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How can employers be incentivised to employ NEETs?

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Summary

Barely a week seems to go by these days without one report or another highlighting the challenges firms face when it comes to employing young people in the UK today. Whether it is the rising costs involved, or the quality of work their fresh-faced recruits provide in return, employers often signal a reluctance to hire young adults as they transition into the workforce. In many respects, this is not new: all else equal, firms would clearly prefer to employ a seasoned worker than one with little experience. But with the number of UK 16-24-year-olds not in education, employment or training (NEET) tipping the 1 million mark in the first quarter of 2026, policy makers are thinking again about how employers can be incentivised to 'take a chance' on more young people today.

It is important to keep this problem into perspective, however. Recent Resolution Foundation research showed, for example, that the UK is no laggard internationally when it comes to youth employment. Added to this, in 2024, one-third (33 per cent) of employers indicated they had taken on recent education leavers, no lower than 10 years earlier in 2014 (31 per cent). But when recent policy reforms have been criticised for reducing firms' incentives to hire young workers, the overall labour market remains weak, and the 'scarring effects' of being out of work when young are well established, it is entirely appropriate to ask whether there is more that public policy could do to encourage employers to create additional job opportunities for young workers today (known as 'demand-side interventions').

We begin by considering a policy change that is often implicated in the rising NEET numbers in recent years: increases in the minimum wage. In April 2023, for example, the rate for 18-20-year-olds was equivalent to 72 per cent of the adult rate; that figure now stands at 85 per cent. We estimate that if the ratio between the adult and youth minimum wage rates had remained at its 2023 level, employers would have hired an additional 15,000 16-20-year-olds in 2025-26, with no cost to the public purse. Rather, the cost would have fallen on the 230,000 16-20-year-olds that firms are currently prepared to pay the prevailing youth rate to, who we estimate would collectively have been over £379 million worse off in 2025-26 as a result. In a weak labour market, however, the effects of further rises could be larger, and pausing and reconsidering convergence after such a rapid increase would be sensible.

But it is not just minimum wage policy that has been problematised in the NEETs debate. In 2024, the Government also raised the rate of employer National Insurance contributions (NICs) and reduced the earnings threshold at which they are paid, a change that has disproportionately affected low-paid sectors in which so many young

people find entry-level jobs. However, we estimate that the effect on youth employment of reversing these changes would be underwhelming, not least because employers pay no NICs for the vast majority of under 21s under current rules. We estimate that reverting to the 2024 threshold for under 25s would raise youth employment by 7,000, at a cost of £137,000 per additional worker (and a total cost to the Exchequer of £1 billion). Scrapping employer NICs for under 25s would be a much bigger change, with an estimated 38,000 more young people in work but with a £5.1 billion price tag, at a similar cost per additional job.

Overall, then, tax cuts such as these are a very expensive way to boost youth employment, with most of the spend simply paid to employers who would have taken on young workers anyway. An alternative is to focus money on the point at which young people are hired, or to target the sort of young people whom employers might be especially reluctant to hire. So, how do these more targeted interventions measure up? In March 2026, the Government announced that 60,000 Youth Jobs Grants would be available over the next three years, paid to employers that hire an 18-24-year-old who had been on Universal Credit (UC) for six months or more. At £3,000 per worker, this sweetens the deal considerably for firms to take on young people who are struggling to get a foothold. But the annual flow rate into work for those on UC for 6-12 months is already quite high (57 per cent), meaning much of the money that will be paid to employers under this scheme would go to firms who would have hired workers anyway. Our central estimate is that this policy will boost youth employment by an additional 2,800 young people a year, at a cost of £37,000 to put an extra young person in work for a year.

We estimate a similar per-job price tag for the Jobs Guarantee, a scheme that offers firms a six-month wage subsidy (equivalent to 25 hours at the minimum wage) if they take on an 18-24-year-old who has been on UC for at least 18 months. The flow rate into work for this group in the absence of intervention is (predictably) lower than for the target group for the Youth Jobs Grant (35 per cent compared to 57 per cent), but with such a generous subsidy, our central estimate is that the Jobs Guarantee will prompt firms to take on an additional 17,500 young workers a year. With an annual budget of £330 million, this means the programme would have an annual cost per additional worker of around £38,000.

Overall, there is a clear trade-off between efficiency and scale when it comes to demand-side support. So, is it possible to simply extend the targeted schemes with no loss of efficiency? Our analysis suggests that it is, albeit in different ways. The number of young people who could be eligible for a Youth Jobs Grant easily exceeds the number of subsidies available each year (270,000 compared to 20,000), indicating that quadrupling the number of grants available annually to 80,000 would be a straightforward option with no increase in the (proportional) deadweight. (The efficiency of the programme

could also be boosted if the payment structure was reformed). The same does not hold true for the Jobs Guarantee, where likely demand is close to current provision. Here, we recommend that the programme be extended to a wider group including young people in receipt of UC Health, and jobseekers that have been on UC for 12 months, as well as 18 months or more.

Finally, we consider one further tack the Government could pursue in its quest to boost employer demand for younger workers, and that is to reform apprenticeship funding. Changes have been introduced in England in recent years to target the Growth and Skills Levy (GSL) funding more effectively – for example, it can now only be used by employers to fund apprenticeships in certain 'growth' sectors, and to support qualifications at graduate level or below – but we estimate that 44 per cent of apprenticeships will still go to older, mainly incumbent workers. Given this, there is a strong case for restoring apprenticeships to their original intent and ringfencing all the GSL funding for under 25s. It would be naïve, however, to assume that employers would simply step up and create more apprenticeships at scale in this scenario. But with £1.55 billion of the apprenticeship budget currently spent on those aged 25-plus at its disposal, the Government could offer hiring incentives to all firms taking on additional apprentices or use the funds for other forms of employer support discussed in this report.

Incentivising firms to take on more young workers than they would otherwise do is far from an exact science. Overall, however, targeted approaches score so much higher than tax reforms when it comes to cost-effectiveness that it is impossible not to conclude that they are the better approach. Taken together, the measures we have recommended in this briefing note would open up thousands of new opportunities for young people. But we end on a cautionary note: demand-side interventions alone will not be sufficient to move the UK from one of the weaker international performers on the NEET rate to one of the strongest, the ambition the Milburn Interim Report rightly exhorts policy to achieve. That will require wider action across employability support, health, social security and, perhaps most importantly, education.

The rising number of NEETs has left many asking if we have made it too expensive to hire young people

The UK hit an unenviable milestone in the first quarter of 2026. For the first time in 13 years, the number of 16-24-year-olds in the UK not in education, employment or training (NEET) breached the 1 million mark.[1] This figure is not just historically high: at 13.5 per cent of young people, it sets the UK apart as having one of the highest NEET rates among European countries.[2] Added to this, there are regular reports of employers finding young people increasingly costly to employ,[3] and less 'work-ready' than in the past.[4]

It is little wonder, then, that policy makers are thinking hard about how employers can be incentivised to take a chance on more young people in the UK today. The interim report on UK NEETs led by Alan Milburn acknowledges this, arguing that policy has, for too long, treated youth disengagement as a supply-side problem, and that the labour market's failure to reliably absorb young people deserves equal attention too.[5]

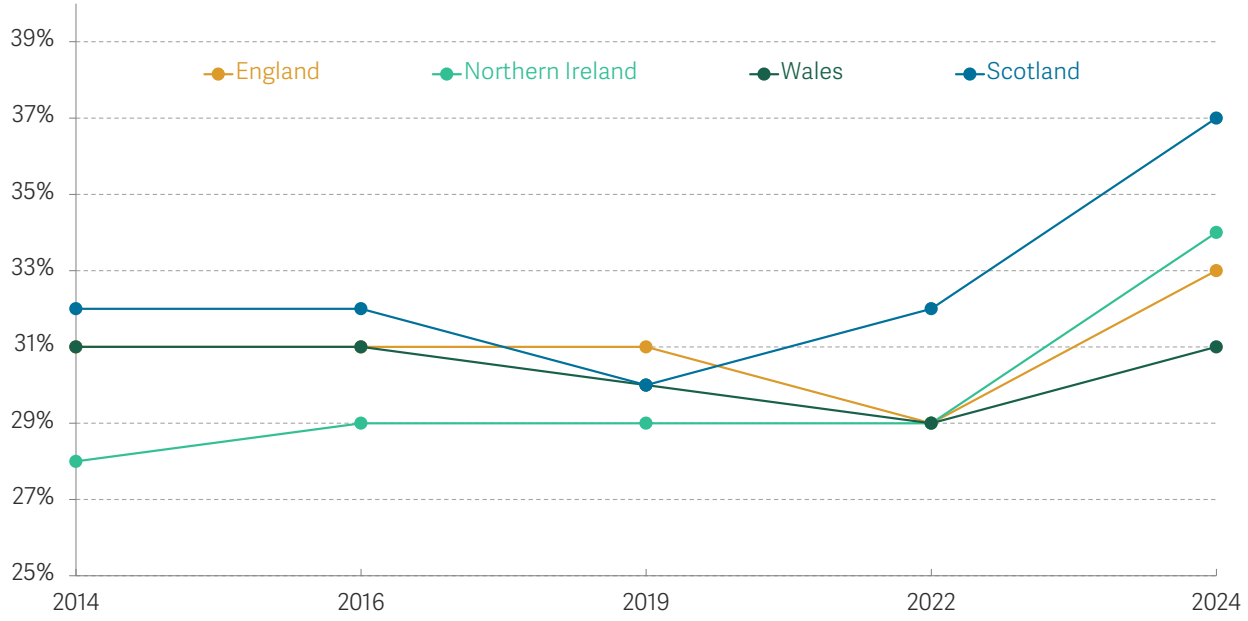
But we should keep this problem in perspective. Recent Resolution Foundation research found that although the labour market in the UK is weak at the moment, the number of NEETs who are unemployed is not especially elevated relative to the state of the jobs market. Nor is job availability, or lack thereof, why UK NEET rates are elevated compared to other countries.[6]

And as Figure 1 shows, at least in 2024 there had been no drop-off in the share of employers that employ young people fresh out of education in any of the four nations. In that year, one-third (33 per cent) of employers in England indicated that, in the previous two to three years, they had taken on someone who just left school, college or university, slightly higher than 10 years earlier in 2014 (31 per cent), and this trend is even more pronounced in Scotland and Northern Ireland. Demand-side interventions, then, can only be part of the NEETs solution.

1 ONS, Young people not in education, employment or training (NEET), UK: May 2026, ONS, May 2026.
2 A Clegg et al., Lost in transition: An examination of why the UK NEET rate is high and rising, Resolution Foundation, April 2026, https://doi.org/10.63492/cxo2244. Comparator countries are EU-OECD nations.
3 See, for example: P Inman, UK companies struggling to hire young people amid cost pressures, MPs told, The Guardian, 11 March 2026; The Economist, Britain's youngsters are increasingly out of work, 19 March 2026.
4 See, for example, L Crowley, The changing face of the youth labour market, Chartered Institute of Personnel and Development, December 2024.
5 DWP, Young people and work: interim report, June 2026.
6 A Clegg et al., Lost in transition: An examination of why the UK NEET rate is high and rising, Resolution Foundation, April 2026, https://doi.org/10.63492/cxo2244. Comparator countries are EU-OECD nations.

FIGURE 1: **Employers' propensity to take on young people fresh from education did not diminish over the 10 years to 2024**

Proportion of employers that have taken on someone for their first job after leaving school, college or university in the previous two to three years: UK nations



SOURCE: RF analysis of Department for Education, Employer Perspectives Survey & Employer Skills Survey.

But we do not advocate complacency, for two key reasons. First, the overall UK labour market has been loosening since 2022, and the most recent labour market data showed, for example, that UK unemployment is higher than the G7 average.[7] Second, it has long been established that even short periods of unemployment when young can have 'scarring effects' on employment, earnings and well-being throughout one's working life.[8] As a result, it is appropriate to ask whether there is more that public policy could do to encourage employers to create additional job opportunities for young workers. But it is also fitting to take a clear-eyed look at the potential costs and benefits of the range of interventions that are currently being considered. That is what we aim to do in this report.

We begin by looking at changes to the National Minimum Wage (NMW) in recent years and cuts to employer National Insurance Contributions (NICs), followed by targeted hiring subsidies, changes to all of which can affect the cost of hiring young people. We end by looking at apprenticeships, another way in which the Government can influence employment of young people. As we explain in Box 1, our analysis focuses on producing

7 The latest data is: ONS, Labour market overview, UK: June 2026, ONS, June 2026. For a longer perspective, see: N Cominetti, H Slaughter & G Thwaites, Labour Market Outlook Q3 2025, Resolution Foundation, August 2025, https://doi.org/10.63492/wvk136.

8 See, for example: P Gregg, The Impact of Youth Unemployment on Adult Unemployment in the NCDS, https://doi.org/10.1111/1468-0297.00666, November 2001; D Bell & D Blanchflower, Youth Unemployment in Europe and the United States. IZA Discussion Paper No. 5673, May 2025; A Pelikh, S Parsons & C Crawford, Long-term consequences of being NEET in early adulthood Initial findings from the 1970 British Cohort Study at Age 51, UCL Centre for Longitudinal Studies, 2026.

estimates of efficacy that are comparable across these different policies, where our headline measure is the gross cost to the Exchequer of each full-time job created in the first year of the programme (or 'cost per job'). The data sources, assumptions and elasticities used in our modelling are set out in Annex 1.

BOX 1: **Comparing the costs and benefits of policies to boost the demand for young workers**

Our aim in this note is to produce a simple comparison of policies that reach across welfare, labour market and tax policy. This is not an assessment of each policy in its own right, but a focused look at the cost per job in relation to the NEETs challenge. We have not undertaken a full cost-benefit analysis, but instead have focused on the following two measures:

- For 'costs', we have taken the gross fiscal costs in the first year of each scheme's operation. In the case of tax cuts, the cost is the lower tax paid by employers of incumbent workers. For hiring incentives, the cost is the incentive paid to the employer for each employee for whom a claim is made. For two of the policy areas we consider, the NMW and apprenticeships, we also discuss the social (welfare) costs that reforms would entail.
- For 'benefits', we use the number of additional people employed for a whole year in the first year of the scheme's operation. For example, for the Jobs Guarantee, which provides job subsidies for six months, the cost of a year of employment must be doubled.

We then divide the former by the latter to produce a 'gross fiscal cost per additional year-long job created' for each policy proposal.

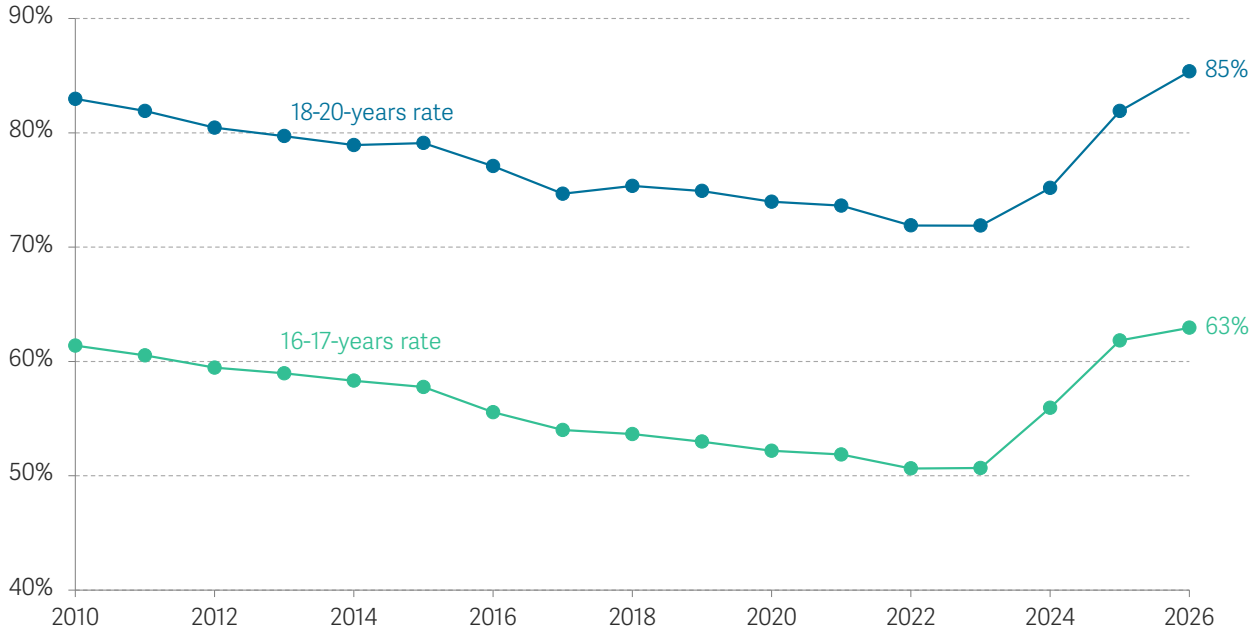
This calculation is simple and transparent but omits two things. First, by focusing on gross costs to the Exchequer, we have not factored in the additional taxes paid or benefits forgone by the additional workers. Second, we have not factored in the extent to which the incentives have persistent effects, raising employment once they have expired or workers have aged out of them. Both will lower the fiscal costs per extra job-year in the short and long run. We discuss these points later in this briefing note.

Slowing convergence between the youth and adult minimum wage could boost jobs, and we may already have reached the right point

Changes to the minimum wage have often been implicated in the rise in the number of NEETs in recent years. Since 2021, successive governments have lowered the age threshold at which workers must be paid the National Living Wage (NLW) from 25 to 21, and the last three annual upratings have seen the youth minimum wage rates (i.e. the rates that now apply to those aged under 21) increased faster than the adult rate, undoing a relative decline over the previous 13 years. Figure 2 tracks the value of the youth rates relative to the adult rate each year. As this makes clear, in April 2023 the 18-20-year-old rate was equivalent to 72 per cent of the NLW, and the 16-17-year-old rate stood at 51 per cent. Since April 2026, those figures have stood at 85 per cent and 63 per cent respectively.

FIGURE 2: **The value of the minimum wage youth rates relative to the adult rate has been increasing rapidly since April 2024**

Minimum wage youth rates as a proportion of the rate for over 25s: UK



SOURCE: RF analysis of Low Pay Commission, Uprating Report 2025; Low Pay Commission, Main Report 2026.

Clearly, this policy-driven convergence between the youth and adult rates has made employing (some) young people more expensive relative to their older and more experienced peers. Had the youth minimum wage rates remained at their 2023-24 shares of the adult rate, the wage floor in 2025-26 would have been £8.78 for 18-20-year-olds

as opposed to the actual rate of £10.00, and £6.23 for 16-17-year-olds, rather than the actual rate of £7.55. Using the methods set out in Annex 1, we estimate that if the ratios between youth minimum wage rates and the adult rate had remained at their 2023 levels, employers would have hired an additional 15,000 16-20-year-olds in 2025-26 as a result.

Of course, that number is not to be sniffed at: the impact would be large for each individual moving into a job that would otherwise not have been created. But it is not a game-changing number when it comes to driving down the UK's NEET rate: that stands at 13.3 per cent in our 'no-convergence' counterfactual in the first quarter of 2026, as opposed to the 13.5 per cent actually observed.[9] And although this scenario involves no spend for the Treasury, it is not cost-free. Rather, any cut in the minimum wage would mean a cost for the 230,000 16-20-year-olds that firms were prepared to pay the prevailing youth rates to in 2025-26. For a young person aged 18-20 working 25 hours per week, that would have been a loss of £130 per month, or £6,900 that year. That would have amounted to over £379 million collectively for the group that would have lost out in the absence of convergence in 2025-26.[10]

The rapid rise in the relative generosity of the youth minimum wage rates has led some to question the wisdom of the Government's 2024 manifesto commitment to equalise these with the main rate, although it has since clarified that the timetable will be determined by the Low Pay Commission.[11] It certainly makes sense to slow the pace of convergence when the labour market is weak.

But there are also good reasons to think that there should be a permanent wage differential between 16-20-year-olds and their more experienced peers, given that younger workers inevitably bring lower skills and capabilities to their role. A minimum wage that includes those workers will ultimately mean, for a given trade-off with unemployment, a lower rate for all adults can be sustained, reflecting the on average more marginal position of young workers. For that reason, as well as hitting pause, the Government should reconsider its ultimate convergence aim.

9 This is consistent with findings from previous studies that have shown that minimum wage policy has not been a key driver of the significant increase in the UK NEET rate since 2019. See: A Clegg et al., Lost in transition: An examination of why the UK NEET rate is high and rising, Resolution Foundation, April 2026, https://doi.org/10.63492/cxo2244; J Michael, T Waters and X Xu, Why has the NEET rate risen? Understanding trends and drivers using administrative data, IFS, May 2026, https://doi.org/10.1920/re.ifs.2026.0030.

10 This is an upper bound figure where we assume every 16-20-year-old paid the prevailing youth rate in 2025-26 is paid the counterfactual lower rate. The number of young people covered by the minimum wage are those for 2025, see Table 9.1 in Low Pay Commission, National Minimum Wage: Low Pay Commission 2025 Report, February 2026.

11 The Labour Party's 2024 manifesto said "Labour will also remove the discriminatory age bands, so all adults are entitled to the same minimum wage, delivering a pay rise to hundreds of thousands of workers across the UK"; see: Labour Party, Labour Party Manifesto 2024: Our plan to change Britain, May 2024. On the BBC's Today programme on 29 May 2026, Pensions Minister Torsten Bell said: "The manifesto sets out that we should move the [youth and adult] rates together over time. It doesn't set a timeline on that because that's the important role of the Low Pay Commission". See: A Sparrow, Labour faces union backlash after minister says living wage extension to over-18s not certain before election – as it happened, The Guardian, 29 May 2026.

Recent increases to employer NICs have raised significant revenue, with only a marginal effect on youth employment

The National Minimum Wage is not the only policy that has been blamed for the rising number of NEETs in the UK in recent years; changes to employer National Insurance contributions (NICs) made in Autumn Budget 2024 are frequently in the dock too. In April 2025, the secondary contribution rate for employer NICs rose from 13.8 per cent to 15.0 per cent, and the earnings threshold at which firms start to pay employer NICs was reduced from £9,100 a year per employee to £5,000.[12] These changes disproportionately affect low-paid sectors of the economy where young workers are often employed.[13] As previous Resolution Foundation research has shown, these reforms increased the effective tax rate on those paid half the median salary, but have a much more muted effect on those paid at the median, and a barely discernible impact on those with very high salaries.[14]

However, using the method set out in Annex 1, we estimate that the impact on youth employment of not implementing the 2024 threshold change for under 25s would have been underwhelming, not least because employer NICs are not paid for employees aged under 21. In this counterfactual, we estimate that youth employment would have been just 7,000 higher in 2025-26 than it actually was, equivalent to a reduction in the NEET rate of 0.1 percentage points (from 13.5 to 13.4 per cent). It would also have been a costly option (unsurprisingly, given that the Government made these changes in the first place to boost tax revenues). We estimate that not raising the employer NICs threshold for younger workers in 2025-26 would have cost the Exchequer £1 billion that year. That gives each additional job created as a result a price tag of £137,000.

One could even go further than the scenario modelled above and scrap employer NICs altogether for under 25s, thereby giving firms an even stronger incentive to take on young people. Unsurprisingly, this could have a far bigger impact on youth employment than simply reverting to the 2024 threshold. We estimate that this would have led to 38,000 more young people being in work in 2025-26. This would have driven down the NEET rate by 0.5 percentage points (from 13.5 per cent to 13.0 per cent) in the first quarter of 2026, but it would have come at a cost to the public purse of £5.1 billion. As a result, this policy change would have a very similar cost per additional job generated as reducing the threshold alone (£132,000 in 2025-26 prices).

12 GOV.UK, Changes to the Class 1 National Insurance Contributions Secondary Threshold, the Secondary Class 1 National Insurance contributions rate, and the Employment Allowance from 6 April 2025, November 2024 [accessed 18 June 2026].
13 J Diniz & L Murphy, False starts: What the UK's growing NEETs problem really looks like, and how to fix it, Resolution Foundation, October 2025, https://doi.org/10.63492/kvz546.
14 C Aref-Adib et al., More, more, more: Putting the 2024 Autumn Budget in context, Resolution Foundation, October 2024, https://doi.org/10.63492/wif3707.

The Government should learn from past hiring incentive schemes to maximise the Youth Jobs Grant's impact

Reversing recent policy on minimum wage convergence or cutting employer NICs for younger workers would each affect every employed young person in the relevant age bracket. So, they would both be expensive with a large deadweight cost. The alternative approach is to implement targeted interventions that incentivise employers to take on young people who they might not otherwise have hired. For example, the Government might offer employers a hiring incentive: a one-off cash payment intended to help firms overcome their reluctance to taking on a young person who, one hopes, then builds up skills and a track record sufficient to enable them to remain in employment after the scheme ends.

In March 2026, the Government announced a hiring incentive as part of its broader Youth Guarantee package, in the form of the Youth Jobs Grant, which commences from summer 2026.[15] The scheme offers employers a £3,000 grant for hiring an 18-24-year-old who has been on Universal Credit (UC) and looking for work for six months or more.[16] The Government expects this to be paid to 60,000 young people over three years. But how many of these jobs will truly be additional roles?

Our assessment is that it will only be a small number. This is partly because this is a group that moves into work quite quickly: just under half (44 per cent) of 18-24-year-olds on UC in the 'searching for work' group for six months plus move into work each year absent of intervention.[17] But we can also learn from evaluations of similar schemes. The most similar UK policy was the Youth Contract: between 2012 and 2015, this paid employers up to £2,275 (£3,280 in 2025-26 prices) when they hired 18-24-year-olds who had been on Jobseekers Allowance (UC's predecessor unemployment benefit) for six months or longer. The evaluation showed that over three-quarters of payments went to employers that said the job would have existed without the wage incentive (technically, the deadweight was estimated at 76 per cent).[18]

But there are reasons to think the Youth Jobs Grant's deadweight will be higher than this. As Figure 3 shows, the Youth Contract had minimum requirements for the quantity and length of employment: employers received the full payment only for young people who

15 DWP, Major employment drive to help unlock 200,000 new jobs and apprenticeships for next generation, March 2026.
16 Details of the scheme have not been published yet, but our interpretation of 'looking for work' is that this means only young people who are in the 'searching for work' conditionality regime are eligible for the scheme, and that those on UC Health will not be.
17 Nearly three-fifths (57 per cent) of claimants aged 18-24 that have been in the jobseeker (searching for work) group between six and twelve months will move into work annually. For those who have been in the group for a year or more, this drops to around a third (35 per cent). Accounting for the share of 18-24-year-olds in each duration band, we estimate that 44 per cent of young jobseekers on UC six months or more will move into work over the course of a year. Annual into-work rates are for 2025, estimated from monthly into-work rates of people aged under 25 by duration in the UC searching for work regime. Source: Department for Work and Pensions, Get Britain Working: Labour Market Insights April 2026.
18 N Coleman et al., Evaluation of the Youth Contract wage incentive: Wave two research, 2014.

worked at least 30 hours per week for 26 weeks, with partial payments available for small employers and individuals completing 14-25 weeks.[19] In contrast, the Youth Jobs Grant incentive looks likely to be paid in two instalments, with the second payment in month three, meaning there is a risk of firms receiving the full payment for providing just three months of employment.[20]

FIGURE 3: **Previous hiring incentive schemes have been more tightly designed than the Youth Jobs Grant**

Comparison of Youth Contract and Youth Jobs Grant: Great Britain

	Youth Contract (2012-2015)	*Youth Jobs Grant (2026-29)*
Eligibility	Aged 18-24 on JSA for 6+ months	Aged 18-24 on UC for 6+ months
Maximum payment (2025-26 prices)	£3,300	£3,000
Job criteria	30 hours/week for 6 months	No requirements
Payment structure	Full payment at 26 weeks. Partial payment available for small employers, part-time or 13+ weeks	Two instalments, with 2nd payment in third month
Deadweight	76 per cent	76-96 per cent (central estimate 86 per cent)

NOTES: Small employers could receive a Youth Contract partial payment at 8 weeks, with remaining balance paid at 26 weeks; employers received 50 per cent of the incentive payment for employees working part-time for 26 weeks, or full-time employees who worked between 13 and 25 weeks. Full guidance for the Youth Jobs Grant is not available yet but information available currently indicates there will be two instalments, the first in month one and the second in month three. Youth Contract maximum payment has been adjusted to 2025-26 prices.
SOURCE: DWP, Youth Contract statistics: April 2012 to May 2015; BIS, £1 billion Youth Contract, 25 November 2011; J Mirza-Davies, Youth Contract, February 2015; N Coleman et al., Evaluation of the Youth Contract wage incentive: Wave two research, February 2014; DWP, Major employment drive to help unlock 200,000 new jobs and apprenticeships for next generation, 16 March 2026; HMT, GDP deflators at market prices, March 2026.

We have also looked at other schemes that are comparable to the Youth Jobs Grant. For example, it was estimated that in the US Work Opportunity Tax Credit – which gave employers a subsidy worth up to $2,400 for hiring long-term unemployed people and benefit recipients – 96 per cent of payments went to workers who would have been hired

19 The payment was made after 26 weeks, but small businesses (with less than 50 employees) could access part of the payment after eight weeks, and partial payments were available for employees who completed 13 weeks of employment but left before 26 weeks. See: J Mirza-Davies, Youth Contract, House of Commons Library, February 2015.
20 Guidance for the Youth Jobs Grant has not been published yet, but information available suggests the current plan is for the final instalment to be paid at three months. See: Department for Education, Apprenticeship Hiring Payment for Non-levy Employers, May 2026; A Western, Employment Schemes: Young People, Question for Department for Work and Pensions, April 2026.

anyway.[21] Triangulating between these two cases, we assume the Youth Jobs Grant will have a deadweight of 86 per cent (see Annex 1 for more information).[22]

Assuming, then, that 20,000 grants are paid per year, this implies 2,800 truly additional jobs will be created, at a cost of around £36,700 per job-year. But the exact design parameters matter enormously with such schemes: an intervention in Germany that required employers to reimburse part of the subsidy if they dismissed the worker within a follow-up period had an estimated deadweight of 20-30 per cent, and the Department for Work and Pensions (DWP) would do well to consider whether it can do more to bring down deadweight which would improve cost-effectiveness and create more jobs from the existing number of grants.[23]

Wage incentives like the Jobs Guarantee need to create genuine additional jobs to maximise impact

The Youth Jobs Grant is not the only recent policy when it comes to targeted demand side support, however. In Autumn Budget 2025, the Government introduced wage subsidies for 18-21-year-olds in receipt of UC for at least 18 months, and in March eligibility was extended to under 25s in that situation too. Known as the Jobs Guarantee, the scheme fully funds the cost of six months' employment at 25 hours a week at the relevant NMW, and a payment of up to £2,650 goes to delivery organisations who are responsible for placing participants into jobs and providing them with wraparound support while they are on the scheme. As a result, the cost per participant in 2026-27 comes in at a maximum of just over £11,300.[24]

Evidence shows that active labour market interventions often have a large impact on participants who have been long-term unemployed, so it is reasonable to expect the deadweight for this scheme to be lower than for the Youth Jobs Grant.[25] The into-work rate of 18-24-year-olds who are looking for work but have been on UC for a year or more is 35 per cent, and will plausibly be lower than that for young people who have been out

21 M Jain, C Mommaerts & J Weaver, The Limits of Targeted Hiring Subsidies: Evidence from the Work Opportunity Tax Credit, NBER Working Paper, 2026; P Cahuc, S Carcillo, & T Barbanchon, The Effectiveness of Hiring Credits, IZA Discussion Paper 11248, 2017.
22 Refer to Annex 1 for how deadweight was calculated.
23 S Bernhard, H Gartner & G Stephan, Wage Subsidies for Needy Job-Seekers and Their Effect on Individual Labour Market Outcomes after the German Reforms, IZA Discussion Paper No. 3772, October 2008; A J G Brown, Can hiring subsidies benefit the unemployed? IZA, June 2015, http://dx.doi.org/10.15185/izawol.163.
24 DWP, National Jobs Guarantee Scheme Grant Guidance, June 2026. The cost is for those aged 21-plus paid at the 2026-27 minimum wage rate of £12.71 an hour, including pension contributions but excluding employer NICs which, although are also subsidised by the scheme, represent a transfer within the Exchequer.
25 D Card, J Kluve & A Weber, What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations, Journal of the European Economic Association, June 2018, https://doi.org/10.1093/jeea/jvx028.

of work for over 18 months.[26] This suggests that, at the individual level at least, the risk of deadweight is low: in other words, young people participating in the scheme will get more work than if it did not exist.

However, total employment will not rise if those additionally employed workers displace others from getting work. Participating employers in the Jobs Guarantee scheme are required to state that the role is not displacing an existing worker, but they are allowed to use the subsidy to fund existing vacancies.[27] If all participants fill vacancies that already exist, then there would be little net gain in employment and the deadweight would be high, especially in a loose labour market where the displaced workers will find it hard to get alternative work. (Effectively, the subsidy would mean employers are using young people to fill vacancies that would have otherwise been filled by non-subsidy recipients, who then remain out of work.) Conversely, if all jobs are newly created specifically for the scheme, we could assume deadweight close to zero, given the low into-work rates of the eligible group. This generates considerable uncertainty about the scheme's likely effect.[28]

Once again, however, looking to similar past schemes is a useful guide. The Future Jobs Fund (2009-2011) and Kickstart (2020-2022) both had very similar structures to the Jobs Guarantee in that they offered employers a wage subsidy for six months at 25 hours a week at the prevailing NMW (see Figure 4). But they also had some key differences. First, they were less tightly targeted than the Jobs Guarantee: the Future Jobs Fund supported firms employing those that had been on JSA for six months or longer, and Kickstart was open to any employer wanting to employ any 16-24-year-old on UC who was deemed at risk of long-term unemployment (as determined by a work coach at a Jobcentre Plus), rather than having an explicit link to duration of the UC claim. This less-targeted design would suggest that they would have relatively high deadweight. On the other hand, these two previous schemes also had stronger requirements when it came to job additionality (which might suggest low deadweight), although a flaw in both was that they did not monitor whether jobs were truly new.[29] Finally, both were introduced in periods where the labour market was weak, although Kickstart ended up operating in a stronger labour market than was originally expected. In the final analysis, though, Kickstart was estimated to have a deadweight of 83 per cent, and the Future Jobs Fund did not estimate deadweight.[30]

26 We do not have data for the into-work rate of this specific cohort, but we infer it is likely to be no higher than the rate of those under 25 years who have been on UC for one year or more (35 per cent). Into-work rates for 18-24-year-olds are proxied by the rates of those aged under 25. RF analysis of DWP, Stat-Xplore.
27 DWP, National Jobs Guarantee Scheme Grant Guidance, June 2026.
28 See Annex 1 for how we have dealt with this range of possibilities in our calculations.
29 NAO, Employment support: The Kickstart Scheme, November 2021; DWP, Impacts and Costs and Benefits of the Future Jobs Fund, November 2012.
30 DWP, Kickstart Scheme: A Quantitative Impact Assessment, October 2024.

FIGURE 4: **Previous wage subsidies have targeted a broader group than the Jobs Guarantee scheme, but have specified that jobs funded must be truly additional**

Comparison of the Future Jobs Fund, Kickstart and the Jobs Guarantee: Great Britain

	Future Jobs Fund (2009-2011)	*Kickstart (2020-2022)*	*Jobs Guarantee (2026-2029)*
Eligibility	Aged 18-24 on JSA 6+ months	Aged 16-24 on UC	Aged 18-24 on UC and searching for work for 18+ months
Maximum payment (2025-26 prices)	£9,900 (25 hours/week at NMW)	£9,400 (25 hours/week at NMW)	£11,300 (25 hours/week at NMW)
Job criteria	Must be additional	Must be additional	New or existing vacancies
Deadweight	No evaluation made	83 per cent	zero-83 per cent (central estimate 42 per cent)

NOTES: Kickstart maximum payment is for starts from April 2021, when the adult NMW applied to 23-24-year-olds, plus maximum start up payment and minimum employer pension contribution. Jobs Guarantee maximum payment is for people aged 22-24 who are paid adult NMW and receive minimum employer pension contribution. This is based on the April 2026 level of the NMW and would increase in future years with the NMW. Future Jobs Fund and Kickstart maximum payments have been adjusted to 2025-26 prices.
SOURCE: DWP, Impacts and Costs and Benefits of the Future Jobs Fund, November 2012; House of Commons Work and Pensions Committee, Youth Unemployment and the Future Jobs Fund, December 2010; DWP, Kickstart Scheme: A Quantitative Impact Assessment, October 2024; DWP, National Jobs Guarantee Scheme Grant Guidance, June 2026; HMT, GDP deflators at market prices, March 2026.

Based on this available evidence, our central estimate is that the Jobs Guarantee will have a deadweight of 42 per cent (see Annex 1 for further information). This means if 30,000 jobs are funded each year, 17,500 of these would be additional, costing around £38,000 per additional job. As explained above, the extent to which jobs are additional rests on the type of jobs participants are placed into; increasing the share that are created specifically for the Jobs Guarantee pushes the deadweight closer to zero, whereas filling more existing vacancies acts in the opposite direction.

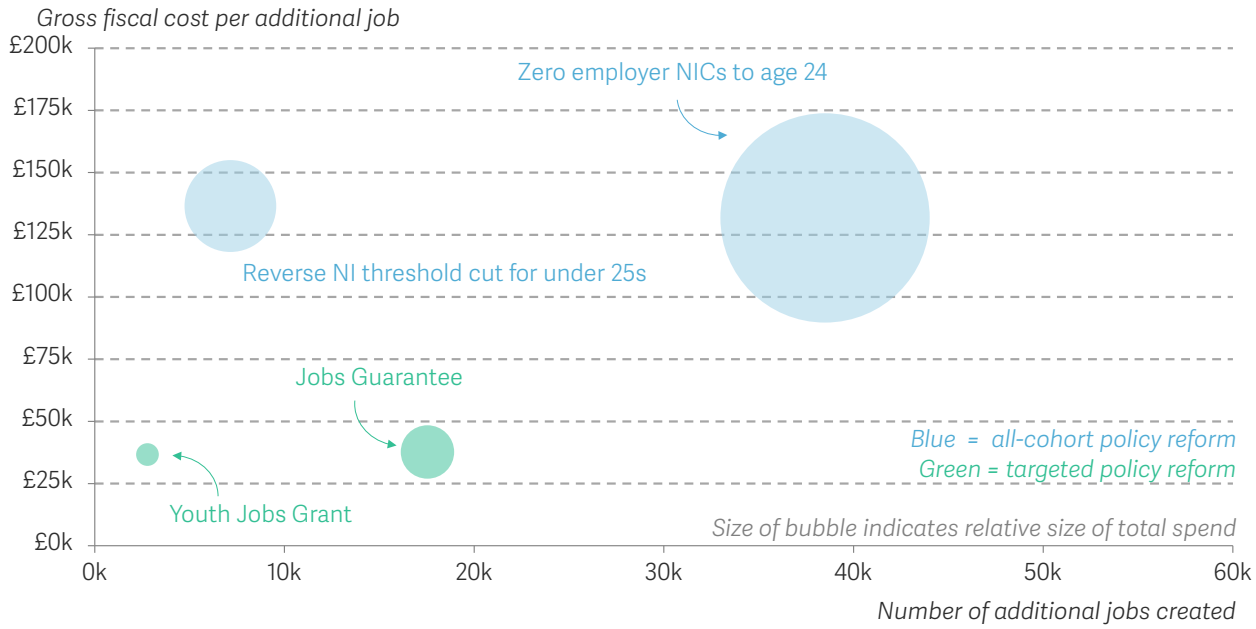
The Government should extend the scale and scope of its targeted schemes to boost their impact

So far, we have shown that targeted schemes like the Youth Jobs Grant and the Jobs

Guarantee will deliver a reduction in NEETs at lower cost than youth-specific tax cuts. However, the total number of jobs they deliver is modest. Figure 5 makes this point graphically, showing that policy makers face a clear trade-off between efficiency and scale when it comes to demand-side support.

FIGURE 5: **Policy makers confront a strong trade-off between scale and efficiency when designing demand-side interventions**

Estimated number of additional jobs created (horizontal axis) and gross fiscal cost per additional job (vertical axis), by demand-side scheme: 2025-26/2026-27, UK/Great Britain



NOTES: The Youth Jobs Grant and the Jobs Guarantee begin in 2026-27 so our calculations estimate the gross fiscal cost in 2026-27. The Youth Jobs Grant and the Jobs Guarantee are GB only.
SOURCE: RF calculations.

As discussed above, design matters for such schemes, and there are certainly important details to both the Youth Jobs Grant and the Jobs Guarantee that could improve their cost-effectiveness. Tightening the payment structure of the former so that firms do not receive the whole payment until the end of six months would be one obvious 'fix'; requiring that all placements made as part of the Jobs Guarantee scheme are in new, rather than existing, jobs would be another.

But there is another key feature of both schemes that is worthy of examination, and that is that they are cash-limited and not entitlement-based schemes. The Government has indicated that it will fund up to 60,000 Youth Jobs Grants between 2026-27 and 2028-29. However, we estimate that, under current conditions, up to 270,000 young people would

potentially be eligible for the schemes in a given 12-month period.[31] Taking the size of this group and the share expected to move into work within a year suggests that there could be demand for up to 120,000 Youth Jobs Grant applications in a given year. It should be possible to allocate more money and places to the scheme and create more jobs without sacrificing value for money. If, then, the Government were to quadruple the scheme to 80,000 grants each year, it would cost an extra £180 million a year, but the number of additional jobs created could rise to around 11,100 annually.

The same does not quite hold true for the Jobs Guarantee. Based on current caseload, we estimate there are around 100,000 18-24-year-old jobseekers in receipt of UC for 18 months or more over the course of a 12-month period. For this group, we expect demand could be much closer to the number of subsidies available: up to 35,000 moving into work within the year, compared to 30,000 jobs.[32] But the Government could extend eligibility for the scheme.

One option, for example, would be to allow not just young people on UC who are actively looking for work, but also those who are currently inactive due to health conditions, to access the scheme. Another option would be to extend the scheme to those who have been on UC for 12 months or more, rather than 18 months or more, which we estimate could increase demand to around 45,000 jobs per year. Extending to this group would cost an extra £165 million each year, taking the total annual cost to just under £500 million. Applying our central deadweight estimate, which we assume would still hold if the scheme was also tweaked to require all jobs be new and not existing jobs, this would create an extra 26,000 jobs.

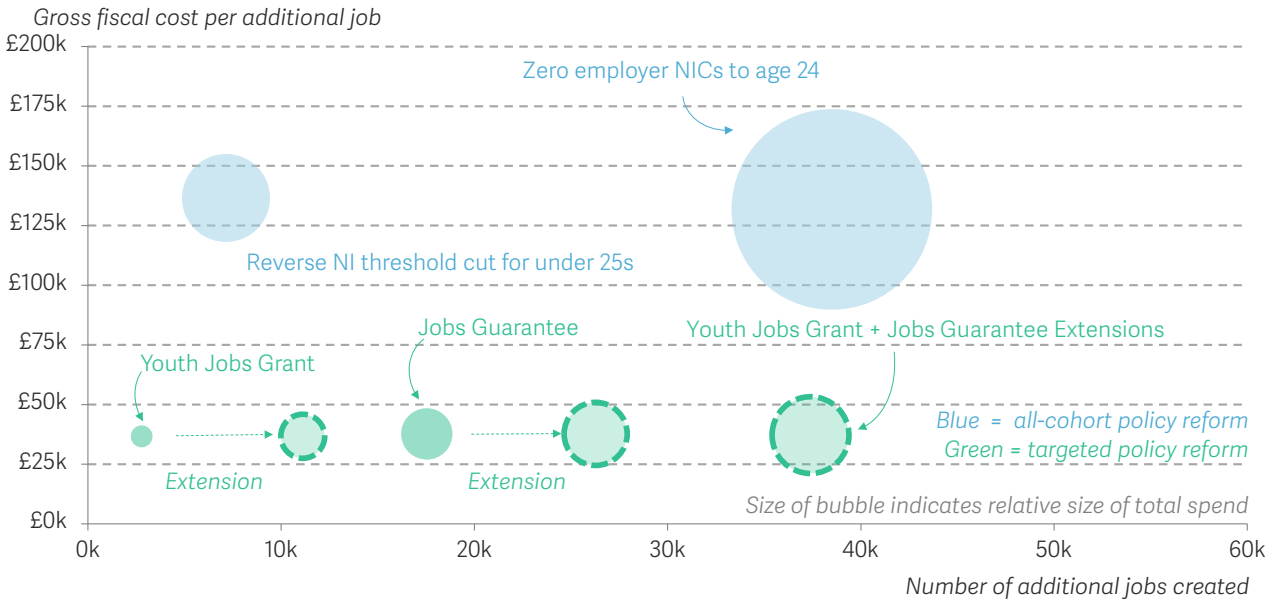
Overall, then, extending these two schemes as recommended could deliver around 37,000 additional jobs per year, at a cost of an additional £740 million annually. As Figure 6 shows, this compares very favourably to reversing the employer NICs threshold increase or cutting employer NICs for young people. The latter would add a similar number of truly extra jobs at 38,000, but at a cost of £132,000 per additional job – three-and-a-half times that of the targeted schemes.

31 This is based on the current stock of 132,000 young people who have been on UC for at least six months, plus an estimate of the 12-month inflow based on numbers currently on UC for 5 months or less, adjusted for workers 'ageing out' before they become eligible.

32 With 30,000 jobs available, for the supply of jobs to be exhausted, either nearly all the baseline flow into work of 35,000 would have to be subsidised, above our estimate of deadweight, or in a zero-deadweight case the flow of eligible people into work would need to nearly double, from 35,000 to 65,000. Both of these cases seem unlikely.

FIGURE 6: **Scaling up targeted interventions is more cost-effective than tax reform**

Estimated number of additional jobs created, and gross fiscal cost per additional job, by demand-side scheme: 2025-26/2026-27, UK/Great Britain



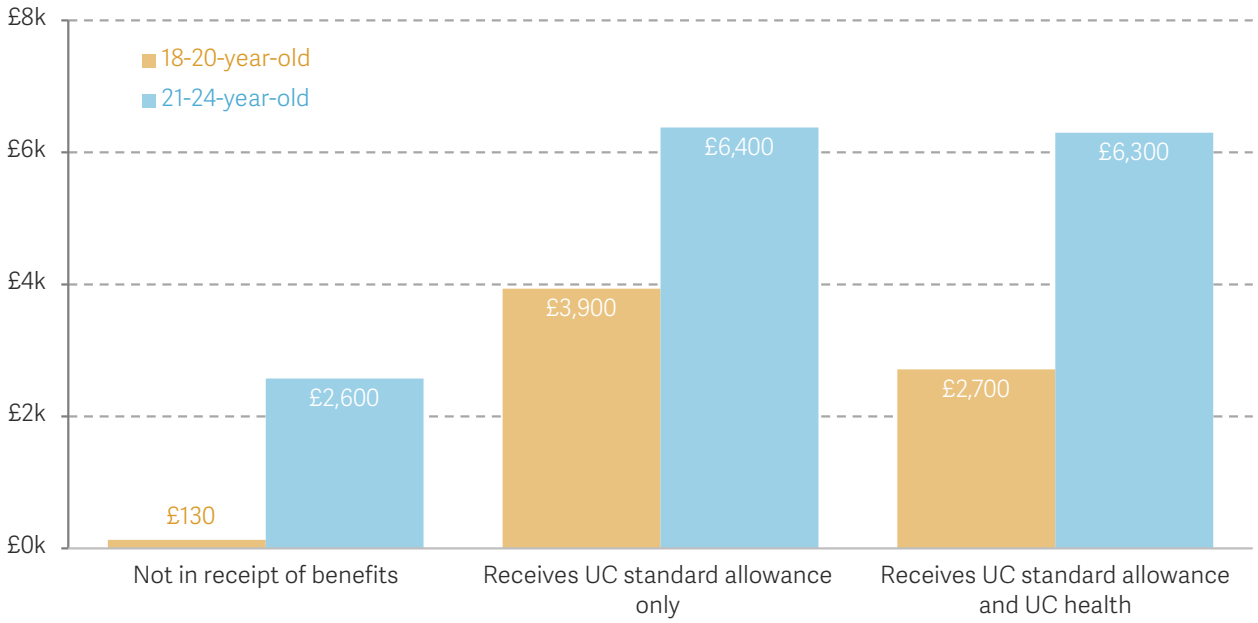
NOTES: The Youth Jobs Grant and the Jobs Guarantee begin in 2026-27 so our calculations estimate the gross fiscal cost in 2026-27. The Youth Jobs Grant and the Jobs Guarantee are GB only. Youth Jobs Grant and Jobs Guarantee Extension uses the midpoint of their respective cost per additional job (£37,000 and £38,000).
SOURCE: RF calculations.

Demand-side interventions remain costly at least in the short term, even when taxes raised and benefits saved are taken into account

So far, our estimates have all been of the gross fiscal cost per additional job created by the policy reforms modelled. But if the jobs are truly additional, and the young people employed would not have been working otherwise, the Government would have more tax coming in, and less to pay out on benefits. So, to what extent could the schemes pay for themselves when we take this into account? Figure 7 sets out our estimate of the boost to the public finances in the first year for each NEET who works 25 hours a week at the prevailing NMW, in a range of different benefit-receipt scenarios.

FIGURE 7: **The annual fiscal gain from every extra young person moving into work is non-negligible, but is shy of the cost per additional job of all demand-side schemes**

Total annual tax and NI raised, and benefits saved, if young person enters work for 25 hours a week at NMW, by benefit receipt and age group: UK, 2025-26



NOTES: We assume the young person is not renting and is therefore not in receipt of UC Housing Element. Includes employer NICs. UC Health shows receipt of the LCWRA element prior to it being cut for new claims from April 2026.
SOURCE: RF analysis of DWP, Benefit and pension rates, 2025-26.

The first thing to note is that the numbers are underwhelming for those not in receipt of means-tested benefits (and it is worth remembering that 37 per cent of NEETs fell into this category in 2025).[33] The public finance gain in this scenario – in other words, the direct taxes paid on their earnings – is just £130 a year for those aged 18-20 (especially low because this age group is exempt from employer NICs) and just over £2,500 a year for those aged 21-24. However, the sums naturally increase when benefit savings are brought into the picture.

The Government will gain just shy of £4,000 for every additional 18-20-year-old who moves from receiving UC to working 25 hours at the NMW, and close to £6,400 for every 21-24-year-old who does the same. The savings for the Government are even lower in the first year for a young person in receipt of UC Health, for two reasons. First, young people in receipt of UC Health have a work allowance, unlike those on the standard allowance alone. Second, we assume that the young person does not lose their health element in

33 A Clegg et al., Lost in transition: An examination of why the UK NEET rate is high and rising, Resolution Foundation, April 2026, https://doi.org/10.63492/cxo2244.

the first year.[34]

However, moving young people into employment will have some persistent savings for government as well as wider economic benefits. In particular, it is likely that some of the extra employment will persist after the incentives have expired. When payroll taxes were cut for young workers in Sweden, many of the extra young workers hired remained employed even after they aged out of the tax cut.[35] Similarly, an evaluation of the UK Future Jobs Fund found that additional employment persisted after subsidies expired.[36] Such persistence would substantially lower the costs of an extra year of employment over the medium term, but is unlikely to reverse our finding that targeted schemes are much cheaper.

Apprenticeship funding should be ringfenced for under 25s, returning the system to its original purpose

So far, we have only examined reforms that could boost the number of jobs employers offer young workers. But there is, of course, another very important way in which firms support young people gain experience and build their skills, and that is through apprenticeships. Over the last two decades, there has been considerable reform to apprenticeships in England.[37] In the mid-to-late 2000s, steps were taken to significantly expand the number of apprenticeships available: government funding was increased; a National Apprenticeship Service was established to set up and promote schemes; training providers were given greater flexibility to expand programmes; and, crucially, eligibility was widened to allow people aged 25 plus to access publicly-funded apprenticeships for the first time.[38]

Taken together, these changes boosted the number of apprenticeships but also changed their age profile. Those aged over 25 accounted for three-quarters (75 per cent) of the rise in apprenticeship starts between 2009/10 and 2014/15. Older apprentices accounted for just under half (47 per cent) of starts in the last decade, compared to one-third (33 per cent) in the decade prior (Figure 8). And they have also driven the increasing numbers of

34 From April 2026 the Government introduced a 'right to try' for young people in this category, allowing them to enter employment without automatically triggering the cessation of their health benefit. Second, a backlog of initial assessments has slowed the rate of reassessments in recent years, meaning that many claimants, young and old, are not reassessed promptly at the end of their award duration.

35 E Saez, B Schoefer & D Seim, Hysteresis from Employer Subsidies, Journal of Public Economics, August 2021, https://doi.org/10.1016/j.jpubeco.2021.104459.

36 DWP, Impact and Costs and Benefits of the Future Jobs Fund, November 2012.

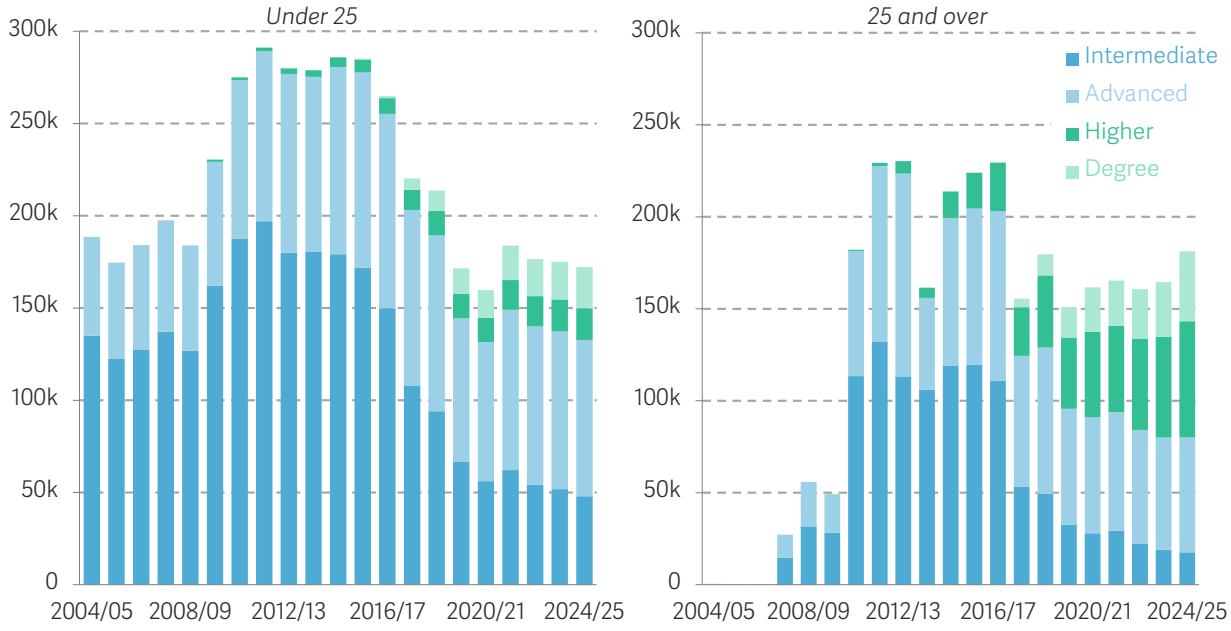
37 In Scotland and Wales, apprenticeships and funding are open to anyone aged 16 and over. In Northern Ireland, full funding was available only for those aged 16-24, but since 2023, full funding was extended to all ages. Despite this, only 36 per cent of starts in Northern Ireland are accounted for by those aged 25 and over. See: Skills Development Scotland, Statistics, accessed 24 June 2026; Welsh Government, Apprenticeships, accessed 25 June 2026; NISRA, Apprenticeships NI Statistical Bulletin, January 2026; Northern Ireland Social Care Council, Apprenticeship week: Raising Awareness of All-Age Apprenticeships, accessed 25 June 2026.

38 NAO, Adult Apprenticeships, February 2012.

people starting higher or degree level apprenticeships, especially since the introduction of the Apprenticeship Levy (recently reconfigured and renamed as the Growth and Skills Levy) in 2017: just under seven-in-ten (69 per cent) of higher-level starts funded by the levy over the past decade have been by people aged 25 and above.[39]

FIGURE 8: **Younger apprenticeship numbers have fallen, while increasing numbers of older apprenticeships are at higher or degree level**

Apprenticeship starts, by age group and level: England



SOURCE: RF analysis of Department for Education, Apprenticeships.

But there are good reasons to think that apprenticeship funding should be targeted much more directly at young people. First, the boost that apprenticeships give to labour market outcomes relative to the equivalent classroom-based qualifications is around double for younger apprentices compared to those aged 25 and over.[40] Second, economic returns on this investment are also higher for the younger age group: people aged 24 and over doing a level 2 or 3 apprenticeship generate £7 of benefits per £1 spent, compared with £10-12 for under 19s, and £13-15 for 19-23-year-olds.[41]

39 The Apprenticeship Levy was introduced in 2017 to provide a sustainable funding stream for employers to invest in apprenticeships. It is an annual tax of 0.5 per cent on the wages of employers whose pay bill is £3 million or more. Levy-paying companies can access their funds to pay for apprenticeships (if they run out, they must part-fund any remaining apprentices themselves). SMEs who don't pay the levy (non-levy employers) can reserve funds via the apprenticeship service. (The Government monitors its total spend throughout the year and can pause reservations.) In 2024, the Government announced the 'Growth and Skills Levy' would replace the Apprenticeship Levy, aiming to provide a more flexible offer to employers and learners and better target funding to young people and critical sectors. The rate and pay bill threshold are unchanged. For more information, see: DfE, The Growth and Skills Levy.

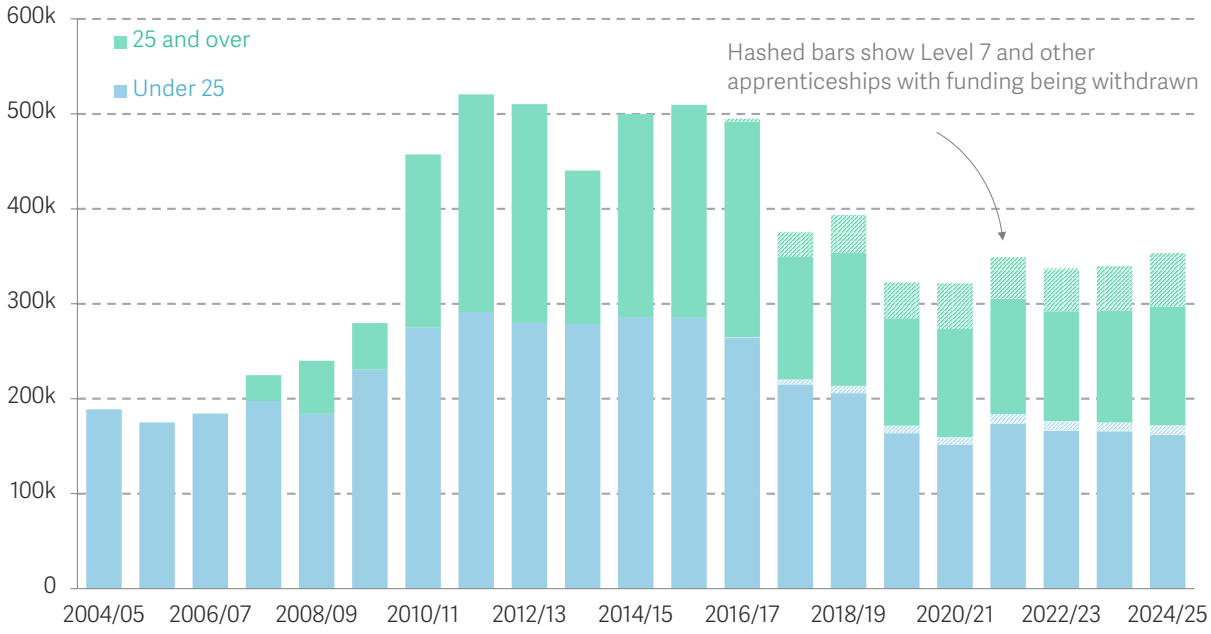
40 S McIntosh & D Morris, Labour Market Outcomes of Older Versus Younger Apprentices: A Comparison of Earnings Differentials, Research Discussion Paper 016 of the Centre for Vocational Education Research (CVER), September 2018; C Cavaglia, S McNally & G Ventura, Do Apprenticeships Pay? Evidence for England, Research Discussion Paper 015 of the Centre for Vocational Education Research (CVER), September 2018.

41 Department for Education, Measuring the net present value of further education in England, February 2025.

In fact, the Government has already taken some steps to redirect the apprenticeship budget toward younger people. From January 2026, funding can no longer be used for Level 7 apprenticeships (equivalent to a master's degree) for people aged 22 and over, and from September 2026, funding will be withdrawn from 16 'standards' that are neither focused on young people nor aligned with the Industrial Strategy.[42] Figure 9 shows how this will play out, with the hashed bars representing the types of apprenticeships from which funding is being withdrawn. As this makes plain, defunded apprenticeships accounted for nearly one-in-five (19 per cent) starts in 2024/25, the vast majority (84 per cent) of which were taken up by over-25s. This suggests just under half (44 per cent) of apprenticeships would continue to go to over-25s, however.

FIGURE 9: **From 2026, the Government has withdrawn funding from the higher-level apprenticeships that primarily go to those aged 25-plus**

Apprenticeship starts, by age group: England



NOTES: Apprenticeships starts refers to all starts, both those funded by the levy and otherwise.
SOURCE: RF analysis of Department for Education, Apprenticeships.

But there is a strong case for the Government to go further still. The radical option would be to ringfence all apprenticeship funding for under 25s, and there are a number of powerful reasons to do just this. First, as noted above, the economic returns on apprenticeships are far higher for younger people than older workers. Second, it is clear that apprenticeship funding is frequently used to upskill existing employees – in 2023, four-in-five (79 per cent) apprentices aged 25 plus already worked for their

42 Department for Education, The Growth and Skills Levy, accessed 24 June 2026.

employer before they started[43] – and concerns have been raised that some levy-paying employers reacted to its introduction by converting existing training programmes into apprenticeships to make use of their levy funds.[44] Third, there is conclusive evidence that the reason why many other developed economies have far lower NEET rates than the UK is that they have much higher levels of young people in vocational education combining work and study.[45]

It would be naïve, however, to think that in this scenario employers would simply substitute younger for older apprentices: the two groups have very different characteristics (untried and unskilled for younger, and generally incumbents and higher skilled for older workers). Even with fully subsidised training, hiring a new apprentice requires businesses to invest substantial time and money.[46] Consequently, it is likely that many firms will need an additional incentive to take on more young apprentices than they currently do, even if the training costs are covered. Incentives have been offered in the past, including between 2012 and 2017 and for a short period in the immediate aftermath of the pandemic. And more recently, the Government committed to providing such an incentive for small and medium sized enterprises (SMEs): as part of the extended Youth Guarantee, from October 2026 SMEs will receive £2,000 for taking on an apprentice aged under 25, with training costs fully funded.[47]

But it is larger employers who are really needed to offer apprenticeships at the scale required to put a dent in the NEET rate. Given this, it would make sense to extend apprentice incentives to all employers that take on someone aged 24 or below to help cover additional costs, conditional on the apprenticeship being completed. And restricting the apprenticeship budget to under 25s only would liberate a significant chunk of funding that could be deployed to support young people's transition into the workplace in this or other ways.

To illustrate the scale of what could be achieved by redirecting apprenticeship funding to young people, imagine the following scenario. If the apprenticeship budget had been ringfenced for under 25s in 2025/26, approximately £1.55 billion would have been freed up to invest in young apprentices or in other programmes to support younger workers to get a foothold in the labour market.[48] This could, in theory, fund the learning costs of

43 This compares to just under a third (32 per cent) of under-25s. Source: Department for Education, Apprenticeship Evaluation Learner Survey 2023.
44 CIPD, Addressing employer underinvestment in training: the case for a broader training levy, July 2019.
45 See Figure 20 in: A Clegg et al., Lost in transition: An examination of why the UK NEET rate is high and rising, Resolution Foundation, April 2026, https://doi.org/10.63492/cxo2244.
46 https://stmartinsgroup.org/wp-content/uploads/2021/09/The-St-Martins-Group_The-Real-Costs-and-Benefits-of-Apprenticeships.pdf
47 Department for Work and Pensions, Major employment drive to help unlock 200,000 new jobs and apprenticeships for next generation, 16 March 2026. The Youth Jobs Grant and Jobs Guarantee are also open to employers offering apprenticeships.
48 We estimate this number based on the apprenticeship budget in England for 2025/26, which was £3.1 billion, DWP, Main Estimate 2026-27: Select Committee Memorandum, April 2026. that half (50 per cent) of the apprenticeship budget in 2023/24 was spent on apprentices aged 25.

145,000 more young apprentices than currently, including a £2,000 employer incentive payment for each.[49] And this should be achievable: available evidence suggests demand for apprenticeships among young people vastly outstrips supply.[50]

This wholesale reform of apprenticeships would return the system to its original purpose, and one that many naturally believe it to be: a springboard for young people to ease their transition into the world of work. It has no direct fiscal cost because it would simply redeploy an existing budget, but it would be wrong not to recognise the welfare cost that would be borne by the over 25s who would no longer be able to upskill or retrain as a result. This is an important issue for policy makers to consider and may become ever more pertinent in a rapidly changing labour market if technology like AI is as disruptive as some predict.[51] However, the policy clarity that ringfencing apprenticeship funding for under 25s would introduce, alongside the urgency of finding cost-effective long-term solutions to drive down the NEET rate in the UK, makes this a very good option indeed.

49 This is based on average off-the-job training costs for delivering an apprenticeship, plus a £2,000 incentive payment. This reflects the total number of apprenticeships that could be funded to completion, not the annual expenditure. Average training costs taken from: The Institute for Apprenticeships and Technical Education and the Education and Skills Funding Agency (EFSA), Cost of delivering apprenticeship standards, February 2020.

50 Ad hoc data released by DfE from the 'Find An Apprenticeship' service indicates in 2020/21, 142,000 under-25s applied to 47,000 vacancies (note, this service doesn't reflect all vacancies, as some employers advertise through other channels). See: DfE, Apprenticeship vacancies: demand and supply data, July 2021. In 2023, 40 per cent – 430,000 people – of students interested in undergraduate study were also interested in apprenticeships. Source: UCAS and the Sutton Trust, Where next? What influences the choices of would-be apprentices?, July 2023.

51 We know this is, in fact, one of DWP's priorities for GSL reforms. DWP, Letter from the Minister for Skills on the apprenticeship funding band reviews, June 2026.

Conclusion

Policy interventions that aim to boost firms' appetite to employ young workers involve all kinds of important considerations, but the analysis in this report has shown that none are more important than deciding between reforms that affect all young people versus targeted schemes. Our conclusion is unequivocal: although cross-cohort policy reforms have the biggest effect in terms of extra jobs created, targeted schemes offer much better value for money when we consider the fiscal cost per additional job as our metric (see Figure 10).

FIGURE 10: **Targeted schemes are more cost-effective than tax reforms that affect all young employees**

Summary of demand-side policy reforms, current and recommended extensions: 2025-26/2026-27, UK/Great Britain

	Gross fiscal cost	*Additional jobs created*	*Gross fiscal cost per additional job*	*Change in NEET rate*
Minimum wage: adult and youth ratio kept at 2023 level	zero (see notes)	14.8k	zero (see notes)	-0.2%
Employer NICs: reverse threshold cut for under-25s	£5.1bn	7.1k	£132k	-0.1%
Employer NICs: remove for under-25s	£1.0bn	38.5k	£137k	-0.5%
Youth Jobs Grant: existing scheme	£0.06bn	2.8k	£37k	0.0%
Youth Jobs Grant: quadruple the number of hiring incentives	£0.24bn	11.1k	£37k	-0.1%
Jobs Guarantee: existing scheme	£0.3bn	17.5k	£38k	-0.2%
Jobs Guarantee: extend to all on UC 12 months or more	£0.5bn	26.3k	£38k	-0.3%

Notes: Although the NMW option has no fiscal cost, it would mean that all the young people that employers are prepared to pay the current youth rates to would be worse off, at an estimated £379 million a year in 2025-26. The Youth Jobs Grant and the Jobs Guarantee are GB only and impact in 2026/27. The Youth Jobs Grant expects to provide 20,000 incentives per year (£3,000 each), extension is for 80,000 per year. The Jobs Guarantee subsidises jobs for people on UC and searching for work 18 months or more, extension includes those who have been on UC between 12 and 18 months.

SOURCE: RF calculations.

So, what specific programme of action do we recommend based on the analysis in this note?

- First, the Government should not only pause convergence of the 18-20-year-old youth minimum wage rate with the adult NLW rate but abandon its commitment to ultimate convergence.

- Second, the Government should extend the Youth Jobs Grant by quadrupling the numbers available to employers each year to 80,000. But at the same time, it should reform the payment structure to improve retention, with the final payment made at the end of six months rather than the current three.
- Third, the Jobs Guarantee scheme should be extended to young people on UC Health and those that have been looking for work and in receipt of UC for 12 months plus, rather than 18 months plus. Requiring that all jobs that attract support under this programme are new jobs and not existing roles should, at least in part, mitigate any increase in the deadweight that extending the eligibility to this wider group may entail.
- Finally, the Growth and Skills Levy funding should be ringfenced for under-25s only. The £1.55 billion of extra funding this would liberate should be deployed to extend the £2,000 payment that is already offered to SMEs that take on a young apprentice to larger firms, to boost the number of apprenticeships for younger people. Retraining and upskilling older workers should, if needed, be delivered through a separate scheme, and the original meaning of apprenticeship restored.

Taken together, these four recommendations would open up thousands of additional opportunities for young people in the UK today. But demand-side interventions alone will not be enough to shift the UK's NEET rate downwards greatly, let alone reach the levels of the strongest international performers such as the Netherlands and Denmark, as the Milburn Interim Report sets out as the real goal. To achieve that, wider reforms to health, education and the benefits system will also be necessary.

Annex 1: Methodology and assumptions

Data and measurement

Our estimates of labour costs, earnings and employment by age use the Labour Force Survey (LFS). We use the LFS rather than the Annual Survey of Hours and Earnings (ASHE) because it is the only source that supports all of our analysis in a single, consistent framework. ASHE is drawn from employers' PAYE returns and observes individuals only while they are employees: it records earnings and hours each April, but carries no information on benefit receipt, economic activity, or the reason a person is out of work. ASHE has the advantage of measuring earnings and hours more precisely than the LFS, because it is employer-reported, and it is the source the Low Pay Commission uses for minimum wage analysis. A limitation of using the LFS instead is therefore that, for the minimum wage convergence analysis – where the wage distribution between the youth minimum and the adult NLW does the central work – we rely on LFS earnings data rather than ASHE.

We checked how LFS-based flows into work compare with published DWP administrative data and found them reasonably close. For the UC searching-for-work group (across all ages), the LFS implies an annual into-work rate of around 54 per cent, against roughly 60 per cent in the DWP figures.[52] This implies that the LFS captures transitions relatively well, especially factoring in its known limitations in recording benefit status.[53]

For the wage and labour cost calculations, we pool all available cross-sectional LFS quarters within each financial year, which gives us sufficient sample sizes to measure the wage distribution by single year of age. Earnings are weighted using the LFS income weight throughout.

We measure hourly pay using a blended variable. We take each worker's directly reported hourly rate where it is available, and fall back on a derived measure (gross weekly earnings divided by hours) only where the reported rate is missing, discarding implausible values. The directly reported rate is the cleaner of the two, particularly at the bottom of the distribution, so we prefer it where possible.

Employer National Insurance contributions (NICs) and minimum wage changes

To calculate the employment impact of employer NICs and minimum wage changes, we first estimate the change in the average cost of employing a young worker using information on the wage distribution by age, and then multiply this by an estimate of the sensitivity of employment to labour costs (the own-wage elasticity, or OWE). Our assumption of an OWE of 0.2 is slightly higher than the central tendency of 0.15 in the

52 Throughout, we estimate the annual into-work rates of 18-24-year-olds on UC using the monthly into-work rate of under 25-year-olds (as a proxy, reasoned by 16-17-year-olds making up a very small portion of this group). Data source: DWP, Get Britain Working: Labour Market Insights April 2026.

53 RF analysis of DWP, Get Britain Working: Labour Market Insights April 2026, and LFS, Two-Quarter Longitudinal Datasets.

literature, but lower than the 0.4 value used by the Office for Budget Responsibility.[54] A higher elasticity would increase the estimated employment impact and reduce the fiscal cost per job.

This procedure results in an estimate of the proportional change in employment for the affected group. We then multiply this by the number of young workers in employment to get an increase in headcount terms. Given that this scaling factor is the stock of workers in employment at any one time, there is no need to correct for annualisation. To calculate the gross fiscal cost, we impute pre- and post-reform tax payments by young workers using the tax schedule and the wage distribution.

For the minimum wage analysis, the thought experiment is one where youth minimum wages had risen in line with the adult NLW between 2023 and 2025, rather than converging towards it. In 2023, the ratio of the youth minimum wages to the adult rate was 72 per cent. Maintaining this ratio in the 2025-26 youth rates gives counterfactual rates of £8.78 per hour for 18-20-year-olds (compared to the actual £10.00), and £6.19 for 16-17-year-olds (compared with £7.55). Because such change might come with spillover effects – that is, it might affect workers beyond those earning at the minimum wage – we construct a counterfactual hourly wage based on where workers sit in the wage distribution. Specifically, we assume:

- For workers earning above the NLW, there is no change in wages.
- For workers earning below the relevant youth minimum wage, there is the same degree of underpayment as currently.
- For workers earning between the relevant youth minimum wage and the NLW (the spillover zone), wages reduce according to the worker's distance between the two rates. This ranges from the full change for those currently at the relevant youth minimum to almost zero change for those just below the NLW, reflecting the partial unwinding of spillover effects.

Hiring incentives and job subsidies

For the Youth Jobs Grant and Jobs Guarantee, we take a different approach. Both provide a subsidy to employers for hiring individuals in the eligibility group (people on UC searching for work for more than six or 18 months). To determine their cost-effectiveness, we need to estimate the deadweight – the fraction of jobs secured by workers who would have got jobs anyway in the absence of the intervention. Then, we can calculate the number of additional jobs by multiplying the number of subsidies by the proportion that are additional (the inverse of the deadweight).

54 A Dube & B Zipperer, Minimum wage own-wage elasticity repository, Version 2025.9.1, accessed 25 June 2026; OBR, Economic and Fiscal Outlook, Chapter 3, October 2024.

For the Youth Jobs Grant, we draw on estimates from the literature to identify a deadweight range. Our lower estimate, 76 per cent, comes from the evaluation of the Youth Contract, which surveyed participating employers.[55] The Youth Contract was a Great Britain-wide scheme similar in design to the Youth Jobs Grant (see Figure 3 for details). The upper estimate, 96 per cent, comes from an empirical study of a large US hiring incentive scheme.[56] The research finds that the incentive has virtually no effect on employer hiring decisions: employers receive subsidies for workers they would have hired without the programme. This provides an indicative upper bound for hiring incentives that are open to employers when filling existing vacancies.

Constructing from this range, our central deadweight estimate is 86 per cent – meaning we expect 14 per cent of incentive payments to produce additional jobs. Assuming 20,000 incentives are distributed within the year, this gives an estimate of 2,800 additional jobs per year. Because these additional jobs do not necessarily last for a full year, we annualise costs based on the probability of individuals staying employed for 12 months when they move into work.[57] This gives us our final estimate of £37,000 per additional year of employment, with a range of £21,000 to £134,000, as shown in Figure 11.

FIGURE 11: **Our findings are sensitive to the deadweight estimate used**

Estimates for Youth Jobs Grant and Job Guarantee schemes, by deadweight scenario: 2026/27, GB

Youth Jobs Grant	*Lower bound*	*Central case*	*Upper bound*
Deadweight	76%	86%	96%
Additional jobs created per year	4,800	2,800	760
Annualised cost per additional job	£22,000	£37,000	£134,000

Jobs Guarantee	*Lower bound*	*Central case*	*Upper bound*
Deadweight	0%	42%	83%
Additional jobs created per year	30,000	17,500	5,000
Annualised cost per additional job	£22,000	£38,000	£130,000

SOURCE: RF calculations.

55 N Coleman et al., Evaluation of the Youth Contract wage incentive, DWP, February 2014.
56 This scheme gives employers an incentive payment (up to $2,400, in the form of tax credit) for hiring individuals with employment barriers, the majority of whom are benefit recipients. See: M Jain, C Mommaerts & J Weaver, The Limits of Targeted Hiring Subsidies: Evidence from the Work Opportunity Tax Credit, NBER Working Paper, May 2026.
57 This is calculated using data on the sustained employment rate from: DWP, Get Britain Working: Labour Market Insights April 2026.

For the Jobs Guarantee, the risks of deadweight are different. It is possible that the scheme will create new jobs that are not suitable for, or do not appeal to, jobseekers who are ineligible for the subsidy. In that case, everyone filling these jobs would have otherwise been unemployed and the deadweight cost would be zero. The fact that eligible individuals have relatively low into-work rates (less than 35 per cent for those on UC for 18 months or more) further supports this 'best case' scenario. However, crucially, the Jobs Guarantee does not require roles to be new jobs (i.e. additional) – participants can also be placed into existing vacancies. So conversely, if all participants were placed into existing roles, we would expect little net employment gain and high deadweight. Not knowing exactly which types of jobs young people will be placed in leads us to estimate a wide range: from the best case scenario of zero, reflecting the possibility that all funded jobs are a net addition to total employment, to an upper bound of 83 per cent, the deadweight estimate of DWP's last job subsidy programme, Kickstart.[58]

We take the midpoint of this range to construct a central estimate of 42 per cent, implying that of 30,000 jobs per year, 17,000 would be additional (58 per cent). To annualise the cost per year of employment, we multiply the cost per additional job by two, because each subsidised job lasts six months.[59] Our final estimate is that the cost will be £38,000 per additional job-year – but this could range from £22,000 to £130,000 (see Figure 11).

These estimates are inherently uncertain, particularly along two key dimensions. First, they are sensitive to the deadweight assumptions applied. Deadweight is complex to estimate, especially before the intervention has taken place, and our central estimates should be interpreted in light of the ranges presented in Figure 11, as well as the factors discussed above that could influence the outcome in either direction. Second, where we infer information about the eligible group from currently available data, such as the caseload composition or the share of who move into work in a given year, this relies on trends remaining stable. This might not be the case, given the number of factors that can influence duration and flows in and out of employment and benefits.

58 The Kickstart evaluation estimates that it had an additional employment impact of 11 percentage points, while 54 per cent of individuals would have moved into employment regardless of the scheme (estimated using a matched control group of similar individuals who did not participate). This means that, out of every 65 Kickstart participants in employment, 54 would have been in employment without the intervention, and 11 are additional employment associated with the scheme, giving estimated deadweight of 83 per cent. See: DWP, Kickstart Scheme: A Quantitative Impact Assessment, October 2024.

59 It is possible that some participants will not remain in their job for the full six months, but we do not account for that here.

Annex 2: Data citations

- Labour Force Survey:
  - Office for National Statistics. (2024). Labour Force Survey. [data series]. 11th Release. UK Data Service. SN: 2000026, DOI: http://doi.org/10.5255/UKDA-Series-2000026

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