measure this year, with 17% reporting reducing hours compared to 30% in 2025.

Like the year before, private sector SMEs (21%) are significantly more likely than public sector employers (8%) to have reduced the hours worked by staff. They are now also more likely to do so than large organisations in the private sector (9%).

Another measure employers have used is reducing the amount of overtime and bonuses. Of affected employers 16% indicated that they had reduced the amount of overtime and bonuses to manage the additional costs (significantly lower than the 21% who did so the year before). Out of all industries, employers in hospitality were most likely to take this measure. Twenty-five per cent indicated that they had indeed reduced overtime/bonuses (down from 36% the year prior). Other industries where at least one in five employers indicated having taken this measure were: finance and insurance (24%), wholesale and real estate (23%), retail (22%), and human health activities (20%).

D. Profits

Overall, 28% of the surveyed employers have taken lower profits, absorbed costs and/or accepted higher overheads because of April's increase compared to 26% the year prior (an insignificant difference). This rises to 35% among those who report their wage bill has increased to a large extent.

38% of SMEs took lower profits/absorbed costs/accepted higher overheads, because of April's increase, a rate higher than both large private sector (25%) and public sector (16%) employers. These proportions are similar to 2025 (SMEs: 36%; large private sector: 22%; and public sector: 15%).

As a result of April's increase, taking lower profits/absorbing costs/accepting higher overheads was the most common response among employers in the following industries:

- Wholesale and real estate (54%);
- Voluntary (43%);
- Hotels, catering and restaurants (35%);
- Retail (32%);
- Human health activities (30%); and
- Administrative and support service activities and other service activities (30%)

For wholesale and real estate, this is an increase of more than 20 per cent points, from 28%. In contrast, this year, fewer employers in arts, entertainment and recreation are resorting to taking this measure: from 34% of employers in 2025 to 18% in 2026.

E. Prices

We find that 30% of affected employers have increased prices to pay for April's NMW and NLW rises, significantly lower than the 37% the reported last year. This measure was most common among respondents in the following industries:

- Hotels, catering and restaurants (54%);
- Retail (40%);
- Care, social work and other healthcare activities (39%);
- Construction (39%); and
- Administrative and support service activities and other service activities (36%)

Whilst in most industries fewer employers reported raising prices than 12 months ago, this was not the case in retail (40% in 2025).

In 2026, 39% of SMEs and 32% of large private sector employers took this approach to manage additional wage costs. Among large private sector employers this represents a significant fall from 44% in 2025.

F. Productivity

In response to the increase in hourly rates in April, 25% of organisations have taken steps to improve efficiency or raise productivity, while 15% have also introduced and increased automation (including generative AI) (similar to the 27% and 18% reported last year).

Among private sector SMEs, 8% of employers have introduced or increased automation, which is significantly lower than the proportion of public sector employers (16%) and large private sector organisations (20%, down from 29% the year prior).

Employers in manufacturing (39%) and construction (43%) were significantly more likely to have taken steps to improve efficiency/raise productivity compared to employers in most industries and the overall average of 25%.

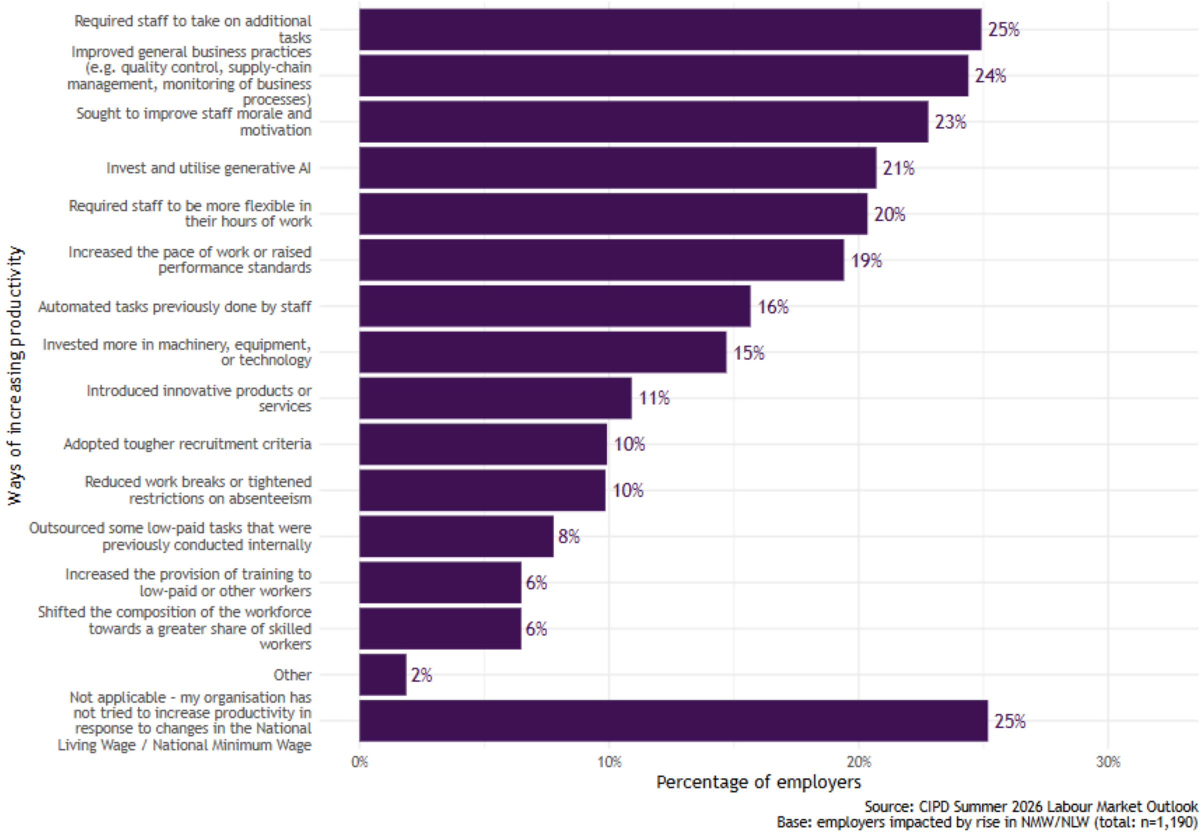
Employers in IT (36%) and manufacturing (26%) were significantly more likely to have introduced and increased automation (including generative AI) compared to employers in most industries and the overall average of 15%. Compared to the year prior, fewer employers in construction have introduced and increased automation, with a drop from 33% to 19%.

Figure 5 shows how employers have tried to increased productivity to manage their additional wage costs in several ways, these include:

- Requiring staff to take on additional tasks (25%);
- Improving general business practices (24%);
- Seeking to improve staff morale and motivation (23%);
- Investing and utilising generative AI (21%);
- Requiring staff to be more flexible in their hours of work (20%); and
- Increasing the pace of work or raising performance standards (19%).

These were also the most common measures taken by employers in 2025.

Figure 5: Steps taken to increase productivity in response to the increase in wage bill



However, among our respondents, 25% admitted that their organisation has not tried to increase productivity in response to April's NLW and NMW uplift, akin to last year. In the private sector, 24% of employers did not try to increase productivity, compared to 30% of those in the public sector (a difference which is not significant). Last year, the percentages were the same for both the private and the public sector at 23%.

When we further distinguish between the public sector, large companies and SMEs in the private sector, like the year prior, large private sector companies are significantly less likely to not have tried to increase productivity (17%) than public sector organisations and private sector SMEs (30% and 33% respectively).

Among those employers most affected by the recent NLW rise, the most common actions aimed to improve productivity in response to the higher wage bill include:
- Requiring staff to take on additional tasks (34%);
- Improving general business practices (e.g., quality control, supply-chain management, monitoring of business processes) (27%);
- Requiring staff to be more flexible in their hours of work (25%);
- Seeking to improve staff morale and motivation (24%); and
- Increasing the pace of work or raising performance standards (22%).

These actions were also the most common in 2025 and except for seeking to improve staff morale/motivation, all of these were used slightly less in 2026 than the year before (drops in use ranging between 2 and 7 percentage points).

Among these respondents, 22% said their workplace had not tried to increase productivity in response to April's increase, up from 17% the year prior.

There are clear differences between industries in the uptake of these different measures of increasing productivity:

- Around three in ten employers have automated tasks previously done by staff in finance and insurance (36%) and public administration (32%). Employers in these industries were significantly more likely to have automated these tasks compared to employers in manufacturing, construction, compulsory education, retail, hospitality, and arts, entertainment and recreation.

- Employers in a selection of industries were significantly more likely to invest and utilise generative AI: other professional, scientific and technical activities (45%), Legal, accounting, consultancy, and activities of head offices (35%), IT (35%), public administration and other public sector (34%) and administrative and support services and activities (28%).

- At least one in seven employers in IT have taken steps to increase productivity, including improving staff motivation, investing more in machinery, equipment and technology, shifting toward a higher share of skilled workers, automating tasks once done by staff, outsourcing low-paid work, and reducing breaks or tightening rules around absenteeism. That is at a higher rate than in many other industries. IT employers were also more likely than their counterparts elsewhere to have invested in and used generative AI, and to have moved toward a more skilled workforce.

- In hospitality, employers have adopted a range of productivity boosting measures, at a higher-than-average rate. Almost a third (32%) have required staff to be more flexible in their working hours. At least one in five have reduced breaks or tightened rules on absenteeism or added to staff workloads. Between 8-14% of hospitality employers have adopted tougher recruitment criteria, increased training for low-paid and other workers, or shifted toward a more skilled workforce. They were notably more likely to demand flexible hours, and to cut breaks or tighten absenteeism rules than many other industries.

- A third (32%) of employers in non-compulsory education require staff to take on additional tasks, which is significantly higher than in many other industries.

- Whereas in 2025, 27% of employers in construction adopted tougher recruitment criteria, this year only 11% of employers in this industry have done so, which is close to the overall average (10%), likely in response to hard-to-fill vacancies. Instead, a higher-than-average percentage of employers in manufacturing have adopted tougher recruitment criteria (15%).

- A much higher-than-average proportion of employers in manufacturing have sought to improve staff morale and motivation (32% versus 23%), to have required staff to be flexible in their hours of work (32% versus 20%), to have increased the pace of work or raised performance standards (26% versus 19%), to have invested more in machinery, equipment or technology (25% versus 15%), and to have introduced innovative products or services (29% versus 11%) than the average employer

G. Pay structures and differentials

This year, 17% of employers say that they have reduced the pay differentials between those affected by the NLW and their supervisors/managers, because of April's rise, while 7% has increased them and 26% has maintained them (the rest indicated that they didn't know (20%) or that the question did not apply (29%)).

Figure 6 shows that in 2026, among employers who report having been impacted by the rise in NLW/NMW, most maintained pay differentials (37%), some reduced them (25%) and fewer have increased them (10%), with 14% of employers responding 'don't know'. The numbers for 2025 and 2026 are similar. Comparatively, in 2024, more employers reduced pay differentials (34%) and fewer increased them (9%).

Figure 6: How organisations have managed pay differentials in response to the NLW/NMW

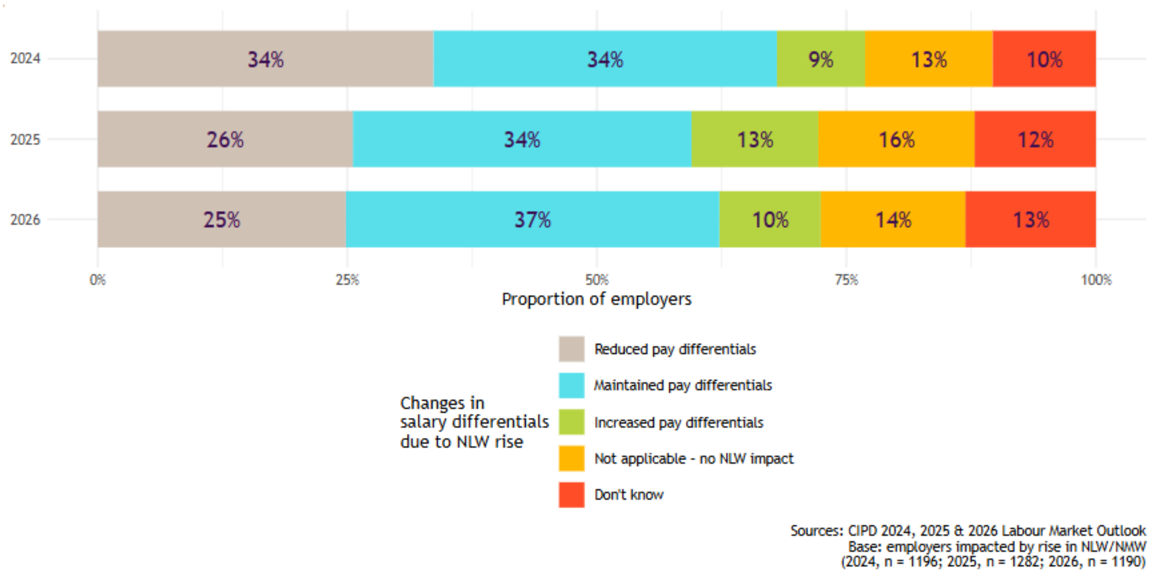


Figure 7 shows how employers affected by the NLW/NMW rise managed pay differentials in 2026. Large private sector employers were the most likely to maintain differentials (46%), while SMEs were the most likely to reduce them (29%). The public sector was the least likely to reduce differentials (18%) and, compared to the private sector employers, a higher proportion of employers in the public sector report either no impact from the rise in NLW/NMW or not knowing (19% and 25%). Increases in differentials were uncommon across all sectors (7-11%).

Figure 7: How organisations have managed pay differentials in response to the NLW/NMW by public and private sector (SMEs and large organisations)

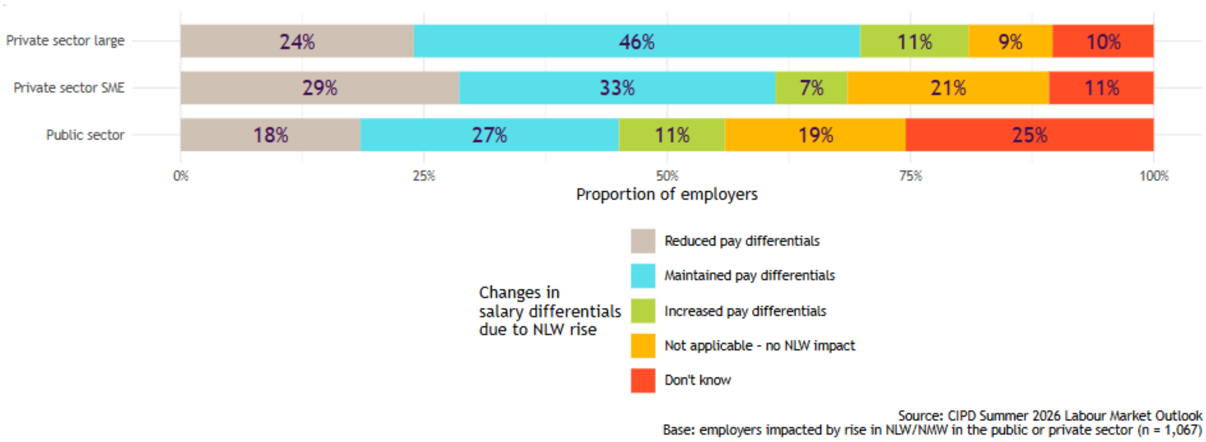
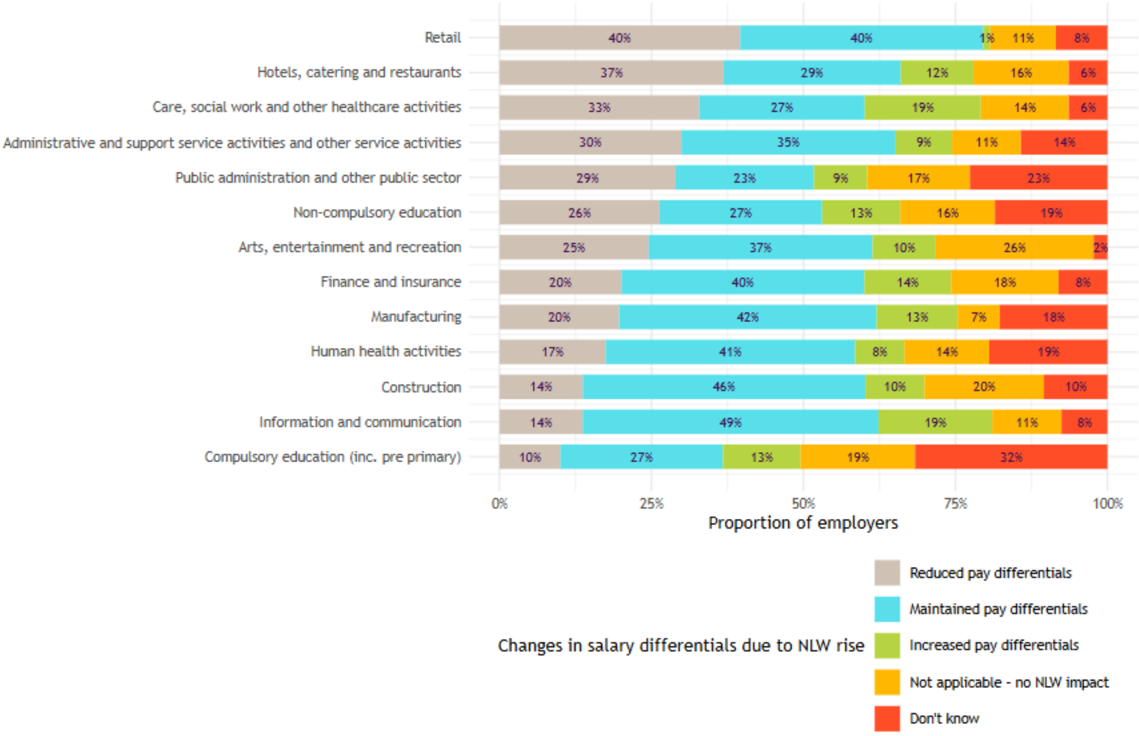


Figure 8 shows the distribution of responses to our question about pay differentials by industry for those industries for which we received at least 50 responses (except for care, social work, and other healthcare activities, for which n = 49). Of those employers in these industries affected by the rise in NLW/NMW, those in retail were most likely to have reduced pay differentials (40%), followed by those in hospitality (37%), and care, social work and other healthcare activities (33%). It was least common in compulsory education (10%) and in construction and information and communication (14% each), where maintaining differentials was the most frequent response (46% and 49% respectively).

Across most industries, maintaining differentials was the most common response, while increasing them less common (with a range from 1% to retail to 19% in care). In some industries, a large proportion of employers responded “don’t know” or “not applicable”. For example, 32% of employers in compulsory education and 23% in public administration said they did not know how the rise had affected their differentials.

Figure 8: How organisations have managed pay differentials in response to the NLW/NMW by industry



Source: CIPD Summer 2026 Labour Market Outlook
Base: employers impacted by rise in NLW/NMW with known industry.
Industries with small bases excluded (wholesale and real estate, voluntary, legal/accounting, other professional), (n = 962)

To manage the additional costs incurred due to the NLW/NMW, 13% of employers have reduced the rate of basic pay growth for the rest of the workforce (compared to 16% the year prior). Employers in the voluntary sector are significantly more likely to take this approach to manage the additional costs compared to the public and private sectors (20% versus 12% and 13% respectively). Whereas in 2025, hospitality employers were significantly more likely than most other industries to reduce the basic pay growth because of additional costs (at 27%), in 2026, the uptake of this measure no longer differs significantly between industries.

H. Other employee benefits

Out of the surveyed employers, to manage the additional wage costs caused by rises in the NMW/NLW, 9% have reduced other aspects of the reward package (such as paid breaks or premium pay rates and other benefits and perks e.g. employer pension contribution, free lunch), compared to 11% the year prior. As in 2025, few employers (3%) have cut back on pension contributions.

J. Training

In both 2025 and 2026, the summer Labour Market Outlook found that 15% of respondents said their organisation had reduced training expenditure in response to increases in the NMW and NLW. In 2026, this proportion rose to 23% among those who said that their wage bill had increased significantly following the changes (compared to 21% in 2025, following the rise in April 2025). In 2025, 30% of employers in compulsory education cut back on their training expenditures, a significantly higher proportion compared to most other industries. This year, 23% of employers in this industry cut back on their training expenditures, instead, and only significantly more compared to employers in the finance and insurance and voluntary sectors.

By contrast, 6% of respondents say that in response to the hourly rate rises, they have increased the provision of training to low-paid or other workers (compared to 8% the year before). This rises to 7% among large private sector employers (compared to 12% the year prior) and 8% among public sector employers. It is only 5% among SMEs (up from 4%).

K. Investment

16% of employers said they had cancelled/scaled down their plans for investing in or expanding the business (down from 19% the year prior). In 2025, among those most impacted by the NMW increase, this figure increased to 33%, and in 2026, to 30%. By industry, 28% of wholesale and retail, 26% of hospitality, and 21% of compulsory education employers report cancelling or scaling down their investment plans. In 2025 and 2026, SMEs were significantly more likely to report this than large private sector employers: 24% versus 16% in 2025, and 20% versus 13% in 2026.

L. Recruitment

In 2025, to manage additional costs due to increases in the NMW/NLW, 7% of employers increased the share of their workforce on atypical employment contracts, such as zero-hour contracts. In 2026, this has dropped to 5%. A relatively high proportion of employers in legal, accounting, consultancy and activities of head offices (15%), and other professional, scientific and technical activities (11%), have increased their use of these contracts.

5) At what level should the NLW be set from April 2027? Please explain your response

For the lowest earners to benefit from National Living Wage the rate needs to rise faster than the expected 3% growth in average wages. Anything at or below that pace would simply keep pace with the rest of the workforce rather than narrow the gap. This figure comes from our latest Labour Market Outlook, where among employers looking to increase, decrease or freeze pay in the next 12 months, the median expected basic pay increase for the next 12 months has now remained at 3% overall for over two years. To factor in the cost of living, it is also necessary to increase above the current rate of CPI inflation which in the 12 months to July 2026, was 2.9%. Currently Bank of England estimates indicate that CPI inflation will peak at 3.2% in October and November 2026, before reverting again towards the 2% target.

The latest ONS pay data indicates regular pay growth of 3.5% overall, 2.9% in the private sector, 3.5% in wholesale, retail and hospitality and 2.8% in manufacturing in the 12 months to June 2026. All these figures are at least 1.5 per cent lower than the respective figure 12 months ago. Earnings growth is expected to continue to moderate into the new year, barring any changes in wage-setting behaviour among firms in response to the ongoing conflict in the Middle East.

With the above as context, we recommend that, to avoid negative employment impacts whilst raising pay for the lowest-paid the LPC should increase the NLW by no more than 3.7% (£13.18) in April 2027. This value was the central estimate shared alongside this consultation. We believe this estimate is adequate to maintain the NLW at approximately two-thirds of median earnings.

<u>**Experience of those on low pay over the past year**</u>

Recent increases in the NLW have exceeded increases in average prices. Has this made it easier for workers at or close to NLW/NMW to meet their living costs?

Despite the recent increases in the NMW and NLW, 39% of workers earning up to £20,000 annually reported that money worries had affected their ability to do their job in the past 12 months, while just 40% of low-waged earners answered that they were keeping up with all their bills and commitments without any difficulties.[1] For more information, see the CIPD's Good Work Index 2026 report.[2]

[1] https://www.cipd.org/uk/views-and-insights/thought-leadership/insight/planning-for-uncertainty-higher-prices/
[2] https://www.cipd.org/uk/knowledge/reports/goodwork/

What has happened to the quality of work recently? For example, have workers experienced changes in contract types, flexibility, treatment within the workplace and work intensification (e.g. greater expectations for workers to work more flexibly, with greater effort, to higher standard etc)? What are the drivers of these changes?

CIPD's Good Work Index 2026 finds a labour market in which the great majority of workers experience high job satisfaction and job quality and value the flexibility their working arrangements provide, but in which a persistent minority face real pressure from workload and, for some contract types, unpredictable scheduling *(Good Work Index 2026)*. Contract structures have remained stable: permanent employment continues to account for around four in five employees, and non-permanent employment has held at around 20% of the workforce for two decades *(Good Work Index 2026; CIPD analysis of LFS analysis data)*. Where atypical contracts exist, most workers on them say the arrangement suits them well, valuing the autonomy and control it gives them over their working lives *(Good Work Index 2026)*.

Workload and resourcing pressures, not contract type, are the clearest driver of any decline in job quality, and these pressures are felt by permanent and non-permanent workers alike *(Good Work Index 2026)*. Second, a specific and identifiable group of workers — mainly younger workers on zero-hours, short-hours or agency contracts — experience materially less predictable scheduling than the workforce as a whole, even though many in this group say their contract otherwise suits them well *(Good Work Index 2026; LFS analysis, 2015–2025)*.

Despite the pressures on ways of working during the pandemic, our *Good Work Index* time series finds the quality of work remarkably resistant to change. Work-life balance, for example, has remained unchanged despite the increase in home and hybrid working – suggesting underlying job design and line management are more important than work location. Aspects of job quality like its impact on health, qualification match or the likelihood to quit have not statistically changed across the series.

One area of change has been the gradual decline in work centrality – the relative importance of work to our lives – with an increasing proportion of employees agreeing that a job is just a way of earning money, no more. The worsening is particularly pronounced in the public sector, which may be a reflection of consistently higher workloads and stress levels – especially in the education and health sectors.

Contract types

The Good Work Index 2026 shows around 82% of employees on permanent contracts, with 5% on temporary, zero- or short-hours contracts, proportions that have stayed broadly flat across the nine-year Good Work Index series. This is corroborated by CIPD's separate analysis of Labour Force Survey (LFS) microdata over 2015–2025, which finds temporary employment has fallen slightly, from 5.2% to 4.3% of the workforce, and permanent and full-time employee numbers have both grown modestly over the decade *(LFS analysis, 2015–2025)*. Zero-hours contracts have grown but remain a small share of overall employment, at around 3.6% of workers by 2025; growth has been concentrated among young workers, with 450,000 16–24-year-olds now on zero-hours contracts *(LFS analysis, 2015–2025)*. Internationally, the UK's temporary employment rate of 4.7% of employees in 2024 is low by OECD standards, around a third of the rate in France or Spain *(LFS analysis, drawing on OECD data, 2024)*.

Importantly, most workers value the flexibility that atypical contracts provide. Around 77% of those on temporary, zero- or short-hours contracts say their arrangement suits them fairly or very well, close to the 98% figure for permanent employees, and the most commonly cited reasons are the autonomy these arrangements give workers and the ability to fit work around family, caring or study commitments *(Good Work Index 2026)*. Self-employed workers report similarly high satisfaction as those in permanent employment, most commonly citing better work-life balance and the nature of the work itself as their reasons for choosing self-employment *(LFS analysis, 2015–*

2025). This suggests that, for the majority, non-standard contracts represent a positive and deliberate choice rather than a fallback position.

A smaller but identifiable minority experience these same contracts as a source of insecurity rather than flexibility, typically where they would prefer a permanent contract or more predictable income *(Good Work Index 2026; LFS analysis, 2015–2025)*. This distinction between chosen and constrained flexibility, discussed further below, matters more for job quality than contract type alone.

Flexibility

Flexible working has become more widely available and is valued by the large majority of employees who use it. The Good Work Index 2026 finds 72% of employees now use some form of flexible working, up from a comparable 67% in 2020, with the increase driven mainly by growth in formal homeworking, from around 30% to 50% of employees. Other arrangements, including flexi-time, compressed hours, term-time working and job-sharing, have seen little change in take-up, suggesting these remain stable, established options rather than areas of decline *(Good Work Index 2026)*.

Informal flexibility — the ease of taking short-notice time off for personal reasons — has also improved modestly on pre-pandemic levels, with 68% of employees now reporting good informal flexibility *(Good Work Index 2026)*. At the same time, the amount of time spent working from home has been gradually falling year on year even as formal access has held steady, which the Good Work Index 2026 links to a gradual increase in employer expectations around office attendance. Around 27% of employees cannot work from home at all and a further 10% do not wish to; for this group, access to good flexibility depends on non-homeworking arrangements, which the Good Work Index 2026 finds are less consistently available in lower-skilled occupations. This points to an opportunity to extend the flexibility benefits already enjoyed by home-working employees to a wider range of roles, rather than a story of overall flexibility decline.

Treatment within the workplace

The Good Work Index 2026 finds that reported relationships with managers and colleagues remain largely positive and have improved slightly across the survey's time series. Employee voice quality shows a more mixed but not uniformly negative picture: most employees have access to at least one form of voice channel, and manager ratings on voice-related behaviours, such as seeking employee views and responding to suggestions, remain higher than pre-pandemic levels even though the latest wave shows some softening from a pandemic-era peak *(Good Work Index 2026)*. Around one in five employees (20%) report no voice channel at all, rising to 38% in organisations under 50 employees, indicating that access to voice is more a function of organisation size than of a general trend *(Good Work Index 2026)*.

Workplace conflict has remained stable rather than worsening, at 25% of employees personally experiencing some form in the past year, unchanged since 2024, with undermining or humiliation the most common form reported *(Good Work Index 2026)*. Disabled employees and women are disproportionately affected and may warrant particular attention in any policy response. Separately, CIPD's winter 2025/26 Labour Market Outlook found that more than half of employers anticipate an increase in workplace conflict as a result of at least one Employment Rights Act 2025 change *(Labour Market Outlook, winter 2025/26)*.

Work intensification

Work intensification is the area where the Good Work Index 2026 shows the clearest signs of continued pressure, though it is important to note this affects a minority rather than the majority of employees. Around 29% of employees say their workload is too high or far too high, rising to 37% in the public sector, while the remaining seven in ten report their workload as about right or too low *(Good Work Index 2026)*. High workloads are strongly linked to inadequate resourcing rather than to contract type: only 66% of employees agree they usually have enough time to complete their work within contracted hours, and 58% feel they receive the training they need, the two weakest of five resource-adequacy measures tested *(Good Work Index 2026)*. Employees who do have adequate time and training are far less likely to report high workloads, at 14–23%, underlining that resourcing rather than the nature of work itself is the more actionable lever *(Good Work Index 2026)*.

A newer and more mixed picture concerns generative AI. A third of employees (34%) now use AI at least monthly, and the Good Work Index 2026 finds that those who have received training in its use, and use it more regularly, report clear productivity and job-satisfaction benefits. However, two-thirds of AI users have received no formal training, and 45% do not trust its output, which risks becoming an additional source of pressure if training does not keep pace with adoption *(Good Work Index 2026)*.

Hours, scheduling and choice in atypical work

Contract type alone does not fully capture how workers experience insecurity, and CIPD analysis of LFS microdata (2015–2025) provides useful additional detail. Underemployment (workers who would like more hours) has declined modestly over the decade, from 9.6% to 8.6% of workers, though it remains higher among workers on zero-hours contracts (25.3%, down from 28.2% in 2015), low-hours permanent contracts (19.0%) and agency contracts (18.8%) *(LFS analysis, 2015–2025)*. This decline over time suggests improving rather than worsening conditions for most of this group, even though levels remain above the workforce average.

Short-notice scheduling shows a sharper divide by contract type than by hours worked. The Good Work Index 2026 finds that only around 20% of zero-hours contract workers and 22% of short-hours contract workers report never being required to work at short notice, compared with 51% of permanent employees. This is the aspect of flexibility most likely to be experienced as imposed rather than chosen, and is concentrated among a specific and identifiable group rather than the workforce generally.

Even within this group, however, experience is mixed rather than uniformly negative. Among zero-hours contract workers, the Good Work Index 2026 finds that 55–56% of those who say their arrangement suits them well cite valued autonomy and the ability to manage caring or family commitments, while dissatisfaction, where it exists, is concentrated among those wanting a more predictable income or a permanent contract they cannot obtain. This is consistent with CIPD's established position that regulation should target one-sided flexibility specifically, rather than treat all non-standard work as inherently problematic *(CIPD, 2022)*.

Drivers of these changes

CIPD's analysis points to organisational practice, rather than contract type, as the dominant driver of job quality outcomes. Line management quality, senior leadership and meaningful work show the strongest associations with job satisfaction and retention, considerably stronger than contract type or voice channel availability *(Good Work Index 2026)*. The specific drivers behind this year's findings include:

- Resourcing gaps rather than contract flexibility driving intensification, since inadequate time and training show the tightest links to high workloads *(Good Work Index 2026)*.
- A continuing employer-led increase in office attendance expectations, which has reduced time spent working from home even as formal access to flexible working has held steady *(Good Work Index 2026)*.
- Management capability that improved sharply during the pandemic but has not been fully sustained since, particularly on voice and communication *(Good Work Index 2026)*.
- Anticipatory employer behaviour ahead of Employment Rights Act 2025 implementation: over half of employers expect more workplace conflict from at least one change, and 13% of employers report the proposed right to guaranteed hours could lead them to increase use of

temporary staff or other atypical arrangements outside the Act's scope *(Labour Market Outlook, winter 2025/26).*

- A specific, largely unchanged pocket of scheduling unpredictability among younger, lower-paid and non-permanent workers, which sits alongside, rather than replacing, the generally positive experience most workers on these contracts report *(Good Work Index 2026; LFS analysis, 2015-2025).*
- Uneven AI adoption, where usage is outpacing training investment for a majority of users, even as trained users report clear benefits *(Good Work Index 2026).*

LFS analysis can be shared with the LPC on request.

Young people

What is the outlook for the recruitment and employment of workers aged under 21? What is driving employers' decisions on this?

As outlined later in our response, employer confidence is low, with fewer vacancies recorded than at any time since 2014 (outside of the pandemic)[3]. Our evidence points to a weak hiring outlook for young workers, driven not by any single policy lever but by the cumulative effect of NICs changes, successive NMW/NLW increases across all age bands, and the Employment Rights Act landing in the same period, all increasing employer costs. Employers who hire under-21s are disproportionately exposed to these combined pressures because of where youth employment is concentrated (e.g. hospitality, retail, care), even though under-21s are themselves exempt from employer NICs.

Looking forward we are particularly concerned for the prospects of young people, particularly if the Government to continues equivalising the youth and adult rates, something we have call for a pause on. We find that the top cited reason for using youth rates is to provide opportunities that would otherwise not be viable. And that youth rates are most used among smaller employers who represent a large part of the business population.

We are particularly concerned about the reforms to zero- and low- hours contracts and the disproportionate impact these changes will have on those aged under 21. Currently around 300,000 workers aged under 21 are on zero hours contracts, this represents roughly 7% of this age group, and nearly 20% of employment in this age group, much higher than the rate among all employees. Two-thirds of employers anticipate that the reforms will add to administrative and compliance demands, placing extra strain on HR and management time and budgets. Views are divided on whether zero- and low-hours contract use will rise or fall as a result, but employers are more consistent in expecting greater reliance on self-employed and atypical workers, alongside higher redundancy levels. As an unintended consequence, this risks fuelling less secure forms of work and narrowing the opportunities that many young people currently rely on through these flexible arrangements.

How have recent changes in the minimum wages for young people affected their employment prospects? You may wish to consider both employers' decisions about hiring and pay, and young people's decisions about employment.

First, we consider the use of youth rates for employees aged 18 to 20. Figure 9 shows that 42% of the surveyed employers, who hire young people aged 18-20, pay all employees in this age group £12.71 or above, meaning that they do not use the youth rates for this group of workers. Fewer employers either pay these all (27%) or some (8%) of these workers between £10.85 and £12.70 per hour. This is unchanged from last year.

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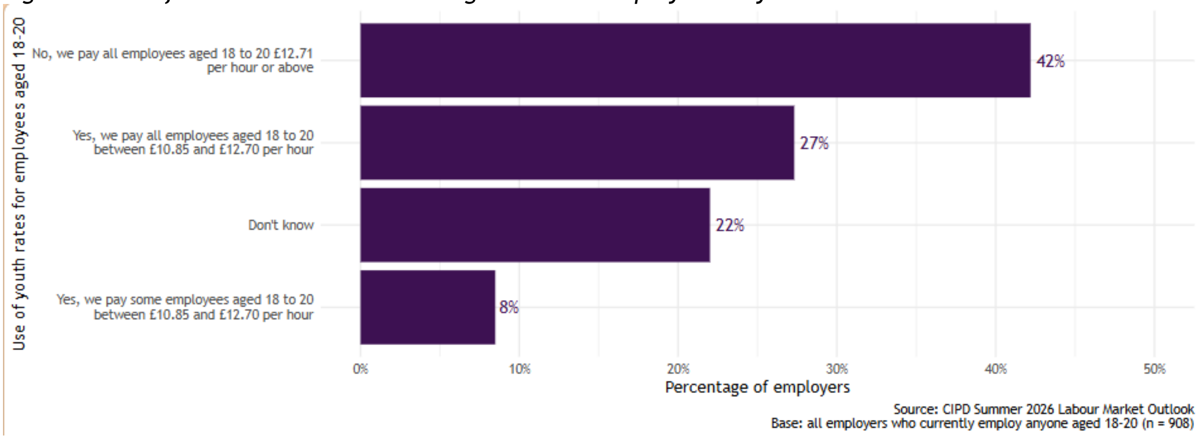
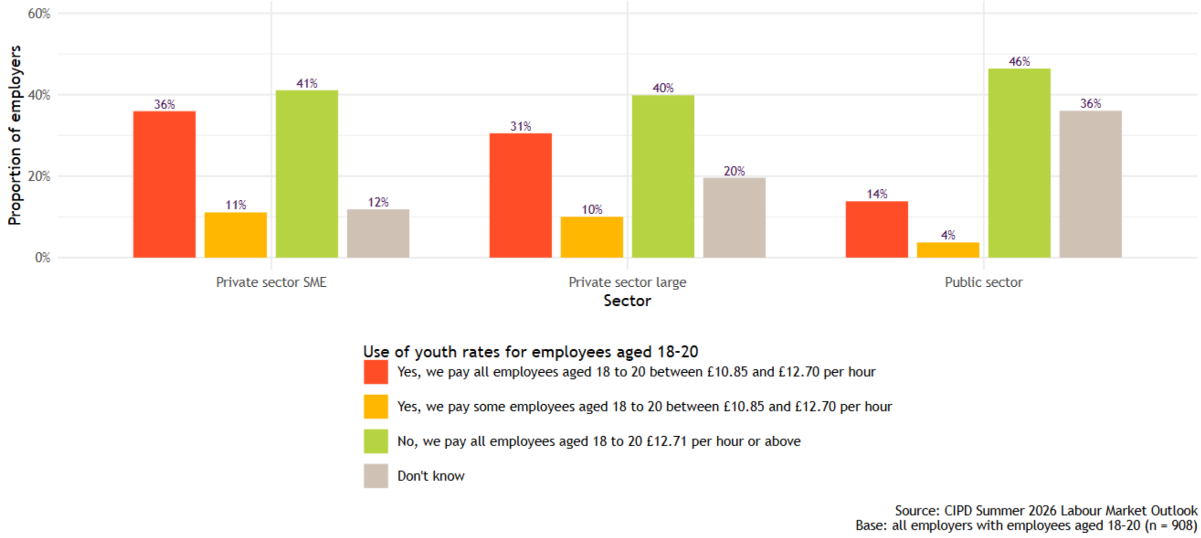
3 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/august2026

Figure 9: Use of the 18-20 NMW rate among those who employ 18-20-year-olds



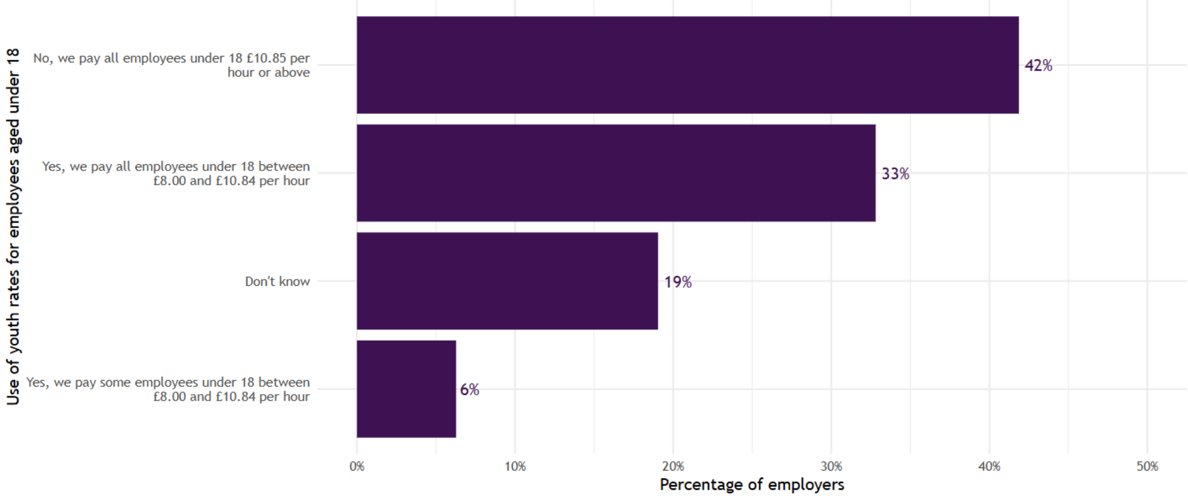
Breaking down these responses by sector, Figure 10 shows that both small (36%) and large (31%) private sector employers are more likely to utilise the youth rate, paying all employees aged 18 to 20 between £10.85 and £12.70 per hour, than public sector employers (14%).

Figure 10: Use of the 18-20 NMW rate among those who employ 18-20-year-olds by sector



Next, we consider the use of youth rates for employees aged under 18. Compared to 2025, significantly more employers pay all their employees under 18 at least the 18-20 youth rate (42%, up from 32% last year). 33% pay all employees under 18 between £8.00 and £10.84 per hour, with 6% paying some employees this rate.

Figure 6: Use of the under 18 NMW rate among those who employ under 18's



Source: CIPD Summer 2026 Labour Market Outlook
Base: all employers who currently employ anyone under 18 (n = 298)

Compared to last year, fewer large private sector and public sector employers are paying their under-18s the under-18 youth rate, with more paying at the 18-20 rate or above instead. Among large private sector employers, use of the under-18 rate (£8.00-£10.84 per hour in 2026) has fallen from 39% to 30%, while among SMEs it has held broadly steady (55% to 57%). In the public sector, use of this rate remains low: 16% in 2026 compared with 8% in 2025.

Consequently, in 2026, nearly half of large private sector employers (47%) and public sector employers (45%) pay all their under-18s at £10.85 per hour or more, which is at least the 18-20 youth rate rather than the lower under-18 rate.

Across both years, private sector employers remain more likely than those in the public sector to use the under-19 rate for all their employees younger than 18: in 2026, 57% of SMEs and 30% of large private employers did so, compared with 16% of public sector employers.

Figure 12: Use of the under 18 NMW rate among those who employ under 18's by sector

Source: CIPD Summer 2026 Labour Market Outlook
Base: all employers with employees under 18 (n = 298)

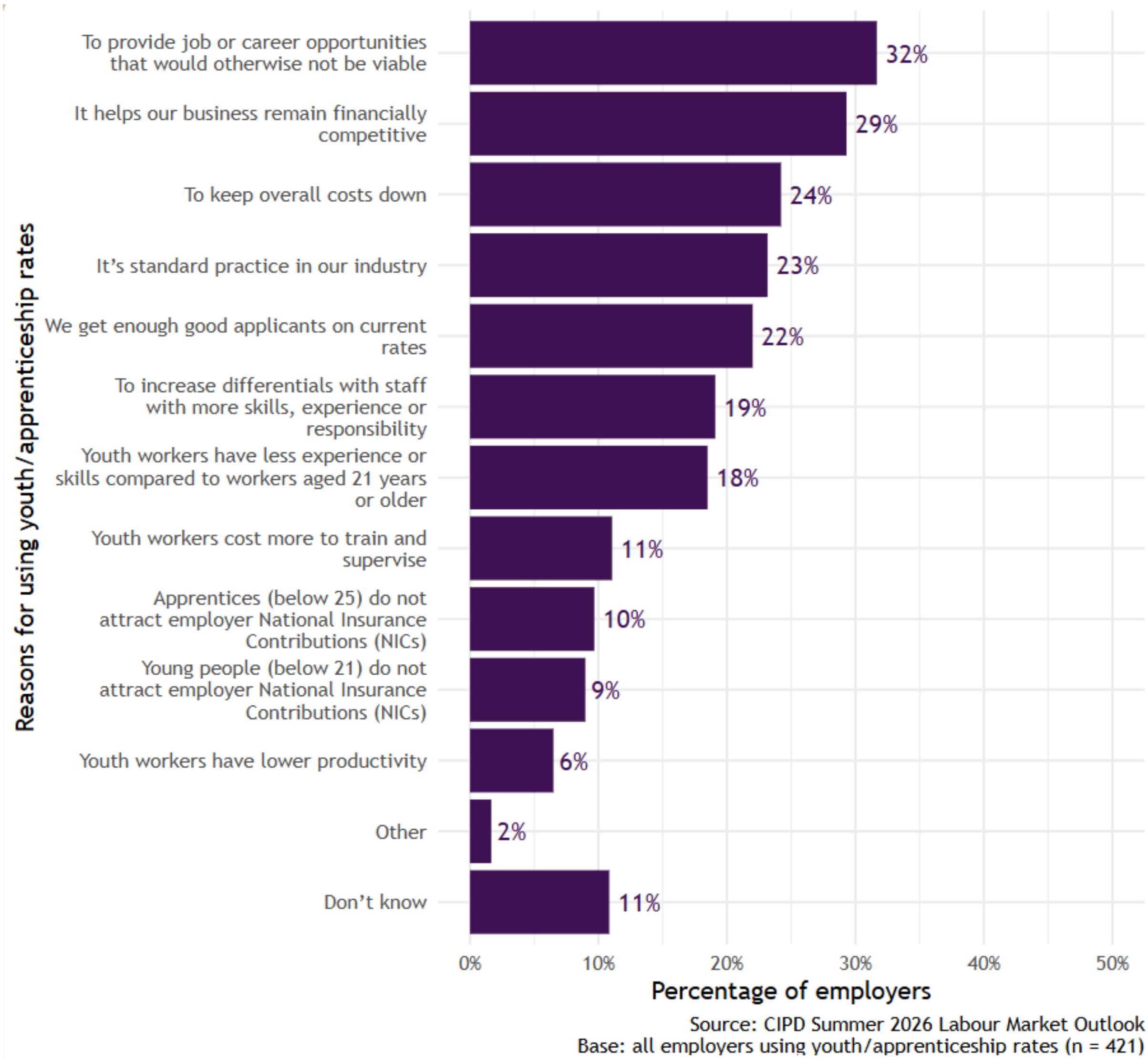
8) Why do employers make use of the youth rates (including pay rates above the youth minimum wages, but below the NLW)? To what extent has this been affected by the recent tight labour market?

Like in Summer 2025, in our Summer 2026 LMO we ask those employers whose organisation use youth or apprenticeship rates which of the following reasons (if any) they use for paying these rates instead of the adult minimum wage rate or higher. As shown in Figure 13, the top five reasons for using the youth or apprenticeship rates are:

- Providing job or career opportunities that would otherwise not be viable (32%, up from 30%);
- Helping [their] business remain financially competitive (29%, up from 26%);
- Keeping overall costs down (24%, down from 32%);
- It being a standard practice in their industry (23%, down from 29%);
- Getting enough applicants on current rates (22%, same as in 2025)

These were also the top five reasons in 2025, though in a slightly different order.

Figure 7: Reasons employers use youth or apprenticeship rates



The most common reason employers in the public sector use youth rates is to provide job or career opportunities that would otherwise not be viable (38%, down from 48%). This compares to 32% of large private sectors (up from 26%) and 25% of SMEs (down from 30%).

Twenty-two per cent of large private sector employers use youth or apprenticeship rates to keep overall costs down (down from 34%). The public sector is still the least likely to (at 15%). In comparison, SMEs in the private sector are significantly more likely to do so (32%, down from 34%).

SMEs are also significantly more likely to justify their use of the rates based on the belief that youth workers have less experience or skills compared to workers aged 21 years or older (26%, up from 22%), compared to both large private sector organisations (15%, down from 23%) and public sector organisations (13%, up from 9%). SMEs also use youth rates as they believe these workers have lower productivity at a higher rate (13%, down from 15%) than large organisations in the private sector (4%, down from 7%) and public sector employers (2%, down from 9%). This year, large private sector employers are still significantly more likely to say that using youth rates helps their business remain financially competitive (35% up from 32%) compared to SMEs (25%, up from 21%) and public sector employers (10%, down from 16%).

Among employers with young people (employees aged 18 to 20 and those under 18 for whom lower youth rates of the National Minimum Wage apply), 41% use youth rates for at least some of them, broadly unchanged from 39% in 2025. Usage is higher in the private sector (52% among SMEs and 46% among large private-sector employers) than in the public sector (22%). This mirrors 2025, when 54% of SMEs and 42% of large private-sector employers used youth rates, compared with 20% in the public sector. Following the most recent rise, there has been a small net increase in the number of people employed on these rates: 24% of employers using youth or apprenticeship rates report an increase, compared with 16% reporting a decrease.

What approach should we take to recommending 18-20 Year Old and 16-17 Year Old Rates for April 2027? For example, should we consider extending the NLW to 20 year olds?

We believe that the LPC, and the Government, should pause their current plan in equivalising the youth and adult wage rates. The multitude of additional cost burdens, on top of the rising youth rates over the past few years is affecting employer confidence and is playing a part in the current state of the youth labour market. We recommend that further steps to close the gap between those aged under 21 and the adult rate should only occur when labour market conditions for this group have improved.

This caution is particularly important given current youth labour market conditions. Weak recruitment and subdued employer confidence are limiting entry-level opportunities, while young people are disproportionately represented in sectors facing significant labour-cost pressures. A sharp increase in the relative cost of employing 18–20-year-olds could further reduce the availability of the first jobs that help young people build skills, experience and confidence.

Therefore, we recommend that the youth uplift tracks the NLW uplift set out in the previous section, a rise of no more of 3.7% in April 2027.

The Government remains committed to aligning the 18 to 20 Year Old Rate with the NLW. The LPC has full flexibility to recommend the pace and timing of that alignment. When do you think this should happen?

Our evidence suggests that employers continue to use the 18-20 youth rate, 36% of employers use this rate (whilst 42% do not, and 22% don't know). This is the same level as 12 months ago.

The main reasons they do so are to provide job or career opportunities that would otherwise not be viable (30%) and it helps their business remain financially competitive (31%).

We recommend that extending the adult rate to those aged under 21 should only occur when labour market conditions for this group have improved, rather than committing to a fixed date at present. This requires effective policy interventions from government, focused on reducing the cost of hiring and creating the conditions employers need to invest and grow. Taking a more gradual approach to align the minimum wage for 18–20-year-olds with the adult rate is likely an effective first step.

On supporting the employment prospects of young people, the CIPD has called for further measures, such as such as restoring the employer National Insurance threshold to £9,100 a year to help reduce business costs. As we showed 12 months ago, national insurance changes have had a disproportionate impact on firms who hire young people. 37% of employers who hire young people, aged under 21, said the national insurance changes increased their employment costs to a large extent. This compares to 23% of employers who did not hire young people. This is despite employees under the age of 21, and apprentices under the age of 25 being exempt from employer national insurance.

In addition, we have consistently highlighted how the Employment Rights Act 2025 (ERA) is set to increase employment costs (Labour Market Outlook – Winter 2025/26). We have previously found that three-quarters (74%) of employers believe their employment costs will increase due to the measures introduced as part of the ERA, while a further 15% of employers don't know. Overall, 17% of employers believe their costs will increase to a large extent; this rises to 31% in social care and 28% in hospitality, industries who employ a number of workers at or close to minimum wage rates.

In our latest data we have focused specifically on the upcoming changes to zero hours and low hours contracts. Most employers (two-thirds) believe the changes will increase administration and compliance work, increasing both HR and management time and cost. And whilst employers are split over whether they will increase or decrease the use of zero/low hours contracts because of these reforms, they plan to use more self-employed/atypical workers and increase the number of redundancies. The unintended consequences will therefore likely lead to more insecure employment and further damage opportunities for young people who particularly benefit from these arrangements. As such we also recommend that Government ensure proposed new measures giving zero hours contract workers new rights to guaranteed minimum hours currently being consulted on don't further restrict job opportunities for young people.

The Government should also be bolder in tackling the NEET crisis and introduce an Apprenticeship Guarantee for all 16–24-year-olds, something CIPD evidence shows nine in ten employers' support[4].

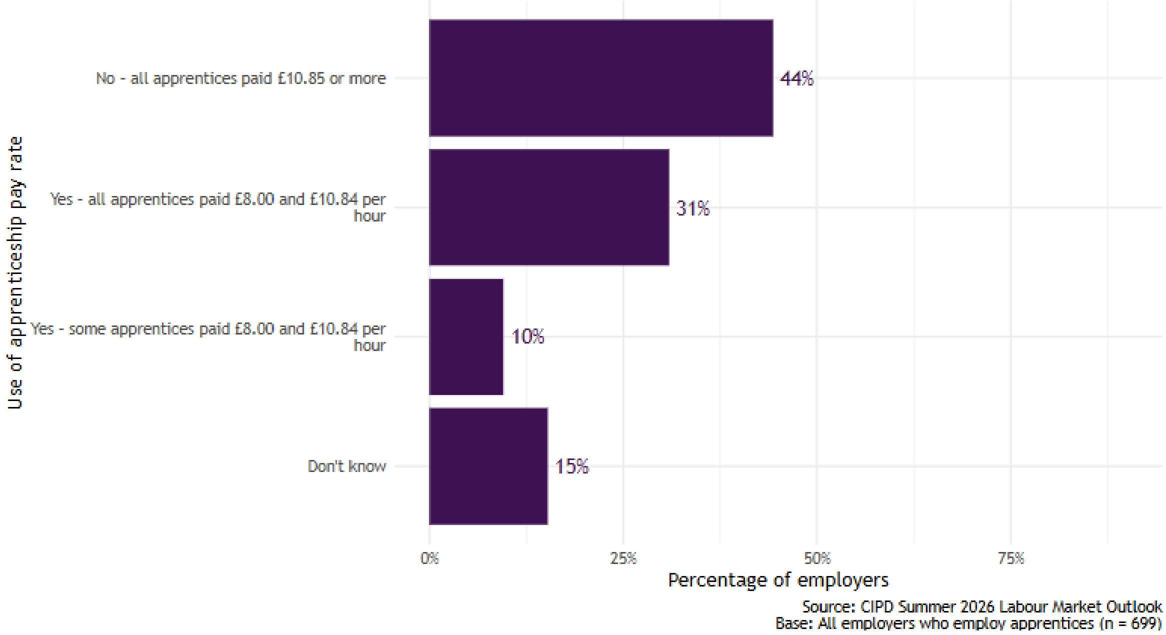
Apprentices

What do you expect the effects of the latest increase in the Apprentice Rate to be?

In 2025 and 2026, as with youth rates, there is an even split between employers who utilise the apprenticeship rate for apprentices and employers who do not. Forty-four per cent of employers pay all apprentices at least £10.85 per hour (the 18–20-year-old minimum wage rate). In 2025, 27% of employers did so at the rate of £10 per hour or more. Thirty-one per cent of employers pay all apprentices between £8.00 and £10.84 per hour, with 10% paying some apprentices this rate. In 2025, the year prior, 26% paid all apprentices between £7.55-£9.99, with 10% paying some apprentices this rate.

[4] Balancing act: Youth apprenticeships and the case for a flexible skills levy

Figure 14: Use of the apprentice rate among those who employ apprentices



As in 2025, there is some evidence that employers using the apprenticeship rate have seen a net increase in the number of people employed on youth or apprenticeship rates following the most recent uprating.

What approach should we take to recommending the Apprentice Rate for April 2027?

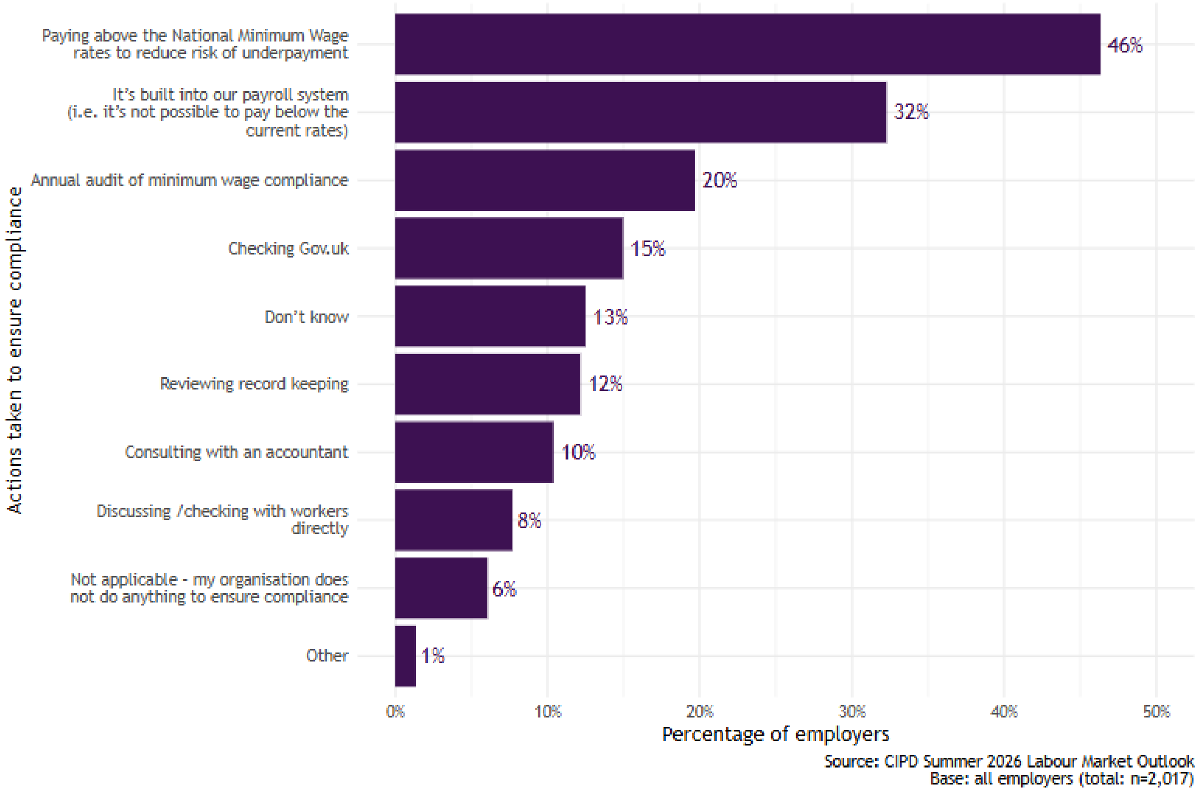
We recommend that the Apprentice Rate continues to track the 16–17-Year-Old Rate, as it has in recent years. Employers' use of the apprenticeship rate appears broadly unchanged over the past year, supporting an increase on the same basis as the 16-17 rate. The key test is that minimum wage rates for under-18s and apprentices should be set at a level that protects each group's employment prospects.

<u>Compliance and enforcement</u>

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

In both 2025 and 2026, the most common way employers ensured compliance with NMW/NLW regulations was by paying more than the legal minimum (48% and 46% respectively). Over half of employers in finance and insurance (59%), manufacturing (53%), and wholesale and real estate (52%) took this approach.

Figure 15: Actions taken to ensure compliance with the NMW/NLW



The next most common approach in both years is to ensure that the payroll system does not permit payment below the current minimum rates (31% in 2025 and 32% in 2026). This is most common in retail (42%), wholesale and real estate (37%) and finance and insurance (36%).

Table 1 shows that those employers who have been affected by the NLW/NMW rise by any extent were more likely to take steps to ensure compliance compared to those who were not (roughly 97% compared to 81%). These percentages are slightly higher than in 2025, where at least 97% of employers who were affected had acted (versus 76% of those who were unaffected did so).

Table 1: Extent to which NICs have increased employment costs, by whether impacted by the NMW/NLW

	Taking actions to ensure compliance	
Impact of NMW increase on the organisation's wage bill	Yes	No
To a large extent	97%	3%
To some extent	98%	2%
To a small extent	97%	3%
Not at all	81%	19%

Base: employers who have taken actions to ensure compliance (n = 1,643) and those who did not (n = 122).

Overall, when it comes to taking actions to ensure compliance with National Minimum Wage/ National Living Wage regulations, the employers in the sectors below are most likely to have taken one or more steps to ensure compliance

- Hotels, catering and restaurants (91%, down from 93%)
- Manufacturing (89%, down from 92%)
- Arts, entertainment and recreation (88%, down from 86%)
- Retail (86%, up from 81%)

- IT (84%, down from 87%)
- Wholesale and real estate (83%, up from 78%)
- Finance and insurance (83%, up from 76%)

By contrast, only 74% of employers in non-compulsory education (up from 72%), 73% in legal, accounting, consultancy, and activities of head offices (down from 83%), and 69% of those in public administration (down from 73%) do the same.

By firm size, SMEs are still more likely to report that they have not taken any steps to ensure compliance compared to large companies (2026: 12% versus 3%; 2025: 11% versus 2%). This is particularly true for micro employers (21%, up from 19%). That one in five micro employers do not take any steps suggests that they believe that national living wage is not an issue for them, that they are unaware that they should be concerned about it, or they do not know where to get relevant information, guidance, or advice.

What comments do you have on the enforcement work done by HMRC, and on the operation of the new Fair Work Agency?

The CIPD supports financial penalties for employers that deliberately breach minimum wage law. However, national living wage rules can be complex, including those on deductions and working time. As a result, some organisations, particularly micro- and small-firms, may unintentionally fail to comply because they lack awareness or resources.

The CIPD therefore supports sharing practical examples of how mistakes can occur, helping employers avoid similar issues in future. This could mirror the Pensions Regulator's guidance on automatic enrolment. We also believe more support is needed to improve employer compliance, especially among SMEs, as part of a more progressive approach to labour market enforcement. For example, by helping micro and small businesses access HR advice from professionally qualified experts.

Although the CIPD supports establishing the Fair Work Agency, we are concerned that it may not receive the funding needed to fulfil its role effectively, limiting the action it can take.

Economic outlook

What are your views on the economic outlook and business conditions in the UK for the period up to April 2026? We are particularly interested in:

- **the conditions in the specific sector(s) in which you operate.**
- **the effects of Government policies and interventions.**
- **the current state of the labour market, recruitment and retention.**
- **the impact of global economic conditions.**

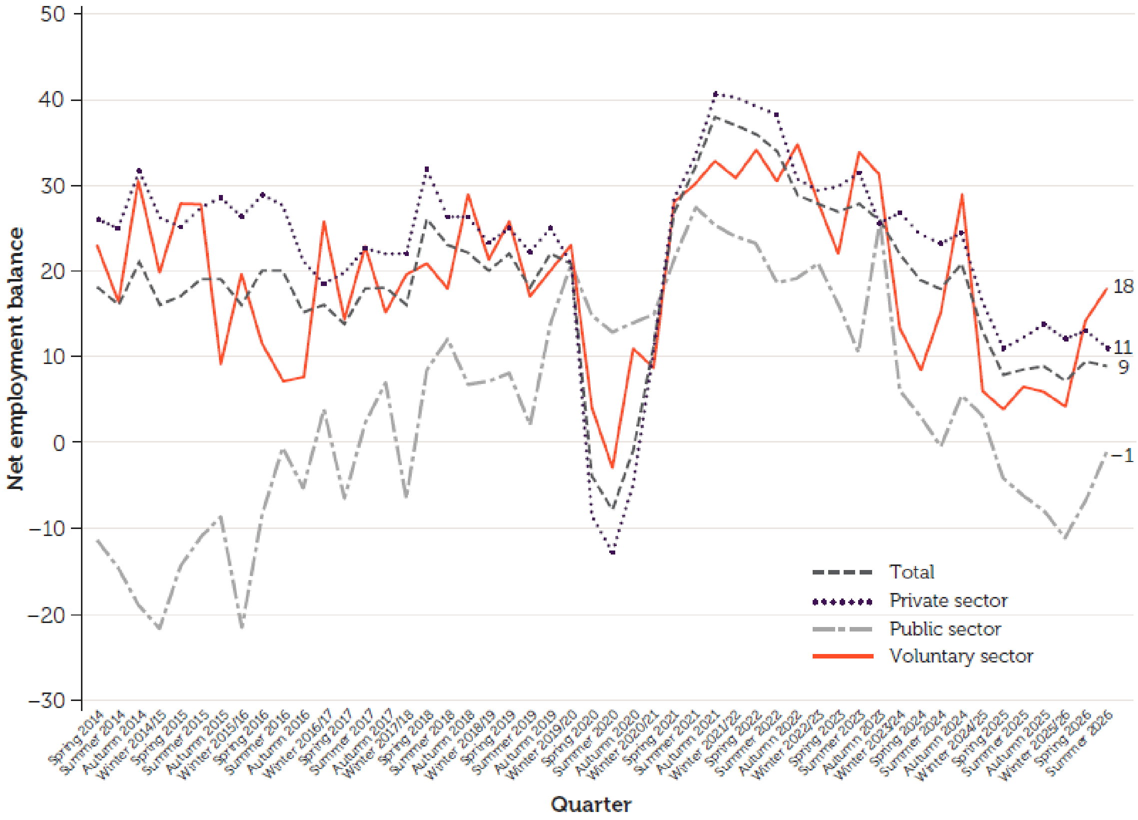
Economic outlook

Our latest Labour Market Outlook finds that employer confidence, based on our net employment balance indicator remains at a record low level, outside of the pandemic and has done so since spring 2025. The net employment balance – the difference between employers expecting there will be an increase in staff levels and those expecting there will be a decrease in staff levels in the next three months – stands at +9.

Employment intentions in the private sector are at their joint record low, outside of the pandemic, of +11. Again, this low was first reached in spring 2025 and it has remained near this level since. In the public sector they have risen once again from -7 in spring 2026 to -1 this quarter. They have risen from a low of -11 in our winter 2025/26 report.

Twenty-six per cent of employers expect their staffing levels to increase in the next three months. The proportion of surveyed employers expecting a decrease in staffing levels over that timeframe remains 17%, comparable with all quarters since Spring 2025. Half (49%) of employers believe their staffing levels will be maintained in the next three months

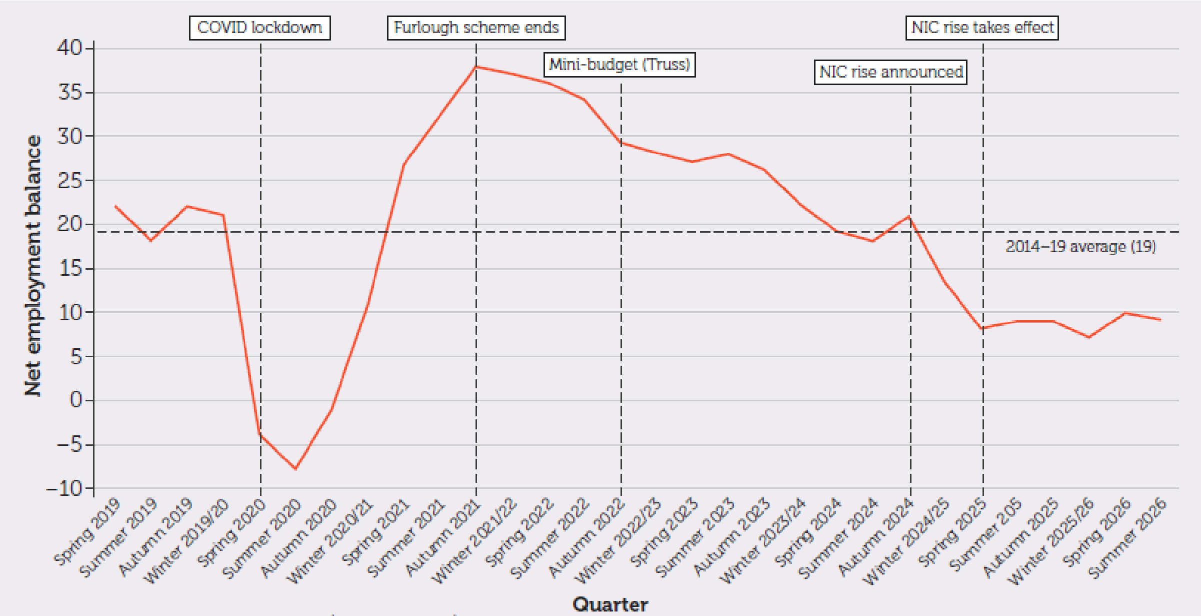
Figure 16: Net employment balance, by sector



Base: summer 2026, all employers (total: n=2,017; private: n=1,411; public: n=392; voluntary: n=214).

Since 2020, employer hiring intentions have fluctuated considerably compared to the previous decade. The 2014-19 average of 19 can serve as an important benchmark. Across this entire period the net employment balance ranged between 14 and 26.

Figure 17: Overall net employment balance compared to key events



Base: summer 2026, all employers (total: n=2,017).

During the first COVID-19 lockdown in spring 2020, the net employment balance fell below zero for the very first time, meaning more employers planned to reduce staff levels than increase staff levels. It fell to an unprecedented low of -11 in summer 2020. It then rebounded strongly through 2021, as the country exited stringent lockdown restrictions, to a peak of 38 in the autumn, well above historic norms. This coincided with the end of the furlough scheme on the 30th of September, with 1.14 million people still receiving government support at this point.

From late 2021, hiring intentions declined steadily, reverting towards pre-pandemic norms. During this period, Russia's invasion of Ukraine and the energy and inflation shock that followed, and the market turbulence of the September 2022 minibudget, both contributed to lower employer confidence.

In 2024 it appeared that the net employment had stabilised to around the 2014-19 average (Spring 2024: 19, Summer 2024: 18 and Autumn 2024: 21). However, a sharp fall at the end of the 2024 and beginning of 2025, due in part to the October 2024 Budget, led to it falling to the lowest level in the series outside of the pandemic. This spans the announcement of the rise in the rate of employer National Insurance from 13.8% to 15%, and the reduction in the secondary threshold from £9,100 to £5,000. Since these policies came into force in April 2025 intentions have remained at record lows.

The chart marks headline shocks, but employers also faced a broader accumulation of cost pressures over this period. The National Living Wage rose repeatedly each April, to £12.71 in 2026, including sharper rises for younger age groups with the objective of equivalising the adult and youth rates, while retail, hospitality and leisure business rates relief was cut from 75% to 40% for 2025/26. These pressures will not have been felt evenly: a high-street retailer or hospitality operator could have faced higher NICs, a rising wage floor and reduced rates relief all at once from April 2025. In contrast, a higher-paying employer would have felt less direct impact. Organisations are likely to be heavily affected by rising energy prices in the coming months, either directly or indirectly, as the energy price shock spreads through supply chains. Our surveys have consistently found that, when faced with rising costs, businesses often raise prices. Early evidence from the Bank of England suggests that the ability to raise prices may be limited due to squeezed household incomes and firms will have to rely on other mechanisms, such as allowing their profit margins to fall or by reducing output.

Our previous Spring 2026 Labour Market Outlook found that cost management is by far the key priority of organisations, regardless of sector and organisation size. 58% of employers cited cost management, rising to 61% of among large private sector organisations. This figure was 56% among SMEs and 53% in the private sector. Improving productivity is the second biggest priority (44%), rising to 55% among large private sector employers. Growing market share comes in third, where 47% of large firms in the private sector cited it as a key priority, compared to 35% overall. These findings suggest that many businesses are taking, and will continue to take, a cautious approach in ongoing uncertainty.

Employment Rights Act

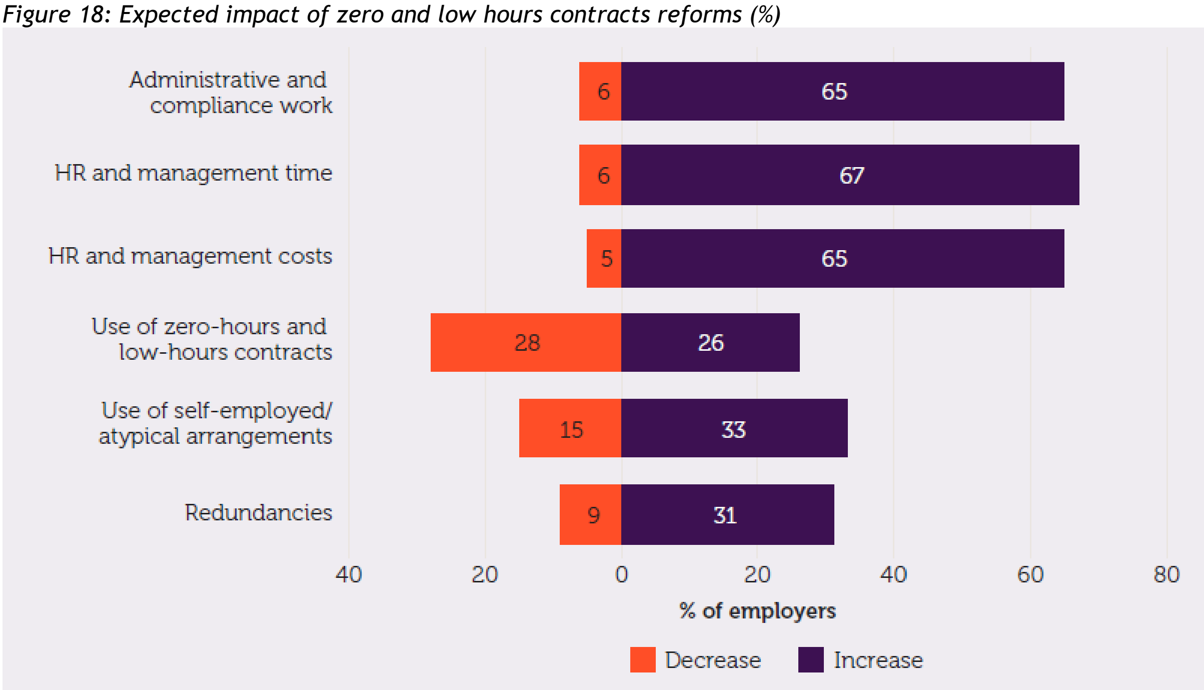
In addition, the Employment Rights Bill progressed through 2025 despite concerns from businesses, before the Employment Rights Act 2025 (ERA) passed into law on 18 December 2025. While the headline cost of the ERA on business has been estimated at £1bn, we believe the economic impact assessment does not fully account for the time spent by business, and HR in particular, in getting to grips with and implementing the raft of legislation. For example, it is currently estimated it will take just an hour or less for HR to familiarise themselves with the new rights for trade unions to access workplaces for recruitment and organising purposes. As we have previously shown, the act is set to increase employment costs (Labour Market Outlook – Winter 2025/26). We found that three-quarters (74%) of employers believe their employment costs will increase due to the measures introduced as part of the ERA, while a further 15% of employers don't know. Overall, 17% of employers believe their costs will increase to a large extent; this rises to 31% in social care and 28% in hospitality, industries who employ a number of workers at or close to minimum wage rates.

Our data from the same report suggested that key Employment Rights Act measures[5] are likely to reduce employers' willingness to hire permanent staff, leading to a possible rise in temporary employment. More than a third (37%) of employers plan to hire fewer permanent staff due to at least one of the Act's key reforms. Overall, over half (55%) of employers also believe there will be an increase in workplace conflict due to these changes.

This quarter we have once again explored employers views on the upcoming changes to zero hours and low hours contracts. Most employers (two-thirds) believe the changes will increase administration and compliance work, increasing both HR and management time and cost. And whilst employers are split over whether they will increase or decrease the use of zero/low hours contracts because of these reforms, they plan to use more self-employed/atypical workers and increase the number of redundancies. The unintended consequences will therefore likely lead to more insecure employment and further damage opportunities for young people who particularly benefit from these arrangements.

[5] Defined as changes to the unfair dismissal qualification period, the day one right to Statutory Sick Pay and increased rights for zero hours contract workers and the trade union reforms.

Figure 18: Expected impact of zero and low hours contracts reforms (%)



Base: summer 2026, employers who have employed zero and/or low hours workers in the last 12 months (total: n=505).

With further changes to trade union access and recognition and fire-and-rehire restrictions expected in the coming months, coupled with changes to the unfair dismissal qualifying period, it is very hard to disentangle the impact of each of these reforms on employer confidence, but there is no doubt that it is playing a part.

Skills investment

Not only are weak employer confidence and rising employment costs affecting recruitment they are also likely to affect investment in skills. There has been a long-term decline in UK businesses from investing in their workforce's training and skills, with business investing half as much per employee in vocational training compared to the European average. The fall in training investment per employee has been sharp with UK businesses spending £250 (13%) less per employer than they did in 2019.[6]

Training budgets are the first to go in poor economic conditions. Indeed, as previously mentioned, 15% of employer report that their organisation has cut back on its training expenditure in response to the NMW and NLW rises. This proportion rises to 23% among those who said that their wage bill had increased significantly following the changes. By contrast, just 6% of respondents say that in response to the 2026 NMW and NLW rise, they have increased the provision of training to low-paid or other workers.

Apprenticeship opportunities and entry-level hiring are also reduced with smaller employers particularly exposed.

Industry focus

There remain notable differences in employment intentions between industries. Employment intentions are highest in care, social work and other health care activities, and arts, entertainment and recreation (both at + 27) followed by construction (+20), administrative and support service

[6] https://www.gov.uk/government/publications/skills-england-annual-skills-report-and-sectoral-skills-needs-assessments-2026/skills-england-annual-skills-report-2026

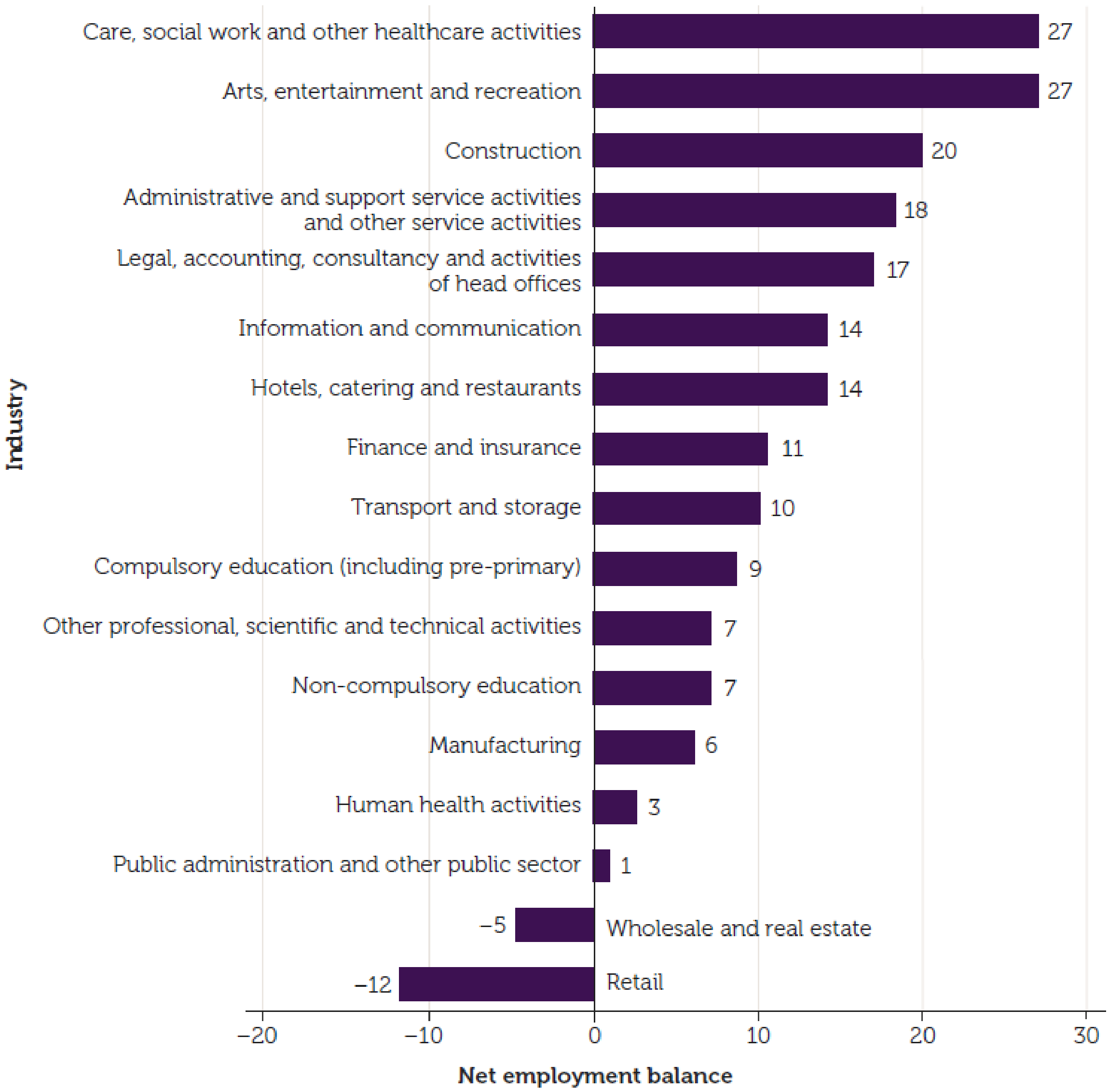
activities and other service activities (+18), and legal, accounting, consultancy and activities of head offices (+17).

Several industries continue to have either negative or very low positive net intentions, reflecting low confidence among employers.

The net employment balance is lowest in retail, having fallen from +10 last quarter to -12 this quarter, suggesting there will be a fall in staff levels in the next three months. According to the British Retail Consortium, employment in retail, based on ONS data, is at its lowest level on record. The net employment balance is also negative for wholesale and real estate, where intentions have fallen from -1 last quarter to -5 this quarter.

The net employment balance continues to be low among public administration and other public sector employers, although it has risen to +1 from -9 last quarter and -12 the quarter prior.

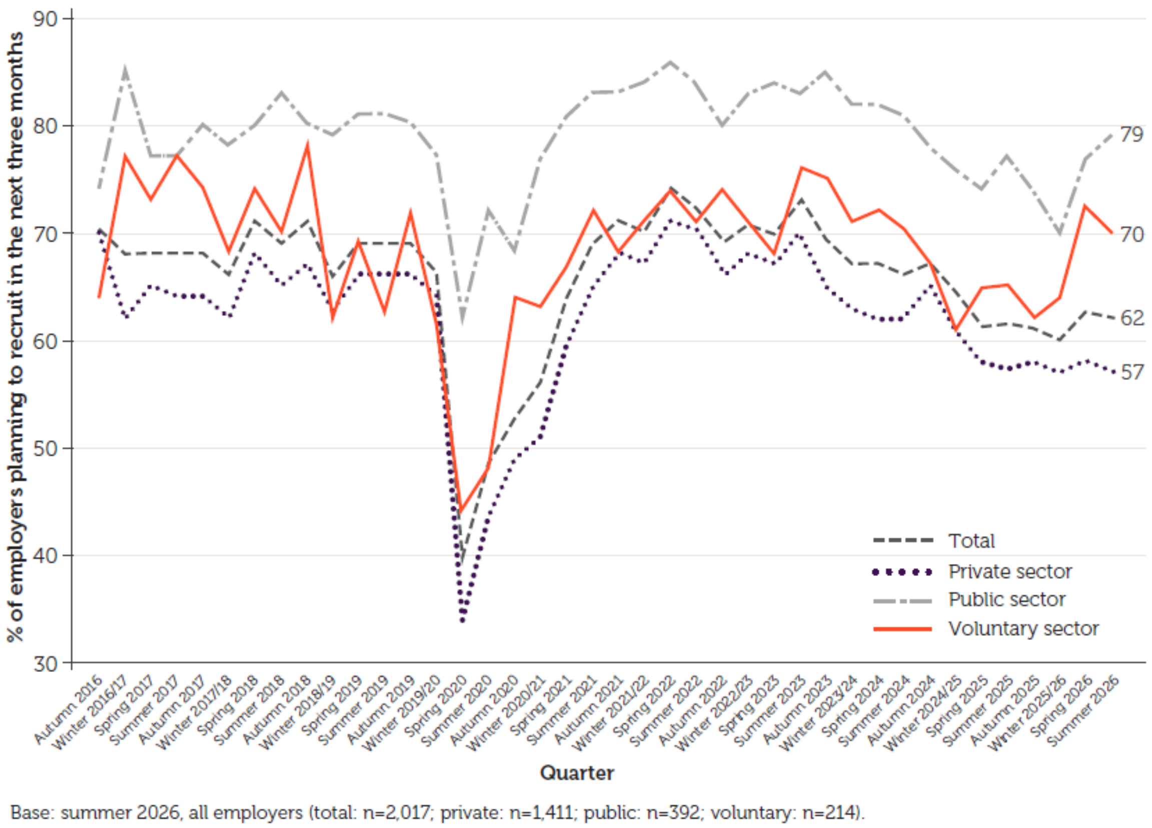
Figure 19: Net employment balance, by industry



Recruitment and redundancy intentions

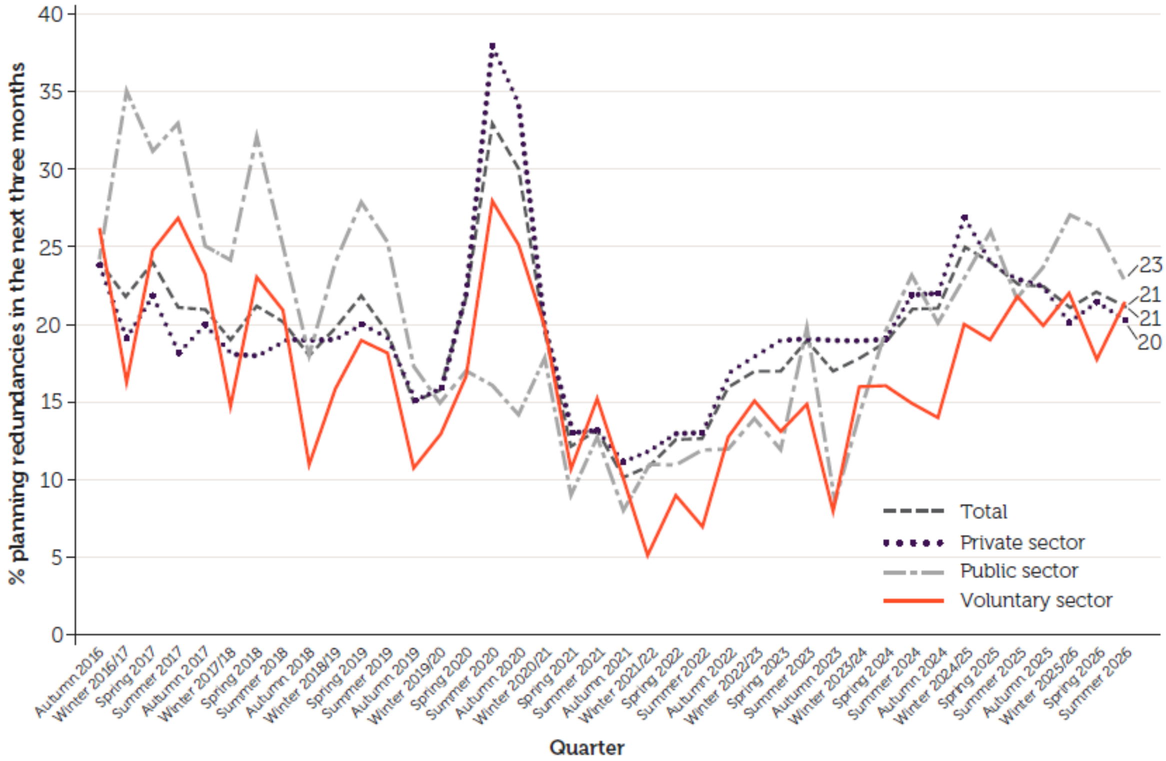
Overall, 62% of employers are planning to recruit employees in the next three months, near to historical lows. Fifty-seven per cent of employers in the private sector plan to recruit over that period, which is the lowest figure seen since we began collecting this measure in 2016 (outside of the pandemic) (see Figure 20).

Figure 20: Recruitment intentions, by sector (%)



Twenty-one per cent of employers are planning to make redundancies in the three months up to September 2026, which is broadly similar to the previous quarter as we remain in a "low hire, low fire" environment. Fewer public sector employers are planning redundancies in the short term (23%) than they have in the previous two quarters (27% and 26% respectively).

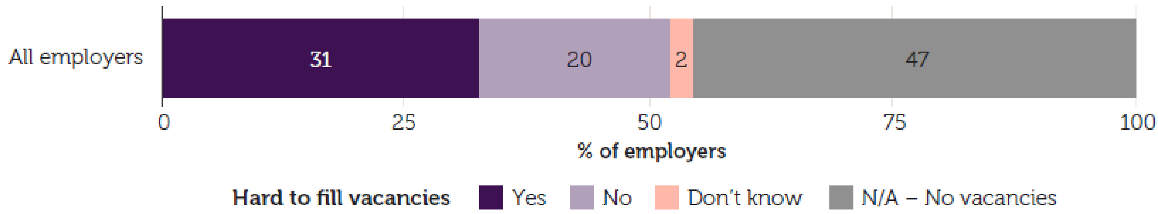
Figure 8: Redundancy intentions, by industry (%)



Base: summer 2026, all employers (total: n=2,017; private: n=1,411; public: n=392; voluntary: n=214.

Our data suggests that despite the low level of vacancies in the economy, three in ten (31%) employers still have hard-to-fill vacancies. This indicates skills mismatches across the country, as employers seek talent that is not available to them.

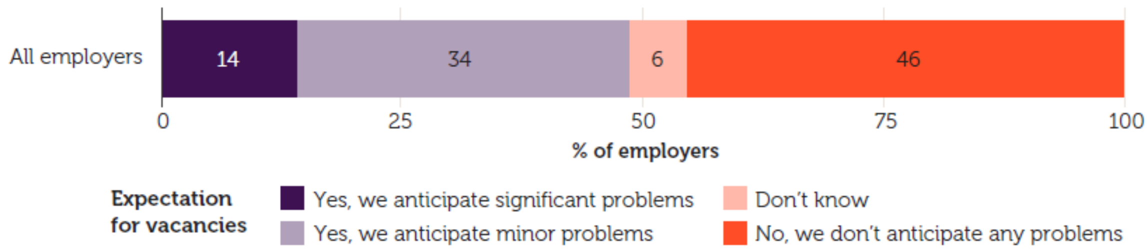
Figure 22: Employers with hard-to-fill vacancies (%)



Base: summer 2026, all employers (n=2,017).

Our forward-looking indicator shows that 14% of employers anticipate significant problems in filling vacancies in the next 6 months. A further 34% anticipate minor problems with the largest share of employers not anticipating any problems at all (46%). However, many of these employers have no vacancies (as indicated by the figure above).

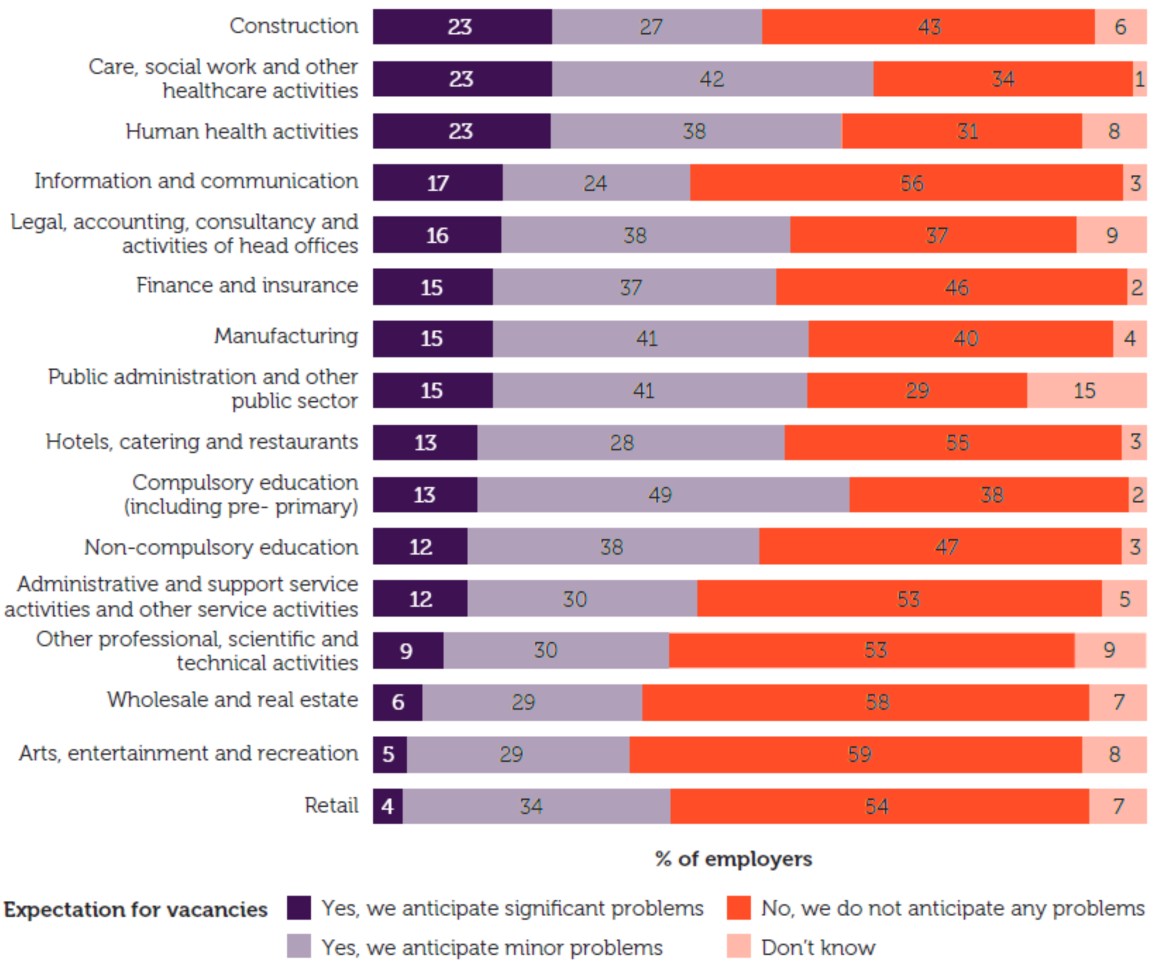
Figure 23: Expectation for vacancies in the next six months (%)



Base: summer 2026, all employers (n=2,017).

The percentage of employers in construction reporting anticipated problems in filling vacancies over the next six months has increased considerably from 9% last quarter to now 23% and problems continue to be anticipated in care, social work and other healthcare activities, as well as in human health activities (both at 23%). Just 4% of employers in retail anticipate significant problems as the availability of jobseekers and generally low barriers to entry in the industry, have made it easier to recruit.

Figure 24: Anticipated problems in filling vacancies in the next six months, by industry (%)

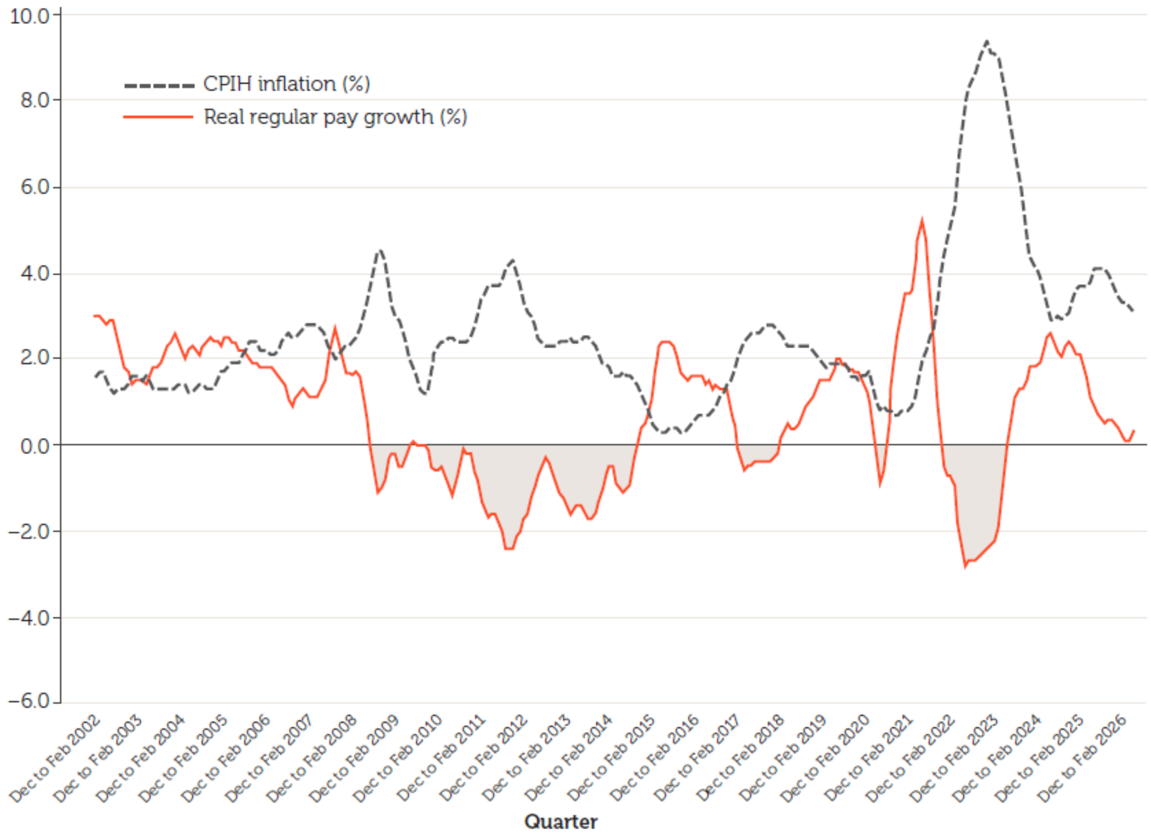


Base: industries with base sizes less than 50 have been excluded. For a breakdown of base sizes, see Table 3.

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?

Over the last 12 months nominal growth has slowed sharply but stayed above the rate of inflation. ONS data show annual growth in regular pay has eased from 5.9% in the three months to February 2025 to 3.4% in the three months to May 2026. Against CPIH inflation, this leaves real regular pay growth at just 0.3% and likely to fall below zero in the coming months.

Figure 25: Real average weekly earnings growth rate and inflation (CPIH), 2002 to 2026



Source: 'Average weekly earnings in Great Britain: July 2026'. London: Office for National Statistics.

Weak labour market conditions and relatively modest rates of inflation over the recent period will continue to moderate wage growth in the coming year, with most pay awards already decided for the remainder of 2026. In addition, the lower rate of increase of the national living wage and minimum wages rates in 2026, will also play a part. The future rate of inflation is highly dependent on the ongoing conflict in the Middle East, with the direct effects of higher energy prices still set to rise in the coming months.

Second-round effects on inflation are expected to be smaller this time than during the Russia/Ukraine conflict, since softer labour market conditions mean firms face less competition for workers and so have more room to hold wage growth down.

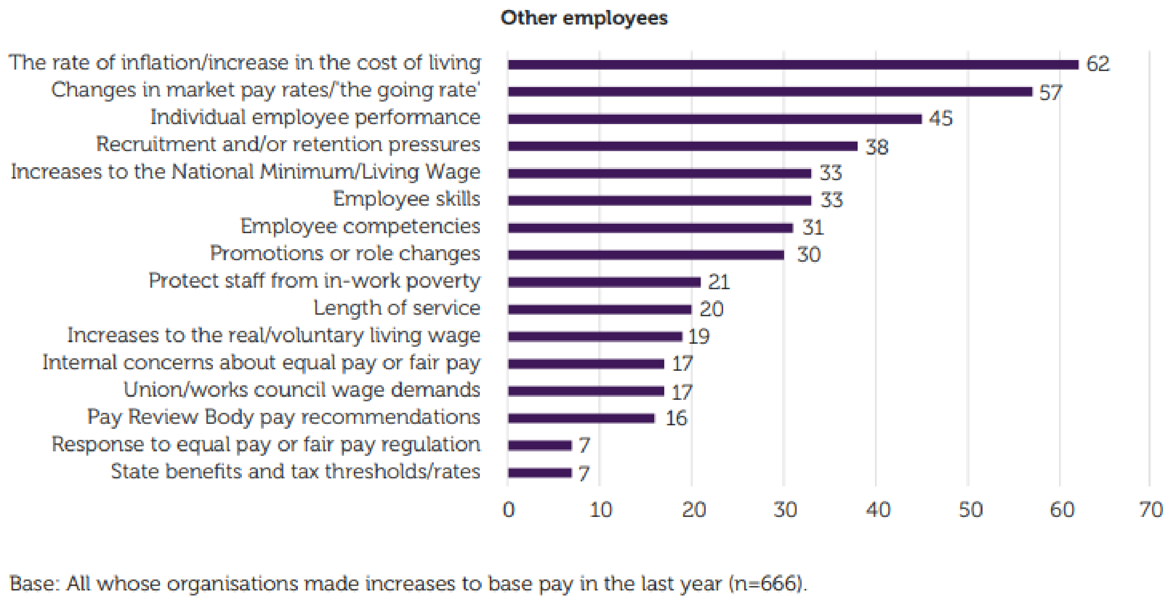
However, two UK-specific factors suggest this may not hold. First, around 40% of workers sit at the lower end of the wage distribution and are heavily exposed to changes such as NLW uprating. Second, roughly half of workers are employed at firms that place greater weight on inflation because they engage in wage bargaining. Together, these give large numbers of workers a mechanism for a pay uplift even in a softer labour market. But the timing is likely to be delayed to 2027, since most 2026 wage settlements have already been agreed. The Bank of England's July 2026 Monetary Policy Report[7] notes this dynamic: because firms typically settle wages by Q2, any second-round effect on wage growth may not emerge until 2027 Q2, and the Bank flags that knock-on effects from the conflict could slow disinflation through 2027.

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

[7] Monetary Policy Report - July 2026 | Bank of England

Our latest evidence on the factors influencing base pay, comes from CIPD's Pay, Performance and Transparency survey from 2024.[8] This found that pay-setting drivers vary by employee group and sector: managerial, professional and technical pay tends to track individual performance, inflation, external benchmarking and recruitment/retention pressure; for other employee groups, inflation weighs more heavily relative to performance; and in the public sector, unions and pay review bodies dominate, as highlighted above.

Figure 26: Factors influencing base pay rises, by job level (%)



We also expect equal pay and pay transparency requirements to grow in influence on salary decisions of employers over time, though this is an emerging rather than established driver and isn't yet captured in our survey evidence.

Pay outlook

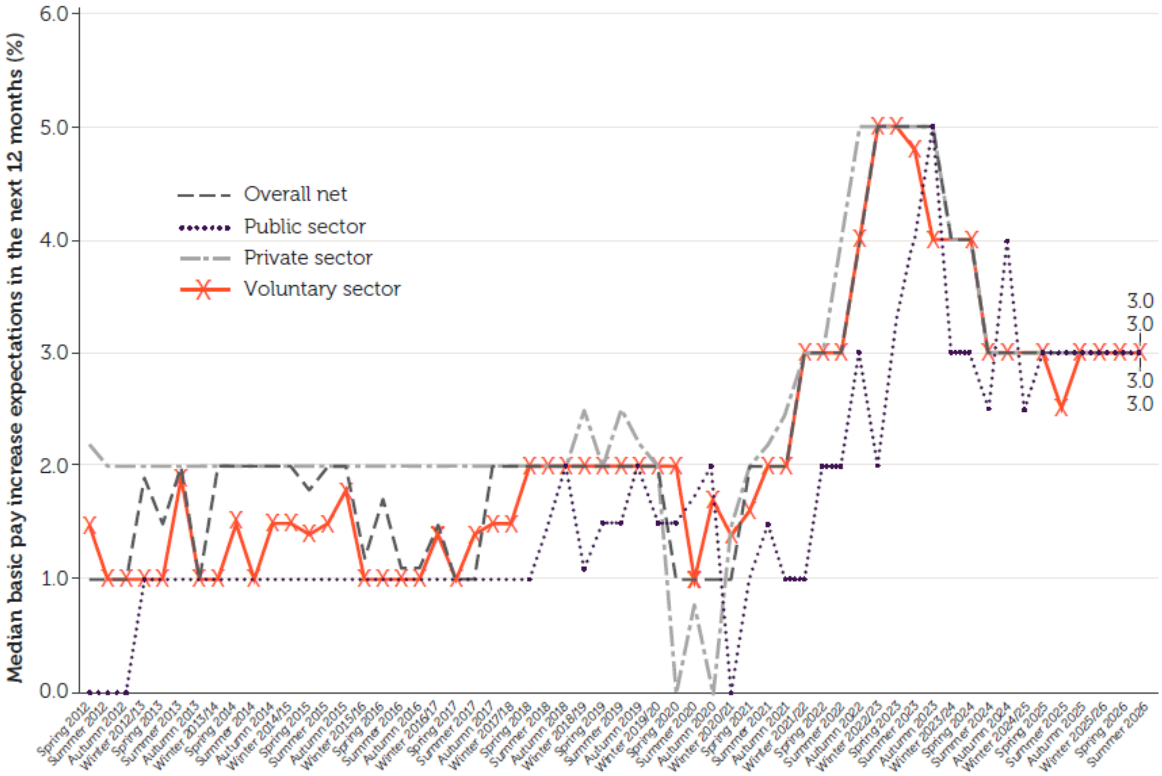
From our latest Labour Market Outlook, among employers looking to increase, decrease or freeze pay in the next 12 months, the median expected basic pay increase for the next 12 months has now remained at 3% overall for over two years. Expected pay awards held at a historic high of 5% between winter 2022/23 and autumn 2023, before falling to 4% in winter 2023/24 and spring 2024.

There is significant stability in median expected pay awards by sector. It has remained at 3% across the private, public and voluntary sectors for the past six quarters (apart from the voluntary sector in Summer 2025). As with last quarter, 40% of employers are offering pay rises in the next year within the 3-3.99% range.

Our data is validated by the median employer giving 3% awards over the last 12 months.

Figure 27: Median basic pay increase expectations (%)

[8] CIPD (2024) *Pay, performance and transparency 2024*. London: Chartered Institute of Personnel and Development. Available at: https://www.cipd.org/uk/knowledge/reports/pay-performance-transparency/



Base: summer 2026, all employers expecting and able to estimate a pay award in the next 12 months (total: n=824; private: n=507; public: n=210; voluntary: n=67).

Appendix

Table 2: Labour Market Outlook Summer 2026 sample size by industry

Industry	Count
Administrative and support service activities and other service activities	265
Arts, entertainment and recreation	78
Care, social work and other healthcare activities	57
Compulsory education (including pre-primary)	132
Construction	125
Finance and insurance	121
Hotels, catering and restaurants	76
Human health activities	140
Information and communication	132
Legal, accounting, consultancy and activities of head offices	75
Manufacturing	191
Non-compulsory education	101
Other professional, scientific and technical activities	88
Police and armed forces	19
Primary and utilities	47
Public administration and other public sector	85
Retail	75
Transport and storage	59
Voluntary	82
Wholesale and real estate	70