

Funding the Future

Article URL

Published: January 12, 2026, 7:25 pm

Rachel Reeves increased the minimum wage, the rate of employers' national insurance and the amount of income on which that charge is levied in her Budget. Now, every labour-intensive activity in the country, from the NHS to teaching and childcare as well as hospitality, and many smaller businesses are rightly complaining. Reeves made a massive mistake. She has to change her mind.

<https://www.youtube.com/watch?v=d59A4JS6rKI?si=itdhCaDDulmlvPX2>

This is the audio version:

https://www.podbean.com/player-v2/?i=ja7kj-173d26c-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=auto&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

Rachel Reeves' Budget is beginning to fall apart. Most Budgets do. Hers is. There's nothing surprising about that. Perhaps what is surprising is that [I forecast in advance](#) exactly why she would run into trouble.

She's run into trouble over one very glaringly obvious policy measure that she announced in advance of the Budget, like so much else, which was the increase in employers' national insurance from 13.8 per cent to 15 per cent, which she claimed she could do without breaking her election promise not to increase the rate of national insurance, or income tax, or VAT on what she calls working people. Well, she did increase the rate of national insurance on working people because employers' national

insurance is a tax that is effectively part of the total wage package that an employer thinks about when they employ somebody. I assure you that's true. That's what I do when I employ somebody, and she ignored that fact and put up that rate.

Worse still, she increased the amount of an employee's salary that is now subject to employers' national insurance, reducing the limit at which national insurance had to be paid from £9,100 of equivalent earnings a year to £5,000.

The consequence is that many employers in the UK have seen a significant increase in their potential national insurance liabilities which will start to be paid from the 6th of April 2025.

I say many because some employers will not see that increase. Small companies who employ two or three people, probably around minimum wage, are unlikely to see their national insurance bill rise because they have an exemption from paying the first £10,000 of employers' national insurance contribution, which is good for them.

Large companies do not have a problem with this increase, although they will moan, because most of them are quasi-monopolists, by which I mean they can afford to pass on the cost that they incur to the consumer, because, relatively speaking, consumers are price insensitive with regard to their products, particularly after a period of inflation where people aren't completely sure what the price of anything is at present. They are probably going to be immune to the effects of this charge.

But in between those very large companies with very loyal customer bases and those small companies who are not going to be paying this increase, there are a host of smaller and middle-sized employers who employ a very great many people in the UK.

Roughly half of all employees in the UK work for smaller companies. Most of those work for the companies that I'm talking about. Smaller businesses employ relatively few people overall, apart from their owners. Larger companies employ half the population and I include the state in that number as well.

But in between are all these other companies. And what do they do?

If you are one of these employee-intensive businesses, you are going to employ a lot of people. Hospitality, for example, engages a very great many people, often on minimum wage.

The chefs in the kitchen will be a serious part of your employment cost.

So will the number of waiting staff, or bar staff, or whatever else.

All those people are now going to see an increase in their cost of employment. And that's also true because simultaneously with increasing the national insurance cost, Rachel Reeves unwisely increased the minimum wage. I don't think the increase in the

minimum wage, by the way, was the unwise bit. I think increasing the employer's national insurance cost whilst increasing the minimum wage was the unwise bit.

We see the same thing in social care, which is an intensely, obviously, people-based service.

We see the same in the building industry, where, actually, a lot of the cost of putting up many buildings is in the people who have to be employed on site.

We see the same in-home services, whether that be repairs, or whether that be DIY services supplied by the local painter and decorating company who might employ a range of people to provide the services.

My point is that there are a large number of employers that are going to suffer this increase. And it's not just in the things that you might think about first of all. Many charities are also in this situation. They employ staff to supply services for free but will now need considerable extra support from their donors to cover this increased cost.

And childcare for those under the age of five is normally supplied by commercial providers. If that's the case, then we do know that there's going to be significant pressure on those commercial providers to pass on the cost of childcare to the consumer, which is the parent. And many of those parents are already stressed by the cost of having to provide childcare for their children with a local nursery whilst they go to work.

And this is also going to have impact, of course, on the state sector because although Rachel Reeves says she might compensate some parts of the state sector for the costs that they incur, there is no guarantee that this will be right across the board.

There's been no mention of local authorities being compensated for this issue, and that will feed through into the social care system.

There's been no mention of the NHS being compensated entirely for this, and it doesn't look to me as though it has been.

And as for teaching, no, I don't think that's been compensated for either.

In other words, Rachel Reeves has created a time bomb that is going to explode in April 2025, which is going to be this additional cost, which many employers will not know how to manage.

I am well aware that hospitality is, for example, now complaining about this increase. I had a discussion recently with somebody who is a manager in a hospitality industry employing quite a lot of people, and they just put it to me that, frankly, this was enough to wipe out their already narrow profit margins. That puts their business at risk. Yes, their employees are paid more, but because of the employer's national insurance, their

chance of maintaining their employment might be reduced. Or at the very least, and as the manager put it to me, she's going to have to think and scrimp and save and maybe cut staffing on some shifts, reduce the quality of the service, and reduce the amount of training. All of that is worrying.

My point is very simple. I said in advance of the Budget that this was going to be a disaster for West Streeting and the NHS. I also mentioned then that it would be a disaster for care homes and child care, and I think it's going to be a disaster for many more organisations, in particular in the small business sector.

Because of that, Rachel Reeves really does need to think about whether she's got this right. I do think she might have to make some change. I am not convinced that she can do three things simultaneously:

- * Increase the minimum wage
- * Increase the employers' national insurance rate, and
- * Increase the amount of employers' cost to which that rate applies.

She may be going a step too far. If she does not reverse this, I do believe we will see significant increases in unemployment. We will see inflation, and we will see the economy as a whole move towards a recessionary environment. None of those things are good for the people of the UK. They're the complete opposite of what Labour said it wanted.

She's made a mess. It's time she acknowledged it. This was a bad decision made for poor political reasons. And she has to correct it.