Autumn Budget 2025

Representation from the Jobs Foundation North East Business Council

Employer NICs relief on welfare to work

Introduction

The Jobs Foundation welcomes the opportunity to make a representation to the Autumn Budget 2025, on behalf of our North East Business Council.

On Tuesday 16 September 2025, we held a roundtable event at the University of Sunderland, platforming local employers, training providers, and charity leaders. The points of discussion from this event have informed the recommendations set out in this representation.

Recommendation Summary

- The Government should introduce a 100 per cent reduction in Employer National Insurance Contributions (NICs) for the first year of employment (up to the upper secondary threshold of £967 per week) for businesses that recruit individuals from long-term unemployment or economic inactivity.
- Whilst we would like to see this policy implemented immediately across the country, if the Government needs further evidence to support this case, we would recommend, in the first instance, piloting this policy in the North East of England (covering both the North East Combined Authority and the Tees Valley Combined Authority), as the region with the lowest employment rate in the UK (68.3%). If successful, the scheme should then be scaled nationwide.

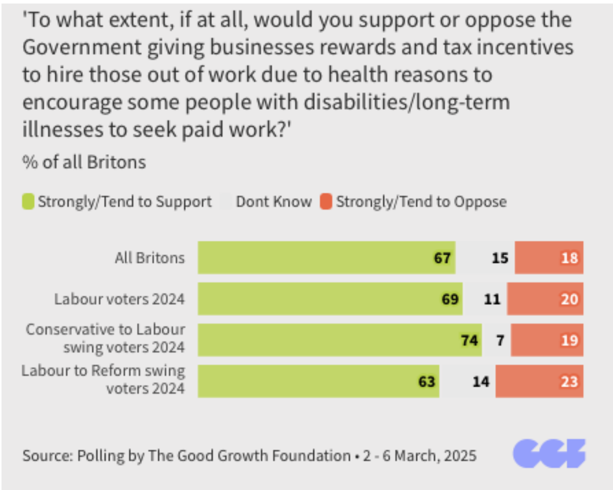
Background to our proposal

The Government has set the ambitious goal of reaching 80 per cent employment, meaning an additional 2 million individuals would need to enter the workplace. The Government has made progress in this area, through initiatives such as the 'Get Britain Working' white paper, and the 'Pathways to Work' white paper, yet significant headwinds remain:

- **Rising economic inactivity:** According to the ONS (September, 2025) there are 9.124 million working-age adults currently economically inactive (21.1 per cent), a figure higher than before the pandemic. Unlike most G7 countries, the UK has experienced an increase in inactivity since 2020, while France and Germany have seen notable decreases.
- **Long-term sickness:** Health-related inactivity is the largest driver, with 2.8 million working-age adults economically inactive due to long-term sickness – an increase of 800,000 since the pandemic (House of Commons Library, 2024). This group often faces the greatest barriers to returning to work, from managing chronic conditions to needing workplace adjustments.

- **Fiscal pressures:** The Office for Budget Responsibility (OBR) projects that health-related welfare spending will rise by over £30 billion by 2030, increasing at 5.3% per year, outpacing GDP growth (CPS, 2025). This trajectory is fiscally unsustainable, and the Government should therefore consider policy proposals that specifically support the economically inactive from welfare into work.
- **Labour market shortages:** Despite high inactivity, there remain 728,000 job vacancies across the UK (ONS, September 2025). Even if every vacancy were filled, an additional 1.3 million new jobs would need to be created to meet the 80% employment target. Businesses consistently report that hiring individuals from long-term unemployment or inactivity carries higher short-term costs, whether through additional training, flexibility, or initially lower productivity.
- **Regional disparities:** These challenges are not evenly distributed. Targeting support in the North East, where the employment rate is just 68.3 per cent, and inactivity rates are 6.8 per cent higher than the UK average (ONS, 2025) would both maximise policy impact and advance levelling up.

According to polling by the Good Growth Foundation (March 2025), there is strong support for tax incentives to hire those who have been on long-term sickness/disability benefits.



Prafund Nargund, Director of the Good Growth Foundation, said of this proposal

"If we want a compassionate welfare system that helps people realise their potential, we need a comprehensive approach that includes employers … A NICs holiday for employers that hire those in receipt of long-term sickness or disability benefits would be a step in the right direction."

Our proposal

To incentivise employers to recruit individuals from long-term unemployment or inactivity, we propose that if an employer recruits an individual who has been our of employment for 12 months or longer, or is classified as economically inactive (e.g. young people aged 16-24 who are not in education, employment, or training (NEETs) or individuals on disability benefit), they would receive a 100 per cent reduction on the Employer National Insurance Contributions throughout the first year of employment, up to the upper secondary threshold of £967 per week, in line with the Government's existing scheme for veterans.

Whilst we would like to see this policy implemented immediately across the country, if the Government needs further evidence to support this case, we recommend, in the first instance, this proposal is piloted in the North East of England, the region with the lowest employment rate in the UK.

The North East

The North East stands out as the most appropriate region in which to pilot Employer NICs relief for welfare to work. With an employment rate of just 68.3 per cent, the lowest in the UK, the region faces entrenched challenges of worklessness and inactivity. Its economic inactivity rate is also the highest in the country, at 27.9 per cent (ONS, September 2025), meaning a disproportionate share of the working-age population is disconnected from the labour market. This includes not only those who are long-term unemployed, but also large numbers of people who are economically inactive yet express a desire to work. Jobs Foundation analysis (see below) suggests that 120,000 individuals from the North East fall into these categories, representing around one in sixteen working-age adults in the region who would be eligible for support through a pilot scheme.

Our own research has highlighted the unique employment barriers faced in the North East. In *'Ladders of Opportunity: How businesses play a crucial role in helping people from welfare into work'*, we found that disadvantaged groups such as ex-offenders, veterans, and young people struggle more here than in other parts of the UK. For example, only 22 per cent of ex-offenders in the North East are employed six months after release, compared with a national average of 31 per cent. The region also has deep concentrations of poverty and economic deprivation, leaving many individuals without a first foothold into the labour market. At the same time, the North East has a strong base of committed employers and civic organisations, now brought together under the Jobs Foundation's North East Business Council, that are eager to trial practical, business-led solutions. This combination of acute labour market need and ready employer engagement makes the North East the logical choice for a targeted, well-evaluated pilot before considering a national rollout.

Eligibility

Nationally, the long-term unemployed typically make up around one in four of all unemployed individuals (ONS, 2025; House of Commons Library, 2025; Health Foundation, 2025). With unemployment standing at 4.7 per cent of the economically active population (ONS, 2025), equivalent to ~1.3 million people, this implies that there are currently ~325,000 individuals who have been out of work for 12 months or more. Alongside this, the latest ONS Labour Force Survey data show that as of March 2025, approximately 9.12 million working-age adults were economically inactive — equivalent to 21 per cent of the population — of whom around 19 per cent, or roughly 1.8 million people, reported that they would like a job (ONS, 2025). Taken together, the national pool of individuals who could benefit from targeted employer NICs relief is therefore ~2,125,000 people.

In May-July 2025 (ONS) the North East unemployment rate was 5 per cent of the economically active population, above the national average. If the national rate of one in four of those who are unemployed being long term unemployed is applied, this would equate to a pool of ~16,000 North East residents eligible for the scheme. The North East also has the highest economic inactivity in the country at 27.9 per cent (ONS, 2025). Adjusting this figure for those who say they would like a job — ~19 percent of the economically inactive — would yield a further ~105,000 individuals. In total, this gives an estimated ~120,000 people in the North East who could benefit directly from the proposed NICs relief pilot scheme. In practical terms, this would mean that around one in sixteen adults aged 16-64 could directly benefit.

Implications to the Exchequer

As modelled by the Jobs Foundation (Jobs Foundation, 2025), this policy would result in the year 1 cost to a business of employing a full-time worker on the minimum wage falling by 10.41 per cent. Assuming a labour elasticity rate of -0.5 (The elasticity of demand for labour is estimated by Lichter, Peichl & Siegloch (2015) to be around -0.4 to -0.6, meaning that a ten per cent reduction in costs of labour should lead to a 4 to 6 per cent increase in labour demand), this would result in a 5.21 per cent increase in the demand for labour from these identified groups.

Applying this elasticity to the proposed North East pilot, and assuming an eligible pool of around 120m individuals, the scheme would be expected to generate approximately 6,250 additional hires. With an average Employer NICs saving of £2,373 per worker, the gross cost to the Exchequer in the first year would be around £14.8 million. However, each new employee would also contribute approximately £2,310 annually in income tax and employee National Insurance contributions, producing approximately £14.4 million in additional fiscal receipts.

Applying the same methodology nationally, where the national pool is approximately 2.125 million individuals, the scheme would be expected to generate 111,000 new hires. The corresponding gross cost of foregone Employer NICs would total around £263 million, offset almost entirely by £256 million in additional income tax and employee NICs receipts.

Moreover, these figures do not take into account the likely welfare savings, meaning that both the potential pilot scheme and a nationwide rollout would be a likely fiscal positive to the Treasury.

Taken together, these figures suggest that a North East pilot would involve only a modest initial fiscal outlay yet carry a strong likelihood of net savings and substantial social impact. The scheme would therefore represent a low-risk, high-value intervention that supports labour market participation, local regeneration, and national economic growth.

Precedent

This exemption could be operationalised through a separate Tax Code, as with individuals who receive an NICs break due to their veteran status. In 2020, the

Government announced that employers who hire ex-armed forces personnel would not have to pay Employer NICs during the first year of employment on salaried below £50,270 a year, with a separate National Insurance category to be used when submitting payroll reports to HMRC. This scheme was extended by the current Government to remain in place until at least April 2026.

There is also clear precedent via the UK's network of bilateral social security agreements, including contribution-only Double Contributions Conventions, which prevent dual social security charges for temporary workers (such as those with Israel, New Zealand & Turkey). The Government has also announced a UK – India DCC alongside the 2025 trade agreement. As with the veteran-status NICs holiday, DCC NICs exemptions are facilitated via a specific NI category code.

Similarly, in their first Budget, the 2010-15 Coalition Government announced a three-year regional National Insurance contributions (NICs) 'holiday' for new employers. New businesses would be entitled to deduct up to £5,000 from their employer NICs bill, for each of the first ten employees they took on in their first year of business. New businesses in Greater London, the South East Region and the Eastern Region were excluded from the scheme. However, this scheme was facilitated via a separate HMRC application and reclaim scheme, which was more bureaucratic than the later veterans' scheme. In fact, one reason cited (Seely, 2013) for the relatively low take-up (26,000 vs the 200,000 forecast) was administrative complexity and lack of awareness.

Lessons learned: making Employer NICs Relief Work

A consistent theme from our University of Sunderland roundtable was that administrative complexity and excessive bureaucracy often blunt the impact of well-intentioned government initiatives. The Apprenticeship Levy was cited repeatedly as an example: a policy with potential, but one that charities and businesses alike struggle to access and utilise effectively. On this, our North East Chairman, Kiran Fothergill, stated "Good policies fail when buried in red tape — the Apprenticeship Levy is a case in point."

By adopting the payroll-integrated category code model of the veterans' scheme, as opposed to the bureaucratic reclaim system of 2010, an Employer NICs holiday for hiring the long-term unemployed or economically inactive would:

- Be easy for SMEs and charities to access (where complexity has historically deterred take-up).
- Ensure higher uptake and visibility for the scheme.
- Deliver the intended labour market impact, rather than being undermined by administrative complexity.

About us

The Jobs Foundation is a charity (1202928) established by (Lord) Matthew Elliott and Georgiana Bristol to champion the role of business as a force for good in society. They do this in two key ways:

- **Practical impact:** Helping business leaders do even more for their local communities by providing them with the tools, knowledge and best practice on employing and training people caught in worklessness and poverty.
- **Policy impact:** Pushing for policy environment which allows businesses to thrive and reminding policy makers about the crucial social and economic contribution made by companies to society and our economic prosperity.

Over the past year, we have established ourselves by recruiting over 1,200 business leaders onto our Business Council, which provides the delivery mechanism for much of our work. Alongside this, we have published our foundational research, *'Two Million Jobs: How businesses play a crucial role in helping people from welfare into work'* (here) and our more recent report, *'Ladders of Opportunity: how top UK businesses create new routes into work'* (here), based on hundreds of interviews with businesses across the country.

In May 2025, the Jobs Foundation established our North East Business Council – Chaired by Kiran Fothergill, Director at Pickerings Lifts, and supported by a Steering Group of Beverley Brooks, CEO of the Recruitment Junction, Alison Dunn, CEO of the Society Matters Group, Stuart Fearn MBE, CCO at OneBanx, John McDonald, Founder of the award-winning disability inclusion consultancy Eagles Wings, and Ashleigh Wright, Managing Director at Westray Recruitment.

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