EXPLANATORY MEMORANDUM TO

THE NATIONAL MINIMUM WAGE (AMENDMENT) REGULATIONS 2025

2025 No. [XXXX]

1. Introduction

1.1 This explanatory memorandum has been prepared by the Department for Business and Trade and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Justin Madders, Parliamentary Under-Secretary of State for Employment Rights, Competition and Markets at the Department for Business and Trade, can confirm that this Explanatory Memorandum meets the required standard.

2.2 Anthony Morris, Deputy Director for Analysis and Wages at the Department for Business and Trade, can confirm that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Tony Gordon at the Department for Business and Trade, Telephone: 07920 210 842 or email: nationalminimumwage@businessandtrade.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the National Minimum Wage Regulations 2015 ("the 2015 Regulations").

4.2 This instrument increases the single, main hourly rate of the National Living Wage (or "NLW") from £11.44 to £12.21. The NLW was introduced in April 2016 for working people aged 25 and over and was extended to those aged 23 and over in April 2021 and those aged 21 and over in 2024.

4.3 This instrument also increases the hourly rate of the National Minimum Wage (or "NMW") for workers aged 18 years and over (but not yet aged 21) from £8.60 to £10.00, workers above school leaving age (but not yet aged 18) from £6.40 to £7.55, and apprentices who are under the age of 19 or in the first year of their apprenticeship from £6.40 to £7.55.

4.4 In addition, this instrument increases the maximum daily amount for living accommodation, known as the accommodation offset rate, which is allowed to count towards pay for NMW and NLW purposes. This rate is increased from £9.99 to £10.66.

4.5 The rates have been increased in line with the recommendations of the Low Pay Commission ("LPC"). The LPC is an independent and expert body which makes recommendations to the Government on the rates of NMW and NLW as well as other wage related issues. All of the rates detailed above have been accepted by the

Government and are due to come into force on 01 April 2025, subject to parliamentary approval.

Where does the legislation extend to, and apply?

4.6 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.7 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom, the territorial waters of the United Kingdom and the United Kingdom sector of the continental shelf. Further details of the application to those waters and that sector can be found in the National Minimum Wage (Offshore Employment) Order 1999, SI 1999/1128, as amended by the National Minimum Wage (Offshore Employment) (Amendment) Order 2020 SI 2020/779.

5. Policy Context

What is being done and why?

5.1 The NMW was introduced on 1 April 1999 by the National Minimum Wage 1998 Act ("the 1998 Act") and creates an obligatory threshold pay level. The objective is to maximise the wages of low paid workers without damaging their employment prospects by setting it too high. The NLW was introduced on 1 April 2016 and created an additional obligatory threshold pay level which applies to the oldest group of workers.

5.2 The Government has set a policy aim to deliver a genuine living wage for every adult worker, and the increases to the rates this year are intended to make progress towards that, both by increasing the headline NLW rate and narrowing the gap between the 18-20 NMW rate and the full adult rate.

What was the previous policy, how is this different?

5.3 Decisions on NMW and NLW rates as well as other related matters are usually based on recommendations made by the LPC. The LPC Summary of Evidence 2024 was published in October 2024. A copy of this report can be found online using the following link: https://www.gov.uk/government/publications/minimum-wage-rates-for-2025

5.4 The accommodation offset was introduced in 1999 and provides protection to workers who live in employer-provided accommodation against an excessive reduction in their income and gives some recognition of the value of the benefit.

5.5 This instrument follows the recommendations of the LPC on the NMW, NLW and accommodation offset rates, as well as on the application of the NLW to working people aged 21 and over.

6. Legislative and Legal Context

How has the law changed?

6.1 The 1998 Act contains powers for the Secretary of State to amend the NLW and NMW rates and the accommodation offset rate. Following recommendations of the LPC, this instrument amends those rates. These amendments are reflected in the 2015 Regulations.

Why was this approach taken to change the law?

6.2 This instrument implements the recommendations on the NLW, NMW and accommodation offset rates contained in the LPC Summary of Evidence 2024.

6.3 The LPC is an independent body which has the function under the 1998 Act of reporting on matters relating to the NMW and NLW that are referred to it by the Secretary of State for Business and Trade.

6.4 The LPC makes its recommendations to Government regarding the NMW and NLW rates by gathering extensive evidence from across the economy including from workers, their representatives and employers.

7. Consultation

Summary of consultation outcome and methodology

7.1 The LPC carries out a wide-ranging consultation and fact-finding exercise before arriving at its recommendations, including taking written and oral evidence and making a series of visits throughout the UK. Details of this consultation are referred to in its 2024 report.

8. Applicable Guidance

8.1 Information about NMW regulations, requirements and penalties can be found on the Gov.uk website, including the following link: https://www.gov.uk/national-minimum-wage-rates.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment is submitted with this memorandum and published alongside the Explanatory Memorandum on the legislation.gov.uk website.

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is available in the Impact Assessment. The main monetised impacts from the increase to the NMW and NLW in April 2025 are: (a) direct cost to employers as they increase pay to comply with the new rates, and (b) indirect cost to employers due to spillover effects higher up the pay distribution. These costs to employers represent a transfer to low-paid workers, and include the estimated cost on employers in the public sector. Over 3 million workers are estimated to receive a direct pay rise due to the increase to the NMW and NLW in April 2025.

9.3 The legislation does impact small or micro businesses. The impact on small or micro businesses is available in the Impact Assessment.

9.4 The LPC's recommendations were based upon extensive analysis and gathering of evidence, including evidence received from and discussions with small businesses and their representatives.

9.5 The LPC's 'Summary of Evidence 2024' report provides initial commentary on the implications of the recommended rates: Low Pay Commission summary of evidence 2024 - GOV.UK

9.6 The impact on the public sector is available in the Impact Assessment.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring of this legislation is for the LPC to continue to monitor, evaluate and review the NMW and NLW rates on an annual basis and report its findings to Government. In doing this, the LPC takes account of the state of the economy and employment and unemployment levels. The most recent results of this work will be published in its 2024 report.

10.2 The instrument does not include a statutory review clause. In line with the requirements of the Small Business, Enterprise and Employment Act 2015, the Parliamentary Under-Secretary of State for Employment Rights, Competition and Markets has made the following statement:

"It is not appropriate in the circumstances to make provision for review by the Secretary of State in the National Minimum Wage (Amendment)(No.2) Regulations 2024. This is because a requirement on the Secretary of State to carry out a review of the Regulations would undermine established arrangements in which the Secretary of State, under the powers in the National Minimum Wage Act, routinely consults with the LPC to undertake a review of the NMW rates which are set out in secondary legislation."

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 The Parliamentary Under-Secretary of State for Employment Rights, Competition and Markets has made the following statement regarding Human Rights:

"In my view the provisions of the National Minimum Wage (Amendment) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").