

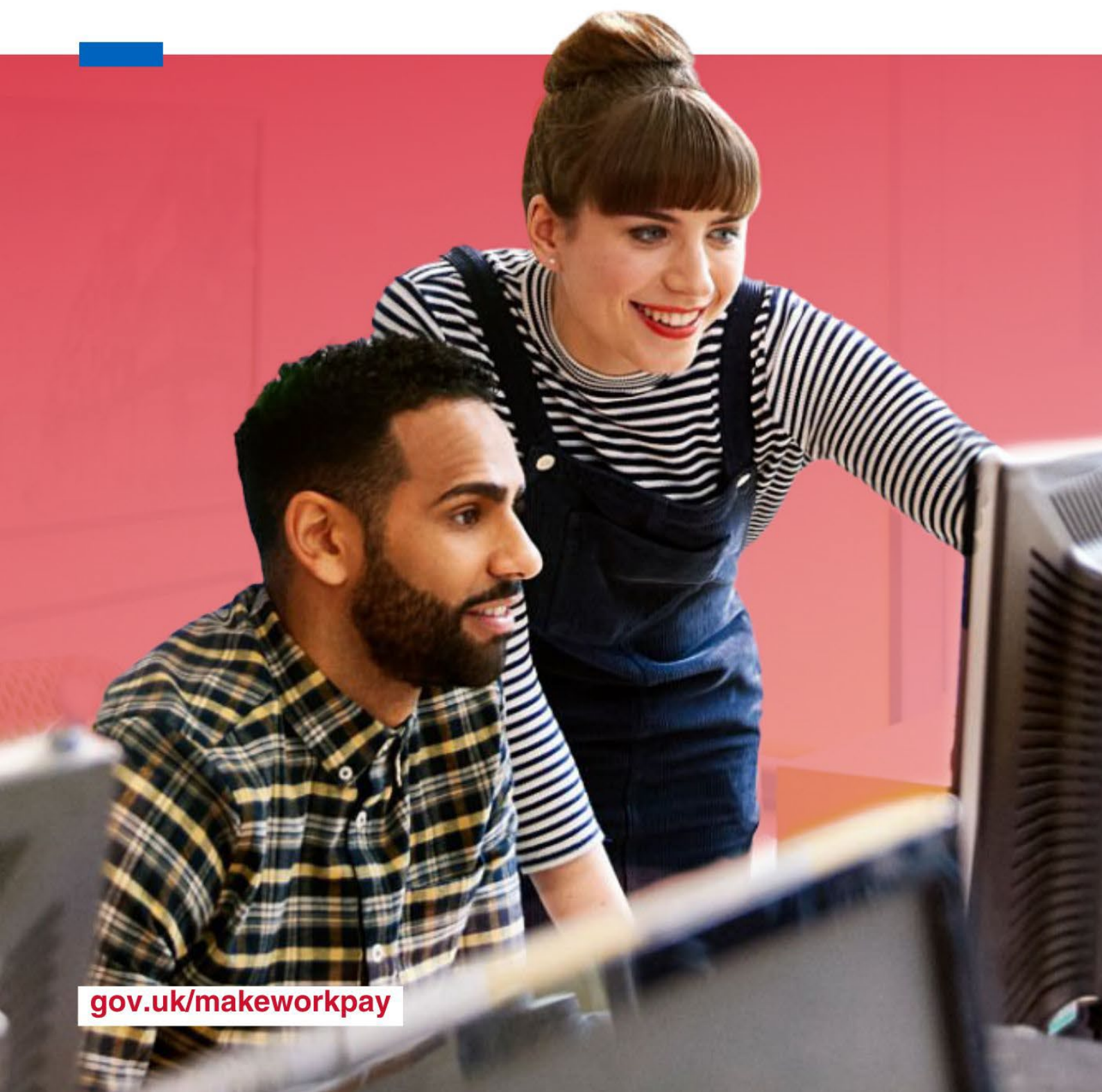


UK Government

# Employment Rights Bill

## Economic Analysis

October 2024



[gov.uk/makeworkpay](https://www.gov.uk/makeworkpay)

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# Executive Summary

The Government's Plan to Make Work Pay is a core part of the mission to grow the economy, raise living standards across the country and create opportunities for all. It will tackle the low pay, poor working conditions and poor job security that has been holding our economy back.

The plan will help more people to stay in work, improve job security and boost living standards. Once implemented, the plan will represent the biggest upgrade of workers' rights in a generation.

The Employment Rights Bill is the first step in delivering on this commitment and was introduced to Parliament on 10 October 2024<sup>1</sup>. This Government is committed to working in partnership with businesses, trade unions and other stakeholders to deliver these reforms. We have already begun engaging in a tripartite way ahead of the introduction of the Bill, and these next stages of policy development will continue to be delivered in partnership.

The Government has produced a comprehensive package of analysis on the impact of the Employment Rights Bill. This meets our requirements under the Better Regulation Framework, providing a holistic assessment of the potential impact on workers, employers, trade unions, the enforcement system and the wider economy. Our assessment is summarised in this document and supported by 24 Regulatory Impact Assessments (IAs) that have been published alongside it.

The assessment is grounded in the best available evidence developed in consultation with experts. Whilst the analysis draws on a robust set of tools and evidence, at this stage of policy development, where many reforms require further policy development and consultation before implementation, a cost-benefit analysis can be no more than indicative. The results are therefore presented as ranges and orders of magnitude and should be interpreted with this uncertainty in mind. In addition, where we are unable to monetise impacts, our figures (e.g., Net Present Values) will only tell part of the story. As such, more weight should be given to our qualitative assessment of benefits and costs, rather than a partial focus on what has been quantified.

For each policy contained within the Employment Rights Bill we have assessed the quantified and non-quantifiable impacts, as well as considering the top-down impact of this comprehensive package. The headline findings of this analysis are that:

- There are clear, evidence-based benefits of government action through the Bill. Not acting would enable poor working conditions, insecure work, inequalities and broken industrial relations to persist.
- The Bill will strengthen working conditions for the lowest-paid and most vulnerable in the labour market, increasing fairness and equality across Britain. It will have significant positive impacts on workers who are trapped in insecure work, face discrimination, or suffer from unscrupulous employer behaviour like 'fire and rehire' practices. Many policy changes in the Bill will target the issues identified by the independent Taylor Review of Modern Working Practices<sup>2</sup>.
- Workers in Adult Social Care, those covered by collective bargaining agreements, those grieving a loss of a loved family member, and those struggling to make work fit in around other commitments will also be notable beneficiaries.
- There will be further benefits for those in work from better job satisfaction, as well as improved wellbeing and health, which could amount to billions of pounds a year. This will benefit their employers too as 17.1 million working days were lost due to stress, depression or anxiety in 2022/23<sup>3</sup>, equivalent to over £5 billion of lost output.
- Businesses will also benefit from tackling the undercutting that good employers currently face when trying to do the right thing, as well as benefitting from a more productive workforce. We expect these benefits to be significant although they are difficult to quantify.

<sup>1</sup> Department for Business & Trade. '[Employment Rights Bill](#)'. 2024.

<sup>2</sup> Taylor M and others. '[Good Work: The Taylor Review of Modern Working Practices](#)'. 2017

<sup>3</sup> Health and Safety Executive. '[Working days lost in Great Britain](#)'. 2024. (Accessed October 2024)

- Delivering those benefits will place a direct cost on employers. These costs are expected to represent no more than a modest increase (less than 1.5%) on total employment costs, most of which will represent a transfer from businesses to their workers. At this stage we believe the direct cost business would be in the low billions of pounds per year. For businesses who rely on flexible contracts or low-paid employment these changes could be more disruptive, at least in the short run, but we deem risks to hiring intentions and employment to be relatively low.
- Costs will be proportionately higher for small and micro businesses due to the fixed costs of admin and compliance burdens, but most measures need to apply in the same way to all businesses as we cannot create a “two-tier” workforce (i.e. where some workers get access to rights and others do not). Not only would this be unfair on those workers that lose out, but it would provide a disincentive for those small business to grow.
- Many of the policies within the Employment Rights Bill could help support the Government’s Mission for Growth. We conclude the package could have a direct and positive impact on economic growth, but we expect this to be small. Furthermore, by boosting protections and the quality of work for the lowest paid in the labour market, who are concentrated in more deprived areas of the UK, the package will help to raise living standards across the country and create opportunities for all.
- The Bill also has clear links to Government’s Health and Opportunity Missions, as well as ambitions to reduce the number of people who are inactive in the labour market, reduce child poverty, and tackle inequalities for those in work across the UK.
- The package will be significantly positive for society (i.e., the benefits will outweigh the costs) if policy implementation is well-targeted, and the risks of unintended consequences are mitigated through consultation and policy design. We intend to refine this assessment as policy development continues.
- Extra consideration will be given to the workers that make up a greater than average proportion of low-paid and insecure work but are more likely to be excluded from the labour market (e.g., women, younger workers and people with disabilities). Whilst we believe the risk to employment prospects for these groups is small, with the benefits the Bill delivers to them being greater, Government will use extensive consultation with trade unions and businesses to ensure the detail is right before changes are implemented.

The structure of the document is as follows:

- **Section One** provides a brief description of the issues in the labour market that the Plan to Make Work Pay and the Employment Rights Bill aim to address.
- **Section Two** articulates the objectives of the Employment Rights Bill.
- **Section Three** is an explanation of our analytical approach and the limitations to our evidence base and assessment.
- **Section Four** explains who will be most impacted by the policy changes, the magnitude of impacts, the wider impacts (e.g., on growth and how policy links to other Government priorities), as well as our assessment of potential unintended consequences.
- **Section Five** provides a brief conclusion of this analysis.
- **The Annex** contains our Summary IA, which provides more detailed analysis of the package. This in turn is supported by 23 ‘policy-specific’ IAs, covering all our all of our underpinning evidence, methodological information, and calculations. These IAs have been published alongside this document on [www.gov.uk/guidance/employment-rights-bill-impact-assessments](http://www.gov.uk/guidance/employment-rights-bill-impact-assessments).

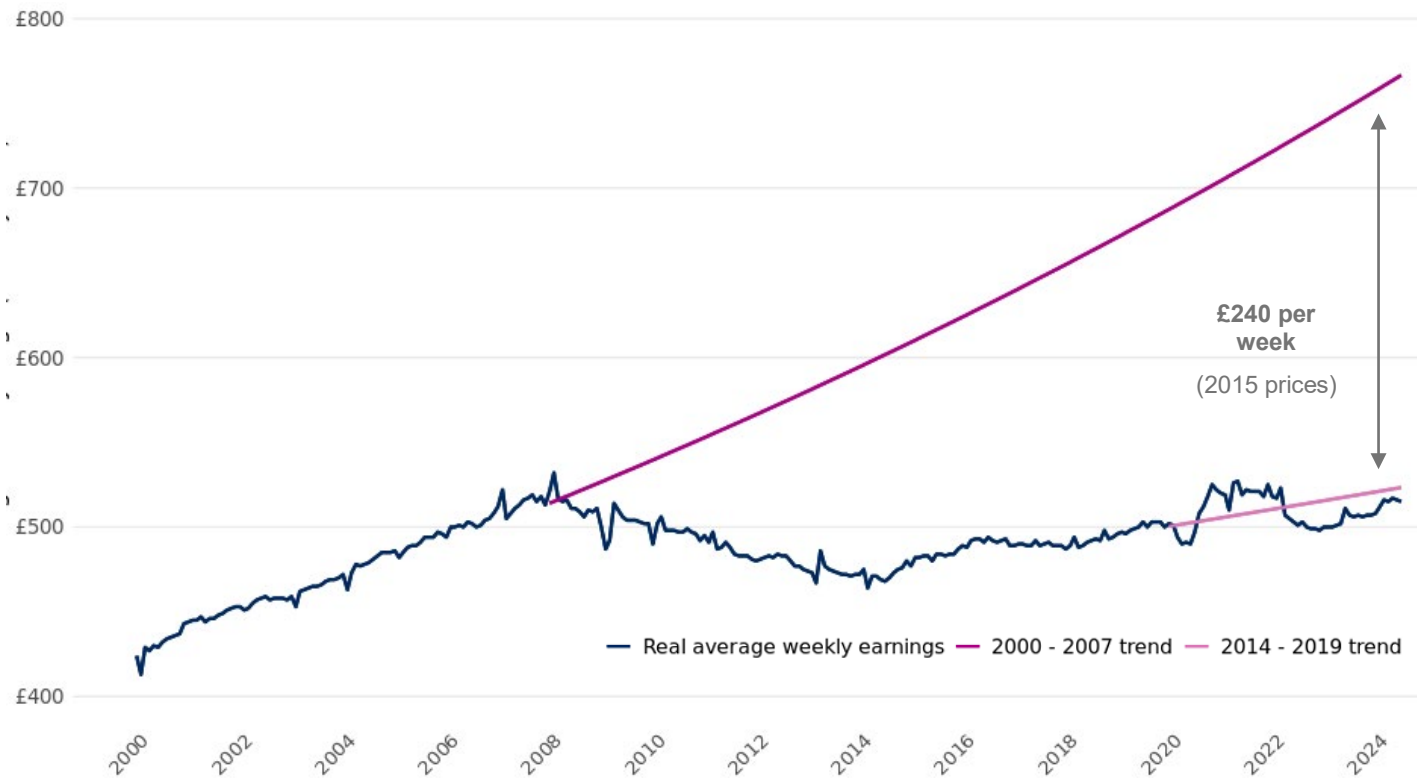
We thank the stakeholders who have already contributed to this initial assessment. We intend to gather more evidence on the impact of the Employment Rights Bill as policy development continues. We welcome feedback on the assessment via [ERDAnalysisEnquiries@businessandtrade.gov.uk](mailto:ERDAnalysisEnquiries@businessandtrade.gov.uk).

# 1. What is the problem?

For a full discussion of the state of the UK labour market and the rationale for Government legislating through the Employment Rights Bill, see Section 9 of the Summary Impact Assessment in the annex.

1. Britain's working people and businesses are the driving force of the UK economy, but the labour market is not delivering for either. Whilst headline statistics such as employment and unemployment rates are strong by historical standards, millions of workers are stuck in low paid, insecure and poor-quality work. These jobs can often be detrimental to their financial stability, as well as their health. The number of workers on zero hours contracts has risen significantly over the last decade to over 1 million<sup>4</sup>, and evidence suggests that as few as 1 in 6 low paid workers move into and then stay in better paid work<sup>5</sup>.
2. The UK has seen a productivity slowdown that is more pronounced than other advanced economies, and the labour market is contributing to the UK's economic underperformance. The productivity gap with France, Germany and the US has doubled between 2008 and 2022<sup>6</sup>, there are a record number of people unable to contribute to the economy due to ill health<sup>7</sup>, and businesses have reported persistent labour shortages in recent years<sup>8</sup>. Alongside its poor productivity performance, the UK lags the OECD average on most employment protections<sup>9</sup>. Too much insecure work and a fragmented labour market can undermine conditions for growth and investment.

Figure 1: Real average weekly earnings with trendlines (2015 prices)



Source: Office of National Statistics<sup>10</sup>; trendlines added by DBT

3. The UK's poor productivity growth has had a direct impact on the amount of money in working people's pockets. Average salaries have barely increased from where they were 14 years ago, and the average worker would be over 40% off if wages had continued to grow as they did lead into 2008 financial crisis (see Figure 1). A construction worker in the North East in 2003 was earning the equivalent of £27,500.

<sup>4</sup> Office for National Statistics. 'EMP17: People in employment on zero hours contracts'. 2024.

<sup>5</sup> Resolution Foundation and Social Mobility Commission. 'The Great Escape? Low pay and progression in the UK's labour market'. 2017

<sup>6</sup> Resolution Foundation. 'Ending Stagnation. A New Economic Strategy for Britain'. 2023. (Accessed October 2024)

<sup>7</sup> House of Commons Library. 'Economic update: Inactivity due to illness reaches record'. 2024

<sup>8</sup> Office for National Statistics. 'Changing trends and recent shortages in the labour market, UK: 2016 to 2021'. 2021

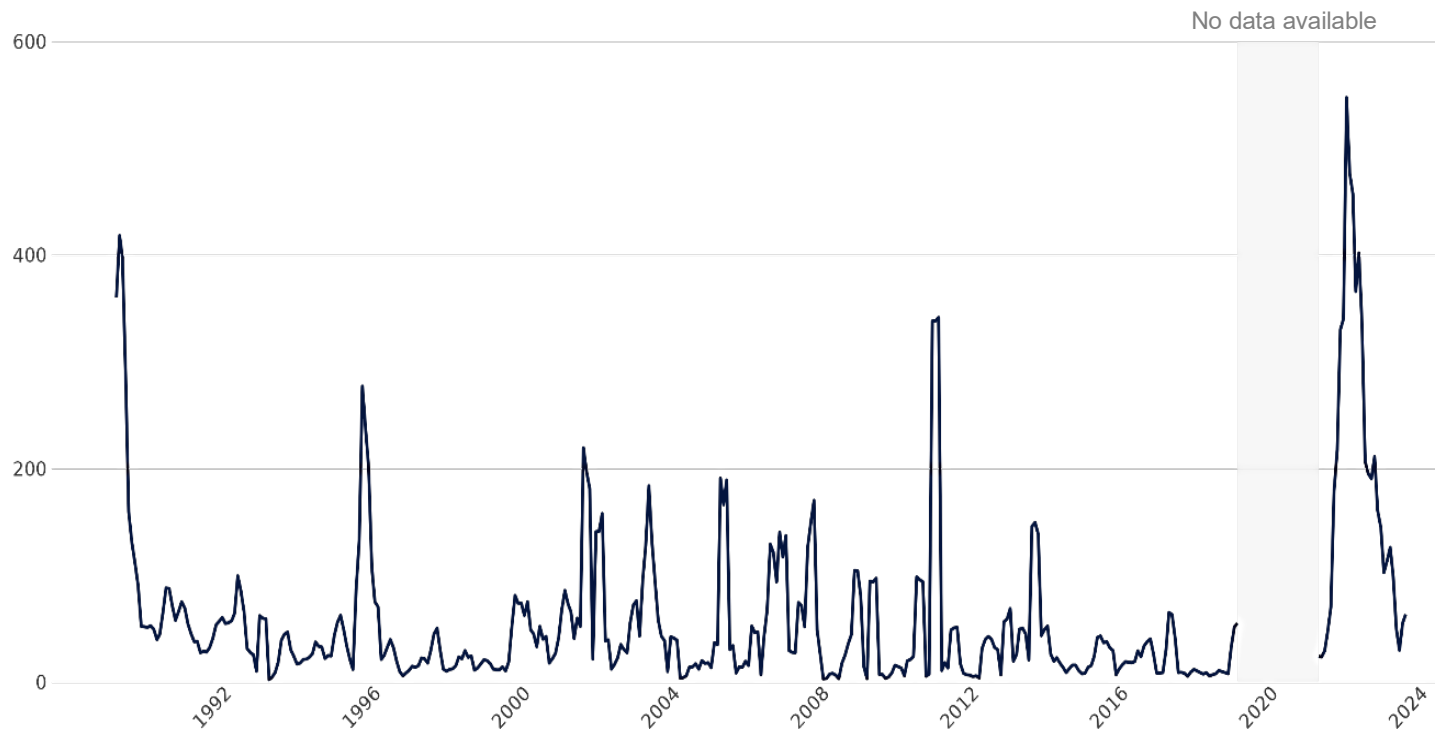
<sup>9</sup> Trade Union Congress. 'Falling behind on labour rights'. 2024

<sup>10</sup> Office for National Statistics. 'EARN01: Average weekly earnings'. 2024. (Accessed October 2024)

Today they are earning just £30,000. For some jobs and occupations, pay has gone backwards - 20 years ago the average secretary in the East Midlands was earning the equivalent of £19,000, today they are earning just £17,000<sup>11</sup>.

4. The current trade union framework has proven to be ineffective and has contributed to industrial unrest. In 2022 and 2023, the UK lost more days to strike in any year since the 1980s (see Figure 2) and last year's NHS strikes alone cost the taxpayer more than £1 billion<sup>12</sup>. Moreover, too many workers do not get what they are entitled to in the labour market due to a minority of non-compliant employers and failures in the enforcement system in tackling it<sup>13</sup>. This weighs on the living standards of the lowest-paid and hurts those businesses that do the right thing by their workers.

Figure 2: Number of working days lost to industrial action (thousands), 3-month rolling average, 1990-2024



Source: Office of National Statistics<sup>14</sup>

5. The imbalance of bargaining power in the labour market means that without Government intervention the issues of poor quality and poorly paid jobs will persist, creating anxiety for workers and holding our economy back. Whilst most employers want to do the right thing by their workers and already do, the low-level of mandated protections for workers means that competitors can undercut them. This low level of protection can lead to a race to the bottom, not to the high quality, high productivity jobs that are needed to each achieve the Government's growth ambitions.
6. Therefore, it is imperative that Government acts now, especially given the demographic and technological changes that the UK labour market is facing in terms of, which will drag on growth and increase inequalities if not tackled.

<sup>11</sup> Department for Business & Trade analysis of Office for National Statistics. '[Earnings and hours worked, by industry and occupation: ASHE](#)'. Table 29. 2024. (Accessed October 2024); wages inflation-adjusted using CPI.

<sup>12</sup> National Health Service England. '[Financial performance update](#)'. 2023

<sup>13</sup> Resolution Foundation. '[Enforce for good](#)'. 2023. (Accessed October 2024)

<sup>14</sup> Office for National Statistics. '[Labour disputes; working days lost due to strike action; UK \(thousands\)](#)'. 2024. (Accessed October 2024)

## 2. What are the objectives of Make Work Pay and the Employment Rights Bill?

*For a detailed set objectives and a full logic model for the Bill see Section 3 of the Summary Impact Assessment in the annex.*

7. The Government's Plan to Make Work Pay is a core part of the mission to grow the economy, raise living standards across the country and create opportunities for all. It will tackle the low pay, poor working conditions and poor job security that has been holding our economy back.
8. The plan includes over 70 measures which will change the landscape of workers' rights. It offers working people a long-term plan, bringing together employers, workers and unions to get Britain moving forward. This Government is taking important steps to kickstart economic growth which benefits businesses, workers, and communities across the country. Upgrading workers' rights so that they are fit for modern life and our modern economy, while preventing businesses being incentivised to race to the bottom, is a key part of making this happen.
9. Delivery of the Plan to Make Work Pay will be approached in phases. Throughout each phase, we will continue to work with trade unions, businesses and wider stakeholders, consulting on how to best implement the Plan to Make Work Pay.
10. The Employment Rights Bill ('the Bill') represents the first step in the delivery of this plan, covering 28 policies measures (for a full list see Section 1 of the annex). The objectives of the Bill are to:
  - a. Provide a baseline of security and predictability so that workers in insecure work can better plan their lives and finances.
  - b. Strengthen the rights of workers, for example by ensuring that they are entitled to protections from day one of employment.
  - c. Help workers to balance responsibilities outside work with their job, creating a more inclusive labour market.
  - d. Raise the floor of protections so that businesses are no longer undercut by those that compete based on low pay, low standards, and insecurity.
  - e. Ensure equality, diversity and inclusion issues are on a statutory footing.
  - f. Improve industrial relations and reducing the number of days lost to strike action by allowing working people to organise collectively through trade unions and improving the legislative framework in which they operate.
  - g. Address the fragmented labour market enforcement framework and ensuring that employment rights are properly enforced, thereby creating a more a level-playing field for all businesses.
  - h. Boost fairness in the workplace and reduce the level of the inequality in the quality of jobs.
  - i. Improve the transparency and employment standards of public procurement.
11. Together the Government's ambition is to create a labour market that is more supportive of economic growth, by encouraging higher participation and greater productivity, and is fairer for workers, so that everyone benefits from the rewards of a stronger economy.

### 3. What is our approach to the analysis?

*Further methodological detail and our approach to aggregation of policy impacts is found in Section 10 and Section 11 of the Summary IA in the annex.*

#### What have we published?

12. The Department for Business and Trade (DBT) have produced a comprehensive package of analysis that covers our assessment of the Bill. This package consists of 24 Regulatory Impact Assessments (IAs), one for each measure in the Bill<sup>15</sup>, including those led by DWP, Cabinet Office and Department for Transport, plus a 'Summary IA' which aggregates impacts across the package and explains our evidence base for the package as whole. Our IAs have been submitted to the independent Regulatory Policy Committee for scrutiny, meeting the requirements set out in the Better Regulation Framework for the 'urgent measures' process<sup>16</sup>.
13. Our analysis provides a rigorous and consistent assessment of the potential impacts of the powers contained within the Bill. Since the Bill does not determine the finalised regulatory requirements for many policies, the analysis is illustrative at this stage. More detailed analysis will follow alongside consultation and when specific policy design is determined through secondary legislation. The Summary IA is found in the annex of this document, and the policy-specific IAs are published separately on [www.gov.uk/guidance/employment-rights-bill-impact-assessments](http://www.gov.uk/guidance/employment-rights-bill-impact-assessments).
14. Our IAs comply with the HMT Green Book and the Better Regulation Framework. That is, for each measure we assess the costs and benefits of the 'marginal' policy change against a counterfactual where Government does not intervene by introducing the Bill and subsequent secondary legislation. For each policy, we follow these steps:
  - a. Gather evidence on the extent and nature of the problem.
  - b. Articulate the rationale and objectives for policy intervention.
  - c. Identify the impacts to workers, employers, Government and other groups compared to a counterfactual where there is no intervention.
  - d. Put an order of magnitude on these impacts and analyse how they vary within groups.
  - e. Where possible, put a monetary value on each of these impacts.
  - f. Finally, we identify the risks and potential unintended consequences of policy implementation and develop a plan to monitor impacts once implemented.
15. In theory, this means that we can provide a like-for-like monetary comparison of impacts and draw a conclusion whether the change will be net positive or negative for society. However, in some cases, we do not have sufficient evidence to monetise all impacts – particularly those that are less tangible and direct, such as the increases in wellbeing and health from better working conditions, the knock-on impacts on productivity which would benefit business, or the reduction in flexibility that employers could experience due to new minimum standards. In addition, many of the impacts and risks depend on the specific policy design and therefore are uncertain until further policy development work is undertaken.
16. Where we are unable to monetise impacts, our figures (e.g., Net Present Values) will only tell part of the story. As such, more weight should be given to our qualitative assessment of benefits and costs, rather than a partial focus on what has been quantified.

#### The strength of our evidence base

17. More generally, the evidence base on which to assess these changes is mixed. In some areas we have strong evidence based on research, survey data (e.g., the ONS Labour Force Survey), academic literature, the experience of other countries, and evaluation of previous policies. We have established frameworks for assessing the direct costs to business and benefits to workers of similar legalisation,

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<sup>15</sup> Note that some measures have been bundled into a single IA for simplicity.

<sup>16</sup> Department for Business & Trade. '[Better Regulation Framework Guidance](#)'. 2023.



and there is a wealth of descriptive evidence on the experience of workers and how businesses operate in different sectors. In addition, there is extensive evaluation evidence on the impact of the National Minimum and National Living Wage on the UK labour market. Whilst not a perfect proxy for the impact of the wider set of measures included in the Bill, that evidence provides insight into the way that businesses and workers react to increases to labour costs due to employment regulation and what this means for the wider economy.

18. However, in other areas, the evidence base is weaker, and this means there is uncertainty over the potential impacts of some elements of the Bill. For instance, there is limited causal evidence on the impact of specific policy changes that can be applied in our cost-benefit analysis. In addition, the ways in which the measures in such a wide-ranging package will interact with the wider economy are less well understood. The interactions between policies within the Bill means that this is a highly complex set of reforms to assess, and individual policies may have offsetting impacts. For example, a worker on a zero hours contract in social care, who has only been with their employer a few months, is likely to be impacted by several of the reforms.
19. Throughout our IAs we are transparent about the strength of the evidence and highlight where uncertainties remain. On balance, we adopt a conservative approach and have been careful not to place undue weight on specific sources of evidence. Each of our IAs contain a 'regulatory scorecard', which provides a summary of the likely impact of each measure. Where the assessment is uncertain, we have been clear what would have to be true, or not, for the policy to have a net positive impact on society. We tend to round figures and provide ranges to show the extent of the uncertainty. Therefore, our IAs should be read with these caveats and the stage of policy development in mind.

#### Engagement and extension of the analysis

20. The Government has committed to continuing full and comprehensive engagement and consultation on the implementation of the Plan to Make Work Pay and the Bill. As such, we have begun a programme of engagement with external experts, from academia, thinktanks, Business Representative Organisations (BROs) and trade unions. Their feedback has been invaluable in helping to shape and extend this initial assessment, and we will continue to work with this group to ensure that the best available evidence is informing policy decisions. Looking forward, we will refine this assessment and build our evidence base so that IAs can be updated before final policy decisions are made, and secondary legislation is laid before Parliament.
21. Our IAs cover analysis of the policies within the Bill at introduction, which is a subset of the Plan to Make Work Pay. Additional analysis on the policies not contained here will accompany future consultations and the legislation to implement those measures. More details on timings and delivery approach for the remaining policies are covered in the Next Steps to Make Work Pay document<sup>17</sup>, which was published alongside the Bill.
22. The Government intends to monitor and evaluate the policies contained within the Bill to understand their effectiveness. This will draw on existing sources of data, but also require Government to collect new data and evidence. Monitoring plans and timings for post-implementation reviews, which are covered in each IA, are high-level at this stage due to the phase of policy development and will be refined as necessary before secondary legislation.

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<sup>17</sup> Department for Business & Trade. '[Next Steps to Make Work Pay](#)'. 2024.

## 4. What is the expected impact of the Employment Rights Bill?

*For further detail and supporting evidence for the assessment made below, see Section 10 onwards in the Summary IA in the annex.*

23. This section summarises our top-down assessment of the impact of the Bill. This is covered in more depth in our Summary IA and supplemented by the policy-specific IAs. First, we cover who will be impacted by the Bill, then how they will be impacted, before covering specific costs, benefits and potential unintended consequences.

### Overall Impact

#### Who will be affected?

24. The Bill represents a comprehensive upgrade to the employment rights framework and the enforcement of those rights. As such, it will have significant impacts on employers, workers, and trade unions, as well as the enforcement system (i.e., Employment Tribunals, ACAS, the state enforcement bodies, and the Director for Labour Market Enforcement).
25. The most impacted workers will be those in low-paid occupations, such as social care, hospitality and retail. This is because many of the most transformative policies in this package are targeted at improving working conditions for those workers. For example, workers stuck on 'exploitative' zero hours contracts, tightening Tipping Law, the Fair Pay Agreement for Adult Social Care and increasing access to Statutory Sick Pay (SSP) for those earning below the lower earnings limit. In addition, workers in these sectors tend to be on terms and conditions that are closer to the minimum standards, and therefore changes to that employment rights framework will tend to 'bite' more for these workers. There are currently around 10 million people working in low-paying occupations<sup>18</sup>, equivalent to around a third of those in employment, of whom around 6 million earn less than £1.50 an hour over the National Minimum and National Living Wages<sup>19</sup>. Figure 3 shows the proportion of low-paid jobs by sector.
26. Reforms of 'Day One' rights will also benefit low-paid workers the most. Although making Unfair Dismissal a Day One right will extend protections for all of the 9 million employees who have been with their employer for less than two years, and making Unpaid Parental Leave a Day One right will bring an additional 1.5m parents into scope<sup>20</sup>, tenures tend to be shorter in lower-paying sectors<sup>21</sup>.
27. On the other hand, the impact of the Bill will be smaller on the workers whose terms, conditions and pay are comfortably in excess above these minimum standards (e.g., in higher-paying jobs), or where employers who already go above and beyond minimum standards because they believe it is positive for recruitment, retention, and productivity. For example, more than 60% of employers already provide flexible working as an option when advertising jobs<sup>22</sup>, around 40% of employers have an occupational sick pay scheme more than the statutory minimum<sup>23</sup>, around 30% of employers who hire shift workers already provide payments for late notice cancellations<sup>24</sup>, and around 80% of workers get above the statutory minimum annual leave entitlement<sup>25</sup>. This is because many employers recognise that good terms and conditions are important for retention, recruitment and productivity.

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<sup>18</sup> We adopt the definition used by the Low Pay Commission. '[Low-paying sectors review](#)'. 2023.

<sup>19</sup> Note that there are a further 1.6m workers who earn less the National Living Wage plus £1.50 but work outside of these 'low-paying' occupations.

<sup>20</sup> Department for Business & Trade analysis of Annual Population Survey microdata – see "Making parental leave a day one right" Impact Assessment for the full methodology.

<sup>21</sup> See analysis in policy-specific impact assessments.

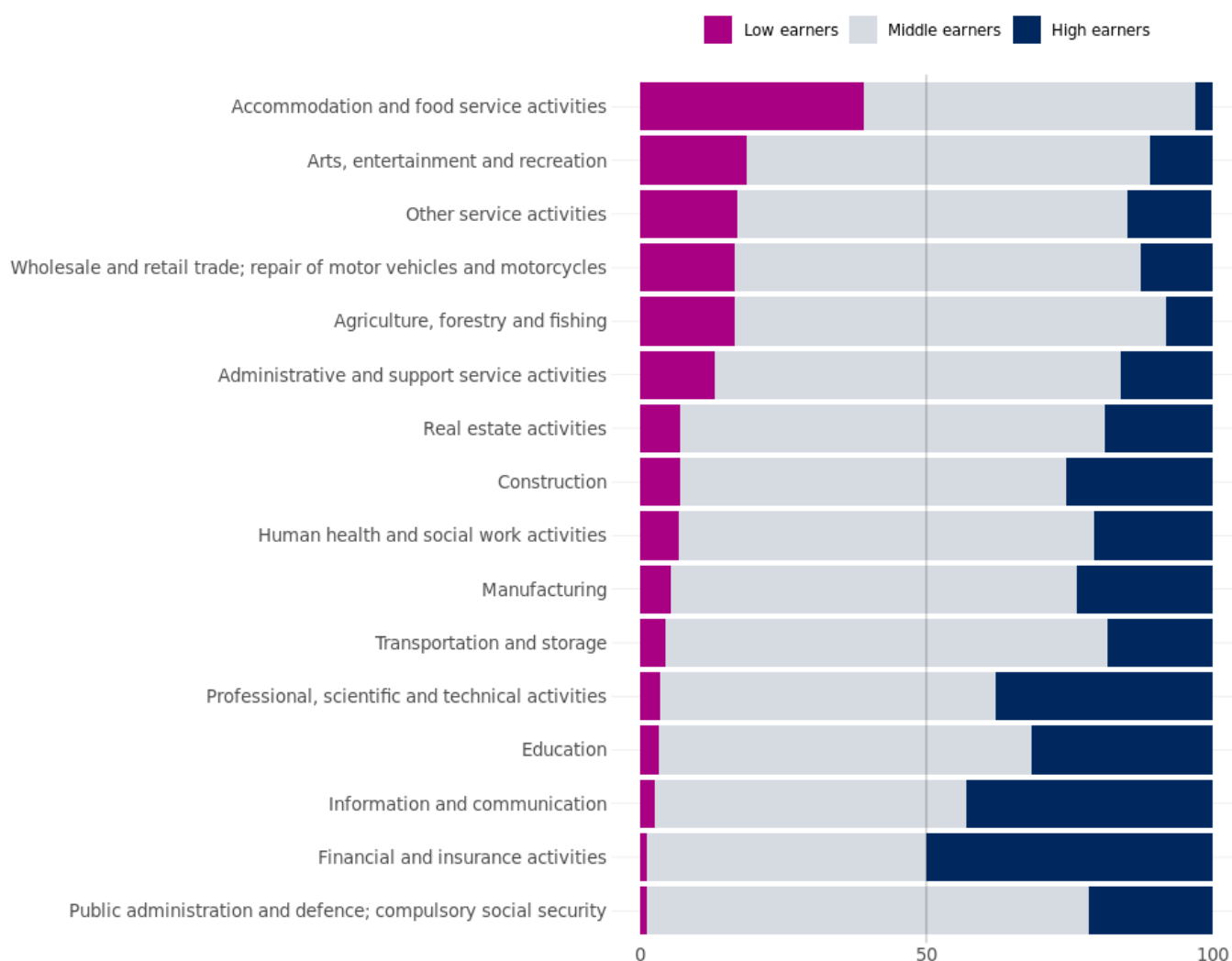
<sup>22</sup> Chartered Institute of Personnel and Development. '[Flexible and hybrid working practices in 2023: Employer and employee perspectives](#)'. 2023.

<sup>23</sup> Department for Work and Pensions. '[Employer Survey 2022: research report](#)'. 2023. Table 3.5.

<sup>24</sup> Chartered Institute of Personnel and Development. '[Zero-hours contracts: Evolution and current status](#)'.

<sup>25</sup> The Resolution Foundation. '[Low Pay Britain 2023](#)'. 2023.

Figure 3: Percentage of low, middle and high earners across major sectors



Source: Office for National Statistics<sup>26</sup>

28. In addition, the trade union reforms – at least in the short-term - will predominantly impact public sector workers and employers; almost 90% of workers in the public sector have their wages determined by collective bargaining, compared with 20% in the private sector<sup>27</sup>. Over time, the simplifications to the union recognition process and the new right of access could lead to greater union membership in other parts of the economy, but this is highly uncertain.
29. There are a few elements of the Bill that will impact workers across the whole labour market rather than in specific sectors or occupations. For example, the Right to Bereavement Leave which will provide a right to time off work to grieve for the c.1.9 million employees facing the bereavement of a close family member each year<sup>28</sup>. Likewise, requiring large employers (over 250 employees) to publish an equality action plan will impact employers and workers across the labour market.
30. Since some policies will impact the rights that a large proportion of the UK workforce are entitled to, we expect that all employers – regardless of size and sector - will need to invest time into understanding the new regulations and adapt to these, albeit to varying degrees. For instance, those employers already going above and beyond the new minimum standards will only need to ensure they understand and can illustrate compliance with policy changes. Unless that is they choose to increase rights to maintain the differentials in terms and conditions to competitor firms (i.e. a ‘race to the top’ on job quality).

<sup>26</sup> Office for National Statistics. ‘[Low and high pay in the UK](#)’. 2023.

<sup>27</sup> Department for Business & Trade. ‘[Trade Union Membership, UK 1995-2023: Statistical Bulletin](#)’. 2024.

<sup>28</sup> The estimation of each of these figures is explained in the relevant IA. Note that the number of employees facing the bereavement of a close family member is sensitive to assumptions made about the definition of ‘close family’ and the composition of families.

31. However, for some employers the direct impact will be greater. For example, employers who make heavy use of variable hours contracts will have to make changes to their workforce planning practices and implement new processes to ensure workers are offered a contract that reflects the hours they regularly work over a 12-week reference period. Whilst survey evidence shows a slight majority of employers employ at least one worker on 'flexible contracts', for most this represents a relatively small part of their workforce, with greater use in hospitality, retail and other services<sup>29</sup>. As a result, whilst all employers will be affected by those measures, it will predominantly be employers in low-paying sectors who face less predictable demand that will be most heavily impacted.
32. Sub-group analysis which breaks down the impact by business size, region, sector, and by worker characteristics is provided in Section 13 onwards in the annex.

#### How will these groups be impacted?

33. The most direct and immediate impact of the policies contained within the Bill is a 'transfer' from employers to workers, i.e., a cost to employers and benefit to workers. This transfer varies in form across the package – for example:
- The repeals of the TU Act (2016) and MSL Act** represent a transfer of bargaining power to workers covered by collective bargaining agreements.
  - The Fair Pay Agreement in Adult Social Care** will represent a 'cash' transfer to workers in the sector in terms of better pay and terms and conditions from their employers.
  - Reforms to Statutory Sick Pay** will act as a transfer of sick pay from employers to low-paid workers who do not currently meet the Lower Earnings Limit (£123 per week for 2024/25).
  - Ending one-sided flexibility** will increase job and income security for workers on variable hours contracts. This represents a transfer of risk from workers, who currently carry most of the risk for variable labour demand, to their employers.
  - By strengthening enforcement through **the Fair Work Agency**, there will be a transfer from non-compliant employers to their staff (as well as a transfer from non-compliant employers to the exchequer from penalties paid), and from those non-compliant employers to compliant employers as they are no longer able to undercut them.
34. For the most part we can put a quantified and monetary value on these transfers. At a societal level, these transfers largely net out (i.e., the direct benefits to workers equal the direct costs to employers), apart from the administrative and set-up costs placed on employers to comply with the changes to legislation<sup>30</sup>.
35. However, this only represents the first 'round' of impacts. Depending on how workers and employers react to these transfers, and the labour market and wider economy subsequently adjust, there will be further amplifying or offsetting impacts. Since these impacts depend on the behavioural changes of employers and workers, they are inherently more uncertain and difficult to predict. These indirect or 'second-round' impacts are nonetheless important to understand the overall impact of the package, and so are explored further in the costs, benefits and wider impact sections below.

## Costs

### Direct Costs

36. As demonstrated in our Summary IA (see Section 12 in annex), we expect the policies covered within the Bill to impose a direct cost on business of low billion pounds per year (i.e., less than £5 billion annually). This includes both monetised and non-monetised costs that result from delivering the benefits to workers, employers familiarising with new legislation, admin and compliance costs, as well as the other costs such as the loss of flexibility for employers who use variable hours contracts to

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<sup>29</sup> 56% of employers use zero-hour contracts, but only 11% use them for 50% or more of their workforce: Resolution Foundation. '[Firm foundations: Understanding why employers use flexible contracts](#)'. 2024.

<sup>30</sup> Note that we do not count costs to non-compliant businesses (e.g., fines, compensation, and arrears paid).

manage variable demand. However, the size of this impact will ultimately depend on policy decisions taken at secondary legislation and so our estimates will be refined over time.

37. To contextualise the size of this impact, total wage costs in the UK were £1.3 trillion in 2023 in nominal terms<sup>31</sup>, meaning that this is equivalent to an uplift of the UK's total pay bill of up to 0.4%. As noted in Paragraphs 24 and 25, this cost would be concentrated largely on employers in lower-paid sectors rather than spread evenly across the economy. Even if we assumed all of this cost falls on such sectors, the equivalent uplift in the wage bill for that part of the economy would be at most 1.5%<sup>32</sup>.
38. Our analysis and conversations with stakeholders to date suggest that the policies with the highest costs to business will be:
- a. **The Right to Guaranteed Hours Contracts** – the administrative costs of offering workers a contract that reflects their working pattern after 12-weeks as well as following an annual review is estimated at around £160 million per year. The impact of lost flexibility to employers (i.e., having a smaller pool of workers that can 'flex up' or 'flex down') is not possible to accurately quantify but we believe the value to employers is likely to be up to hundreds of millions of pounds depending on how the policy is designed.
  - b. **Payment for Short Notice Shift Cancellation or Curtailment** - we estimate that the value of unavoidable cancellations for businesses that face unpredictable demand could be between £90m to £120 million per year, and there will also be costs to employers of additional workforce planning to avoid shift cancellations, valued at up to £200 million per year.
  - c. **Making Unfair Dismissal a Day One Right** – it is likely employers will make changes to hiring, dismissal and management practises to minimise the risk of litigation for dismissal and minimise unproductive employee-job matches. The burden of these changes could be in the hundreds of millions per year, albeit this will depend to a large degree on how 'statutory probationary periods' operate in practice which will be set out in secondary legislation.
  - d. **Reforms to Statutory Sick Pay** – DWP analysis suggests the additional SSP payments made by employers are expected to cost around £400 million per year.
39. Our analysis suggests that the direct costs of other Bill measures are likely to be considerably smaller. A full breakdown of the magnitude of cost on business by policy is contained in Section 10 of the annex.
40. However, some of these individual policies, and when combined as a package, are likely to have indirect costs on employers too. For example, strengthening trade union bargaining power could lead to employers paying higher wages or providing better T&Cs. Likewise, extending rights to more workers will increase employers' liability of legal costs and the cost of going through the dispute process.
41. In general, the business burdens associated with the Bill will be greatest in the short-term and reduce over time. This is because some costs are one-off, such as employers familiarising and putting in places new practises to ensure they are compliant, but also because employers are likely to adapt over time.

#### Business reaction to costs

42. Survey evidence shows that employers react and adapt to higher labour costs in several ways. The most reported response by employers to increases in the National Living Wage in surveys undertaken by the CBI, FSB and CIPD has been to absorb costs. Albeit it should be noted that the proportion of firms reporting they raised prices, the second most common response, increased markedly last year as

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<sup>31</sup> Office for National Statistics. '[UK \(S.1\): Compensation of employees \(D.1\) Uses: Current price: £m: SA](#)'. 2024. (Accessed October 2024)

<sup>32</sup> This figure is derived by combining the Office for National Statistics' '[UK \(S.1\): Compensation of employees \(D.1\) Uses: Current price: £m: SA](#)' (Accessed October 2024), that was used to calculate the uplift percentage of 0.4%, with the Office for National Statistics' '[Table 2.1d: Summary supply and use tables 2021](#)'. 2023. (Accessed October 2024), that provides CoE information by industry. However, since industry breakdown data is only available up to 2021, for consistency, the proportion of total CoE that 'Agriculture', 'Construction', and 'Distributions, Transport, Hotels and Restaurants' comprised in 2021 (approximately 25%) is applied to the total 2023 CoE number. This figure is then used to calculate the uplift if the entire direct cost fell on those sectors.

inflation spiked across the economy. Other responses including investing more (and less) in technology and training, cutting pay growth for other workers, and cutting recruitment<sup>33</sup>.

43. Whilst that evidence is backward-looking, a recent ONS survey on employer responses to future increases in employment costs tells a similar story. This shows that across all businesses in the UK with 10 or more employees, the two most common ways that businesses would respond to higher labour costs are to increase prices (40% of businesses) or to absorb within profit margins (31% of businesses). Other responses included to reduce the number of employees (17%), limit overtime hours (10%) or reduce wages for other employees (9%)<sup>34</sup>.
44. The ability for business to pass on costs to consumers (in the form of higher prices) and/or to workers (in the form of lower wages or worse T&Cs) depends on the demand and supply conditions that a business faces in product and labour markets. Where businesses face resilient demand or have a large pool of similarly skilled workers to draw on, then businesses are more likely to be able to pass on costs to consumers or their workforce. The response will therefore likely vary across sector, with the ONS survey data suggesting that service industries such as hospitality are most likely to react to these costs by increasing prices, while industries such as manufacturing are more likely to absorb costs.
45. The empirical evidence about who ultimately bears the cost of strengthening employment protections is ambiguous. There appears to be little evidence to date that these responses of individual employers following rises to the National Living Wage have led to significant impacts on the macroeconomy (i.e., on employment, prices, investment, productivity), especially compared to more major factors, such as business confidence and global economic trends. This is likely in part because employers react to changes in minimum standards in a combination of ways, some which offset the impact of others, and overall once the economy adjusts the impacts are smaller than the initial change may suggest. Likewise, the academic evidence on pass-through to workers is inconclusive, with different studies showing varying degrees of employer willingness to pass on the costs of additional rights to workers. For a full discussion of this literature see Section 16 of the annex.
46. However, in recent years, there have been more consistent findings that employment rights can be strengthened through legislation without negative impacts on workers and the wider economy. This is supported by evidence that across the UK employers are able to exert market power to push down pay and terms and conditions (e.g., CMA, 2023)<sup>35</sup> which in turn may help to explain the strong evaluation evidence that the National Living Wage has significantly increased pay for low-earning workers and imposed significant costs on their employers, without adverse impacts on employment<sup>36</sup>. In addition, there is some evidence that boosting employment rights can support higher participation and increased productivity (e.g., Deakin et.al, 2024<sup>37</sup>). Likewise, the OECD is clear in their Jobs Strategy<sup>38</sup> that labour market flexibility is not alone sufficient for a high-performing labour market, and that policies that boost job quality and inclusiveness must also play a role.
47. Finally, some of these business reactions will be pro-growth (e.g., finding efficiencies), whilst others are not (e.g., cutting investment or cutting hours). CIPD survey evidence identifies some of the productivity-enhancing actions firms take in reaction to higher labour costs due to the National Living Wage, which include 'improved general practice', 'automation', and 'more training'<sup>39</sup>. This suggests that the higher labour costs placed on firms due to the Bill could incentivise some employers to take actions that would help productivity, but there may also be counter balancing effects. The impact on growth via these second-round effects and other channels is covered in Paragraph 68 onwards.

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<sup>33</sup> Low Pay Commission. '[National Minimum Wage - Low Pay Commission Report.](#)' Figure 7.1. 2024.

<sup>34</sup> Office for National Statistics. '[Business insights and impact on the UK economy](#)'. Wave 117 edition. 2024.

<sup>35</sup> Competition and Markets Authority. '[Competition and market power in UK labour markets](#)'. 2024.

<sup>36</sup> As noted by the Low Pay Commission, the impact of pandemic has continued to impact their ability to evaluate the impact of the NLW/NMW on the labour market. This means the evaluation evidence of negligible employment impacts was strong before the pandemic, but with it being difficult to distinguish between NLW and pandemic effects in the most recent evidence.

<sup>37</sup> Digital Futures at Work Research Centre. '[The economic effects of changes in labour laws: new evidence for the UK](#)'. 2024.

<sup>38</sup> Organisation for Economic Co-operation and Development. '[Good Jobs for All in a Changing World of Work](#)'. 2018

<sup>39</sup> Chartered Institute of Personnel and Development. '[Low Pay Commission consultation 2024](#)'. 2024.

## Small and Micro Employers

48. 13 million employees, equivalent to almost 40% of private sector employment, work in small and micro businesses (SMBs)<sup>40</sup>. Smaller businesses tend to face greater costs proportionally from changes to regulation, and that is also true of employment rights. This is because some of the costs arising from complying with these regulations are fixed and do not depend on the output of the business. For those with a smaller operating scale, these costs represent a greater proportion of their overall costs. Similarly, understanding new measures and complying with them may take up greater time and resource as smaller employers are less likely to have teams dedicated to regulatory compliance than large employers.
49. We have completed a Small and Micro Business Assessment in Section 13 of the annex and in each of the policy-specific IAs. This shows that 5 of the 9 largest measures are expected to have a disproportionate impact on SMBs.
50. Despite this, any exceptions to policy based on business size would significantly undermine the policy objectives. This is because it would create a “two-tier” labour market with some workers receiving fewer protections, leading to an uneven playing field between employers of different sizes, and reducing incentive for small businesses to grow. The Government will continue to undertake comprehensive engagement and consultation on the implementation of Make Work Pay and the Bill, to ensure that these changes work for businesses of all sizes.

## Impact of the Enforcement System

51. Most employment rights are individually enforced and rely on affected individuals to bring a claim before an Employment Tribunal (ET). Where a workplace dispute cannot be resolved internally, an employee may look to file an ET claim. However, the parties to a potential claim are usually first required to explore early conciliation through the Advisory, Conciliation and Arbitration Service (ACAS). There are some exceptions where state enforcement bodies take a role to protect particularly vulnerable workers and exploitation in the workplace. Several government bodies have responsibility for enforcing different areas of employment law, including HMRC’s enforcement of the National Minimum Wage, the Employment Agency Standards Inspectorate, and the Gangmasters and Labour Abuse Authority.
52. The measures in the Bill will extend or create new employment rights for individuals. If these rights are infringed upon, it could lead to more workplace disputes. If disputes cannot be resolved internally, then affected individuals will be able to enforce their rights by making a claim, which is likely to increase the number of dispute cases for early conciliation services provided by ACAS and ET cases.
53. We have undertaken illustrative analysis that considers the possible impact of the Bill measures most likely to affect the enforcement system. This suggests that the Bill could increase the volume of cases in the ‘individual enforcement’ (i.e. ACAS and Employment Tribunal) system by around 15%, albeit this would be offset to some degree by the implementation of the Fair Work Agency (FWA). The exact impact on the enforcement system is difficult to predict because the number of cases that enter the system each year fluctuates, and it will ultimately depend on behavioural factors like employers’ willingness and ability to comply with regulation, and employees’ willingness to bring forward a dispute.
54. In addition, final policy decisions taken at secondary legislation will alter the number of workers in scope of protections and likelihood of a worker making a claim. These decisions are still subject to consultation and further policy development and therefore cannot be assessed with confidence. The implementation of the Plan to Make Work Pay will also lead to changes in the enforcement landscape, such as changes to Employment Tribunal time limits, which creates further uncertainty for the net impact of the system.
55. This therefore means our initial analysis on the impact of the Bill on enforcement is subject to change as policy development continues. We plan to work with the Ministry of Justice, HM Courts and Tribunal Service, and ACAS to refine this assessment further.

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<sup>40</sup> Department for Business & Trade. [‘Business Population Estimates’](#). 2024.

## Public Sector Costs

56. There are likely to be costs to the public sector from reforms in the Bill. These will result from set-up costs for the FWA, the increased funding pressures on the ET system, as well changes to terms and conditions for workers directly and indirectly paid for by the exchequer.
57. The trade unions reforms may directly impact the public sector pay bill, by increasing bargaining power for those covered by collective bargaining agreements. We also expect that the costs of the Fair Pay Agreement in ASC will likely lead to higher costs for local authorities' commissioning services and for self-funders. There is limited room for ASC providers to respond through productivity improvements, erosion of pay differentials, or reducing profits. Increased costs may therefore be passed on to local authorities and to self-funders, though the extent of this and how the costs are shared could depend on policy design and the outcome of negotiations. Increased costs to local authorities could result in greater costs to the Exchequer.
58. In addition to this, there will be initial costs to the public sector where they are employers of workers on flexible contracts, like supply teachers and locum staff in the NHS. It should be noted though that if these reforms help to improve retention and recruitment in these occupations, there will be an offsetting saving for public sector employers over the longer-term. Where relevant and proportionate, our policy-specific IAs split out the private and public sector costs.

## **Benefits**

59. The Bill will strengthen working conditions for the lowest-paid and most vulnerable in the labour market, increasing fairness and equality. In turn, the reforms will support employers and businesses across the country, creating a fair and level playing field, modernising our rules to suit the economy of today, and facilitating stronger and more inclusive growth.
60. Many of the burdens placed on business represent a direct benefit to workers. Therefore, those direct benefits to workers are similar in magnitude to those costs (i.e. in the low billions of pounds per year) and will largely accrue to workers in low-paying occupations. These benefits include:
- a. The value of payments paid to **variable hours workers** for short notice shift cancellation or curtailment which could be £90 million to £120 million per year, and the savings from avoiding wasted travel and childcare costs ('the insecurity premium') could be worth up to £160 million per year.
  - b. **The reforms to SSP** would increase the amount of sick pay workers receive by around £400m a year.
  - c. **The Fair Pay Agreement in Adult Social Care** could lead to higher wages or employment terms & conditions in the sector.
  - d. **The Fair Work Agency** bringing holiday pay under state enforcement could recover hundreds of millions of pounds of arrears and penalties over time.
  - e. **Stopping the abuse of fire and rehire practices** will prevent pay and T&Cs being cut for thousands of workers each year.
  - f. **Reducing dismissals of pregnant women and mothers** returning from Maternity Leave, of which there are currently around 4,000 a year.
  - g. **The right to Bereavement Leave** following the death of a close family member would benefit between 900,000 and almost 2 million people a year depending on the definition of the scope.
  - h. Bringing an extra 30,000 fathers or partners into scope of **Paternity Leave** and 1.5 million workers into scope of the right to **Unpaid Parental Leave**.
61. Together these stronger employment rights for workers will ensure a fairer and more equal labour market, but there will be significant benefits beyond these 'direct transfers' to workers too. Since low quality and insecure work can adversely impact wellbeing and health, the measures are likely to have a positive impact on the c.2 million employees who report feeling anxious about hours worked or shifts



changing unexpectedly<sup>41</sup>. Those workers facing insecure hours are also more likely to be fearful about dismissal, unfair treatment and terms of their job being downgraded. Where “bad” work leads to poorer health outcomes those costs are ultimately borne by the taxpayer, for example through welfare when people become economically inactive or through NHS treatment costs in the case of ill health.

62. Businesses will benefit too. Where greater worker wellbeing increases productivity, this will offset some of the direct costs imposed on employers. Likewise, workers who have extra pay due to reforms to SSP or feel more confident in their finances due to better income security may spend more, which again would be good for business. Workers who are more secure in their jobs might also be more productive, or with greater protections from day one be more willing to seek a higher paid, more productive job, which would ultimately benefit business through a more prosperous economy.
63. In addition, greater use of flexible working could open up opportunities for businesses to employ from a wider pool of talent from across the country, with a majority of employers already recognising this<sup>42</sup>. This is relevant for those workers that need flexibility to ensure work fits around other responsibilities, and older workers, for whom there is evidence that flexible working is a key element of retention<sup>43</sup>.
64. By establishing the FWA, the Government will create a strong, recognisable single brand so individuals know where to go for help and there is a more effective use of resources. The FWA will take a balanced approach to upholding workers’ rights, with better support for the majority of employers who want to comply with the law, and tough action against the minority who deliberately flout it. This will make more difficult for competitors to gain an unfair advantage by underpaying workers and not meeting their legal obligations. Moreover, by updating trade union legislation and strengthening the collective voice of workers, trade unions will be able to better support dispute resolution processes and settle workplace conflict before it reaches an Employment Tribunal, which is a costly process for employer, individual and the exchequer.
65. Likewise, more cooperative industrial relations between employers and unionised workers could reduce the number of working days lost through strike action, reducing the economic cost from industrial disputes. In addition, there is some evidence that there is a link between worker voice, managerial response, and labour productivity<sup>44</sup>.
66. Whilst it is not possible to robustly proportion these benefits to the policies in the Bill (and there is also likely to be a degree of double counting between these benefits and the benefits we have quantified), we have undertaken illustrative analysis to show that these impacts could be significant. This suggests the benefits will more than offset the direct costs of the Bill. For example, we know that:
  - a. The Health and Safety Executive estimate that stress, depression or anxiety accounted for 17.1 million working days lost in 2022/23<sup>45</sup>, equivalent to a loss of £5.2 billion in output per year<sup>46</sup>. There is also evidence this is concentrated in some of the sectors impacted by the Bill, for example, human health and social work and education. A reduction in lost working days due to reduced anxiety over income instability, better terms and conditions, increased flexible working, or better enforcement of rights would be a significant benefit to both employees and employers.
  - b. Wellbeing improvements can be valued using wellbeing-adjusted life years (WELLBYs)<sup>47</sup>. This values a one unit increase in subjective wellbeing on a ten-point scale at £15,500, based on the relationship between changes in income and wellbeing. International evidence suggests that being in a secure job is worth a tenth of a WELLBY<sup>48</sup>. Using these values, and the assumption that the Bill

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<sup>41</sup> Felstead A and others. [‘Insecurity at Work in Britain: First Findings from the Skills and Employment Survey 2017’](#). 2018

<sup>42</sup> Chartered Institute of Personnel and Development. [‘Flexible and hybrid working practices in 2023’](#). 2023.

<sup>43</sup> Office for National Statistics. [‘Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic: wave 2’](#). 2022.

<sup>44</sup> Bryson A and others. [‘Worker voice, managerial response and labour productivity: an empirical investigation’](#). 2006

<sup>45</sup> Health and Safety Executive. [‘Working days lost in Great Britain’](#). 2024.

<sup>46</sup> Office for National Statistics. [‘Output per hour worked, UK’](#). 2024. Note, this assumes working 31.9 hours a week (the average according to the ONS’ [‘Actual weekly hours worked \(seasonally adjusted\)’](#)), there are vacancies for those workers to fill, and they do not displace other workers who would otherwise fill the role. Given that there are persistence shortages in the labour market, we believe this a reasonable assumption for this illustrative analysis.

<sup>47</sup> HM Treasury. [‘Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance’](#). 2021.

<sup>48</sup> Helliwell and others. [‘World Happiness Report 2017’](#). 2017

may increase the security of work and therefore wellbeing for c.2 million workers (as per paragraph 61), the package could have wellbeing benefits of over £3 billion a year.

- c. There is a significant amount of non-compliance in the labour market. For example, ONS data suggests that around 20% of workers paid at or around the wage floor were underpaid the minimum wage<sup>49</sup>, 1.8 million workers report not receiving a payslip<sup>50</sup>, and many low-paid migrant workers have trouble in finding information on and getting access to minimum employment rights under the current system<sup>51</sup>. Even reducing this by a small amount would deliver significant benefits to workers and create a fairer business environment for employers.
- d. The impact of strike action in public services has significant costs on the economy. For example, the Centre for Business and Economic Research estimated the direct cost of all strikes, and the indirect cost of worker absences due to rail strikes, to be at least £1.7 billion over the eight-month period to January 2023, or 0.1% of expected GDP over this period<sup>52</sup>. If more cooperative industrial relations between employers and unionised workers could reduce working days lost through strike action, this would be a significant benefit.
- e. ACAS estimate that the annual cost of workplace conflict for UK employers is almost £30 billion a year<sup>53</sup>, equivalent to around £20,000 per employer<sup>54</sup>. If improving worker representation, by giving trade unions greater freedom to organise, represent, and negotiate on behalf of their workers, reduces conflict by even a small amount then this will represent a significant benefit to employees and employers.
- f. There are around 360,000 people who give 'looking after family or their home' as their main reason for being economically inactive but want a job<sup>55</sup>. If making flexible working the default or boosting job quality more generally supported even a small percentage of these workers to return to the labour market, the economic benefits would be large. i.e. for each 1% of those workers finding a part-time job would be a boost to economic output (GVA) of around £135m per year<sup>56</sup>.
- g. As laid out in the Green Book, where policies aim to improve equality, cost benefit analysis should take into account that the value of an additional pound of income may be higher for a low-income recipient than a high-income recipient. At this stage, we do not believe it would be appropriate to apply distributional weights to our total transfer from business to workers due to methodological challenges<sup>57</sup>. However, illustratively, the quantified direct benefits would be a multiple higher than the direct costs on employers, if we assume that business owners and shareholders are higher up the income distribution than the, predominantly, low-paid workers that will benefit from these transfers.

67. Overall, it is clear the Bill will have significant benefits for workers in insecure and low-paid jobs, as well as workers in unionised sectors, and those unable to find work that fits around their non-work responsibilities. It is also possible for the Bill to have wider benefits for the business environment by improving wellbeing, incentivising higher productivity wellbeing and creating a more level playing field

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<sup>49</sup> Low Pay Commission. '[National Minimum Wage - Low Pay Commission Report 2023](#)'. 2024.

<sup>50</sup> Resolution Foundation. '[Enforce for good](#)'. 2023.

<sup>51</sup> Modern Slavery and Human Rights Policy and Evidence Centre. '[UK agriculture and care visas: worker exploitation and obstacles to redress](#)'. 2024; Barnard C and others. '[Low-Paid EU Migrant Workers](#)'. 2024.

<sup>52</sup> Centre for Economics and Business Research. '[Eight months of strike action to have cost the UK economy at least £1.7bn, adding to existing recessionary pressures](#)'. 2022.

<sup>53</sup> ACAS. '[Estimating the costs of workplace conflict](#)'. 2021.

<sup>54</sup> Department for Business & Trade. '[Business Population Estimates](#)'. Table 3. 2024; Calculated by dividing the cost of workplace conflict by the number of employers in the UK. Due to data availability, this calculation only considers private sector employers.

<sup>55</sup> Office for National Statistics. '[INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#)'. 2024. (Accessed September 2024)

Office for National Statistics. '[Output per hour worked, UK](#)'. 2024. Note, this assumes working 16 hours a week, there are vacancies for those workers to fill, and they do not displace other workers who would otherwise fill the role. Given that there are persistence shortages in the labour market, we believe this a reasonable assumption for this illustrative analysis.

<sup>57</sup> This is also noted in the Green Book, paragraph 5.72: "In practice the use of distributional weighting is challenging. This is due to uncertainty in the assumptions relating to the groups between whom redistribution is measured and uncertainty in estimation of distributional weights."

for good employers. This could in turn have a knock-on impact on growth. This is covered in the next section.

## Wider Impacts

### Growth

68. Economic growth is driven by getting more people into work and making them more productive. As laid out, employment rights can increase workforce participation, and productivity, and therefore support economic growth. There are several channels through which this can occur:

- a. **Employment rights can support labour market participation** (*relevant policies include: making flexible working the default, reforms to SSP, ending one-sided flexibility, strengthening protections for pregnant women and new mothers*).

Policies that make work more flexible for individuals and improve the quality of work can encourage participation by increasing the range of jobs and working patterns that are attractive to workers. Heightened inactivity remains one of the biggest challenges the UK labour market is facing, so providing working conditions that fit around personal needs and responsibilities outside of work is key to ensuring employers have strong talent pools to hire from and jobs support participation for all.

- b. **There is a relationship between job satisfaction and productivity** (*relevant policies include: ending one-sided flexibility, reforms to trade unions that boost employee voice, and a making flexible working the default*).

Productivity growth in the labour market is key to driving and sustaining economic growth. As discussed, the Bill has the potential to improve worker wellbeing and increase job satisfaction which can in turn boost productivity. There is evidence of this relationship empirically. For example, Bosworth and Warhurst (2020) show that productivity is 8% higher amongst workers most satisfied with their pay compared to those who are least satisfied with their pay<sup>58</sup>. Though most studies struggle to show a causal relationship, there is a consensus in the literature that satisfied employees are more productive overall. This is because when workers feel valued and are satisfied with their jobs, they are typically more engaged and committed to their place of work and so work more efficiently.

- c. **Robust enforcement ensures markets are competitive by holding all businesses to the same standards** (*relevant policies include: the Fair Work Agency*)

Effective enforcement is key to a well-functioning labour market. The Resolution Foundation note that 'effectively enforcing labour market rules is a crucial plank of any economic strategy that seeks to kickstart growth and reduce inequality to boot'<sup>59</sup>. By holding all businesses to minimum standards, the minority of businesses who choose to exploit their workers will no longer be able to avoid legal obligations and undercut compliant businesses. This is good for workers in those businesses who are currently being exploited and also helps to ensure a level playing field for those businesses who do right by their workers. This will support a more competitive environment which is a key driver of productivity growth.

- d. **Promoting long-term employer-employee relationships and encouraging high-performance work and management practices can strengthen incentives for investment in training**

UK employers invested half that of the average EU nation on training per employee in 2015 (the latest comparable data)<sup>60</sup> and the amount they invest has been falling in real terms since 2017<sup>61</sup>. Increasing employment protections could incentivise greater investment in training and better management practises. Firstly, by increasing the cost of labour, there is a greater return from investments that make those workers more productive, increasing incentives for upskilling workers and investing in good management practices. Likewise, reforms that promote job stability, could contribute to better matching of workers to jobs and longer lasting employer-employee relationships.

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<sup>58</sup> Bosworth D and others. '[Does good work have a positive effect on productivity? Research findings](#)'. 2021

<sup>59</sup> Resolution Foundation. '[Enforce for good](#)'. 2023.

<sup>60</sup> Learning and Work Institute. '[Learning at Work: Employer investment in skills](#)'. 2021.

<sup>61</sup> Department for Education. '[Employer Skills Survey](#)'. 2023.

If that helps to boost retention, then there is less risk that employers fail to realise their return on investment on training expenditure, which may encourage more firm-specific training<sup>62</sup>.

- e. **Market dynamism: reducing the risks associated with job switching** (relevant policies include: *Day One Unfair Dismissal, Day One Parental Rights*).

Proving basic individual rights from day one for all workers means workers will have more security when changing jobs. Job mobility appears to have slowed over time<sup>63</sup>, but we know job switching from less to more productive firms is good for overall productivity, and workers who switch jobs tend to get pay rises on average three times higher than those who do not<sup>64</sup>. However, it should also be noted that whilst workers may have a greater incentive to switch jobs, the reforms, particularly the strengthening of protections against dismissal, could also make employers less willing to hire workers. This could offset the productivity gains from more efficient employer and employee matching. Likewise, more job switching could reduce incentives for employers to invest in firm-specific learning and development (i.e., the opposite of the channel above). As such, the direction of the impact on job switching and its effect on productivity growth is uncertain and will depend on businesses' response to the implementation of measures in the Bill.

- f. **Market dynamism: reallocation effects**

Imposing higher standards on all businesses may prevent high-productivity employers from being undercut by less productive employers that resort to low-wage and insecure work to compete. If that means those productive employers can take over greater product market and employment shares, then productivity should rise by a 'batting average' effect (i.e. employers are on average more productive than before). This may not benefit all businesses, but it should lead to an overall net welfare gain to society. Whilst there is little empirical support of this effect occurring in the UK, there is evidence of this impact in Germany following large increases in the minimum wage<sup>65</sup>. Moreover, we know that dynamism is an important channel for growth in the UK, with around 60% of the fall in trend productivity growth since 2008 is attributable to falling reallocation of resources in the economy<sup>66</sup>.

69. Whilst the channels above should be positive for growth, it should also be noted that higher labour costs could also have a negative impact on the level of labour demand in the economy. If labour demand causes employers to cut staffing levels, this would weigh on growth, unless employers subsequently invest sufficiently in capital that means increased productivity offsets the fall in employment. As noted in Paragraph 44, the impact on labour demand will depend on whether employers can absorb or pass on costs. Where they can successfully do so (i.e., because they have a strong degree of 'wage-setting' or pricing power), then the negative impact on employment and therefore output will be negligible.
70. Furthermore, the prevailing labour market conditions could also influence the risks to employment. If the labour market is tight when the package is implemented (i.e., labour demand is strong relative to supply, so workers are scarce, and employers are having to compete to recruit and retain staff), it is less likely employers will react to higher labour costs by letting workers go. Whilst recent labour market data suggests that the labour market is normalising (e.g., vacancies are back towards pre-pandemic levels), the balance of demand and supply moving forward is unclear, especially since there is uncertainty about how policy reforms to reduce net migration, demographic change, and the current heightened levels of long-term sickness will impact labour supply over time.
71. Overall, it is clear there are elements of the Bill that could support productivity and bring some workers back to the labour market. As such, our analysis suggests that this package is pro-growth and could

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<sup>62</sup> Martin JP and others. ['Setting It Right: Employment Protection, Labour Reallocation and Productivity'](#). 2011

<sup>63</sup> Resolution Foundation. ['Changing jobs?'](#). 2022.

<sup>64</sup> Office for National Statistics. ['Job changers and stayers, understanding earnings, UK: April 2012 to April 2021'](#). 2022.

<sup>65</sup> Dustmann C and others. ['Reallocation Effects of the Minimum Wage'](#). The Quarterly Journal of Economics 2022: Volume 137(1), pages 267- 328

<sup>66</sup> This figure is an estimate. It is Based on Office for National Statistics. ['Estimates of total factor productivity from the Annual Business Survey, Great Britain: 1998 to 2019'](#). 2022. (Accessed October 2024); This data shows that the growth contributors associated with reallocation across industries, reallocation across firms inside industries and growth from net entry and exit (unambiguously market dynamism) reduced by 76 percentage points from the period 1999-2007, to the period capturing 2011-2019. This is 60% of the productivity fall between those periods.

support the Government’s objective to boost growth and improve living standards. However, whilst specific policies may have positive impacts on growth, there are also potentially offsetting effects, suggesting the net impact on growth will be small.

72. Our assessment that the impact will be relatively small is also based on the package being targeted at a specific part of the labour market (i.e., low-paying sectors). This means that the Bill will not impact the channels covered in Paragraph 68 for large parts of the economy.
73. Furthermore, the evidence between employment rights and growth is limited, but where we do have strong, policy-specific evidence it often indicates that the policy has had a negligible effect on growth. For example, on the National Living Wage, which has a similar magnitude of impact as the Bill, on a similar part of the labour market, there is little suggestion it has had a meaningful impact on productivity or participation (and by extension growth) in either direction. It is right that there is evidence linking flexible working to stronger productivity and this change will boost productivity for some workers and some employers, but we expect the increase in uptake from ‘making flexible working the default’ will be relatively small compared to the number of people in employment (see the Flexible Working IA for more detail<sup>67</sup>). Therefore, at a macroeconomic level the impact on average productivity will be small.
74. As a result, we do not quantify and ‘bank’ a boost to economic growth in our IAs. This conclusion - that the package could directly impact on growth in a positive but small way - is tentative at this stage as the ultimate result will depend on the implementation of policy.
75. What is clear, however, is that by boosting protections and the quality of work for the poorest in the labour market, the package will enhance workers’ share in the benefits of growth and will boost equality in work. Since there is evidence that equality and inclusiveness is important for ‘sustainable’ growth over the long-term, the Plan to Make Work Pay and the Bill will likely support the Government’s mission to grow the economy, raise living standards across the country and create opportunities for all. Our in-depth assessment on growth and the underpinning evidence is contained in Section 15 of the Summary IA.

Impact on other Government priorities

76. In addition to supporting the Government’s Growth Mission, the Bill and the Plan to Make Work Pay have clear links to other Government ambitions, including reducing the number of people who are inactive in the labour market, reducing child poverty, and tackling inequalities across the UK. DBT officials are engaging with the relevant lead departments to ensure that policy development around the Plan to Make Work Pay and the Bill are aligned to these objectives. These links are summarised briefly in Table 1 below.

Table 1: Link between employment rights reform and wider Government priorities

Government Priority	Relevant Policies in the Bill	Explanation of link to the Bill
<b>Kickstart economic growth</b>		
Growth Mission (led by HMT)	<ul style="list-style-type: none"> <li>Ending one-sided flexibility</li> <li>Day One Rights</li> <li>Reforms to SSP</li> </ul>	<p>Economic growth is a top priority for this Government, and our plans to reform the labour market form part of our plan for long-term national renewal and growth. This comes alongside our commitment to economic stability, getting Britain building again, kickstarting a skills revolution and bringing forward a modern industrial strategy.</p> <p>Through the Employment Rights Bill and the Plan to Make Work Pay, the Government’s aim is to ensure Britain no longer lags behind its international counterparts, but rather establishes itself as a world leader in employment rights. In turn, this will help making the UK the best place to work and start a business.</p>

<sup>67</sup> Department for Business & Trade. ‘[Employment Rights Bill Impact Assessments](#)’. 2024

Table 1 (continued)

Government Priority	Relevant Policies in the Bill	Explanation of link to the Bill
<b>Kickstart economic growth</b>		
Get Britain Working (DWP, DFE, HMT)	<ul style="list-style-type: none"> <li>• Making Flexible Working the Default</li> <li>• Reforms to SSP</li> <li>• Day One Parental Leave</li> </ul>	<p>By making work more flexible, more secure and more family-friendly, the Employment Rights Bill and the Plan to Make Work Pay will support more people to stay in work. Many businesses are already doing right by their workers by providing these good, family-friendly conditions because they know that doing so improves recruitment and retention.</p>
<b>Break down barriers to opportunity</b>		
Reducing Child Poverty (DfE, DWP)	<ul style="list-style-type: none"> <li>• Ending one-sided flexibility</li> <li>• Reforms to SSP</li> <li>• Making Flexible Working the Default</li> </ul>	<p>The Government has launched a Ministerial taskforce to confront the wide-ranging and deep-rooted causes of child poverty. It will harness all available levers to drive forward short-term and long-term actions across government to reduce child poverty.</p> <p>The Employment Rights Bill will help more parents to stay in work, support their productivity, and improve job security. The Plan to Make Work Pay will also put more money into the pockets of Britain's lowest paid workers through changes to the Minimum Wage.</p>
Reducing Gender, Ethnicity, Disability Inequality (Cabinet Office)	<ul style="list-style-type: none"> <li>• Gender pay gap and menopause action plans.</li> <li>• Strengthening the legal duty for employers to take all reasonable steps to stop sexual harassment before it starts.</li> <li>• Requiring large employers to provide information about outsourcing during gender pay gap reporting.</li> <li>• Whistleblowing about sexual harassment.</li> <li>• Strengthening protections for pregnant women and new mothers</li> </ul>	<p>The Government is clear that in our modern society and economy, inequality of treatment and opportunity at work is unacceptable.</p> <p>The Employment Rights Bill will boost fairness and ensure equality of treatment and opportunity in the workplace. It includes clear action to place equality, diversity and inclusion issues on a statutory footing, strengthening protections for pregnant women and new mothers returning to work, and tackling sexual harassment in the workplace.</p> <p>Some measures in the Plan to Make Work Pay will also be delivered through the Government's Equality (Race and Disability) Bill, such as extending pay gap reporting to ethnicity and disability for employers with more than 250 staff.</p>

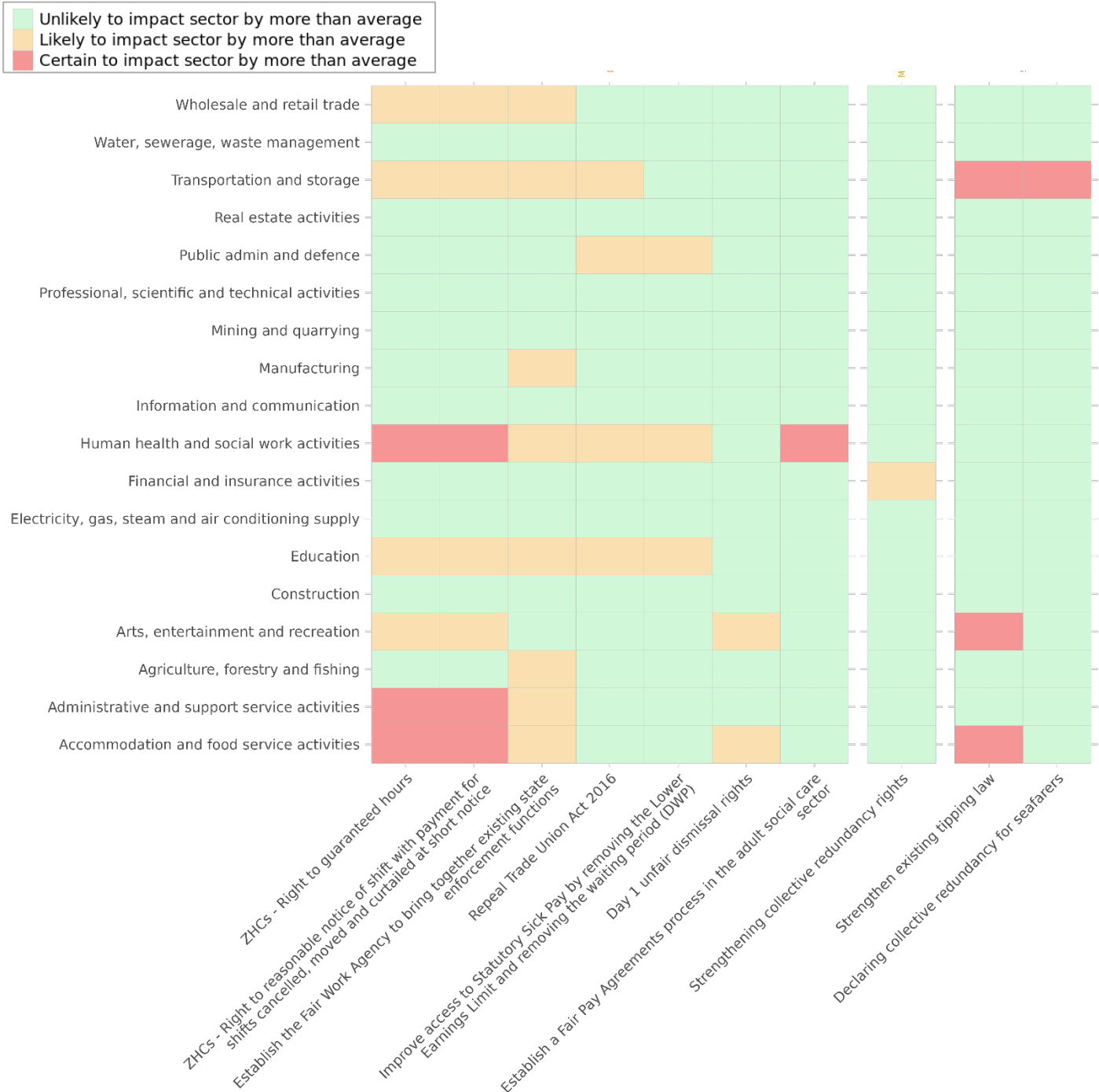
### Sectoral Impacts

77. The Bill is expected to predominantly impact businesses and workers in low-paying sectors, such as health and social care, hospitality, and retail. This is because employers in these sectors are more likely use variable hours contracts to manage demand, workers tend to have shorter tenures, and terms and conditions are likely to be closer to minimum standards. As such, reforms in the package which are targeting low paid and insecure work are most likely to 'bite' for employers in these sectors. In addition, the trade union reforms will most impact on education, health, public administration and transport, where rates of unionisation are highest.

78. Figure 4 below illustrates the measures in the package which we expect to have greater than average impacts on some sectors. For the remaining policies in the Bill, we do not expect the impacts to be

particularly concentrated in specific sectors. Our sectoral assessments are covered in more detail in Section 17 of the annex and in the accompanying policy specific IAs.

**Figure 4: Heatmap of policies that will have specific sectoral impacts**



Source: DBT Analysis, supporting evidence in policy specific IAs

**Regional Impacts**

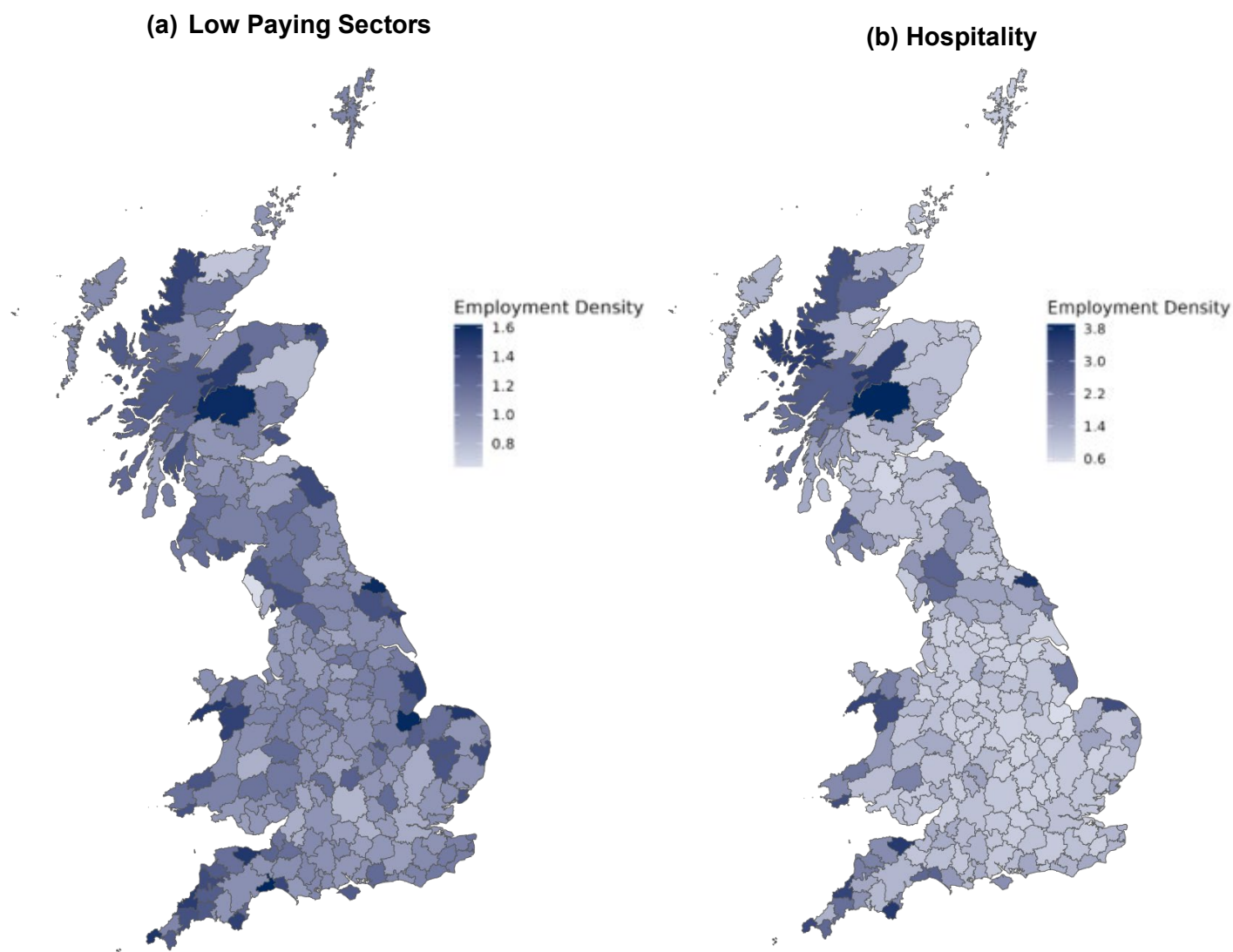
79. The Bill is not targeted towards specific regions, with measures being economy-wide and therefore applicable to employers and workers across the whole of Great Britain<sup>68</sup>. Despite this, the geographical footprint of lower-paid work and insecure work will drive the variation in the Bill’s impact across regions.

80. Overall, low-paying sectors are relatively evenly spread across Britain, but hospitality, which accounts up c.20% of low-paying jobs and is one of the most impacted sectors of the Bill, accounts for a

<sup>68</sup> The exceptions to this are: (i) Clause 25 extends to England and Wales, Scotland and Northern Ireland, (ii) Chapter 1 of Part 3 extends to England and Wales but applies in England only, (iii) Chapter 2 of Part 3 extends to England and Wales but applies to England only, and (iv) Part 5 extends to England and Wales, Scotland and Northern Ireland.

disproportionate amount of economic activity in areas of central Scotland, North Wales and the Southwest England (see Figure 5 below). In addition, analysis of the percentage of the workforce in insecure work across England’s combined authorities shows that the Tees Valley, South Yorkshire, the West Midlands, North of Tyne, and West of England all have level of insecure work above the England-wide average<sup>69</sup>. This means on a proportional basis that employers in these regions will be impacted most and the workforce in these regions will benefit by more than average. However, on an absolute basis, there are more workers in low-paid and/or insecure jobs in London and other major cities. For example, reforms to improve income security for variable hours workers will benefit more workers in London than the West Midlands (360,000 vs. 260,000 workers) but those workers make up a greater part of the workforce in West Midlands (10.4% vs. 9.0%). Our assessment of regional impacts is covered in more detail in Section 18 of the annex.

Figure 5: Employment Density of Low Paying Sectors, by Travel to Work Area (2019-2022)



Source: DBT analysis of Business Register and Employment Survey data<sup>70</sup>

### Equalities Assessment

81. By targeting issues of job security, job quality and fair pay, the package is expected to benefit people in work with the protected characteristics that are disproportionately represented in low pay, low quality, unsecure jobs. These are women, younger workers, those from ethnic minorities groups, and those with a disability. In addition, some policies are targeted at specific protected groups, such as Equality Actions Plans, strengthening dismissal protections for pregnant women,

<sup>69</sup> Work Foundation. '[How secure work can reduce regional inequality](#)'. 2023. (Accessed October 2024)

<sup>70</sup> Official for National Statistics. '[Business Register and Employment Survey](#)'. 2023. (Accessed October 2024)



and strengthening protections for women who report sexual harassment at work. We provide more detail of the expected equalities impacts in Section 19 of the annex.

### Unintended Consequences

82. If not well-targeted, the Bill measures have the potential to at least partly undermine the policy objectives laid out in Section 2. This is because higher labour costs could reduce demand for work, damaging the employment prospects of the same workers the package is trying to support.
83. Whilst we believe the impact on unemployment is likely to be small or negligible, the risks are highest for workers with the weakest attachment to the labour market, such as the low-paid, who are already most likely to be let go from work in a downturn, disabled workers, who face a large 'employment gap'<sup>71</sup>, and the youngest workers, since they are still gaining experience and skills. Risk will also be higher in local labour markets where demand is weaker, i.e., those that tend to have lower average incomes or higher levels of unemployment, especially where this overlaps with areas of relatively high concentration of low-paid workers.
84. In addition, there is some evidence of a negative relationship between stronger dismissal protections and hiring rates. Whilst this relationship does not appear to hold for employment levels (i.e., it is more likely the movement of people into and out of work rather than the number of people in work), this suggests that if not implemented with care 'Making Unfair Dismissal a Day One Right' could damage the employment prospects of people who are trying to re-enter the labour market, especially if they are observed to be riskier to hire (e.g., younger workers with less experience, ex-offenders, etc.). However, this will ultimately depend on how 'statutory probationary' periods operate in practice.
85. Since we assess the risk of unemployment to these groups to be small, but the benefits significant, we still expect the overall impact for these groups to be positive, but this will need to be carefully considered during policy design and monitored through policy implementation. Therefore, the Government intends to conduct further analysis alongside policy development to ensure these risks to specific groups and/or regions are fully identified.
86. Where businesses cannot absorb the increase in labour costs, they may look to pass them onto workers by reducing expenditures that benefit workers (e.g. staff training) or scaling back future improvements to T&CS (e.g. wage growth). Whilst the evidence on this effect is mixed, this may also present an unintended consequence for the workers the Bill seeks to support.
87. In addition, strengthening employment protections for permanent workers could increase the incentive to employ people on more casual and temporary forms of contracts (e.g., fixed-term contracts, or moving to self-employed or 'limb b' worker' operating model), to avoid higher labour costs. Currently, the UK has a low level of workers in 'involuntary' temporary or casual work compared to OECD countries, and as pointed out by CIPD (2024), this may in part be due to the current balance between protections for permanent and temporary and casual work<sup>72</sup>. Similarly, the OECD note the risk around a divergence in regulatory (and tax) treatment creating incentives for misclassification of workers (i.e., 'bogus' self-employment). Although not included in the Bill, the Government intends to consult on reforms to the employment status framework, which determines what employment rights workers are entitled to. This consultation will investigate in detail the differences between workers and the genuinely self-employed. In addition, the reforms to zero hours and variable hours contracts aim to end exploitative one-sided flexibility, whilst retaining flexibility where it is genuinely beneficial to both employer and employee. This should reduce the risk that workers who want that work are forced into more casual or precarious forms of work.
88. More generally, the Government will seek to minimise the risk of these unintended consequences through the policy development process. This is why the reforms will be delivered in partnership with businesses and trade unions, using extensive consultation to ensure Government gets the detail right before changes are implemented.

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<sup>71</sup> The employment gap for disabled workers is the difference between the employment rate for disabled and non-disabled workers.

<sup>72</sup> Chartered Institute of Personnel and Development. '[Regulation and the Labour Market 2024](#)'. 2024.

## 5. Conclusion

89. The Employment Rights Bill represents a comprehensive set of upgrades to the employment rights framework and one of the first steps in delivering the Government's Plan to Make Work Pay. We have published an extensive package of Regulatory Impact Assessments which outline the likely impacts of the Bill. This shows that there are clear, evidence-based benefits from tackling issues holding back the UK labour market. If policy is developed closely with stakeholders to minimise risks, then the package is likely to have a significant positive impact on workers, and as well as delivering benefits for business and the wider economy.
90. The Employment Rights Bill could help support the Government's Mission for Growth, by raising living standards across the country and creating opportunities for all. The Bill has also clear links to Government's Health and Opportunity Missions, as well as ambitions to reduce the number of people who are inactive in the labour market, reduce child poverty, and tackle inequalities for those in work across the UK.
91. Our analysis will be refined as policy development continues. We will publish updated analysis alongside consultations and secondary legislation and ensure that we continue to engage with experts so that policymaking is supported by the best possible evidence.
92. For further supporting evidence for our assessment see the annex and policy-specific impact assessments published on [www.gov.uk/guidance/employment-rights-bill-impact-assessments](https://www.gov.uk/guidance/employment-rights-bill-impact-assessments).

# Annex: Summary Impact Assessment

Title:	Employment Rights Bill Summary Impact Assessment
Type of measure:	Primary legislation
Department or agency:	Department for Business and Trade
IA number:	DBT-024-24-CMRR
RPC reference number:	Undergoing RPC scrutiny
Contact for enquiries:	ERDAnalysisEnquiries@businessandtrade.gov.uk
Date:	21/10/2024

## Section 1. Summary of proposal

1. The Government's Plan to Make Work Pay is a core part of the mission to grow the economy, raise living standards across the country and create opportunities for all. It will tackle the low pay, poor working conditions and poor job security that has been holding our economy back.
2. The plan will help more people to stay in work, improve job security and boost living standards. Once implemented, the plan will represent the biggest upgrade of workers' rights in a generation.
3. Through the Plan to Make Work Pay the Government will modernise the UK labour market and address challenges thrown up by new trends and technologies. This puts us back in step with our competitors in other advanced economies, who are acting to adapt to the changing world of work.
4. The Employment Rights Bill ('the Bill') is the first phase of delivering the Plan to Make Work Pay, supporting employers, workers, and unions to get Britain moving forward and fulfilling the Government's commitment to introduce legislation within 100 days.
5. The Bill will bring forward policy measures including:
  - 'day 1 rights' of employment, including entitlement to paternity leave, and unpaid parental leave as well as protection from unfair dismissal while allowing employers to operate probation periods
  - establishing bereavement leave, and making flexible working the default
  - addressing one-sided flexibility by banning exploitative zero-hours contracts, abolishing the scourge of fire and rehire and strengthening provisions on collective redundancy
  - establishing the Fair Work Agency
  - bringing forward measures to modernise Trade Union laws

- improving pay and conditions through a Fair Pay Agreement in Adult Social Care (ASC), re-establishing the School Support Staff Negotiating Body, and re-instating the 2-tier code for procurement
  - increasing protection from sexual harassment, introducing Equality Action Plans on gender and menopause and strengthening rights for pregnant workers
  - strengthening Statutory Sick Pay
6. Table A1 below shows the full list of policies being delivered through the Bill, and the ‘Next Steps for Make Work Pay’ document<sup>73</sup> outlines how the policies not covered in the Bill will be taken forward.
7. This Summary Impact Assessment (IA) provides a summary of all measures in the Bill, their intent, and the possible impacts of the enabling powers. In doing so, we provide evidence that as a whole, supports the case that the Bill will generate positive outcomes for society and that consideration is being taken so that it is implemented and enforced in a way that minimises the burdens on businesses, trade unions and workers.
8. This document is supported by 23 ‘policy-specific’ IAs, covering all our all of our underpinning evidence, methodological information, and calculations for individual measures in the Bill. These IAs have been published alongside this document on [www.gov.uk/guidance/employment-rights-bill-impact-assessments](http://www.gov.uk/guidance/employment-rights-bill-impact-assessments).
9. This IA reflects the state of the Bill at introduction and therefore does not include the assessment of the following measures at this stage. Measures to introduce (i) powers to allow the UK to strengthen workers’ rights at sea, (ii), implement international conventions relating to seafarer employment, and (iii) to extend the time limit for bringing claims to Employment Tribunals will also be added via amendment during passage. Where necessary further IA for these amendments will be published, and a final ‘enactment IA’ will update our assessment of the primary legislation once it has reached Royal Assent. This will be published alongside the enacted legislation on [www.legislation.gov.uk](http://www.legislation.gov.uk).
10. The document has two main parts: (1) the summary pages (covering Sections 1 to 8) and (2) the ‘Evidence Base’ (Section 9 to 22), which provides an explanation of the underpinning evidence for our assessment. The policy-specific IAs for each measure have been published alongside this IA and readers should refer to these for more detailed information on each policy.

**Table A1: Policies included in the Employment Rights Bill**

Policy Measure	Title of IA
Day 1 unfair dismissal rights	Impact Assessment: Day 1 unfair dismissal rights
Repeal Trade Union (TU) Act 2016	Impact Assessment: Repeal Trade Union Act 2016
Repeal Strikes (Minimum Service Levels) Act 2023	Impact Assessment: Repeal Strikes (Minimum Service Levels) Act 2023
Establish a Fair Pay Agreements process in the adult social care sector	Impact Assessment: Establish a Fair Pay Agreements process in the adult social care sector
Dismissal for failing to agree to variation of contract, etc (Fire and Rehire)	Impact Assessment: Dismissal for failing to agree to variation of contract, etc (Fire and Rehire)
ZHCs – Right to reasonable notice of shifts with payment for shifts cancelled, moved and curtailed at short notice	Impact Assessment: ZHCs - Notice of change and compensation for cancelled shifts
ZHCs - Right to guaranteed hours	Impact Assessment: ZHCs - Right to guaranteed hours

<sup>73</sup> Department for Business & Trade. ‘[Next Steps to Make Work Pay](#)’.

Table A1 (continued)

Policy Measure	Title of IA
Establish the Fair Work Agency to bring together existing state enforcement functions	Impact Assessment: Establish the Fair Work Agency to bring together existing state enforcement functions
Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period	Impact Assessment: Statutory Sick Pay – Removing the Lower Earnings Limit and making available to all, and removing the waiting period
Strengthen trade unions' right of access	Impact Assessment: Strengthening workers' rights to trade union access, recognition and representation
Simplify trade union recognition process	
New rights and protections for trade unions representatives	
Introduce a duty for employers to inform workers of right to join a trade union	
Additional protections from Blacklisting	
Whistle-blowing protections against sexual harassment	Impact Assessment: Whistle-blowing protections against sexual harassment
Strengthening collective redundancy rights	Impact Assessment: Strengthening collective redundancy rights
Strengthen existing tipping law	Impact Assessment: Strengthen existing tipping law
Protections against dismissal for pregnant workers	Impact Assessment: Protections against dismissal for pregnant workers
Making flexible working the default	Impact Assessment: Making flexible working the default
New right to unpaid bereavement leave	Impact Assessment: New right to unpaid bereavement leave
Day 1 right to paternity leave and unpaid parental leave	Impact Assessment: Day 1 right to paternity leave and unpaid parental leave
Requiring large employers to publish Equality Action Plans	Impact Assessment: Requiring large employers to publish Equality Action Plans
Ensuring outsourced workers are included in gender pay gap reporting	Impact Assessment: Ensuring outsourced workers are included in gender pay gap reporting
Safer workplaces harassment and sexual harassment (EQH)	Impact Assessment: Require employers to take "all reasonable steps" to prevent sexual harassment of their employees
	Impact Assessment: Enabling regulations to specify specific steps employers must take to prevent sexual harassment
	Impact Assessment: Requiring employers to not permit the harassment of their employees by third parties
Close the maritime redundancy notification loophole	Impact Assessment: Declaring Collective Redundancy for Seafarers
*Procurement – re-instate the two-tier code	N/A
*School Support Staff Negotiation Body	N/A

\*Note: We have not produced IAs for 'Reinstating the School Support Staff Negotiating Body' and 'Two-Tier code' since these fall under the administrative exceptions under the Better Regulation Framework.

## Section 2. Strategic case for proposed regulation

11. Britain's working people and businesses are the driving force of the UK economy, but the current labour market is not delivering for either. Whilst headline statistics such as employment and unemployment rates appear strong by historical standards, millions of workers are stuck in low paid, insecure and poor-quality work. These jobs can often be detrimental to their financial stability, as well as their health. The number of workers on zero hours contracts has risen significantly over the last decade to over 1 million<sup>74</sup>, and only 1 in 6 low paid workers ever fully escape into better paid work<sup>75</sup>.

12. The UK has seen a productivity slowdown that is more pronounced than other advanced economies, and the labour market is contributing to the UK's economic underperformance. The productivity gap

<sup>74</sup> Office for National Statistics. '[EMP17: People in employment on zero hours contracts](#)'. 2024. (Accessed October 2024)

<sup>75</sup> Resolution Foundation. '[Low pay and progression in the UK's labour market](#)'. 2017.

with France, Germany and the US has doubled between 2008 and 2022<sup>76</sup>, there are a record number of people unable to contribute to the economy due to ill health<sup>77</sup>, and businesses have reported persistent labour shortages in recent years<sup>78</sup>. Alongside its poor productivity performance, the UK lags the OECD average on most employment protections<sup>79</sup>.

13. The UK's poor productivity growth has had a direct impact on the amount of money in working people's pockets. Average salaries have barely increased from where they were 14 years ago, and the average worker would be 40% or roughly £11,500 a year better off if wages had continued to grow as they did lead into 2008 financial crisis. For some jobs and occupations, pay has gone backwards. For example, 20 years ago the average secretary in the East Midlands was earning the equivalent of £19,000, today they are earning just £17,000<sup>80</sup>.
14. As well as stagnant wages, the UK suffers from persistent inequalities. The national gender pay gap still stands at over 14%<sup>81</sup>, and the richest 20% of the population received 44% of the UK's gross income in 2022/23, compared with the poorest 20% receiving 7%<sup>82</sup>. The UK's income inequality is above both the OECD and G7 average<sup>83</sup>. There are too many workers who have little control over their working hours, face volatility in their pay, and suffer from exploitation in the labour market. Women, ethnic minorities and younger workers are more likely to be disproportionately affected by these issues<sup>84</sup>.
15. In addition, the current Trade Union framework has led to an overly conflictual approach to industrial relations and has contributed to the worst disruption in decades. In 2022 and 2023, the UK lost more days to strikes in any year since the 1980s<sup>85</sup>, and last year's NHS strikes alone cost the taxpayer more than £1 billion<sup>86</sup>. Moreover, too many workers do not get what they are entitled to in the labour market due to a minority of non-compliant employers and failures in the enforcement system in tackling it. This weighs on the living standards of the lowest-paid and hurts those businesses that do the right thing by their workers.
16. Without Government intervention, the issues of poor quality and poorly paid jobs will persist, creating anxiety for workers who are trapped in these jobs, holding our economy back. Whilst most employers want to do the right thing by their workers and already do, a low-level of mandated protection for workers<sup>87</sup> means that competitors can undercut them. This low level of protection can lead to a race to the bottom, not to the high quality, high productivity jobs that are needed to achieve the Government's growth mission.
17. Therefore, it is imperative that Government acts now, especially given the demographic and technological changes that the UK labour market is facing in terms of, which will drag on growth and increase inequalities if not tackled.

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<sup>76</sup> Resolution Foundation. '[Ending Stagnation. A New Economic Strategy for Britain](#)'. 2023.

<sup>77</sup> House of Commons Library. '[Economic update: Inactivity due to illness reaches record](#)'.

<sup>78</sup> Office for National Statistics. '[Changing trends and recent shortages in the labour market, UK: 2016 to 2021](#)'. 2021.

<sup>79</sup> Trade Union Congress. '[Falling behind on labour rights](#)'. 2024.

<sup>80</sup> Department for Business & Trade analysis of Office for National Statistics. '[Earnings and hours worked, by industry and occupation: ASHE](#)'. Table 29. 2024 (Accessed October 2024); wages adjusted using CPI.

<sup>81</sup> Office for National Statistics. '[Gender pay gap in the UK](#)'. 2023.

<sup>82</sup> Office for National Statistics. '[The effects of taxes and benefits on household income, disposable income estimate](#)'. 2023.

<sup>83</sup> Organisation for Economic Co-operation and Development. '[Income inequality \(indicator\)](#)'. 2022.

<sup>84</sup> Trade Union Congress. '[BME women far more likely to be on zero-hours contracts](#)'. 2023.

<sup>85</sup> Office for National Statistics. '[Labour disputes; working days lost due to strike action; UK \(thousands\)](#)'. 2024. (Accessed October 2024)

<sup>86</sup> NHS, England. '[Financial performance update](#)'. 2023.

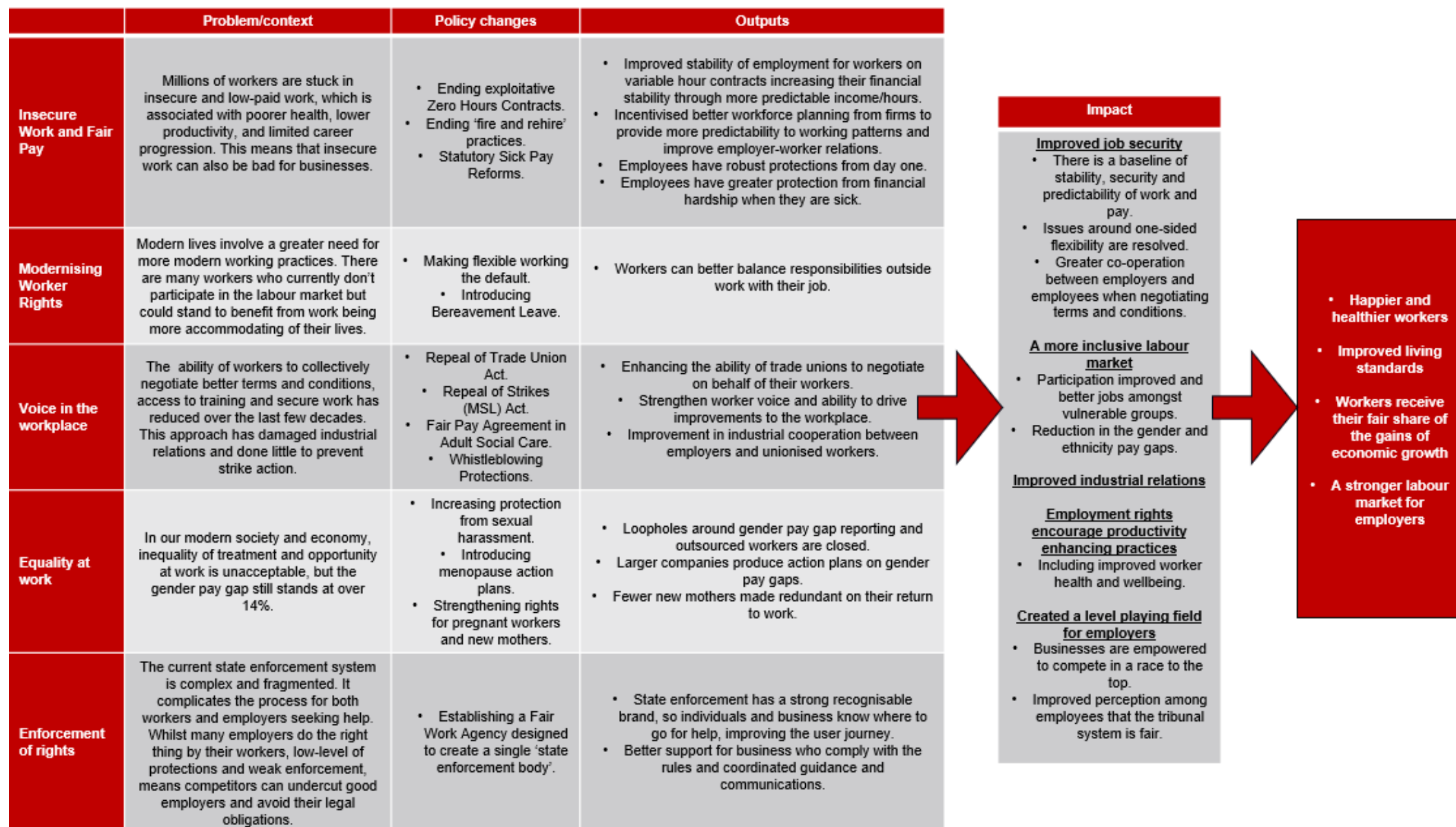
<sup>87</sup> The UK is in the bottom quartile of the OECD's Employment Protection index. Organisation for Economic Co-operation and Development. '[Indicators of Employment Protection](#)'.

18. By modernising the UK labour market through reforming Britain’s employment rights, the Bill will address head-on issues of flatlining wage growth, inequality of opportunity across the country, rising economic and job insecurity, and growing numbers of people stuck out of work.
19. A full description of the problems the Bill is seeking to tackle, and the justification for why legislation is needed to resolve these problems is included in Section 9 (‘Problem under consideration’).

### **Section 3. Objectives of the Bill**

20. By modernising the UK labour market and reforming the UK’s employment rights framework, the Government aims to tackle rising insecurity and stagnant living standards. Specifically, the objectives of the Bill are to:
  - a. Provide a baseline of security and predictability so that workers in insecure work can better plan their lives and finances.
  - b. Strengthen the rights of workers by ensuring that they are entitled to protections from day one of employment.
  - c. Help workers to balance responsibilities outside of work with their job, such as those with children or caring responsibilities, creating a more inclusive labour market.
  - d. Raise the floor of protections so that businesses are no longer undercut by those that compete based on low pay, low standards, and insecurity.
  - e. Ensure equality, diversity and inclusion issues are on a statutory footing.
  - f. Improve industrial relations and reduce the number of days lost to strike action by helping working people to organise collectively through trade unions and improving the legislative framework in which they operate.
  - g. Address the fragmented labour market enforcement framework and ensure that employment rights are properly enforced, thereby creating a more level playing field for all businesses.
  - h. Boost fairness in the workplace and reduce the level of inequality in the quality of jobs.
  - i. Improve the transparency and employment standards of public procurement.
21. Together the Government’s ambition is to create a labour market that supports economic growth, by being fairer for workers, encouraging higher participation and greater productivity, so that everyone benefits from the rewards of a stronger economy.
22. Figure A1 below is a logic model that illustrates how the Bill will achieve these objectives. The objectives for each policy contained within the Bill are covered in their respective policy-specific IAs.

Figure A1: Logic model for the Employment Rights Bill





## Section 4. Summary of implementation, consultation, and consideration of alternatives

### Policy development and consultation

23. The Plan to Make Work Pay sets out a vision for better, modernised, and fairer employment protections that will set the country up for the future. The Bill is the first phase of delivering the Plan to Make Work Pay, supporting employers, workers, and unions to get Britain moving forward and fulfilling a commitment to introduce legislation within 100 days.
24. As is typical with employment legislation, further detail on many of the policies in the Bill will be provided through regulations, and in some cases codes of practice, after Royal Assent. The Government understands that adjusting to these new reforms will take time and is committed to ensuring that all stakeholders receive appropriate time to prepare for these changes ahead of their commencement. We expect to begin consulting on the majority of these reforms in 2025, seeking significant input from all stakeholders, and anticipate this meaning that the majority of reforms will take effect no earlier than 2026. This is covered in more detail in the Next Steps to Make Work Pay document<sup>88</sup>, which was published alongside the Bill.
25. Given that there is further policy development and consultation to come, our IAs at this stage provide high-level analysis of the impacts that could follow from primary powers and are not assessments of a specific implementation approach. This means our analysis should be interpreted as indicative of the possible impacts using the best available evidence at the time of drafting, rather than a firm assessment of the final policy design. Where measures require secondary legislation and codes of practice to implement, the Government will update and refine its analysis following consultation. This will update and refine our analysis based on additional evidence gathering and provide a clearer articulation of the options under consideration at consultation.
26. The Government will also publish a limited number of targeted consultations after the Bill's introduction, seeking views on several areas to inform the Government's next steps. We will consult on what the percentage replacement rate for those earning below the current flat rate of Statutory Sick Pay should be and bring this change forward through a Government amendment to the Bill during its passage. We will also consult to ensure the Bill's provisions on zero hours contracts are effectively and appropriately applied to agency workers, as well as on reforms to modernise and update trade union laws so they are fit for the modern economy, with the potential to inform further amendments during the Bill's passage. The relevant IAs include analysis that will be informative for those consultations, but if appropriate we will also publish further analysis alongside these consultations.

### Inclusion of small and micro business

27. Based on the principle that all employees should have access to employment rights, greater job security and the enforcement of those rights, their employers must be in scope of these measures. Therefore, small and micro businesses (SMBs) are not exempt from most measures in the Bill. The exceptions to this are changes to gender pay gap reporting and the introduction of Equality Actions Plans, which will only apply to large businesses with more than 250 employees.

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<sup>88</sup> Department for Business & Trade. '[Next Steps to Make Work Pay](#)'.

28. Approximately 13 million people are employed in SMBs making up 48% of total employment<sup>89</sup>. The measures in the Bill are expected to have proportionately higher impacts on SMBs. This is because regulation, including employment rights, disproportionately impacts SMBs, as there are usually fixed compliance costs that do not vary depending on a business's revenue.
29. The Government will consult with stakeholders prior to secondary legislation to understand the impacts on SMBs and develop appropriate mitigations, such as providing information and access to advisory services to support compliance with new regulations. A full assessment of the impact of the Bill on SMBs is provided in Section 13.

#### Alternatives to regulation

30. The employment rights framework is underpinned by regulation. This means that the Government is able to set the minimum terms of the relationship between employers and employees, providing clarity and protection to both employees and employers and creating the basis for enforcement of rights. This regulation is supported by guidance produced by the Government and the Advisory, Conciliation and Arbitration Service (ACAS), which plays a role in increasing the understanding of rights and supporting employers to comply.
31. Accordingly, we believe the objectives set out in Section 3 would not be achieved without regulation. This is because the imbalance of bargaining power between workers and employers and the ability for employers to undercut competitors in the absence of minimum standards, mean that non-regulatory and voluntary approaches will not sufficiently change employer behaviour. Implementing these changes without regulatory underpinning would ultimately lead to a two-tier labour market, where some workers receive the new and strengthened rights but many are left unprotected and do not. This is why the Bill will mandate employers to provide rights to workers in line with minimum standards backed by regulation.
32. In each policy-specific IA, we have briefly explained the merits of non-legislative approaches where relevant and explained why these are likely to be insufficient to deliver the level of change the Government set out in the Plan to Make Work Pay.

## **Section 5. Regulatory scorecard for preferred option**

33. These regulatory scorecards provide an overview of our assessment of the impacts of the Bill measures. This assessment is indicative at this stage and analysis will to be refined as policy development continues.

### **Part A: Overall and stakeholder impacts**

<b>(1) Overall impacts on total welfare</b>		<b>Directional rating</b>
<b>Description of overall expected impact</b>	<p>There are clear, evidence-based benefits of government action through the Bill. Not acting would enable poor working conditions, insecure work, inequalities and broken industrial relations to persist.</p> <p>The Bill is targeted at improving working conditions for the lowest-paid and most vulnerable in the labour market. As such the most direct impact is</p>	<b>Positive</b>

<sup>89</sup> Department for Business & Trade. '[Business Population Estimates](#)'. Table 2, private sector employment number. 2024; Small and micro business defined as 0-49 employees.

	<p>better quality work for those employees and an improvement in equality because of it.</p> <p>It will have a significant positive impact for workers who are trapped in insecure work, face discrimination, or suffer from unscrupulous fire and rehire practises. Workers in the Adult Social Care sector, those covered by collective bargaining agreements, those grieving a loss of a loved family member, and those struggling to make work fit in around other commitments will also be notable beneficiaries.</p> <p>To deliver those benefits, there will be a direct cost on employers. At this stage, we believe the cost to business would be in the low billions of pounds a year (i.e. less than £5 billion per year). This represents a modest increase in labour costs for employers to adapt to, equivalent to less than 0.4% of total UK employment costs and less than 1.5% of employment costs in lower-paying sectors.</p> <p>We believe the package is unlikely to have significant employment impacts, but for employers who rely heavily on flexible contracts or low-paid workers, there is a greater risk to hiring intentions and employment. This could then negatively impact on those workers with lower attachment to the labour market, including those currently unemployed/inactive who want to return to work. Costs will also be on average greater for small and micro businesses due to many admin and compliance burdens being a quasi-fixed cost.</p> <p>Many of burdens placed on business from introducing the new rights and strengthening existing rights represent a benefit to workers. Therefore, those direct benefits to workers are similar in magnitude to those costs (i.e. in the low billions of pounds per year).</p> <p>There will be further benefits for those in work resulting from better job satisfaction, as well as improved health and wellbeing. Businesses will also benefit as the Bill will tackle the undercutting that good employers currently face when trying to do the right thing. If happier and healthier workers are more productive, this will benefit their employers too. We expect these benefits will be significant, albeit they are difficult to quantify.</p> <p>Overall, the impact of the Bill will be significantly positive for society if policy implementation is well-targeted, and the risks of unintended consequences are mitigated through consultation and policy design. We intend to refine this analysis as policy development continues.</p>	
<p><b>Monetised impacts</b></p>	<p>Many of our monetised impacts represent a direct transfer from employers to employees. These net out at a societal level (i.e., the costs equal the benefits), but the additional compliance and administrative costs placed on employers do not.</p> <p>This means our net present value is negative at -£2.8 billion over a 10-year appraisal period on -£280 million a year on an annualised basis (2024 prices and 2024 present value base year). However, this is a partial assessment, reflecting that it is often easier to quantify and put a monetary figure on costs than it is benefits, and should not be interpreted as the total</p>	<p><b>Negative</b></p>

	<p>impact of the Bill. As laid out below, we believe the non-monetised benefits to be significant and will likely more than offset the costs.</p>	
<p><b>Non-monetised impacts</b></p>	<p>The most significant non-monetised impacts for workers will be the health and wellbeing benefits from better quality of work, stronger protections in the workplace, and greater income security. Low quality and insecure work can adversely impact health and wellbeing, so the measures are likely to have a significant positive impact on the c.2 million workers who report feeling anxious about hours worked or shifts changing unexpectedly<sup>90</sup>. In addition, The Health and Safety Executive estimate that stress, depression or anxiety accounted for 17.1 million working days lost in 2022/23, with evidence this is concentrated in some of the sectors impacted by the Bill, e.g., health and social care and education<sup>91</sup>. Our analysis suggests that the value of these wellbeing benefits could be worth billions of pounds a year to individuals, and reduce costs that are ultimately borne by the taxpayer when people get ill from work-related mental health issues.</p> <p>The most significant non-monetised impact on employers will be the reduction in flexibility in workforce planning from introducing greater protections on variable hours contracts, and from increasing dismissal protections for workers. In addition, employers will also likely face increased liability against defending Employment Tribunal claims.</p> <p>There could also be wider impacts on society, including:</p> <ul style="list-style-type: none"> <li>• A more ‘level playing field’ for businesses by making it more difficult for competitors to gain an unfair advantage by underpaying workers and not meeting their legal obligations.</li> <li>• A reduction in the number of workforce disputes, which currently costs UK employers as much as £30 billion a year<sup>92</sup>.</li> <li>• A reduction in days lost to strike action if Trade Union reforms lead to better industrial relations, which will prevent significant costs on the economy. Rail strikes alone are estimated to have cost the UK economy at least £1.7 billion over the eight-month period to January 2023<sup>93</sup>.</li> <li>• A greater pool of workers for employers to hire from if modernising rights encourages more workers to participate in the labour market. There are currently 369,000 people aged 16-64 who are economically inactive because they are looking after family or their home, but would like a job<sup>94</sup>. Likewise, the package could make work more attractive for older workers, who have been dropping out of the labour market at a faster rate since the pandemic.</li> </ul>	<p><b>Positive</b></p>

<sup>90</sup> Felstead A and others. '[Skills and Employment Survey, 2017](#)'. [data collection]. UK Data Service. SN: 8581. (Accessed October 2024)

<sup>91</sup> Health and Safety Executive. '[Working days lost in Great Britain](#)'. 2024.

<sup>92</sup> Assured Compliance and Assessment Solution. '[Estimating the costs of workplace conflict](#)'. 2021.

<sup>93</sup> Centre for Economic and Business Research. '[Eight months of strike action to have cost the UK economy at least £1.7bn, adding to existing recessionary pressures](#)'. 2022.

<sup>94</sup> Office for National Statistics. '[INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#)'. 2024. (Accessed October 2024)

	<p>These benefits are harder to quantify robustly but were even some of these benefits to be realised then they would mean the Bill is significantly net positive for society. This is explained in more detail in Section 10 to 12.</p> <p>Many of the policies within the Bill could help support the Government's Growth Mission. Whilst we conclude the direct impact on growth could be positive but small, by boosting protections and the quality of work for the poorest in the labour market, the package will help to raise living standards across the country and create opportunities for all.</p> <p>Finally, the Bill has clear links to other Government ambitions, including reducing the number of people who are inactive in the labour market, reducing child poverty, and tackling inequalities across the UK.</p>	
<p><b>Any significant or adverse distributional impacts?</b></p>	<p>The most direct impact of the policies in the Bill can be considered as being retributive (an 'economic transfer') from employers to employees. That is, most of the cost to business represents a benefit to predominantly lower-paid, workers. This redistribution will improve equality for those in work.</p> <p>Since workers in low-pay and insecure jobs are likely to value an additional pound more those who have higher incomes, this transfer is likely to be positive for society.</p> <p>Distributional impacts by worker group, business size, and region are considered in the Evidence Base (Section 9 to 19).</p>	<p><b>Positive</b></p>

## (2) Expected impacts on businesses

<p><b>Provide a qualitative description of the expected impact on business</b></p>	<p>We expect the policies covered within the Bill to impose a direct cost on business equivalent to low billion pounds per year (i.e. less than £5 billion annually). This includes both monetised and non-monetised costs, and results from employers familiarising themselves with new legislation, administrative and compliance costs, the transfer to workers, as well as the reduction in flexibility faced by employers who face variable demand.</p> <p>In general, the business burdens associated with the Bill will be greatest in the short-term and reduce over time. This is because some costs are one-off, such as employers familiarising and putting in places new practises to ensure they are compliant, but also because employers are likely to adapt over time.</p> <p>We expect the package to also deliver benefits for employers, including happier and more productive workers arising from greater stability and workplace flexibility, a more level playing field, less disruption from strike action, and a greater pool of skilled workers to employ from. Since these impacts are uncertain but could be significant, we deem the overall impact on business as uncertain at this stage.</p>	<p><b>Uncertain</b></p>
<p><b>Monetised impacts</b></p>	<p>The main monetised costs are the familiarisation, administrative and compliance costs, as well as the direct transfer to workers from</p>	<p><b>Negative</b></p>

	<p>improvements to both rights and their enforcement. Together these are valued at £0.9 billion per year (Equivalent Annualised Net Direct Cost to Business) but this does not represent the full impact on businesses as many impacts remain unmonetised at this stage.</p>	
<p><b>Non-monetised impacts</b></p>	<p>A stronger state enforcement landscape should create a more level playing field for businesses by making it more difficult for competitors to gain an unfair advantage by underpaying workers and not meeting their legal obligations. We expect this benefit to be significant albeit it is difficult to quantify.</p> <p>Several of the policies within the Bill could support the Government's Growth Mission. Direct growth impacts could be positive which will benefit businesses, but these are likely to be small in magnitude.</p> <p>There will be a significant cost on employers from the reduction in flexibility, both from (i) strengthening protections against dismissal and (ii) from increasing protections for workers of variable hours contracts.</p> <p>The change in balance of bargaining power due to Trade Union reforms and the introduction of the Fair Pay Agreement in the Adult Social Care sector will impose costs on employers. We expect the cost of the Fair Pay Agreement in ASC will likely come through into higher costs for local authorities' commissioning services and for self-funders. Increased costs to the local authorities could in turn create increased costs to the Exchequer. The extent of this, and how the costs are shared, depends on policy design and the outcome of negotiations, taking into account the objective of affordability for businesses, local authorities and self-funders. Some of this funding could be offset by increased tax receipts, as well as savings to the NHS. However, (i) any NHS savings would be comparatively small and (ii) they require decisions on NHS budgets.</p> <p>There are also some policies where costs are non-monetised due to a lack of evidence, for example, the impact of changing the rules around collective redundancy and fire and rehire practises.</p> <p>Together, monetised and non-monetised costs are expected to sum to low billions of pounds per year (i.e., less than £5 billion per year). Based on analysis of the national accounts, this is shown to be equivalent to less than 0.4% of total UK employment costs annually and less than 1.5% of employment costs in lower-paying sectors, where the measures will have greatest impact.</p>	<p><b>Uncertain</b></p>
<p><b>Any significant or adverse distributional impacts?</b></p>	<p><u>Sectoral impact</u></p> <p>The measures in the Bill are expected to predominantly impact employers in low-paying sectors. These include industries such as hospitality, retail, transport, social care, and employment agencies.</p> <p><u>Regional impacts</u></p> <p>The measures in the Bill are not targeted at specific regions. However, analysis suggests that low-paying sectors have a slightly higher employment density in the regions of West Scotland, North Wales and the</p>	<p><b>Neutral</b></p>

	<p>Southwest England. While these regions do not have the highest levels of workers/employers in these sectors, they make up a larger percentage of total employment in those local labour markets. A higher impact on specific locations will create greater risks for employment and hiring intentions in those areas, especially if this overlaps with parts of the labour market where labour demand is weaker.</p>	
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**(3) Expected impacts on households**

<p><b>Description of overall household impact</b></p>	<p>The direct benefits to workers are similar in magnitude to those costs on employers (i.e. in the low billions of pounds per year) and will be concentrated in low-paying occupations.</p> <p>These direct benefits include:</p> <ul style="list-style-type: none"> <li>• The value of payments paid to workers for short notice shift cancellation or curtailment could be as high as £120 million per year, or the savings from avoiding wasted travel and childcare costs ('the insecurity premium') worth up to £160 million per year.</li> <li>• The reforms to Statutory Sick Pay would increase the amount of sick pay workers receive by around £400 million a year.</li> <li>• The Fair Pay Agreement in the Adult Social Care sector could lead to higher wages or employment terms and conditions in the sector.</li> <li>• There is evidence of significant non-compliance around holiday pay. By bringing holiday pay under state enforcement, this could recover hundreds of millions of pounds in arrears and penalties.</li> <li>• Stopping the abuse of fire and rehire practices will prevent T&amp;Cs being cut for thousands of workers each year.</li> <li>• Reduce the number of dismissals of pregnant women and mothers returning from Maternity Leave, which we estimate to be around 4,000 a year at present.</li> <li>• The right to Bereavement Leave following the death of a close family member would benefit between 900,000 and almost 2 million people a year depending on the definition of the scope.</li> <li>• Bringing an extra 30,000 fathers or partners into scope of Paternity Leave and 1.5 million workers into scope of the right to Unpaid Parental Leave.</li> </ul> <p>In addition to this, the package is expected to improve job satisfaction, health and wellbeing for workers and could encourage some workers to return to the labour market. These are covered in the non-monetised section below.</p>	<p><b>Positive</b></p>
<p><b>Monetised impacts</b></p>	<p>Together the monetised benefits to workers are valued at £0.5 billion per year but this does not represent the full impact on workers as many benefits are non-monetised.</p>	<p><b>Positive</b></p>
<p><b>Non-monetised impacts</b></p>	<p>We are unable to robustly monetise the impacts on workers' health and wellbeing, but we expect these to be significant since there are c.2 million workers who report feeling anxious about their hours worked or shifts</p>	<p><b>Positive</b></p>

	<p>changing unexpectedly<sup>95</sup>. Illustrative analysis shows these wellbeing benefits could be worth billions of pounds to society. In addition, The Health and Safety Executive estimate that stress, depression or anxiety accounted for 17.1 million working days lost in 2022/23, with evidence this is concentrated in some of the sectors impacted by the Bill, e.g. health and social work and education<sup>96</sup>.</p> <p>The package will also boost wellbeing by improving equality and worker voice in the workplace. We unable to monetise the impact on equality, but given the package redistributes to the lowest paid (who tend to be in lower income households) this will likely be significant.</p> <p>There could also be indirect benefits for workers too, including:</p> <ul style="list-style-type: none"> <li>• Better ability for workers to manage life around work.</li> <li>• Improved job and income security helping people to manage their finances more easily.</li> <li>• Reduced workplace conflict.</li> </ul> <p>These impacts are harder to evidence but are explained in more detail in Section 12 and Section 15.</p> <p>If the package is not targeted and implemented well, there is a risk that higher labour costs and greater frictions to taking on workers affects the employment prospects of some workers, particularly those with less attachment to the labour market (e.g. younger workers). This may occur as either workers losing their jobs, or those already outside the labour market facing higher barriers to finding a job. However, we expect this impact to be small (see Section 16) and will be mitigated through policy design and consultation therefore are not monetised.</p>	
<p><b>Any significant or adverse distributional impacts?</b></p>	<p><u>Low paid workers</u></p> <p>The Bill seeks to improve working conditions for all workers, but the impacts will be greatest for those who are engaged in low paid and insecure forms of work.</p> <p><u>Regional</u></p> <p>There is a greater concentration of low-paid workers in central Scotland, North Wales, the East of England, and areas of Southwest England. Therefore, households in these areas may see a greater than average benefit from these measures.</p> <p>Risks to unemployment are assessed to be small overall but will be higher in local labour markets where those jobs make up a higher proportion of employment and/or demand is weaker, i.e. those that tend to have lower average incomes or higher levels of unemployment.</p> <p><u>Protected Characteristics</u></p>	<p><b>Positive</b></p>

<sup>95</sup> Felstead A and others. '[Skills and Employment Survey, 2017](#)'. [data collection]. UK Data Service. SN: 8581. (Accessed October 2024)

<sup>96</sup> Health and Safety Executive. '[Working days lost in Great Britain](#)'. 2024. (Accessed October 2024)



	<p>Younger workers, women, people with disabilities, and those from ethnic minority groups make up a higher-than-average share of the workers that will benefit from the package. A full assessment of the possible equalities impacts is included in Section 19.</p> <p>These workers tend to have weaker attachment to the labour market (i.e., are at greater risk being excluded from the labour market), which means they could face higher risks to their employment prospects from higher labour costs. We believe the risk for these groups is still relatively small, but the Government will use extensive consultation with trade unions and businesses to ensure the detail is right before changes are implemented.</p>	
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## Part B: Impacts on wider government priorities

34. The table below assesses the impact of the Bill against the priorities set by the Better Regulation Framework. We have also assessed the impact of the Bill against the Government’s ‘Growth Mission’ in Section 15.

Category	Description of impact	Directional rating
<p><b>Business environment:</b></p> <p>Does the measure impact on the ease of doing business in the UK?</p>	<p>Although the package will place burdens on employers, in particular, those in sectors where the use of flexible contracts is frequent or workers are low paid, there are also several aspects of the package that will benefit employers. Most notably, a stronger enforcement system will benefit those employers already doing right by their workers.</p> <p>As such, it is challenging to assess the Bill’s impact on the UK’s business environment, and how this translates to domestic and foreign investment levels.</p> <p>The evidence on whether the Bill will positively or negatively impact investment is ambiguous, but overall, we expect any impacts to be small. This is discussed further in Section 15. Whilst some studies suggesting that greater employment protections can increase capital investment, other studies find the opposite effect.</p> <p>The Government will consult relevant stakeholders to ensure that the impact on business is fully considered in final policy design and implementation.</p>	<b>Uncertain</b>
<p><b>International Considerations:</b></p> <p>Does the measure support international trade and investment?</p>	<p>The package of measures will predominantly affect workers in sectors that are not typically traded internationally (e.g., social care, hospitality, etc). In addition, the increase in total labour costs is modest and therefore the impact on export and import competitiveness is likely to be negligible.</p> <p>In addition, we expect there to be little impact on foreign investment in the UK. Labour costs and the level of employment protections are reported to be low considerations for businesses when deciding to deploy FDI in the UK<sup>97</sup>. Moreover, the Bill will not lead the employment rights framework to be an outlier compared to many of other European</p>	<b>Neutral</b>

<sup>97</sup> Ernst & Young Global Limited. ‘[EY UK Attractiveness Survey - July 2024](#)’. (Accessed October 2024)

	economies <sup>98</sup> that the UK will be competing with for FDI. If the Bill supports a more productive, resilient and skilled workforce, this could even improve the UK's attractiveness as an investment destination. Indeed, a World Skills UK report finds that enhancing the skills of the UK workforce is essential to attracting foreign investment <sup>99</sup> .	
<p><b>Natural capital and Decarbonisation</b></p> <p>Does the measure support commitments to improve the environment and decarbonise?</p>	There are no expected impacts to natural capital and decarbonisation.	<b>Neutral</b>

## Section 6. Monitoring and evaluation of preferred option

35. The Government will undertake proportionate monitoring and evaluation of reforms introduced through the Bill. This will enable us to assess whether they are achieving the stated objectives and to inform future policy making. A bespoke approach will be taken towards the monitoring and evaluation plans of each reform as they each have a range of objectives, metrics, stakeholders and external factors which may impact the success of the policy.
36. We will commit to the timing of policy evaluation when secondary legislation is laid. The expectation is this will be the first five years from when the legislation comes into force, as we deem this to be a sufficient period to observe the effectiveness of the policy and collect adequate data for an evaluation study. However, if an event triggers a need for this evaluation to be conducted earlier, then this will be considered on a case-by-case basis and undertaken as soon as is practically feasible.
37. Since some elements of the Bill do not require secondary legislation (e.g. the Trade Union repeals), we will also undertake a post implementation review (PIR) of the Bill as a whole five years following implementation. As amendments may be made to the Bill during the passage through Parliament, we do not deem it appropriate to include a statutory review clause at this stage.
38. The PIR of the Bill will generally evaluate how the legislation is achieving the objectives stated in Section 3. More specifically, for each policy measure implemented via secondary legislation, the PIR will include an evaluation of the extent to which the policy has delivered its objectives in the following areas:
- How has the objective(s) been achieved? Could the objective(s) have been achieved differently based on this?
  - Where relevant to the policy, what have been the impacts on workers, employers, and unions?
  - How accurate was our (ex-ante) assessment to the actual (ex-post) impact of the policy?
  - Have there been unintended consequences from the policy, or through any mechanism put in place to deliver the policy?

<sup>98</sup> Resolution Foundation. '[Low Pay Britain 2024](#)'. 2024. (Accessed October 2024)

<sup>99</sup> World Skills UK. '[Wanted: skills for inward investors](#)'. (Accessed October 2024)

- What are the lessons learned that could be transferred to other areas?

39. There is a rich array of survey and administrative data available to assess changes in the labour market. This includes national statistics, such as the Labour Force Survey<sup>100</sup>, HMRC's RTI data, and the Annual Survey of Hours and Earnings. This official data is also supplemented by surveys ran by thinktanks, research organisations and stakeholder groups, some of which informed the assessment in this IA. These data sources will help us to monitor whether the Bill measures are impacting the labour market as expected, for example, whether income security has improved, employees have greater voice in the workplace, and trends in non-compliance. This data will also help to monitor the risks of potential unintended consequences (see Section 16).
40. However, it is likely that the Government will also need to undertake bespoke survey work and commission economic evaluations to fully understand the impact of the Bill and progress against its objectives, as with the recent review of the Shared Parental Leave or the evolution of the annual National Minimum Wage or National Living Wage increases.
41. The Government considers it is likely the measures with the largest expected impacts would benefit most from formal monitoring and evaluation strategies. Where measures in the Bill involve smaller reforms to specific parts of the existing regime (e.g. reforms to simplify industrial action notices), there is potentially less value to be gained from a more rigorous monitoring and evaluation. As a result, the Government may undertake lighter-touch evaluation (e.g. largely through stakeholder engagement) where proportionate to do so.
42. Government will also consider whether to include both a process evaluation as well as an impact evaluation. The purpose of this would be to explore the process of developing secondary legislation, its implementation, the costs of familiarisation and other administrative functions needed to deliver the respective policy. This would aim to establish the cost of the different aspects of the process of implementing the respective policy and enforcing it. Where applicable, the impact evaluation would focus on workers, employers, trade unions, the wider economy and the environment.
43. The policy-specific descriptions of monitoring and evaluation plans are provided in the respective IAs, which were published alongside this Summary IA.

## **Section 7. Minimising administrative and compliance costs**

44. The Government has committed to continuing full and comprehensive engagement and consultation on the implementation of the Plan to Make Work Pay, to ensure that these changes work for businesses of all sizes. At this stage of policy development, it is not possible to outline specific mitigations to administrative and compliance costs, but these will be considered through policy development of the secondary legislation. The Government will also ensure that, where appropriate, guidance is published to ensure all stakeholders have the information required to make necessary adjustments.

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<sup>100</sup> Note that the Labour Force Survey is currently marked as 'official statistics in development' due to challenges around response rates. The ONS are developing a transformed online-first version of the Labour Force Survey (LFS) as the long-term solution to falling response rates and quality challenges on the LFS. For more detail, see: Office for National Statistics. '[Labour market transformation – update on progress and plans](#)'. 2024. (Accessed October 2024)

# Declaration

**Department:**

Department for Business and Trade

**Contact details for enquiries:**

ERDAnalysisEnquiries@businessandtrade.gov.uk

**Minister responsible:**

Minister for Employment Rights, Competition and Markets, Justin Madders

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed:



Date: 17/10/2024

## Section 8. Summary: Analysis and evidence

Price base year:

2024

PV base year:

2024

	1. Business as usual (baseline)	2. Preferred way forward (if not do-minimum)
<b>Net present social value</b> (with brief description, including ranges, of individual costs and benefits)	Used as baseline for the analysis.	<p>Our central NPSV estimate is -£2.8 billion over a ten-year appraisal period (2024 prices and 2024 present value base year). As an annualised and discounted figure this is equivalent to -£280m per year over that period.</p> <p>Many of our monetised impacts represent a direct transfer from employers to employees. These net out at a societal level, but the additional compliance and administrative costs placed on employers do not. This leaves a negative NPSV figure.</p> <p>However, this does not represent our full assessment of the package as we are unable to monetise some impacts, including the most significant benefits. As such, consideration should simultaneously be given to our qualitative assessment of benefits and costs, rather than a partial focus on what has been quantified. Our full assessment shows that the package will be significantly positive for society (i.e., the benefits will outweigh the costs) if policy implementation is well-targeted, and the risks of unintended consequences are mitigated through consultation and policy design.</p>
<b>Public sector financial costs</b> (with brief description,	Used as baseline for the analysis.	There will be costs to the public sector, resulting from set-up costs for the Fair Work Agency, increased funding pressures on the Employment Tribunal system, as well changes to terms and conditions for workers directly and indirectly paid for by the exchequer. For example, 15% of people working in the health and social work sector and 9% of those in the education sector are employed on a zero-hours contract <sup>101</sup> , so reforms to those contracts will place costs on sectors which are in part funded by the Exchequer.

<sup>101</sup> Office for National Statistics. [‘EMP17: People in employment on zero hours contracts’](#). 2024. (Accessed October 2024)

	1. Business as usual (baseline)	2. Preferred way forward (if not do-minimum)
including ranges)		<p>These impacts are difficult to quantify at this stage, especially where costs are highly dependent on final policy design and/or operating model (e.g. the Fair Work Agency).</p> <p>Given the likely implementation timelines for most policies, most of these costs are unlikely to materialise in this or the following financial year. This is covered in Section 10 to 12 in more detail.</p>
<b>Significant un-quantified benefits and costs</b> (description, with scale where possible)	Used as baseline for the analysis.	<p>The most significant non-monetised impacts for workers will be the health and wellbeing benefits from better quality of work, stronger protections in the workplace, and greater income security.</p> <p>Low quality and insecure work can adversely impact health and wellbeing, so the measures are likely to have a significant positive impact on the c.2 million workers who report feeling anxious about hours worked or shifts changing unexpectedly<sup>102</sup>. Our illustrative analysis shows that wellbeing benefits of the Bill could be worth billions of pounds a year to society.</p> <p>In addition, The Health and Safety Executive estimate that stress, depression or anxiety accounted for 17.1 million working days lost in 2022/23, equivalent to £5.2 billion, with evidence this is concentrated in some of the sectors impacted by the Bill, e.g. health and social work and education<sup>103</sup>. This suggests there are significant benefits for employers too from a happier and healthier workforce.</p> <p>The most significant non-monetised impact on employers will be the reduction in flexibility in workforce planning from introducing greater protections on variable hours contracts, and from increasing dismissal protections for workers. In addition, employers will also likely face increased liability against defending Employment Tribunal claims and resolving workplace disputes.</p> <p>There could also be indirect impacts on society, including:</p> <ul style="list-style-type: none"> <li>• A more 'level playing field' for businesses by making it more difficult for competitors to gain an unfair advantage by underpaying workers and not meeting their legal obligations.</li> <li>• A reduction in the number of workforce disputes, which currently costs employers as much as £30 billion a year.</li> </ul>

<sup>102</sup> Felstead A and others. 'Skills and Employment Survey, 2017'. [data collection]. UK Data Service. SN: 8581. (Accessed October 2024)

<sup>103</sup> Health and Safety Executive. 'Working days lost in Great Britain'. 2024. (Accessed October 2024)

	1. Business as usual (baseline)	2. Preferred way forward (if not do-minimum)
		<ul style="list-style-type: none"> <li>• A reduction in days lost to strike action if Trade Union reforms lead to better industrial relations, which will prevent significant costs on the economy. Rail strikes alone are estimated to have cost the UK economy at least £1.7 billion over the eight-month period to January 2023<sup>104</sup>.</li> <li>• A greater pool of workers for employers to hire from if modernising rights encourages more workers to participate in the labour market. There are currently more than 360,000 people aged 16-64 who are economically inactive because they are looking after family or their home but still want a job<sup>105</sup>.</li> </ul> <p>Many of the policies within the Bill could help support the Government’s Growth Mission. Whilst we conclude the direct impact on growth could be positive but small, by boosting protections and the quality of work for the poorest in the labour market, the package will help to raise living standards across the country and create opportunities for all.</p> <p>The Bill also has clear links to other Government ambitions, including reducing the number of people who are inactive in the labour market, reducing child poverty, and tackling inequalities across the UK.</p>
<b>Key risks</b> (and risk costs, and optimism bias, where relevant)	Used as baseline for the analysis.	<p>If not well-targeted, the Bill measures have the potential to at least partially undermine the policy objectives. This is because higher labour costs could weigh on demand for work, damaging the employment prospects of the same workers the package is trying to support.</p> <p>Whilst we believe the impact on unemployment is likely to be small or negligible, the risks are highest for workers with the weakest attachment to the labour market, such as the low-paid, who are already most likely to be let go from work in a downturn, disabled workers, who face a large ‘employment gap’, and the youngest workers, since they are still gaining experience and skills.</p> <p>There are also risks to hiring rates and labour market dynamism if policy is not well-targeted and in creating greater incentives for employers to us temporary work reforms are not cindered holistically.</p> <p>The Government will seek to minimise the risk of these unintended consequences through the policy development process. This is why the reforms will be delivered in partnership with businesses and trade unions, using extensive consultation to ensure Government gets the detail right before changes are implemented.</p>

<sup>104</sup> Centre for Economic and Business Research. '[Eight months of strike action to have cost the UK economy at least £1.7bn, adding to existing recessionary pressures](#)'. 2022. (Accessed October 2024)

<sup>105</sup> Office for National Statistics. '[INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#)'. 2024. (Accessed October 2024)

	1. Business as usual (baseline)	2. Preferred way forward (if not do-minimum)
<b>Results of sensitivity analysis</b>	...	<p>The package will be significantly positive for society if policy implementation is well-targeted, and the risks of unintended consequences are mitigated through consultation and policy design.</p> <p>This IA provides an indicative assessment of the impacts that could result from primary legislation. This represents the best estimate for the likely impacts given the current stage of policy development, but these will need to be refined as policy development continues.</p> <p>Our assessment that the costs to business will be in the low billions (less than £5 billion) per year is based on a cautious assessment of the range of likely costs. We expect this figure to be refined as policy development continues and our evidence base improves.</p>



## Section 9. Evidence base

### Problem under consideration

#### The state of the UK labour market

45. The UK labour market consists of the daily interactions between the 40 million working age adults<sup>106</sup>, the 1.4 million businesses that employ them<sup>107</sup>, their representatives (e.g. trade unions, employment lawyers, and business representative organisations), and the Government. The labour market is highly dynamic; with close to a million workers entering and leaving employment and around 800k people moving between jobs in a typical quarter<sup>108</sup>.
46. In the three months to August 2024, the employment rate was 75% (equivalent to ~ 32 million people in employment), the unemployment rate was 4% (~1.4 million people), and there were almost 22% of the working age population (~9 million people) who were economically inactive<sup>109</sup>.
47. By these headline indicators, the labour market is performing relatively well; unemployment has rarely been lower since comparable records began in the 1970s and by some measures the number of people in work has never been so high<sup>110</sup>. This is notable given the economic shocks that the UK economy has faced in recent years, including the Covid-19 pandemic and significant terms of trade shock following the invasion of Ukraine.
48. However, whilst headline statistics such as employment and unemployment rates appear strong by historical standards, millions of workers are stuck in low paid, insecure and poor-quality work. The number of workers on zero hours contracts has risen significantly over the last decade to over 1 million<sup>111</sup>, and only 1 in 6 low paid workers ever fully escapes into better paid work<sup>112</sup>.
49. In addition, the rise in insecure work and more fragmented labour market has coincided with a stagnation in productivity growth; the UK recently experienced its slowest decade of productivity growth for nearly 200 years<sup>113</sup>. As a result, much of the UK's economic growth leading into the pandemic resulted from a growth in the size of the labour market itself (e.g. through getting more people into work and higher net migration), while GDP per capita, which is what drives living standards, has flatlined<sup>114</sup>.
50. The productivity gap with France, Germany and the US, doubled between 2008 and 2022 to 18%<sup>115</sup>. Average output per worker for G7 nations (excluding Japan and the UK) was 16% above the UK level in 2021<sup>116</sup>. This stagnation in productivity growth means that in real terms, average salaries have barely increased from where they were before the 2008 financial crash, and today, the average German

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<sup>106</sup> Office for National Statistics. '[LFS: Population aged 16-64: All: Thousands: SA](#)'. 2024. (Accessed October 2024)

<sup>107</sup> Department for Business & Trade. '[Business Population Estimates](#)'. 2024; Table 2.

<sup>108</sup> Office for National Statistics. '[X02: Labour Force Survey flows estimates](#)'. 2024. (Accessed October 2024)

<sup>109</sup> Office for National Statistics. '[Labour market overview, UK](#)'. 2024. (Accessed October 2024)

<sup>110</sup> There is currently additional uncertainty in the ONS' measure of labour market performance, due to falling response rates in the Labour Force Survey. However, a range of measures points towards employment being strong by historical standards (e.g., LFS, Workforce Jobs, RTI payroll employment).

<sup>111</sup> Office for National Statistics. '[EMP17: People in employment on zero hours contracts](#)'. 2024. (Accessed October 2024)

<sup>112</sup> Resolution Foundation and Social Mobility Commission. '[The Great Escape? Low pay and progression in the UK's labour market](#)'. 2017.

<sup>113</sup> Bank of England. '[A millennium of macroeconomic data for the UK](#)'. (Accessed October 2024)

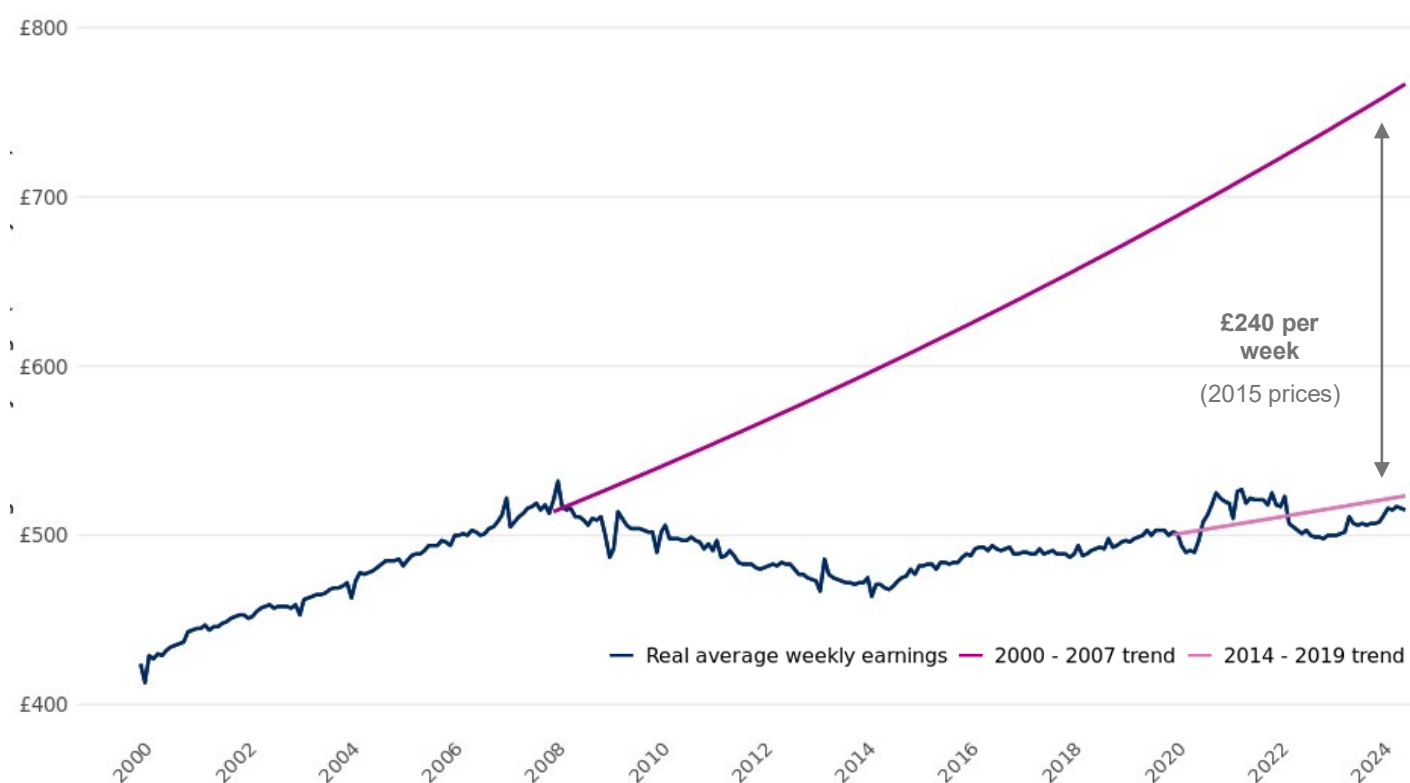
<sup>114</sup> Office for National Statistics. '[Growth accounting: multi-factor productivity estimates, UK](#)'. 2020 (Accessed October 2024)

<sup>115</sup> Resolution Foundation. '[Ending Stagnation. A New Economic Strategy for Britain](#)'. 2023.

<sup>116</sup> Office for National Statistics. '[International comparisons of UK productivity \(ICP\), final estimates - Office for National Statistics](#)'. 2023. (Accessed October 2024)

household is 20 percent wealthier than their British peers<sup>117</sup>. The average worker would be 40% or roughly £11,500 a year better off if wages had continued to grow as they did lead into 2008 financial crisis (see Figure A1 below).

Figure A1: Average weekly earnings with trendlines (2015 prices)



Source: Office of National Statistics; trendlines added by DBT

51. The productivity and pay position has contributed to worsening industrial relations. Workers in the public sector undertook more industrial action in 2022 and 2023 than they had for over 30 years against the backdrop of the fall in living standards due to the 'cost-of-living crisis'<sup>118</sup>. There is evidence that poor job satisfaction and pay concerns have also contributed to issues with recruitment and retention in some parts of the public sector<sup>119</sup>. Strikes can lead to significant economic losses, particularly in industries critical to public services, such as healthcare or transport. Businesses face delays, reduced productivity, and increased operational costs, while public inconvenience can erode consumer confidence and spending.

52. In addition, the inactivity rate has historically been seen as a strength for the UK. Since the pandemic though, this rate has risen and hit 22.3% in February to April 2024<sup>120</sup>, with higher inactivity being concentrated amongst older workers and those with poor mental health. Whilst this has now fallen slightly, the UK remains the only G7 country to have not seen a recovery back to pre-pandemic levels.

<sup>117</sup> Organisation for Economic Co-operation and Development. 'Household disposable income'. 2022. (Accessed October 2024)

<sup>118</sup> Office for National Statistics. 'Labour disputes; working days lost due to strike action; UK (thousands)'. 2024. (Accessed October 2024)

<sup>119</sup> Bimpong KAA and others. 'Relationship between labour force satisfaction, wages and retention within the UK National Health Service: a systematic review of the literature'. *BMJ Open* 2020: Volume 10(7)  
Institute for Fiscal Studies. 'Recent trends in public sector pay'. 2024.

<sup>120</sup> Office for National Statistics. 'A01: Summary of labour market statistics'. 2024. (Accessed October 2024)

This heightened inactivity reflects the continued trend of rising ill health, with 2.8m workers out of the labour market due to long-term sickness<sup>121</sup>.

53. The UK also faces persistent and complex inequalities. In the financial year 2022/23, the richest 20% of the population received 44% of the UK's gross income, compared with the poorest 20% receiving 7%<sup>122</sup>. Wealth inequality is even starker: the ONS estimates that between 2018 and 2020, the richest 10% of households held 43% of all wealth, while the poorest 50% held only 9%<sup>123</sup>. The UK's income inequality is above both the OECD and G7 average<sup>124</sup>.
54. This inequality is often entrenched along regional lines. The UK has larger differences in most measures of inequality across its countries and regions than many other developed countries, including productivity, pay, educational attainment and health. The IFS Deaton Review shows the extent of this: in 2019, average wages in London were 60% higher than those in Scarborough and Grimsby, employment rates ranged from 66% in Skegness and Louth to 90% in Harrogate, and around half of working-age adults in London and Brighton had degrees, compared with less than a fifth in places such as Doncaster, Mansfield and Grimsby<sup>125</sup>.
55. There are also persistent disparities in economic outcomes by characteristics, such as gender and race. For example, although the gender pay gap has decreased over time, it was still at 14.3% in 2023 for all UK employees down from 19.8% in 2013<sup>126</sup>. The ethnicity pay gap varies by ethnic group, and ONS analysis shows that Black, African, Caribbean, or Black British employees consistently earned less than their White counterparts between 2012 and 2022<sup>127</sup>.
56. Looking forward, the Treasury's Panel of Independent Forecasters expects the unemployment rate to remain low in the next couple of years (4.5% by the end of 2024 and at 4.4% the following year). Productivity is expected to grow by 0.4% in 2024 and by 1.0% in 2025, which would mark a continuation of the sluggish growth seen since the global financial crisis<sup>128</sup>.
57. Over the medium term, there are several other challenges that the UK faces, including adapting to increasing digitalisation, adoption of Artificial Intelligence, demographic change, and structural changes to the labour market from the transition to Net Zero. Research from the National Foundation for Education Research<sup>129</sup> indicates that in 2023, 13% of workers had relatively substantial essential employment skills deficiencies, meaning the skills requirements of their jobs surpassed the skills they possessed. This skills gap is projected to grow to 22% of workers by 2035. Having enough skilled workers will be key to ensuring that the UK labour market is able to adapt to the changes to the economy, as will protections and support for workers that 'lose out' from change.

#### The UK's labour market model

58. The UK is seen to have a highly "flexible" labour market, meaning that there are relatively few frictions that prevent employers and employees from adapting and responding to changing economic conditions.

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<sup>121</sup> Office for National Statistics. '[INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#)'. 2024. (Accessed October 2024)

<sup>122</sup> Office for National Statistics. '[The effects of taxes and benefits on household income, disposable income estimate](#)'. 2024. (Accessed October 2024)

<sup>123</sup> Office for National Statistics. '[Household total wealth in Great Britain: April 2018 to March 2020](#)', 2022.

<sup>124</sup> Organisation for Economic Co-operation and Development. '[Income inequality \(indicator\)](#)', 2024. (Accessed October 2024)

<sup>125</sup> Overman HG and others. '[Spatial disparities across labour markets](#)'. Oxford Open Economics 2024: Volume 3(1), pages i585–i610

<sup>126</sup> Office for National Statistics. '[Gender pay gap in the UK: 2023](#)'.

<sup>127</sup> Office for National Statistics. '[Ethnicity pay gaps, UK](#)'. 2023.

<sup>128</sup> HM Treasury. '[Forecast for the UK economy](#)'. 2024. (Accessed October 2024)

<sup>129</sup> National Foundation for Education Research. '[The Skills Imperative 2035: Rethinking skills gaps and solutions](#)'. 2024.

The fundamentals underpinning this flexibility are the wide variety of employment types (permanent, temporary, fixed-term, zero hours, part time, self-employed), relatively low costs around hiring and firing in the UK, and decentralised worker-employer bargaining. For example, part-time work is more prevalent in the UK labour market than the OECD (20.4% vs 14.7% of the population in 2022<sup>130</sup>); collective bargaining coverage has fallen over time, now being concentrated in the public sector; and the UK is below average for employment protections compared to other countries in the OECD<sup>131</sup>.

59. On the one hand, this flexibility means that the UK is well placed to adapt in the face of economic shocks, and this has likely played some role in the UK's strong record on employment levels over the 2010s. A flexible labour market can also support the reallocation of workers to more productive roles; the rate of job-to-job moves are second highest in the OECD<sup>132</sup>. The reallocation of workers is good for productivity where it means resources are being allocated to better performing firms or it leads to better employee-employer matches, and workers who switch jobs tend to see who switch jobs get pay rises on average three times higher than those who do not<sup>133</sup>. However, too much churn can be detrimental, especially where it is between equally low productive jobs or if it reduces the incentives for employers to invest in firm-specific training for fear they will not recoup their return on investment.
60. Flexibility can also support participation as it enables a wider range of people, such as those with disabilities or those with responsibilities outside of work to enter the labour market. The existence of flexible contracts, for example zero-hours contracts, enables those who are only able to work flexibly, such as students, parents, and older workers, greater freedom over when and how they work. In fact, the prevalence of temporary contracts and workers being 'involuntarily' in temporary work is low in the UK compared to OECD countries where employment protections are higher<sup>134</sup>. As noted by CIPD, this is likely in part because in those countries, employers look to use temporary workers more to gain flexibility<sup>135</sup>. This may create more insecurity for those workers who cannot gain permanent employment.
61. However, some aspects of flexibility – especially the relatively modest levels of protection afforded to workers around firing and some forms of flexible of contracts – are associated with poor quality and insecure forms of work. Poor job quality is associated with poorer health<sup>136</sup>, lower productivity<sup>137</sup> and limited career progression<sup>138</sup>. Likewise, since labour mobility depends on a worker's willingness and ability to move jobs, as well as the employer's willingness to take on new workers, it is possible that qualifying periods for protections and high levels of poor-quality work could actually suppress labour market dynamism (i.e. because the risk of moving jobs is too high).

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<sup>130</sup> Organisation for Economic Co-operation and Development. '[Part-time employment rate](#)'. (Accessed October 2024)

<sup>131</sup> Shown by both: Organisation for Economic Co-operation and Development. '[Indicators of Employment Protection](#)'. and Trade Union Congress. '[Falling behind on labour rights](#)'. 2024.

<sup>132</sup> Organisation for Economic Co-operation and Development. '[Labour market transitions across OECD countries: Stylised facts](#)'. 2021.

<sup>133</sup> Office for National Statistics. '[Job changers and stayers, understanding earnings, UK](#)'. 2022.

<sup>134</sup> Chartered Institute of Personnel and Development. '[Regulation and the Labour Market 2024](#)'. 2024.

<sup>135</sup> National Foundation for Education Research. '[The Skills Imperative 2035: Rethinking skills gaps and solutions](#)'. 2024.

<sup>136</sup> Cheng G and others. '[Who suffers more from job insecurity? A meta-analytic review](#)'. Applied Psychology 2007: Volume 56(2), pages 272-303.

Niedhammer, I and others. '[Psychosocial work exposures and health outcomes: a meta-review of 72 literature reviews with meta-analysis](#)'. Scandinavian Journal of Work Environmental Health 2021: Volume 47(7), pages 489-508.

Harvey SB and others. '[Can work make you mentally ill? A systematic meta-review of work-related risk factors for common mental health problems](#)'. Journal of Occupational and Environmental Medicine 2017: Volume 74, pages 301-310.

Dawson V and others. '[Temporary employment, job satisfaction and subjective well-being](#)'. Economic and Industrial Democracy 2017: Volume 38(1), pages: 69-98

<sup>137</sup> Bosworth D and others. '[Does good work have a positive effect on productivity? Research findings](#)'. 2021

<sup>138</sup> Work Foundation. '[No Progress? Tackling Long-Term Insecure Work](#)'. 2024.

62. In line with this, there has been a growing body of evidence that emphasises the importance of job design and job quality. Whilst there is no consensus on the ‘optimal’ level of labour market flexibility, the most recent OECD Jobs Strategy (2019) argues that it is possible to design policy packages that simultaneously raise job quality, quantity and inclusiveness<sup>139</sup>. If quality of work matters for participation, productivity and labour market dynamism, as well as worker wellbeing, then there may not be a direct trade-off between labour market performance and worker protections, and in fact they may be self-reinforcing. Nevertheless, any package of labour market reforms still needs to consider the impact on business to ensure that the risk of unintended consequences are minimised. This is covered in Section 16.

### The UK’s enforcement landscape

63. The enforcement of employment rights ensures that workers receive the rights and protections they are entitled to in a workplace. The majority of employment rights are ‘self-enforced’ and rely on affected individuals to bring a claim before an Employment Tribunal (ET). Where a workplace dispute cannot be resolved internally, an employee may look to file an ET claim. However, a potential claimant is usually first required to explore the possibility of early conciliation and is referred to dispute to the Advisory, Conciliation and Arbitration Service (ACAS) for early conciliation. There are some exceptions where state enforcement bodies take a role to protect particularly vulnerable workers and labour exploitation in the workplace. This includes HMRC’s enforcement of the National Minimum Wage, the Employment Agency Standards Inspectorate, and the Gangmaster and Labour Abuse Authority. In total the Government currently spends around £43 million<sup>140</sup> on ‘state-enforcement’ each year.

64. However, there is evidence to suggest that non-compliance with employment rights law persists. ONS data suggests around 20% of workers paid at or around the wage floor were underpaid the minimum wage<sup>141</sup>; between 850,000<sup>142</sup> and 2 million<sup>143</sup> workers had their holiday pay reduced or withheld, despite this being a day-one entitlement and 1.8 million workers said they did not get a payslip<sup>144</sup>.

65. The lowest paid fifth of workers are six-times more likely to not receive holiday pay and twice as likely to report not receiving a payslip as those in the highest-paid fifth<sup>145</sup>. There is also evidence to suggest that low-paid migrant workers have trouble in finding information on and getting access to minimum employment rights under the current system<sup>146</sup>. As such, the Government believes the system is fragmented and ineffective.

66. Several commentators, including the Resolution Foundation, note that failing to enforce labour market rights undermines living standards by reducing incomes and allows less productive firms to survive by giving them an unlawful edge over compliant competitors<sup>147</sup>. The current system is also a source of inequality, as within the current system a higher-paid worker is 50% more likely to file a case with employment tribunals despite lower-paid individuals being more likely to have their rights infringed upon<sup>148</sup>.

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<sup>139</sup> Organisation for Economic Co-operation and Development. ‘[Jobs Strategy](#)’. 2024.

<sup>140</sup> HMRC National Minimum Wage enforcement: £31.2m, HMRC enforcement of Statutory Sick pay: £1.2m, Gangmasters and Labour Abuse Authority (GLAA) enforcement: £7.9m, Employment Agency Standards Inspectorate (EAS): £1.7m, Director of Labour Market Enforcement (DLME): £0.7m. Data source: Department for Business & Trade. ‘[National living wage and National minimum wage: government evidence on enforcement and compliance 2023](#)’.

<sup>141</sup> Low Pay Commission. ‘[National Minimum Wage - Low Pay Commission Report 2023](#)’. 2024.

<sup>142</sup> Department for Business & Trade analysis of the Annual Survey of Hours and Earnings 2023 microdata.

<sup>143</sup> Trade Union Congress. ‘[Action plan to reform labour market enforcement](#)’. 2021.

<sup>144</sup> Resolution foundation. ‘[Enforce for good](#)’. 2023.

<sup>145</sup> Resolution foundation. ‘[Enforce for good](#)’. 2023.

<sup>146</sup> Modern Slavery and Human Rights Policy & Evidence Centre. ‘[UK agriculture and care visas: workers exploitation and obstacles to redress](#)’. 2024.

Bristol University Press. ‘[Low-Paid EU Migrant Workers](#)’. 2024.

<sup>147</sup> Resolution foundation. ‘[Enforce for good](#)’. 2023.

<sup>148</sup> Citizens Advice. ‘[From rights to reality, designing a fair work agency that delivers](#)’. 2024.

## Quality of work and insecure jobs

67. Measuring quality of work is complex. There are several approaches, all with varying strengths and weaknesses. For example, the ONS<sup>149</sup>, the Chartered Institute of Personal Development (CIPD)<sup>150</sup> and the International Labour Organization (ILO)<sup>151</sup> measure individual metrics, such as career progress and workplace injury or illness. These let us track elements we know are important for job quality but does not give a definitive answer to whether job quality has improved or decline over time, and for which workers. Alternatively, the OECD and the European Trade Union Institute for Research (ETUI) create indexes for quality of work based on weighting various measures, such as the European Job Quality Index. However, these have limitations too. What matters for job quality varies by worker, meaning it is difficult to decide how to weight different elements. In addition, a paper from ReWAGE highlighted the fact that these were mostly based small-scale surveys, and for this reason, job quality indicators for relatively small geographical areas or demographic groups cannot be derived from existing surveys simply because of sample size limitations<sup>152</sup>.
68. Nevertheless, these metrics show some concerning trends for quality of work in the UK. CIPD's 'Good Work Index' (2023) finds that 'there has been no significant improvement in job quality in the past four years', finding that as many as six to nine million workers experience poor quality work in some major respects<sup>153</sup>. ONS analysis of the Annual Population Survey shows that more employees reported working unpaid overtime (16%) than paid overtime (11%), just under half of workers (45%) did not believe they have good opportunities for career progression, and a similar proportion (46%) did not feel involved in their employer's decision making<sup>154</sup>. Whilst the proportion of workers in low hourly pay (defined as less than two thirds of the median) has fallen from 22% in 1997 to under 9% in 2023, the proportion of workers in low pay on a weekly basis is much higher (24%) and has not fallen to the same extent<sup>155</sup>.

## Insecure work

69. There is also data available specifically on the experience of workers in more insecure forms of employment. In the UK, approximately 13% of employees are on 'flexible' work contracts, including zero hours contracts, agency work, and variable hours contracts,<sup>156</sup> which accounts for 3.8m workers. These contracts often exhibit one-sided flexibility, i.e. a work arrangement where employees are required to be available at short notice without guaranteed work, leading to significant challenges. The Low Pay Commission (LPC) found that this situation results in income insecurity, making it difficult for individuals to manage financial obligations, such as housing. Additionally, LPC's research shows that unpredictable schedules from poor workforce planning complicate workers' ability to plan their lives and that many workers also feel unable to voice concerns or assert their rights for fear of losing future work<sup>157</sup>.
70. The Resolution Foundation finds that among the 20% of employees without fixed weekly hours, only half of them get to choose their own working pattern<sup>158</sup>. In addition, past surveys have also found that 17% of employers using low-paid flexible work give only a day's notice of shift changes (42% give less than a week)<sup>159</sup>, while 14% of workers on variable hours report receiving less than a day's notice of their shift schedules (55% said they get less than a week)<sup>160</sup>.

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<sup>149</sup> Office for National Statistics. '[Job quality in the UK – analysis of job quality indicators: 2021](#)'. 2022.

<sup>150</sup> Chartered Institute of Personnel and Development. '[Understanding and measuring job quality](#)'. 2018.

<sup>151</sup> International Labour Organization. '[A rough guide to measuring job quality in market systems development: Operational guidance](#)'. 2023.

<sup>152</sup> Warwick University. '[Mapping indicators of the quality of work on to large scale data sources](#)'.

<sup>153</sup> Chartered Institute of Personnel and Development. '[Good Work Index 2023: Survey Report](#)'. 2023.

<sup>154</sup> Office for National Statistics. '[Job quality in the UK – analysis of job quality indicators: 2021](#)'. 2022.

<sup>155</sup> Office for National Statistics. '[Low and high pay in the UK](#)'. 2023.

<sup>156</sup> Resolution Foundation. '[Firm foundations: Understanding why employers use flexible contracts](#)'. 2024.

<sup>157</sup> Low Pay Commission. '[A Response to Government on 'One-sided Flexibility'](#)'. 2018.

<sup>158</sup> Resolution Foundation. '[Firm foundations: Understanding why employers use flexible contracts](#)'. 2024.

<sup>159</sup> Low Pay Commission. '[A Response to Government on 'One-sided Flexibility'](#)'. 2018.

<sup>160</sup> Living Wage Foundation. '[Almost one-third of working adults given less than a week's notice of working hours](#)'. 2022.

71. These insecure jobs are concentrated amongst the lowest paid, who are the most likely to face job loss, low- or no-income replacement when off sick, and earnings volatility. The Resolution Foundation found 42% of workers in the lowest pay quintile expect to receive either no pay or only Statutory Sick Pay if off sick for a week, compared to just 13% of the highest paid workers. From 2021-2023, 8% of the lowest paid workers were on zero hours contracts, versus 0.6% of the highest paid. During economic downturns, the lowest paid workers had a quarterly involuntary dismissal rate of 1.8%, double that seen among the highest-paid workers<sup>161</sup>. The negative impacts of these types of contracts are covered in the 'Market Failures' section below.

### **Rationale for intervention: Market Failures**

72. There are several market failures which explain why the labour market does not deliver 'optimal' outcomes for society, be that the persistence of too many poor-quality jobs, under provision of rights to workers, lack of inclusive work for certain groups, such as those with childcare responsibilities, or people with disabilities, and non-compliance with minimum standards. In turn, this makes a strong case for the Government to introduce legislation to bring about new and/or strengthened worker protections.

73. The Bill seeks to increase workers' rights and bargaining power, reduce one-sided flexibility, and enhance the frameworks for enforcing these rights. In doing so, it addresses market failures such as: the imbalance of power between employers and employees (monopsony power), unrealised benefits for business and workers (negative externalities), and the uncompetitive markets produced by underenforced rights. These market failures are evidenced in turn below.

#### Monopsony power

74. Monopsony power in the labour market is a situation where employers have more bargaining power than employees. This can occur where there are only a few large employers of certain occupations within a local labour market or there are frictions to workers moving jobs, which gives employers the power to set pay and terms and conditions at less than market rates. This dynamic can result in undesirable outcomes for workers such as suppressed wages and insecure work, due to the one-sided worker-employer power dynamics.

75. The Competitions and Markets Authority (2024) found that monopsony power is a feature of many parts of the UK labour market and in the most concentrated sectors (i.e. where employment is dominated by only a few employers), workers' annual wages are 10% lower than in the least concentrated sectors<sup>162</sup>. Likewise, the OECD find that, across Denmark, France, Germany and Portugal, a 10% increase in labour market concentration lowers the daily wage by 0.2%-0.3%<sup>163</sup>.

76. Labour markets that are characterised by monopsony will also negatively impact workers' terms and conditions. Since delivering better terms and conditions is costly for employers, it can be expected that monopsonistic employers will utilise their market power to provide them less frequently. Additionally, this can impact the lowest paid workers most prominently. Workers facing financial precarity may be unwilling to change jobs due to the risk of doing so, thereby creating monopsony market conditions. Furthermore, the precarity and low income of these workers mean they will often have no choice but to accept the terms presented by employers. This imbalance of power is exacerbated where workers in low-skilled and labour-intensive sectors are more substitutable, giving them less bargaining power.

77. In the absence of government intervention, employers have little incentive to address this issue. The OECD's summary of the available evidence concludes that, other things equal, employers' preference is to 'offer a wage compensation for more insecure jobs'. As a result, employers in monopsonistic markets are likely to use their bargaining power to extensively offer insecure contracts, which pose less

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<sup>161</sup> Resolution Foundation. '[Low Pay Britain 2024](#)', 2024.

<sup>162</sup> Competition and Markets Authority. '[The CMA's research on competition and UK labour markets](#)'. 2024.

<sup>163</sup> Organisation for Economic Co-operation and Development. '[Employment Outlook 2022: Building Back More Inclusive Labour Markets](#)'. 2022.

risk and cost to them. OECD analysis in France and Germany suggests that workers in the most concentrated markets are 10% less likely to be hired on a permanent contract than those in a labour market with median concentration.

### Negative externalities

78. A negative externality refers to a cost imposed on society that is not taken into account by an individual (in this case an employer) when making decisions. In an employment rights context, this refers to the harmful effects on third parties that result from the terms of employment relationships. For example, overwork, job insecurity and poor working conditions can lead to increased stress and mental health issues for employees. This can have spillover effects on families and communities, as well as potentially increasing healthcare costs to society.

79. We know that insecure work can be harmful for workers, with insecure work having been linked to lower worker physical and psychological health generally<sup>164</sup> and in the UK<sup>165</sup>. Indeed, in the UK, zero-hours contract workers are roughly 12% more likely to report a long-lasting health problem than those on permanent contracts<sup>166</sup>.

80. Additionally, studies have identified that insecure work contributes to poor physical and mental health, which can reduce productivity<sup>167</sup>. Bosworth and Warhurst (2020) find that job insecurity has a negative relationship with labour productivity<sup>168</sup>, though this relationship is not causal. Likewise, Lisi (2013) finds that a 10% increase in the use of temporary employment leads to a 2%-3% decrease in labour productivity<sup>169</sup>. Blanchard and Landier (2002) argue that this is because the 'lower costs on fixed-term contracts may induce firms to design routine, low productivity jobs, which they can fill through the use of fixed term contracts'<sup>170</sup>. Together this suggests that the labour market will deliver an excessive amount of insecure work without Government intervention.

### Positive Externalities

81. There are also positive externalities, i.e. benefits or spillovers accruing to wider society, that mean aspects of good quality work is undervalued and will be underprovided by employers. Flexible working is one example of this, with the evaluation of flexible working legislation highlighting impacts on both labour market participation and satisfaction with work-life balance<sup>171</sup>. Likewise, a study carried out prior to the Covid-19 pandemic highlighted the untapped productivity potential in the economy whereby segments of the population could be enabled to work more productively (full-timers), work more hours (part-timers) or could be more willing to work (unemployed/inactive) if provided the opportunity to work

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<sup>164</sup> Cheng GHL and Chan DKS. '[Who suffers more from job insecurity? A meta-analytic review](#)'. Applied Psychology 2007: Volume 57(2), pages 272-303.

Niedhammer I and others. '[Psychosocial work exposures and health outcomes: a meta-review of 72 literature reviews with meta-analysis](#)'. Scandinavian Journal of Work, Environment and Health 2021: Volume 47(7).

Harvey and others. '[Can work make you mentally ill? A systematic meta-review of work-related risk factors for common mental health problems](#)'. Occupational and Environmental Medicine 2017: Volume 74(4), pages 301-310.

<sup>165</sup> Dawson C and others. '[Temporary employment, job satisfaction and subjective well-being](#)'. Economic and Industrial Democracy 2014: Volume 38(1), pages 69-98.

<sup>166</sup> Farina E and others. '[Is Precarious Employment Bad for Worker Health? The Case of Zero Hours Contracts in the UK](#)'. 2020

<sup>167</sup> Bryan ML and others. '[Dysfunctional presenteeism: Effects of physical and mental health on work performance](#)'. The Manchester School 2022: volume: 90(4), pages 409-438.

Capriati M and others. '[Productivity slowdown across European regions: does non-standard work matter?](#)'. Regional Studies 2024: Volume 58(9), pages 1 -23.

<sup>168</sup> Bosworth D and others. '[Does good work have a positive effect on productivity? Research findings](#)'. 2021

<sup>169</sup> Lisi D. '[The impact of temporary employment and employment protection on labour productivity: evidence from an industry-level panel of EU countries](#)'. Journal for Labour Market Research 2013: Volume, 46, pages 119-144.

<sup>170</sup> Blanchard O and others. '[The Perverse Effects of Partial Labour Market Reform: Fixed-Term Contracts in France](#)'. The Economic Journal 2022: Volume 112(480), pages F215-F244.

<sup>171</sup> Department for Business, Energy & Industrial Strategy. '[Post-Implementation Review of the 2014 Flexible Working Regulations](#)'. 2014.



flexibly<sup>172</sup>. Over half of employees (55%) working flexibly in the 2020 Employee Rights Survey said that a positive consequence of these arrangements was a better work-life balance<sup>173</sup>.

82. The ONS Lifestyle Survey found that among those who would consider returning to work (58%), the most important factors when choosing a paid job were flexible working hours (32%), good pay (23%) and being able to work from home (12%). Flexibility in the workplace was also an important factor to those currently in work. Among adults aged 50 to 65 years who said they currently had a paid job, the most common factors they considered important were their main job offering, 'permanent employment' (61%) and flexible working hours (48%)<sup>174</sup>.

83. Likewise, there are positive spillover impacts from well-enforced labour markets. Strong enforcement ensures that markets are competitive by holding all actors to the same standards. This prevents businesses who choose to exploit their workers from avoiding legal obligations and undercutting compliant businesses. This can support a more competitive environment which in turn can yield wider benefits for productivity growth.

#### Information asymmetries

84. In labour markets, asymmetric information, where there is a gap between the information that employers and employees have, generally results in suboptimal decisions and allocations of resources. Removing these information asymmetries can support decisions that are better for employers and better for workers<sup>175</sup>. Trade unions are one channel for employee voice, protecting and representing workers, ensuring people are empowered at work and driving standards across the economy. This suggests that trade unions can play an important role in reducing information asymmetries, helping workplace engagement and supporting better decision making.

85. These dynamics may also produce negative externalities for firms, where employers undervalue the benefits of job quality for them. For instance, evidence suggests that temporary employment hinders organisational communication<sup>176</sup>. This is because temporary employees may find it more challenging to build the internal relationships necessary for knowledge sharing<sup>177</sup>.

#### Equality

86. As laid out in Section 9, there are significant inequalities in the UK labour market, including in the quality of work. The Bill will mean that there is more equality in the quality of work, by raising minimum standards for all, which will particularly benefit the lowest paid. We explore regional impacts in Section 18 and impact on the most vulnerable workers and the Protected Characteristics under the Equality Act in Section 19.

#### Market Failures: Summary

87. Each policy-specific impact assessment covers the market failures which justifies government intervention for that area. Table A2 below summarises the rationales for intervention against each problem identified and non-exhaustive examples of relevant policies.

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<sup>172</sup> Centre for Economics and Business Research. '[Impacts of a flexible working culture](#)'. 2014.

<sup>173</sup> Department for Business & Trade (forthcoming) Employee Rights Survey 2020

<sup>174</sup> Office for National Statistics. '[Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic: wave 2](#)'. 2022.

<sup>175</sup> Chartered Institute for Personnel and Development. '[Talking about voice: employees' experiences](#)'. 2019.

<sup>176</sup> Sias, Kramer & Jenkins. '[A Comparison of the Communication Behaviours of Temporary Employees and New Hires](#)'. 1997

<sup>177</sup> George E and others. '[Non-standard work and workers: Organizational implications](#)'. 2015

Table A2: Summary of market failures tackled by Bill measure

	Reducing negative externalities	Reducing information asymmetries	Offsetting monopsony power	Improving fairness/equity	Policy examples
<b>Insecure Work</b>	x	x	x	x	Right to a guaranteed hours contract, compensation for shift cancellation, 'Day one' rights, fire and rehire.
<b>Fair Pay</b>	x		x	x	SSP reforms
<b>Modernising Workers Rights</b>	x			x	Making flexible working the default, Bereavement Leave.
<b>Voice at work</b>		x	x	x	TU Act and MSL repeals, Fair Pay Agreement in ASC, Whistleblowing.
<b>Equality in the workplace</b>	x			x	Increasing protection from sexual harassment, introducing menopause action plans and strengthening rights for pregnant workers.
<b>Enforcement</b>	x			x	Fair Work Agency

## Section 10. Cost Benefit Analysis

### Analytical Approach

88. All analysis in our IAs follows the guidance set out in the HMT Green Book and the Better Regulation Framework. That is, for each measure we assess the costs and benefits of the ‘marginal’ policy change against a counterfactual where the Government does not intervene by introducing the Bill and subsequent secondary legislation. This means we assessed two options:
- a. Option 0: Do nothing. This option acts as the ‘no change’ baseline against which changes are assessed. Our view is that this will not meet the Government’s policy objectives, given the current state of the UK labour market and the problem under consideration (see Section 9).
  - b. Option 1: A package of reforms to improve workers’ rights and conditions, improve job security and help level the playing field for business (preferred). The full list of Bill measures can be found in Table A1.
89. For most measures, it is difficult to fully estimate the potential impacts as final policy detail will only be set when subsequent secondary legislation is brought to Parliament. Therefore, we assess the possible impact of the broad policy framework and will refine our analysis as policy development continues. Details around implementation for each measure can be found in the policy-specific IAs. It should be noted that we have not produced IAs for ‘Reinstating the School Support Staff Negotiating Body’ and ‘Two-Tier code’ since these fall under the administrative exceptions under the Better Regulation Framework<sup>178</sup>. Nevertheless, we would not expect these measures to affect our overall assessment of the package since they are expected to have a relatively small impact.
90. Our explanation of the cost benefit analysis spans three sections. Firstly, in this section, we provide an order of magnitude of impacts on workers and business for each measure within the Bill. This helps to identify which measures are most significant and will drive the overall impact. Secondly, in Section 11, we provide an aggregated net present value and monetised impact on workers (EANDCH, or equivalent annual net direct cost to households) and employers (EANDCB, or equivalent annual net direct cost to business) for the Bill. However, it should be noted that since some of the most important impacts from the package are not monetised, these decision metrics only offer a partial view of our assessment. Finally, in Section 13, we highlight the main non-monetised impacts of the package as a whole and cover the strength of the evidence supporting these. This is because many of the benefits of reforming employment rights occur to society as a whole and depend on the interaction of the proposals. For example, many of the measures are being introduced with the goal of improving job security, which could have wider benefits to society in terms of wellbeing and productivity. This analysis is supported by more detailed analysis in each of the policy-specific IAs. Therefore, for further detail on the costs and benefits of each measure, please refer to the policy-specific IAs.

### Order of magnitude estimates

91. The first step in our analysis was to produce a broad order of magnitude for each policy within the Bill package. This is based on the potential direct impact on workers, employers and the wider economy. At this stage, the range of the impacts are broad, which reflects (i) where there is uncertainty in the evidence and/or (ii) that for many policies the detail of policy implementation will not be fully decided until secondary legislation.

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<sup>178</sup> The School Support Staff Negotiating Body only applies to state schools and therefore its reinstatement has no impact on business and therefore is not in scope of the Better Regulation Framework. The Two-Tier Code related to procurement and therefore is out of scope of the Better Regulation Framework.

92. Through our analysis, we identify that nine measures in the Bill will drive the majority of the impact. These are: the Fair Pay Agreement in Adult Social Care (ASC), the right to a guaranteed hours contract, the right to payment for short-notice shift cancellation, 'Day 1' unfair dismissal, reforms to Statutory Sick Pay (SSP), the repeals of MSLs Act (2023) and elements of the Trade Union (2016) Act, strengthening the rules around 'Fire and Rehire' practises, and the Fair Work Agency (FWA).

93. Table A3 below explains our initial top-down assessment of these policies and provides justification for that assessment. The remaining policies that are likely to have a smaller impact are contained in Table A4 and Table A5. For a fuller explanation of the assessment of those policies please refer to the relevant IA. Note, for proportionality purposes, the nine policies with the greatest impact have received more attention on our cross-package analysis (e.g. sector, regional, growth impacts analysis).

Table A3: Order of magnitude estimates for highest-impact policies in the Bill

#	Policy Proposal	Annual Direct Impact on Business	Annual Direct Impact on Workers	Wider Economic Impact	Net Impact on Society
1	Establish a Fair Pay Agreements process in the Adult Social Care sector	Potentially very large cost (>£1bn) but subject to policy design, funding and negotiation so not quantified in the FPA IA.	Potentially very large benefit (>£1bn) but not quantified in FPA IA.	Possible impact on social care and health outcomes	Uncertain

Currently, there is no legislatively supported or mandated sectoral collective bargaining in the adult social care sector. The Bill will enable the Secretary of State to establish a Fair Pay Agreements process in the adult social care sector through secondary legislation.

- Since the ASC FPA is subject to collective bargaining and negotiation, we do not quantify the costs and benefits of the policy in the IA. Illustratively, a package equivalent to a 1% increase in wages in 2022/23 would have increased the wage bill for providers in the sector by around £270 million.
- Adult social care is delivered mainly through private providers, with services commissioned by local authorities or self-funders. The ONS estimate 77% of people using community care services<sup>179</sup> and 63% of care home residents were state funded in 2022/23<sup>180</sup>.
- We would expect the cost of the Fair Pay Agreement in ASC will likely come through into higher costs for local authorities' commissioning services and for self-funders. Increased costs to the local authorities could in turn create increased costs to the Exchequer. The extent of this, and how the costs are shared, depends on policy design and the outcome of negotiations, taking into account the objective of affordability for businesses, local authorities and self-funders. Some of this funding could be offset by increased tax receipts, as well as savings to the NHS. However, (i) any NHS savings would be comparatively small and (ii) they require decisions on NHS budgets.
- The direct benefits would accrue to the ASC workforce, which is large, with 1.6 million people working in the sector in England in 2023/24, equivalent to 5% of all adults in employment, making it a larger workforce than the NHS, construction, transport, or food and drink industries. Similarly, businesses directly impacted would be the 20,600 care providers across the country, many of them SMEs<sup>181</sup>. The subsequent care and healthcare benefits would accrue to the many users of care and healthcare services.
- The net impact on society depends on the design of the policy. We would expect net positive impacts if by improving the terms and conditions the sector improves recruitment and retention, thereby improving care outcomes.

<sup>179</sup> Office for National Statistics. [‘Estimating the size of the self-funding population in the community, England: 2022 to 2023’](#). 2023

<sup>180</sup> Office for National Statistics. [‘Care homes and estimating the self-funding population, England: 2022 to 2023’](#). 2023.

<sup>181</sup> Skills for Care. [‘The size and structure of the adult social care sector and workforce in England 2024’](#). 2024

Table A3 (continued)

#	Policy Proposal	Annual Direct Impact on Business	Annual Direct Impact on Workers	Wider Economic Impact	Net Impact on Society
2	Right to guaranteed hours	Large Cost (£100m-£1bn)	Large Benefit (£100m-£1bn)	Possible impact on prevalence of variable hours contracts	Uncertain subject to further policy development
<p><i>The Bill will introduce a right to a guaranteed hours contract which reflects the hours eligible workers regularly work over a reference period.</i></p> <ul style="list-style-type: none"> <li>We estimate that there are around 2.4 million workers currently on variable hours contracts (defined as zero hours contracts, agency workers, and those whose hours vary and are paid by the hour), but it is unlikely that all will want to switch to a guaranteed hours contract. Survey evidence suggests that around 20% of zero hours contracts workers weren't happy with their contractual arrangement<sup>182</sup>.</li> <li>The main impact will be a transfer of risk and uncertainty from workers on variable hour contracts facing detriment due to one-sided flexibility, to employers of such workers. This represents a significant benefit in terms of greater wellbeing and income security for workers, particularly those who can be disproportionately impacted by these contracts such as women and ethnic minorities<sup>183</sup>, whilst also representing a cost to employers.</li> <li>There will also be administrative costs on employers to comply with the policy, which are estimated to be around £160 million per year. Since healthcare and education are large employers of zero hours contract and agency workers, some of this impact will fall on the Exchequer. At a societal level, these impacts net off against each other to some degree.</li> <li>The extent to which the policy will provide a net positive impact for total welfare will depend on (i) how well targeted the policy is at those facing detriment whilst retaining flexibility for those that value it, and (ii) the extent that wellbeing impacts of the policy feed through to productivity improvements for employers. As such, at this stage of policy development we deem the net impact on society as uncertain.</li> </ul>					
3	Right to reasonable notice of shifts with payment for shifts cancelled, moved and curtailed at short notice	Large Cost (£100m-£1bn)	Large Benefit (£100m-£1bn)	Possible impact on prevalence of variable hours contracts	Uncertain subject to further policy development
<p><i>The Bill will introduce a right to a reasonable notice of shifts, payment for shift cancellation, movement and curtailment at short notice for those on zero and low hours contracts.</i></p> <ul style="list-style-type: none"> <li>We estimate that there are around 600k workers in scope who experience unexpected shift cancellations. For those workers, this policy will increase income predictability, which we expect will have a positive knock-on impact on wellbeing. The 'insecurity premium' for workers (the additional cost and income implications faced by those in casual and insecure work because of the way their hours are organised) may be as high as £600 a year for some workers.</li> <li>For business, the primary costs will be felt in the form of administration of the advance notice and more time invested in workforce planning to avoid late cancellation payments. We expect that business behaviour will change so fewer shifts are cancelled, but the value of unavoidable cancellations could still be as high as £120 million a year, although this will depend on the detail of the policy further down the line.</li> <li>There will be a reduction in flexibility for firms who currently do not plan shifts sufficiently in advance or regularly cancel shifts at late notice.</li> <li>As with measure (2) the net impact on society will depend on the targeting of the policy and whether better income security leads to increased productivity due to better wellbeing. At this stage, we assess the impact to be uncertain at a societal level.</li> </ul>					

<sup>182</sup> Chartered Institute of Personnel and Development. 'Zero Hour Contracts: Evolution and current status'. 2022.

<sup>183</sup> Trade Union Congress. 'BME women far more likely to be on zero-hours contracts'. 2023.

Table A3 (continued)

#	Policy Proposal	Annual Direct Impact on Business	Annual Direct Impact on Workers	Wider Economic Impact	Net Impact on Society
4	Day 1 unfair dismissal rights	Medium Cost (£10m- £100m)	Medium Benefit (£10m- £100m)	Possible impact on hiring rates	Uncertain subject to further policy development
<p>Currently, employees must have worked for their employer for a minimum period of two years before they qualify for the right to claim unfair dismissal at a tribunal. The Bill will:</p> <ul style="list-style-type: none"> <li>• Repeal the two-year qualifying period for unfair dismissal and the power for Ministers to set a qualifying period.</li> <li>• Repeal the qualifying period for the right to written reasons for dismissal upon request, enabling this right for all employees having completed their statutory probation period.</li> <li>• Make provisions to ensure that employers can still operate probationary periods. This includes a power to prescribe the duration of a statutory probation period (in secondary legislation).</li> <li>• Specify the simpler expectations that an employer would need to meet to dismiss an employee during that initial period, for reasons related to performance.</li> </ul> <ul style="list-style-type: none"> <li>• There are almost 9 million employees (around 30% of all those 16+) who have been working with their current employer for less than two years, who would benefit from increased job security due to this change.</li> <li>• The impact on businesses is expected to be negative and driven by familiarisation costs, and administrative costs from providing a written reason for dismissal, as well as the costs associated with additional early conciliation and tribunal cases, which is also likely to create additional burdens for the Employment Tribunal system.</li> <li>• The direct impact on households is expected to be positive and driven by the wellbeing benefits arising from increased job security for those who have been with their current employer for under two years, as well as additional settlements and awards from additional early conciliation and employment tribunals.</li> <li>• Overall, whilst it is likely the policy will reduce the risk to employees of switching jobs, there is evidence that the policy could negatively impact on hiring rates. For example, employers may be slower to take on workers due to the liability and increased protections, particularly for those that are seen as riskier hires, even if more workers are willing to switch jobs. The impact of hiring and labour mobility will ultimately depend on the final regulations on what is permissible in the 'initial statutory period' of employment and therefore we deem the net impact on society as uncertain at this stage.</li> </ul>					
5	Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period	Large Cost (£100m- £1bn)	Large Benefit (£100m- £1bn)	Possible impacts on public health	Uncertain due to uncertainty on behavioural impacts
<p>Statutory Sick Pay ("SSP") is the minimum amount an employer is required to pay to their employee when they are sick, where the employee meets the qualifying conditions. The Bill will remove the requirement to earn at least the Lower Earnings Limit in order to be eligible for SSP. The Bill will remove the provision that SSP is not payable for the first three qualifying days.</p> <ul style="list-style-type: none"> <li>• These changes are expected to help address the current labour market challenges of high-presenteeism and low-productivity by providing financial support to all individuals while they are sick.</li> <li>• On the one hand, more people will be eligible for SSP, potentially improving financial security for low-income and part-time workers. This is likely to reduce the duration of sickness absences overall, and therefore reduce the total number of sickness absence days leading to higher output and growth. There are also likely some wider societal benefits such as the reduction in transmission of infectious diseases, which further enable productivity and wider health benefits.</li> <li>• On the other hand, businesses will face increased costs as a direct impact of increasing SSP eligibility – this is expected to be around £400m per year and there may be some indirect costs if individuals increase the number of sickness absence days taken. However, it could also improve the ability of employees and employers to manage health in the workplace to reduce long-term sickness absences and reduce the number of people who fall out of work.</li> <li>• Overall, we assume the direct increase in costs to businesses is a direct transfer to employees in the form of sick pay, and therefore is neutral on a net present value basis but will improve equality. The wider impacts are deemed uncertain given the difficulty in predicting behavioural impacts around presenteeism, absence and transmission of disease.</li> </ul>					

Table A3 (continued)

#	Policy Proposal	Annual Direct Impact on Business	Annual Direct Impact on Workers	Wider Economic Impact	Net Impact on Society
6	Repeal Strikes (Minimum Service Levels) Act 2023	Small Cost (£0 - £10m), with larger indirect impact of changes to bargaining power uncertain.	Small Direct Benefit (£0 - £10m), with larger indirect impact of changes to bargaining power uncertain.	Potentially significant impacts on industrial action.	<b>Positive</b> if this leads to an improvement in industrial relations
<p><i>The Strikes (Minimum Service Levels) Act 2023 ("the MSL Act") introduced minimum service levels to be applied within certain sectors during strike action, enabling employers to issue a work notice, to require people to work on a day of strike action. The Bill will repeal amendments made by the MSL Act meaning any minimum service regulations will lapse once the Employment Rights Bill has Royal Assent.</i></p> <ul style="list-style-type: none"> <li>The direct impacts on employers will be small (i.e. familiarisation of changes for employers with workers covered by collective bargaining, and reduction in burdens on trade unions from administering work notices).</li> <li>Although no employer has used MSLs to date, while the Act remains in place, the ability of employers to require their workers to meet minimum service levels on a day of strike action remains. Therefore, the repeals have the potential to change the balance of bargaining power between employers and unionised workers, and there could be a change to the frequency of industrial action and/or increase employee power in collective bargaining.</li> <li>The net impact on society will depend on whether, and how, the repeal affects industrial relationships and strike action on Important Public Services, which have large knock-on impacts on the wider economy.</li> </ul>					
7	Repeal of Trade Union (TU) Act 2016	Small Benefit (£0 - £10m), with larger, indirect impact of changes to bargaining power uncertain.	Small Direct Benefit (£0 - £10m), with larger indirect impact of changes to bargaining power uncertain.	Potentially significant impacts on industrial action.	<b>Positive</b> if this leads to an improvement in industrial relations
<p><i>The Bill will repeal amendments made by the Trade Union Act 2016 ("TUA") to the Trade Union and Labour Relations (Consolidation) Act 1992. These changes will remove restrictions on trade unions thereby giving them greater freedom to organise, represent and negotiate on behalf of their workers. Some provisions from TUA will be retained, such as the Certification Officer's freedom from ministerial direction. The Government will also consult on measures to modernise the framework for industrial relations including in relation to ballot requirements, processes on political funds, industrial action and the trade union recognition process.</i></p> <ul style="list-style-type: none"> <li>As with the MSLs repeal, the direct impacts on employers and trade unions will be small. However, we expect that the change in the balance of bargaining power will lead to better terms and conditions for workers covered by collective agreements. Some of this is likely to benefit workers in the lower half of the wage distribution, which will have distributional benefits.</li> <li>If there is a move to a more cooperative industrial relations environment, there could be fewer industrial action and wider economic benefits. However, if relations remain more fractious, there could be more working days lost from strike action than there would have been without the repeal of the 2016 Act.</li> </ul>					
8	Dismissal for failing to agree to variation of contract, etc ('fire and rehire')	Highly uncertain due to lack of evidence on the prevalence of fire and re-hire, but the costs could be large (>£100m)	Highly uncertain due to lack of evidence on the prevalence of fire and re-hire, but the benefits to workers could be large (>£100m)	Possible impacts on level of redundancies.	<b>Positive</b>
<p><i>The Bill will end the use of fire and re-hire, except where the employer has encountered or is at imminent risk of financial difficulties that will or may affect the employer's ability to carry on business as a going concern.</i></p> <ul style="list-style-type: none"> <li>The evidence base on fire and rehire is limited. The impact assessment therefore does not monetise impacts but instead provides illustrative analysis to understand possible effects and impacts.</li> <li>This policy will prevent instances of fire and rehire where there is no reasonable economic alternative. We estimate 12,200 businesses engage in the practice each year, and whilst the number of workers affected is uncertain, it could be as high as 178k workers annually.</li> </ul>					

Table A3 (continued)

#	Policy Proposal	Annual Direct Impact on Business	Annual Direct Impact on Workers	Wider Economic Impact	Net Impact on Society
Policy #8 continued...					
<ul style="list-style-type: none"> <li>By stopping the pay and T&amp;Cs being cut for thousands of workers each year, households would benefit significantly, and businesses will pay higher labour costs than they otherwise would have. The transfer nets out at a societal level but since fire and rehire practises seem to happen more for more vulnerable workers (young, lower socio-economic groups, and ethnic minorities) stopping this practise will improve equality and fairness. We therefore assess that the policy will likely be positive overall.</li> <li>There is a risk that in some cases, businesses may make redundancies to reduce labour costs when fire and rehire is no longer permitted. Redundancies would generate a cost to households via a loss of income. We intend to collect further evidence on the risk of redundancies through policy development and consider mitigations to minimise this risk.</li> </ul>					
9	Establish the Fair Work Agency to bring together existing state enforcement functions	Small Benefit (£0 - £10m)	Medium Benefit (£10 - £100m)	Possible impacts on the 'level playing field'	Positive if this improves enforcement outcomes
<p><i>Currently most employment rights are enforced by the individual through an employment tribunal, a process that is often challenging for workers with limited resources. A limited number of (mainly pay-related) rights are enforced by the state on behalf of workers. The Bill will create the Fair Work Agency which brings together existing state enforcement functions, including regulations for employment agencies and employment businesses, the unpaid employment tribunal award penalty scheme, enforcement of the National Minimum Wage, the licensing regime for businesses operating as 'gangmasters' in certain sectors and enforcement of parts 1 and 2 of the Modern Slavery Act 2015. It will also incorporate a wider range of employment rights, such as holiday pay. The intention is for this enforcement to be carried out by a new body, the Fair Work Agency ("FWA").</i></p>					
<ul style="list-style-type: none"> <li>Since the operational and organisational structure of the FWA will be determined through secondary legislation, it is difficult to quantify the costs and benefits at this stage.</li> <li>The FWA should increase awareness and accessibility of workers' rights by providing a single point of contact, as well as supporting businesses to access clearer rules, information and advice to comply with the law.</li> <li>We expect businesses to face familiarisation costs of c.30m to adapt to the changes to the enforcement landscape brought about by the creation of the FWA. Businesses would also face additional costs to comply with an investigation instigated by the FWA even if they are found to be compliant with relevant regulations. Whilst it is not possible to quantify the total cost faced by businesses as a result, we expect the average cost to businesses per investigation to be approximately £770.</li> <li>The cost to Exchequer associated with the setting up the FWA are uncertain as they are highly dependent on the operational model selected. As a result, we have a broad range (£0.5m to £55m) for organisational restructuring and consolidating the existing enforcement bodies, dependent on the operational design, with possible recurring annual costs of around £0.5m. Expanding state enforcement to include holiday pay enforcement, could cost between £1m to £33m annually, with additional associated training costs between £0.5m to £17m.</li> <li>These costs will be offset by reducing the pressure on the Employment Tribunal System due to the FWA taking on the responsibility for enforcing holiday pay. Additionally, the FWA may impose penalties on employers found to be noncompliant with employment regulations. As standard in IAs, we do not count the cost of penalties and fines on non-compliant employers.</li> <li>Overall, benefits to workers are expected to increase as workers will face fewer barriers to enforce their employment rights. Better enforcement outcomes will be good for employers too, by preventing competitors that avoid legal obligations and from undercutting compliant businesses, and these spillovers are likely to more than offset additional admin costs, but the size of this benefit is difficult to quantify.</li> </ul>					



Table A4: Order of magnitude estimates for medium-impact policies in the Bill

#	Policy Proposal	Annual Direct Impact on Business	Annual Direct Impact on Workers	Wider Economic Impact	Net Impact on Society
10	New right to unpaid bereavement leave	Medium Cost (£10m-£100m)	Medium Benefit (£10m-£100m)	Negligible	Uncertain
<p><i>The Bill will introduce a new right to Bereavement Leave, allowing employees to take leave from work to grieve the loss of other loved ones.</i></p> <ul style="list-style-type: none"> <li>The existing Parental Bereavement Leave and Pay policy introduces relatively limited business costs per year (less than £5 million), since the number of children aged under 18 who die each year is relatively low e.g. less than 5,000 in Great Britain in 2023<sup>184</sup>.</li> <li>In 2023 there were over 640,000 deaths in Great Britain<sup>185</sup>. The population eligible for Statutory Bereavement Leave is highly uncertain but could be between 900,000 and almost 2 million people (depending on the definition of those in scope which will be subject to consultation).</li> <li>This policy will introduce business familiarisation, re-organisation costs and administrative costs. The Impact Assessment includes illustrative reorganisation costs of between £20 million and £60 million per annum.</li> <li>Although not monetised, the benefit to workers where unpaid leave is taken must be greater the pay they would have received at work. This suggests a benefit to workers of a similar magnitude as the costs to employers.</li> </ul>					
11	Strengthening collective redundancy rights	Uncertain	Uncertain	Negligible	Uncertain
<p><i>Collective consultation requirements apply when an employer is proposing to make 20 or more redundancies at one establishment. The Bill strengthens protections for employees against collective redundancy by amending current legislation to ensure that these obligations are triggered based on the total number of redundancies across the entire business, regardless of whether the redundancies are taking place at one establishment or not.</i></p> <ul style="list-style-type: none"> <li>In the year ending September 2024, there were more than 3,500 instances of employers in Great Britain initiating a collective redundancy process involving 20 or more employees<sup>186</sup>.</li> <li>This policy will broaden the scope of businesses mandated to carry out collective consultation. As a result, this policy could reduce redundancies, by encouraging employers to consider alternative means to reduce costs or adapt to changing circumstances. This would benefit households by preventing redundancies while the impact to business is uncertain. In addition, the process of collective redundancy consultation would create a cost to business and a benefit to households with an overall positive impact on total welfare.</li> <li>We cannot estimate the population affected due to the lack of data and information on business redundancy behaviour. The impact of this policy is therefore uncertain.</li> </ul>					
12	Protections against dismissal for pregnant workers	Medium Cost (£10m-£100m)	Medium Benefit (£10m-£100m)	Negligible	Uncertain
<p><i>Mothers are currently protected from redundancy during the period of pregnancy, when on Maternity Leave and a period after Maternity Leave. However, redundancy is only one of five potential reasons to dismiss someone. The Bill will ban dismissals of women who are pregnant, on maternity leave, and during a six-month return-to-work period - except in specific circumstances. It will also expand existing powers in relation to Adoption Leave, Shared Parental leave, Neonatal Care Leave and Bereaved Partners Paternity Leave to enable regulation of dismissal in the period after a person returns to work after taking one of these forms of leave.</i></p> <ul style="list-style-type: none"> <li>This reform will reduce the number of dismissals of pregnant women and returning mothers. In our impact assessment we estimate that currently around 4,000 mothers who are employees are dismissed from their job each year.</li> </ul>					

<sup>184</sup> Department for Business & Trade analysis using Office for National Statistics. '[Deaths registered summary statistics, England and Wales](#)'. 2024. (Accessed October 2024); National Records of Scotland. '[Deaths Time Series Data](#)'. 2024. (Accessed October 2024)

<sup>185</sup> Department for Business & Trade analysis using Office for National Statistics. '[Deaths registered summary statistics, England and Wales](#)'. 2024. (Accessed October 2024); National Records of Scotland. '[Deaths Time Series Data](#)'. 2024. (Accessed October 2024)

<sup>186</sup> Office for National Statistics. '[HR1: Potential redundancies](#)'. 2024. (Accessed September 2024)

Table A4 (continued)

#	Policy Proposal	Annual Direct Impact on Business	Annual Direct Impact on Workers	Wider Economic Impact	Net Impact on Society
Policy #12 continued...					
<ul style="list-style-type: none"> <li>The Impact Assessment includes illustrative one-off familiarisation costs of around £50 million. Employers will also face additional costs of contributions towards Statutory Maternity Pay costs of around £2 million per annum.</li> <li>There are significant non-monetised impacts associated with wage costs as individuals who would otherwise be dismissed continue in employment and receive wages.</li> <li>The policy will also see businesses benefit from retaining the knowledge and skills of employees, and household benefits from individuals continuing in employment (improved wellbeing and wages etc). Individuals will receive additional statutory payments of £6 million per annum.</li> </ul>					
13	Day 1 right to paternity leave and unpaid parental leave	Medium Cost (£10 - £100m)	Medium Benefit (£10 - £100m)	Negligible	Uncertain
<p><i>Currently, to be eligible for Paternity Leave or Parental Leave, a parent must have met continuity of service requirements with their employer. The Bill will ensure that paternity leave and parental leave is a 'day one' right going forward. In addition to this, currently Paternity Leave and Pay must be taken before Shared Parental Leave and Pay begins. The Bill will remove this restriction, enabling parents to take their Paternity Leave and Pay after their Shared Parental Leave and Pay.</i></p>					
<ul style="list-style-type: none"> <li>The vast majority of employee fathers/partners already meet the existing 26-week qualifying period for Paternity Leave. Making it a 'day one' right is estimated to bring approximately 30,000 additional fathers into scope of Paternity Leave.</li> <li>The eligible population for Unpaid Parental Leave (i.e. employee parents with children up to the age of 18 and current requirement is those with at least 12 months continuous employment) is much larger – an estimated 1.5 employees will come into scope from making the right to Unpaid Parental Leave a day one right.</li> <li>This policy will introduce business re-organisation costs and small administrative costs. The Impact Assessment estimates reorganisation costs of almost £25 million per annum for making parental leave a day one right.</li> <li>Although not monetised, the benefit to workers where unpaid leave is taken must be greater as the pay they would have received at work. This suggests a benefit to workers of a similar magnitude as the costs to employers.</li> </ul>					

Table A5: Order of magnitude estimates for low-impact policies in the Bill.

#	Policy Proposal	Annual Direct Impact on Business	Annual Direct Impact on Workers	Wider Economic Impact	Net Impact on Society
14	Strengthening workers' rights to trade union access, recognition and representation	Small Cost (£0 - £10m)	Small Benefit (£0 - £10m)	Possible	Positive
<p><i>This IA covers several trade union reforms, including:</i></p> <ul style="list-style-type: none"> <li><i>Making it easier for unions to gain access to workplaces, to assist individual union members and to help unions to recruit and organise.</i></li> <li><i>Make the recognition process easier by:</i> <ul style="list-style-type: none"> <li><i>Removing the requirement at the application stage for a union to demonstrate that there is likely to be a majority support for trade union recognition.</i></li> <li><i>Removing the 40% support threshold at the recognition ballot stage.</i></li> <li><i>Consulting on reducing the 10% application threshold for the Central Arbitration Committee to accept a TU recognition case</i></li> </ul> </li> <li><i>Ensure legislation is compatible with the European Convention on Human Rights and ensure that protections against some forms of detriment for trade union representatives and members extends to industrial action. The Bill will also remove the cap on the number of weeks that an employee is protected for when taking industrial action where the reason for the dismissal is taking protected industrial action.</i></li> <li><i>Update the blacklisting legislation to protect a wider range of people from blacklisting due to trade union membership or activity.</i></li> <li><i>Introduce this duty and require employees to:</i> <ul style="list-style-type: none"> <li><i>Include information about the right to join a trade union in the written statement provision that employees and workers already receive when they start a job.</i></li> <li><i>Requiring employers to regularly inform workers of their right to join a trade union thereafter.</i></li> </ul> </li> </ul>					
15	Making flexible working the default	Small Cost (£0 - £10m)	Small Benefit (£0 - £10m)	Possible	Uncertain
<p><i>Employees have a day one right to request flexible working, but employers can reject these requests for several reasons. The Bill will ensure flexible working is the default for day one for all employees; by increasing the burden of justification on employers so they can only reject a request where it is not reasonably feasible</i></p>					
16	Whistle-blowing protections against sexual harassment	Small (£0 - £10m)	Small (£0 - £10m)	Negligible	Positive
<p><i>For a worker to qualify for protection for blowing the whistle, they must make a "protected disclosure", namely, a disclosure of information which they reasonably believe is in the public interest and tends to show a past, present, or likely future relevant failure falling into one or more of the categories listed under section 43B of the Employment Rights Act 1996. This Bill adds sexual harassment to the relevant failures listed under section 43B. Where a worker makes a disclosure qualifying for protection, they will have legal recourse if they are subjected to detriment or if an employee, unfair dismissal, as a result of their disclosure.</i></p>					
17	Strengthen existing tipping law	Small Cost (£0 - £10m)	Small Benefit (£0 - £10m)	Negligible	Uncertain
<p><i>The Employment (Allocation of Tips) Act 2023 ensures that all tips, gratuities and service charges are passed on to workers, and is accompanied by a statutory Code of Practice on fair and transparent distribution of tips. The Bill builds on this legislation by ensuring that workers receive their tips in full and decide how they are allocated by mandating that employers consult with workers when developing or revising their tipping policies.</i></p>					

Table A5 (continued)

#	Policy Proposal	Annual Direct Impact on Business	Annual Direct Impact on Workers	Wider Economic Impact	Net Impact on Society
18	Requiring large employers to publish Equality Action Plans	Small (£0 - £10m)	Small Benefit (£0 - £10m)	Negligible	Positive
<p><i>The Government will make changes to promote fairness and equality at work. Organisations with 250 or more employees have been required to publish specific gender pay gap (GPG) data annually on a government service since 2017. Government analysis found that, as of June 2019, only roughly half of in-scope employers had published an action plan detailing the concrete steps they were taking to narrow the gap. The Bill will require employers to publish an equality action plan alongside the disclosure required by section 78 of the Equality Act 2010.</i></p>					
19	Ensuring outsourced workers are included in gender pay gap reporting	Small (£0 - £10m)	Small Benefit (£0 - £10m)	Negligible	Positive
<p><i>The Bill will also enable regulations to require large employers to inform the Government of organisations who they have outsourced work to who are in scope to produce equality action plans.</i></p>					
20	Require employers to take "all reasonable steps" to prevent sexual harassment of their employees	Small (£0 - £10m)	Small Benefit (£0 - £10m)	Negligible	Positive
<p><i>The Bill will require employers to take 'all reasonable steps' to prevent sexual harassment of their employees.</i></p>					
21	Enabling regulations to specify specific steps employers must take to prevent sexual harassment.	Small (£0 - £10m)	Small Benefit (£0 - £10m)	Negligible	Positive
<p><i>A power to make regulations to specify all reasonable steps to prevent harassment which an employer must take and matters to which they must have regard for the purposes of meeting the obligations set out in the Equality Act 2010.</i></p>					
22	Requiring employers to not permit the harassment of their employees by third parties	Small (£0 - £10m)	Small Benefit (£0 - £10m)	Negligible	Positive
<p><i>The Bill will introduce employer liability for the harassment of their employees by third parties.</i></p>					
23	Declaring Collective Redundancy for Seafarers	Small (£0 - £10m)	Small Benefit (£0 - £10m)	Negligible	Positive
<p><i>For vessels registered to a port outside of Great Britain, redundancy notifications must be given to the competent authority of the state where the vessel is registered. The Bill will ensure that operators cannot avoid the notification requirement and meaningful consequences of failing to comply with it by registering their ships outside of the UK.</i></p>					

## Section 11. Costs and benefits to business and households' calculations

94. This section aggregates monetised impacts across the 23 policy-specific IAs. Where impacts have been monetised, we have used the RPC Impact Assessment calculator to aggregate the monetised values of each policy measure for the:
- Total Net Present Social Value (NPSV)
  - Business Net Present Value (BNPV)
  - Net direct cost/benefit to business per year (EANDCB)
  - Net direct cost/benefit to households per year (EANDCH)
95. Were we to have monetised all impacts, these metrics would provide a like-for-like comparison of each policy and provide a conclusion on whether the change will be net positive or negative for society. However, we do not have sufficient evidence to monetise all impacts – particularly those that are less tangible or indirect, such as the increases in wellbeing from better working conditions, or the reduction in flexibility that employers could experience due to the new minimum standards. In addition, many of the impacts and risks depend on the specific policy design, therefore, are uncertain until further policy decisions are made after consultation with stakeholders. This means our quantified estimates and the decision metrics that they yield (i.e. 93a.- 93.d) represent only a partial assessment of the package, and more weight should be given to our qualitative discussion of benefits and costs in Section 12 below.
96. We provide these 'decision metrics' for the package as a whole as to meet requirements of the Better Regulation Framework and Green Book but emphasise that they should not be interpreted as a full assessment of the Bill. The aggregated monetised impacts are calculated for a ten-year appraisal period and all costs are given in 2024 prices and use 2024 as the base year for the present value calculation, as given in the RPC Impact Assessment Calculator. This standardised approach is taken because of the large number of measures covered. For each policy-specific IA, price years and present values may slightly differ depending on the data analysis and the expected timing for policy implementation.
97. Some of the costs of this package of reforms will fall on enforcement bodies, the employment tribunal system and ACAS. We include enforcement costs in our decision metrics where there is a sufficient level of confidence in the magnitude of impact. We do not include costs to non-compliant businesses (e.g. penalties and fines) in our NPVs as is standard but do count these recovered costs as a benefit to workers. For other costs and benefits we do not assume any 'pass through' when calculating our EANDCB and EANDCH figures in line with guidance in Better Regulation Framework. Finally, it is worth noting that for the purpose of these decision metrics we interpret households to refer to individual employees, so we do not attempt to map impacts on to a representative household.
98. Table A6 provides a summary of the estimated direct monetised costs and benefits. This is aggregates the best, or central, estimates from the cost-benefit analysis of each preferred policy option. Our NPSV is negative at -£2.8 billion (or -£280m on a per year basis), our annualised benefit for households is £0.5 billion, and annualised cost to business is £0.9 billion<sup>187</sup>. As noted above this should not be interpreted as our assessment being that the package will be negative for society, rather more we cannot robustly estimate many of the benefits at this stage.
99. A breakdown of the monetised direct costs to business by policy area is provided in Table A7. These may vary slightly to the figures in the policy-specific IA where the price and present value years differ.

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<sup>187</sup> Note that our annualised impacts on business (EANDCB) and households (EANDCH) are not simply the costs and benefits over the 10-year period divided through by ten, and therefore their netted value is not equal to our NPV on a per year. Instead, for these metrics, total costs and benefits for businesses and employees are adjusted by an annuity figure. For more info, see Regulatory Policy Committee. ['Impact Assessment Calculator User Guide'](#). 2023.

Table A6: 'Decision metrics' for Employment Rights Bill (note: this only covers the impacts we can monetise and therefore does not represent our full assessment, particularly the benefits).

	2024 prices, 2024 present value, £, billion			
	NPSV over 10 years	Business NPV over 10 years	EANDCB	EANDCH
Employment Rights Bill (summation of individual measures)	-2.8	-7.4	0.9	-0.5

Table A7: Estimated direct costs to business by individual measure (note: this only covers the costs we can monetise and therefore does not represent our full assessment, particularly the benefits).

Impact Assessment	Business NPV (£m)	EANDCB (£m)
Day 1 unfair dismissal rights	-372.2	43.2
Repeal Trade Union Act 2016	+5.6	-0.6
Repeal Strikes (Minimum Service Levels) Act 2023	-0.1	0.0
Establish a Fair Pay Agreements process in the Adult Social Care sector	<i>No impacts have been monetised at this stage</i>	
Dismissal for failing to agree to variation of contract, etc (Fire and rehire)	<i>No impacts have been monetised at this stage</i>	
ZHCs - Notice of change and payment for cancelled/moved/curtailed shifts	-2,594.0	201.4
ZHCs - Right to guaranteed hours	-1,915.8*	222.6*
Establish the Fair Work Agency to bring together existing state enforcement functions	-32.5	3.8
Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period	-3,467.2	419.7
Strengthening workers' rights to trade union access, recognition and representation	-18.6	2.2
Whistle-blowing protections against sexual harassment	<i>No impacts have been monetised at this stage</i>	
Strengthening collective redundancy rights	<i>No impacts have been monetised at this stage</i>	
Strengthen existing tipping law	-56.3	6.5
Protections against dismissal for pregnant workers	<i>No impacts have been monetised at this stage</i>	
Making flexible working the default	-12.7	1.5
Day 1 right to paternity leave and unpaid parental leave	-211.1	24.5
New right to bereavement leave	<i>No impacts have been monetised at this stage</i>	
Requiring large employers to publish Equality Action Plans	-7.8	0.9
Ensuring outsourced workers are included in gender pay gap reporting	-11.3	1.3
Require employers to take "all reasonable steps" to prevent sexual harassment of their employees	-13.4	1.6
Enabling regulations to specify specific steps employers must take to prevent sexual harassment	-4.6	0.5
Requiring employers to not permit the harassment of their employees by third parties	-25.0	2.9
Declaring Collective Redundancy for Seafarers	-0.0008	0.0001

\*Note: Both ZHC Impact Assessments include workforce planning costs, which we deem are likely to be double counting as these costs will be incurred by the same firms and the workforce planning process is likely to be similar for both policies. For transparency we display these here but have excluded the smaller of these costs from our overall NPV for this Summary Impact Assessment to avoid overestimation when aggregating.

## Section 12. Top-down assessment of costs and benefits

100. This section provides a holistic assessment of total costs and benefits, using the evidence from Section 10 and 11, as well as the policy specific impact assessments. Overall, we conclude the package will be significantly positive for society (i.e., the benefits will outweigh the costs) if policy implementation is well-targeted and the risks of unintended consequences are mitigated through consultation and policy design.

### Costs

#### Business costs

101. Based on the aggregation of monetised costs (i.e., annual impact on business of just under £1 billion) as well as our assessment of the likely magnitude of those costs we cannot monetise, we expect the policies covered within the Bill to impose a direct cost on business equivalent to low billion pounds per year. If we take the top-end of the range from our broad order of magnitude cost to business estimates in Tables A3, A4, and A5 to get the maximum likely cost this sum to £4.5 billion<sup>188</sup>. As such, we are confident that the total direct cost to business will be less than £5 billion annually. This represents a cautious assessment, and we expect the total cost to business to be refined downwards as our evidence improves and the policy development continues.
102. Nevertheless, to contextualise the size of this impact, total wage costs in the UK were £1.3 trillion in 2023 in nominal terms<sup>189</sup>, meaning that an annual cost of up to £5 billion is equivalent to an uplift of the UK's total pay bill of up to 0.4%. This cost will be concentrated on employers in lower paid sectors, but even if we assumed all of this cost falls on such sectors, then hypothetically the equivalent uplift in the wage bill for that part of the economy would be up to 1.5%<sup>190</sup>.
103. We expect that businesses will react to higher labour costs in a number of ways, and this will mean that ultimately the total cost they actually incur will be lower than this direct impact. Generally, business will look to pass on costs to consumers (in the form of higher prices) and/or workers (in the form of lower wages or worse terms and conditions) where possible. The ability to do this will depend on the demand and supply conditions that a business faces, both in product and labour markets. Where businesses face resilient demand or has a large pool of workers to draw on, then businesses are more likely to be able to pass on costs to consumers and their workforce.
104. If businesses cannot pass on costs because consumer demand is too sensitive to price changes, or wage setting is bound by institutions like the minimum wage, then they may look to absorb those costs through activities such as cutting investment or reducing training expenditure. If this is not possible, cutting employment costs, either by reducing the number of employees, reducing the hours of their workforce, or reducing the availability of overtime hours.
105. Survey evidence supports the view that employers will take a range of different approaches to dealing with higher labour costs, with absorbing costs the most commonly reported response to the rising National Living Wage across surveys from the CBI, FSB and CIPD<sup>191</sup>. Albeit it should be noted that the proportion of firms reporting they raised prices, the second most common response, increased

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<sup>188</sup> Note this excludes collective redundancy due to this being too uncertain to put an order of magnitude on and uses £100 million and £1 billion annually for the top-end estimates for fire and rehire and FPA in ASC respectively. This is an illustrative and simplifying assumption as we have not quantified the costs for these policies at this stage at this stage.

<sup>189</sup> Office for National Statistics. '[UK \(S.1\): Compensation of employees \(D.1\) Uses: Current price: £m: SA](#)'. 2024. (Accessed October 2024)

<sup>190</sup> Office of National Statistics. '[Table 2.1d: Summary supply and use tables 2021](#)'. (Accessed October 2024); since industry breakdown is only available up to 2021, the proportion of total CoE comprised of 'Agriculture', 'Construction', and 'Distributions, Transport, Hotels and Restaurants' is applied to the total CoE 2023 figure for consistency.

<sup>191</sup> Low Pay Commission. '[National Minimum Wage - Low Pay Commission Report 2023](#)'. 2024.

markedly last year as inflation spiked across the economy. Other responses included investing more (and less) in technology and training, cutting pay growth for other workers, and cutting recruitment.

106. Whilst that evidence is backward-looking, a recent ONS survey on employer responses to future increases in employment costs tells a similar story. Across all businesses in the UK with 10 or more employees, the two most common ways that businesses would respond to higher labour costs are to increase prices (40% of businesses) or to absorb within profit margins (31% of businesses). Other responses included to reduce the number of employees (17%), limit overtime hours (10%) or reduce wages for other employees (9%)<sup>192</sup>.
107. The empirical evidence about who ultimately bears the cost of strengthening employment protections is ambiguous. There appears to be little evidence to date that these responses of individual employers following rises to the National Living Wage have led to significant impacts on the macroeconomy (i.e., on employment, prices, investment, productivity), especially compared to more major factors, such as business confidence and global economic trends. This likely in part because employers react to changes in minimum standards in a combination of ways, some which offset the impact of others, and overall, once the economy adjusts the impacts are smaller than the initial change may suggest. Likewise, the academic evidence on pass through back to workers is inconclusive, with different studies showing varying degrees of employer willingness to pass on the costs of additional rights to workers. For a full discussion of this literature see Section 16.
108. Regardless, it is likely that by the combination of responses employer take the higher labour costs will mean some of these costs are offset, and this is not account for in our headline figures. Moreover, the business burdens associated with the Bill will be greatest in the short-term and reduce over time. This is because some costs are one-off, such as employers familiarising and putting in places new practises to ensure they are compliant, but also because employers are likely to adapt over time. This is not modelled in our NPSV or business NPV calculations due to lack of evidence on how to incorporate this 'adaptation effect', but again suggests those decision metrics may be an overestimate of the true impact felt by business once employers and economy has adjusted.

#### Costs on the public sector

109. There will be costs to the public sector from the reforms in the Bill. These will result from the set-up costs for the Fair Work Agency (FWA), increased funding pressures on the Employment Tribunal (ET) system, and changes to terms and conditions for workers (directly and indirectly) paid for by the Exchequer. These impacts are covered in detail where relevant in the policy-specific IAs.
110. The cost associated with the setting up the FWA is uncertain as it is highly dependent on the operational model selected. For example, we assess that organisational restructuring and consolidating the existing enforcement bodies could cost anywhere between £0.5 million and £55 million dependent on the operational design, with possible recurring annual costs of around £0.5m. Expanding state enforcement to include holiday pay enforcement, could cost between £1 million to £33 million annually, with additional associated training for enforcement officers costs between £0.5 million to £17 million. These costs will be partially offset by a reduction in pressure on the Employment Tribunal System due to the FWA taking on the responsibility for enforcing holiday pay and any penalties imposed on employers found to be noncompliant. However, given this level of uncertainty, we did not include the costs or benefits of the FWA in our net present values at this stage.
111. Reforms to the use of variable hours contracts are likely to have implications for the public sector. Zero hours and agency contracts are used extensively in some parts the public sector (e.g. social care workers, locum staff in the NHS and supply teachers). 15% of people working in the health and

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<sup>192</sup> Office for National Statistics. ['Business insights and impact on the UK economy'](#). Wave 117 edition. 2024.



social work sector and 9% of those in the education sector were employed under were employed on a zero-hours contract (ZHCs) in April to June 2024<sup>193</sup>. More specifically, ZHC's are used extensively in the adult social care sector, with 22% of the workforce in England recorded as being on a ZHC, including 29% of all care workers<sup>194</sup>.

112. Plans to increase Trade Union bargaining powers are likely to have an impact on the public sector over the medium term. Almost 90% of the public sector is covered by collective agreements, compared to just 20% of private sector<sup>195</sup>. This could potentially increase the bargaining power of public sector workers in public services which could cause additional costs to the Exchequer if the power is exercised.
113. We would expect the cost of the Fair Pay Agreement in ASC will likely lead to higher costs for local authorities' commissioning services and for self-funders. The ONS estimate 77% of people in England using community care services<sup>196</sup> and 63% of care home residents were state funded in 2022/23<sup>197</sup>. Increased costs to the local authorities could in turn create increased costs to the Exchequer. The extent of this, and how the costs are shared, depends on policy design and the outcome of negotiations, taking into account the objective of affordability for businesses, local authorities and self-funders. Some of this funding could be offset by increased tax receipts, as well as savings to the NHS. However, any NHS savings would be comparatively small and (they require separate decisions on NHS budgets.
114. It's possible that where reforms improve retention and recruitment in these occupations, there will be an offsetting saving for public sector employers over the longer-term, but this is too uncertain to quantify at this stage.
115. We plan to refine fiscal and public sector cost estimates as policy development continues. Given the likely implementation timelines for most policies, most of these costs are unlikely to materialise in this or the following financial year.

## Benefits

116. Most of the costs placed on businesses by the Bill represent a direct benefit to workers in terms of new rights and the strengthening of existing rights. Therefore, the direct benefits to workers are similar in magnitude to those costs (i.e. in the low billions of pounds per year) and are also concentrated for those in low-paying occupations. These benefits are covered in depth in the relevant policy-specific IAs, but include:
  - a. The value of payments paid to variable hours workers for short notice shift cancellation or curtailment which could be £90 million to £120 million per year, and the savings from avoiding wasted travel and childcare costs ('the insecurity premium') could be worth up to £160 million per year.
  - b. The reforms to SSP will increase the sick pay low-paid workers receive by c.£400 million a year.
  - c. The Fair Pay Agreement in Adult Social Care could lead to higher wages or employment terms & conditions in the sector.
  - d. The Fair Work Agency bringing holiday pay under state enforcement could recover hundreds of millions of pounds of arrears and penalties over time.

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<sup>193</sup> Office for National Statistics. '[EMP17: People in employment on zero hours contracts](#)'. 2024. (Accessed October 2024)

<sup>194</sup> Skills for Care. '[The State of the Adult Social Care Sector and Workforce in England](#)'. 2024.

<sup>195</sup> Department for Business & Trade. '[Trade Union Membership, UK, 1995-2023: Statistical Bulletin](#)'. 2024.

<sup>196</sup> Office for National Statistics. '[Estimating the size of the self-funding population in the community, England](#)'. 2023.

<sup>197</sup> Office for National Statistics. '[Care homes and estimating the size of the self-funding population, England](#)'. 2023.

- e. Stopping the abuse of fire and rehire practices will prevent pay and T&Cs being cut for thousands of workers each year.
  - f. Reducing dismissals of pregnant women and mothers returning from Maternity Leave, of which there are currently around 4,000 a year.
  - g. The right to Bereavement Leave following the death of a close family member would benefit between 900,000 and almost 2 million people a year depending on the definition of the scope.
  - h. Bringing an extra 30,000 fathers or partners into scope of Paternity Leave and 1.5 million workers into scope of the right to Unpaid Parental Leave.
117. We also expect there to be significant wider benefits to society, including positive impacts on health and wellbeing, equality, competition, participation. These benefits are more uncertain, as they rely on second-round effects, and there is less robust evidence to enable us to quantify and monetise them, especially then proportioning those impact to certain policies. There is also likely to be some degree of double counting between these benefits. As such they are not included in our Net Present Value calculations.
118. Nevertheless, below we summarise the literature and evidence linking employment rights changes and these factors to illustrate the magnitude of these wider benefits from the Bill. This supports our view that were these benefits to be realised they would more than offset the costs imposes on businesses and therefore mean the Bill yields a positive net benefit to society. Note that the impact on growth is assessed separately in Section 16.

### Health, Wellbeing and Job Satisfaction

119. Work is a significant contributor to individual wellbeing, so the quality of their job can be important for an individual's health. Several studies have demonstrated a link between health and wellbeing and job satisfaction in the workplace<sup>198</sup>. Poor health and wellbeing in the workforce are costly to both employers and the economy due to absenteeism and presenteeism, which has consequential impacts for productivity.
120. Specifically, evidence suggests that insecure work and poor-quality work can adversely impact workers' wellbeing by creating income insecurity and harming physical and psychological health. Wang, Narcisee and Togher (2024) find that employed adults with greater job flexibility and higher job security were less likely to experience serious psychological distress or anxiety. They also show that greater job flexibility and higher job security was also associated with reduced presenteeism<sup>199</sup>. Erickson et al's review of the UK specific evidence also finds that precarious employment can adversely affect health outcomes<sup>200</sup>. Since the Bill aims to create a baseline of stability and predictability for all workers and increase the quality of work, it's likely it will have a positive impact on workers' health.
121. In particular, the Bill will increase income security for those on zero and variable hours contracts. Dix et al. (2023)<sup>201</sup> find that not only are workers on zero-hours contracts much more likely to report a long-term health condition than those on other forms of contract, but also are almost twice as likely to report a mental health condition. Likewise, Work Foundation (2023) polling found that 'insecure' workers were twice as likely as secure workers to experience job related stress four to six days of the week (26% compared with 13%), in particular related to uncertainty over total earnings. Their polling also found

<sup>198</sup> Faragher EB and others. ['The relationship between job satisfaction and health: a meta-analysis'](#). Occupational and Environmental Medicine 2005: Volume 62(2), pages 105-112.

<sup>199</sup> Wang ML and others. ['Job Flexibility, Job Security, and Mental Health Among US Working Adults'](#). 2024.

<sup>200</sup> Labour Relations Agency. ['Building a business case for good jobs: The links between Good Work and innovation, productivity and employee health/wellbeing'](#). 2024.

<sup>201</sup> Dix G and others. ['Zero Hours Contracts, ReWage Policy Brief'](#). 2023.

that these insecure workers are nearly four times more likely to experience poor mental health when they are faced with an unexpected expense<sup>202</sup>.

122. The Health and Safety Executive quantify the impact of poor worker health on employers, and find that stress, depression or anxiety accounted for 17.1 million working days lost in 2022/23<sup>203</sup>. This is equivalent to a cost of £5.2 billion in output per year for employers in Great Britain<sup>204</sup>. The same study also finds that these impacts are concentrated in some of the low-paying sectors targeted by the Bill, such as health and social care, again suggesting a link between the level of insecure work in those sectors and the health of its workforce. Where “bad” work leads to poorer health outcomes, those costs are also borne by the taxpayer, for example through welfare when people become economically inactive or through NHS treatment costs in the case of ill health and/or wellbeing.
123. As well considering financial benefits to employers and the Exchequer, improvements in an individual’s subjective wellbeing can be valued using wellbeing-adjusted life years (WELLBYs)<sup>205</sup>. This values a one unit increase in wellbeing on a ten-point scale at £15,500, based on the relationship between changes in income and wellbeing. International evidence suggests that being in a secure job is worth a tenth of a WELLBY to an individual<sup>206</sup>. Whilst we do not know the exact size of the increase in life satisfaction for workers benefiting from measures in the Bill, if we illustratively assume that the Bill could increase wellbeing for the c.2 million workers who feel anxious about their hours changes unexpectedly, and apply the estimates from the literature, the package could have wellbeing benefits of over £3 billion a year. This shows that the benefits from subjective wellbeing improvements arising from reduced stress and better job quality will be tangible.
124. There is also a relationship between trade union membership and job satisfaction. Research has found that in Europe, the positive correlation between unionisation and a range of wellbeing metrics has been apparent since the start of the 21st century, even when accounting for demography and country fixed effects. Union membership is also negatively associated with depression and sadness<sup>207</sup>. Since the Bill includes a number of measures which aim to remove barriers to joining trade unions and improving their effectiveness, this could also bring about positive impacts on wellbeing.
125. Together this suggests that the wellbeing improvements that will arise from enhanced job security, lower income variability, and greater voice in the workplace could be substantial. Even a small reduction in the number of working days lost or anxiety due to the measures in the Bill would be a significant benefit to society.

## Equality

126. As outlined in Section 9, the UK has larger differences in most measures of inequality across its countries and regions than many other developed countries, including productivity, pay, educational attainment and health. Since the Bill will benefit lower-paid employees the most, this will lead to increased equality for those in work, in terms of their experience in work but also income inequality. Evidence to support this includes the World Bank’s analysis that shows that employment protections

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<sup>202</sup> Work Foundation. [‘Limiting Choices: Why people risk insecure work’](#). 2023.

<sup>203</sup> Health and Safety Executive. [‘Working days lost in Great Britain’](#). 2024.

<sup>204</sup> Office for National Statistics. [‘Output per hour worked, UK’](#). 2024. (Accessed October 2024); Note, this assumes working 31.9 hours a week (the average according to the ONS’ [‘Actual weekly hours worked \(seasonally adjusted\)’](#)), there are vacancies for those workers to fill, and they do not displace other workers who would otherwise fill the role. Given that there are persistence shortages in the labour market, we believe this a reasonable assumption for this illustrative analysis.

<sup>205</sup> HM Treasury. [‘Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance’](#). 2021.

<sup>206</sup> Helliwell and others. [‘World Happiness Report 2017’](#). 2017

<sup>207</sup> Centre for Economic Policy Research. [‘Unions raise worker wellbeing’](#). 2020.

can reduce income inequality<sup>208</sup>, and OECD analysis that finds wage variation amongst workers is smallest in countries with stronger collective bargaining<sup>209</sup>.

127. Viewing the impact of the Bill from an equalities perspective further demonstrates the benefits of the package. The Green Book states that where policies aim to improve equality, analysis should acknowledge that the value of an additional pound of income may be higher for a low-income recipient than a high-income recipient. This suggests that policies that redistribute towards poorer workers in an efficient way are positive for total welfare in society. At this stage, we do not believe it would be appropriate to apply distributional weights to our total transfer from business to workers due to methodological challenges<sup>210</sup>. However, illustratively, the quantified direct benefits would be a multiple higher than the direct costs on employers, i.e. the 'equity-weighted' NPV would be significantly net positive, if we assume that business owners and shareholders are higher up the income distribution than the, predominantly, low-paid workers that will benefit from these transfers. This again shows that our negative NPSV is only a partial assessment of the impact on welfare, as it does not account for the fact the Bill will have a positive impact on equality for those in work.

### Robust Enforcement and Competitive Markets

128. Effective enforcement is key to a well-functioning labour market. Currently, the UK's enforcement system is fragmented and ineffective, such that a minority of businesses have had opportunities to exploit their workers, giving them an unlawful edge over their compliant peers<sup>211</sup>.
129. The measures included in the Bill seek to put an end to the loopholes and further improve the UK's enforcement system such that those who do choose to do right by their workers, are no longer being undercut by unscrupulous employers. This will ensure all businesses are held to minimum standards which in turn will create a more level playing field and foster a more competitive market. Whilst there is little quantitative evidence about the knock-on impacts on productivity, business stakeholders frequently tell us how important strong enforcement is for a strong business environment.
130. As noted in Section 9, there is evidence of significant non-compliance in the labour market. Even if the Fair Work Agency reduces this by a small amount, this would deliver significant benefits to workers (in terms of arrears repaid and deterring non-compliance in the first place) and create a fairer business environment for employers.

### Better Industrial Relations and Employee Engagement

131. Strike action, particularly in important public services, is costly for the economy and for employers. In 2022 and 2023, the UK lost more days to strike in any year since the 1980s, and there are several estimates that this cost the economy billions of pounds<sup>212</sup>. If more cooperative industrial relations between employers and unionised workers could reduce working days lost through strike action, this would be a significant economic benefit. At this stage, the impact of the Bill's trade union reforms on the likelihood of strike action is uncertain. If relations were in fact to remain more fractious, there could be more working days lost from strike action than there would have been without the repeal of the 2016 Act. This is explored in more depth in the Trade Union (2016) and MSL repeals IAs.

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<sup>208</sup> Tjong and others. '[Income Inequality and Labor Market Regulations: A Comparative Analysis](#)'. 2019

<sup>209</sup> Office for Economic Co-operation and Development. '[Employment Outlook 2018](#)'. 2018.

<sup>210</sup> This is also noted in the Green Book, paragraph 5.72: "In practice the use of distributional weighting is challenging. This is due to uncertainty in the assumptions relating to the groups between whom redistribution is measured and uncertainty in estimation of distributional weights."

<sup>211</sup> Resolution Foundation. '[Enforce for good](#)'. 2023.

<sup>212</sup> Centre for Economics and Business Research. '[Eight months of strike action to have cost the UK economy at least £1.7bn, adding to existing recessionary pressures](#)'. 2022.

132. Trade unions also have a role to play in resolving workplace conflict. ACAS estimate that the annual cost of workplace conflict is almost £30 billion a year<sup>213</sup>. If improving worker representation, by giving trade unions greater freedom to organise, represent, and negotiate on behalf of their workers, reduces conflict by even a small amount then this will represent a large cost saving for employers and should improve outcomes for employees too.

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<sup>213</sup> ACAS. [‘Estimating the costs of workplace conflict’](#). 2021.

## Section 13. Impact on small and micro businesses

133. Typically, employment rights measures have a disproportionate impact on small and micro businesses (SMBs)<sup>214</sup> because costs arising from complying with these regulations are generally fixed costs, so do not depend on the output of the business. As SMBs operate on a smaller scale, adjustment costs represent a greater proportion of their total cost. Similarly, understanding new measures and complying with them may take up greater time and resource, as SMBs are less likely to have teams dedicated to regulation compliance than large businesses<sup>215</sup>.
134. In addition, low-paid workers are more likely to be employed by SMBs than larger firms. Around half of all minimum wage jobs in 2023 were in small and micro sized firms<sup>216</sup>. [Table A](#) shows the distribution of gross weekly pay by organisation size, for employees over the age of 16 and working full-time. This shows that for each income decile, workers in small and micro businesses earn less than their counterparts in medium and large businesses. Therefore, since the package targets workers in low paid jobs, it is likely the impact will be greater on smaller employers.

Table A8: Gross weekly pay distribution by organisation size (£), 2023<sup>217</sup>

Employer Size	Percentile								
	10	20	30	40	50	60	70	80	90
<b>1 to 9</b>	385.00	436.96	479.12	517.45	573.50	616.50	691.59	804.93	1,021.77
<b>10 to 49</b>	412.22	460.00	507.87	560.79	619.28	692.31	783.99	914.28	1,149.90
<b>50 to 249</b>	423.50	479.12	529.48	589.20	661.54	747.43	862.42	1,006.16	1,282.33
<b>250 plus</b>	438.02	500.19	561.34	630.70	703.96	793.28	897.58	1,045.18	1,303.11

135. In each of our policy-specific IAs we have undertaken a small and micro businesses assessment ('SaMBA'). In some cases, we have been able to quantify the breakdown of costs by employer size, but in others this is more difficult to do due to either lack of data or policy uncertainty. Where we have not been able to do so, we use wider evidence to assess whether SMBs are likely be disproportionately impacted, i.e., they are expected to bear a higher proportion of the costs than their share of employment. For those where costs are not yet fully monetised, further analysis will be undertaken ahead of secondary legislation to comprehensively understand the impact on SMBs.
136. Our SaMBAs finds that five of the nine largest measures within this Bill could impact SMBs disproportionately, including the two reforms to variable hours contracts, Statutory Sick Pay (SSP), ASC Fair Pay Agreements (FPA), and Fire and Rehire. This is summarised in [Table A9](#) below.

<sup>214</sup> In line with RPC guidance, small businesses are defined as those employing between 10 and 49 full-time equivalent ('FTE') employees and micro businesses as those employing between one and nine FTE employees. For a detailed assessment of the expected impact of Bill reforms on small and micro businesses, alongside considerations of exemptions and mitigations, please refer to the policy-specific IAs.

<sup>215</sup> Regulatory Policy Committee. '[RPC Small and Micro Business Assessment \(SaMBA\) guidance](#)'. 2019.

<sup>216</sup> Low Pay Commission. '[National Minimum Wage - Low Pay Commission Report 2023](#)'. 2024.

<sup>217</sup> DBT Analysis of the Annual Survey of Hours and Earnings 2023.

Table A9: Impact on SMBs for high impact policy measure

Measure	Impact on small and micro business	Justification
Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period.	Certain to have a disproportionate cost to small and micro business	Currently, SMBs account for 60% of SSP payments <sup>218</sup> and they are still expected to make up 60% of payments after the reforms. Therefore, whilst SMBs make up ~47% of businesses they will pay ~60% of any new costs from this reform.
Establish a Fair Pay Agreements process for the Adult Social Care sector	Likely to have a disproportionate cost to small and micro business.	Smaller businesses in the ASC sector could be more exposed to the costs of the policy. They may have smaller profit margins and not benefit from economies of scale to offset additional costs. This could generate disproportionate impacts depending on arrangements to fund the agreement.
ZHCs - Right to guaranteed hours	Likely to have a disproportionate cost to small and micro business.	74% of SMBs employ at least one worker with a flexible contract compared to 93% of medium businesses and 94% of large businesses <sup>219</sup> . However, the economies of scale enjoyed by larger businesses will likely reduce the overall administrative burden felt relative to their overall costs as many will be able to automate these processes, and with a larger workforce may be able to better mitigate the reduction in flexibility in face of variable demand.
ZHCs - Right to reasonable notice of shift with payment for shifts cancelled, moved and curtailed at short notice	Likely to have a disproportionate cost to small and micro business.	Similar to changes to the right to a guaranteed contract, a smaller proportion of SMBs employ flexible contract workers. However, SMBs may have more informal employment practices for which additional workforce planning may be more burdensome. The cost of paying workers for late cancelled shifts are also more likely to make up a greater proportion of total costs for SMBs.
Day 1 unfair dismissal rights	Likely to have a disproportionate cost to small and micro business.	Small and micro businesses are marginally underrepresented in unfair dismissal Employment Tribunal cases compared to their share of total employment, but SMBs are likely to be more impacted by increases in liability and/or might be more impacted by unproductive employee-job matches.
Dismissal for failing to agree to variation of contract, etc (Fire and Rehire)	Do not expect a disproportionate cost to SMBs.	Survey evidence suggests that SMBs are slightly less likely to engage in Fire and Rehire practices than larger employers.
Repeal Trade Union (TU) Act 2016	Do not expect a disproportionate cost to SMBs.	SMBs have much lower union representation than in medium and large employers. Most Trade Unions are expected to be SMBs and, due to lower administrative burden and risk, are expected to benefit from this measure.
Repeal Strikes (Minimum Service Levels) Act 2023	Do not expect a disproportionate cost to SMBs.	Sectors where MSLs were introduced are public sector organisations and therefore represent mostly large businesses. As above, Trade Unions are predominantly SMBs and will therefore benefit from less regulatory burden.
Establish the Fair Work Agency to bring together existing state enforcement functions	Do not expect a disproportionate cost to SMBs.	All businesses are expected to familiarise themselves with the new FWA which could be a bigger burden on SMBs than larger employer. Other costs, such as complying with investigations, are unlikely to disproportionately impact SMBs, as they have fewer employees. Further, as a single source of contact, the FWA is likely to reduce burden on SMB employers when seeking advice on their obligations as an employer.

137. However, not all policies will impact SMBs disproportionately. Firstly, several policies have exemptions for SMBs, for example, obligations around gender pay gap reporting and Equality Action Plans, where only large businesses (250 or more employees) will be required to publish these. There

<sup>218</sup> Internal analysis undertaken by the Department of Work and Pensions estimates that SMBs currently make up 60% of SSP payments.

<sup>219</sup> Resolution Foundation. [‘Firm foundations: Understanding why employers use flexible contracts’](#). 2024.

are also several measures, such as Collective Redundancy, where SMBs are not explicitly exempted but are not in scope due to the nature of the measures, such as the number of employees that are likely to be affected. Some policies will impact SMBs less because of who they are targeted at, for example larger employers (29%) are much more likely to be unionised than SMBs (14%) and therefore reforms to the Trade Union framework are more likely to impact larger employers<sup>220</sup>. Finally, some measures, such as the Fair Work Agency, may reduce the administrative burden for SMBs seeking advice around employment best practices or obligations.

138. Whilst our SaMBAs tend to focus on the variation on cost to business by employer size, we also expect SMBs to benefit from the wider pro-business impacts of the reforms. This includes any productivity gains associated with improved well-being and job security, as well as a more level playing field due to better enforcement outcomes.
139. Tables A10 and A11 below summarise the conclusion of our SaMBAs for the medium and low impact measures in the Bill. For more information across all measures see the relevant policy specific IA.

**Table A10: Disproportionate impact to SMBs by "medium cost to business" policy measure**

Measure	Impact on small and micro business	Justification
New right to unpaid bereavement leave	Likely to have a disproportionate cost to small and micro business.	Familiarisation costs will occur irrespective of business size and, due to economies of scale, SMBs are likely to be disproportionately impacted. Moreover, it is expected that larger businesses are more likely to have bereavement policies in place and are therefore more easily able to adapt to changes.
Day 1 right to paternity leave and unpaid parental leave	Likely to have a disproportionate cost to small and micro business.	Our analysis shows a small disproportionate impact on SMBs, as they are estimated to bear 35% of the costs while only accounting for 29% of employees.
Protections against dismissal for pregnant workers	Do not expect a disproportionate cost to SMBs.	Survey evidence suggests mothers working for SMB employers felt more likely to be forced to leave their jobs <sup>221</sup> , however, SMBs enjoy the ability to recover a higher share of the cost of Statutory Maternity Pay (103%) compared to larger employers who can only reclaim 92% <sup>222</sup> .
Strengthening collective redundancy rights	No impact or negligible impact on SMBs	Micro businesses and most small businesses are out of scope of this measure, as it requires notification where 20 workers or more are made redundant within a 90-day period. As most SMBs do not have this many employees or are unlikely to make at least 20 redundant, there is an expected negligible impact.

**Table A11: Disproportionate impact to SMBs by "small cost to business" policy measure**

Measure	Impact on small and micro business	Justification
Whistleblowing protections against sexual harassment	Likely to have a disproportionate cost to small and micro business.	While there is no evidence on incidence of sexual harassment complaints in SMBs, the lack of transparent reporting procedures and designated HR departments in small businesses, can make it more difficult for victims to come forward. There may be additional burden to SMBs in applying more formal practices.
Strengthen existing tipping law	Likely to have a disproportionate cost to small and micro business.	This measure is expected to have a disproportionate impact on SMBs when compared to their share of employment. The administrative costs are assumed to be quasi-fixed across business size groups and, for the costs that scale up according to number of employees, employment is skewed towards SMBs in tipping industries.

<sup>220</sup> Department for Business & Trade. 'Trade union statistics 2023'. Table 3.1. 2024.

<sup>221</sup> Equality and Human Rights Commission. 'Pregnancy and maternity discrimination research findings'. 2018

<sup>222</sup> HM Government. 'Get financial help with statutory pay'.



Table A11 (continued)

Measure	Impact on small and micro business	Justification
Strengthening workers' rights to trade union access, recognition and representation	Do not expect a disproportionate cost to SMBs.	Employers with workers who are union members are much more likely to be larger – very few micro or business sizes of 10-19 employees have union members in their workforce <sup>223</sup> . Most of the reforms are only relevant to unionised workplaces. It is unlikely that unions will target smaller employers for workplace access as statutory recognition processes only apply to employers with 21 or more employees. We expect that micro employers would utilise existing free written statement templates when they have a new worker, so should not incur transition costs from the employer duty to inform workers of their right to join a union.
Making flexible working the default	Do not expect a disproportionate cost to SMBs.	The Flexible Working PIR found the availability of at least one form of flexible working is almost universal across the UK economy. SMBs are much less likely to receive a flexible working request than larger employers and therefore SMBs are not expected to be disproportionately impacted.
Declaring Collective Redundancy for Seafarers	Do not expect a disproportionate cost to SMBs	Small and micro businesses which make a collective redundancy would be in scope of this measure, but the impact on each firm is anticipated to be very small.
Requiring employers to not permit the harassment of their employees by third parties	Do not expect a disproportionate cost to SMBs.	SMBs have fewer employees and are therefore likely to have stronger relationships with workforce/employees. This increases the potential of being able to mutually resolve disputes outside an Employment Tribunal, therefore costs are likely to be lower. SMBs are also less likely to pay for ET advice and representation and therefore costs will be lower.
Requiring large employers to publish Equality Action Plans	No impact expected on SMBs	This measure relates to businesses with at least 250 employees, and therefore will not impact SMBs.
Ensuring outsourced workers are included in gender pay gap reporting	No impact expected on SMBs	This measure relates to businesses with at least 250 employees, and therefore will not impact SMBs.
Require employers to take "all reasonable steps" to prevent sexual harassment of their employees	No impact expected on SMBs	This measure relates to businesses with at least 250 employees, and therefore will not impact SMBs.
Enabling regulations to specify specific steps employers must take to prevent sexual harassment	No impact expected on SMBs	This measure relates to businesses with at least 250 employees, and therefore will not impact SMBs.

<sup>223</sup> National Institute for Economic and Social Research. 'Management and Wellbeing Practices Survey'. 2023. The Management and Wellbeing Practices (MWP) survey was undertaken in late 2018 to early 2019 and provides nationally representative evidence on how employers were responding to policy development in the areas of flexible working, in-work support for parents, and collective rights.

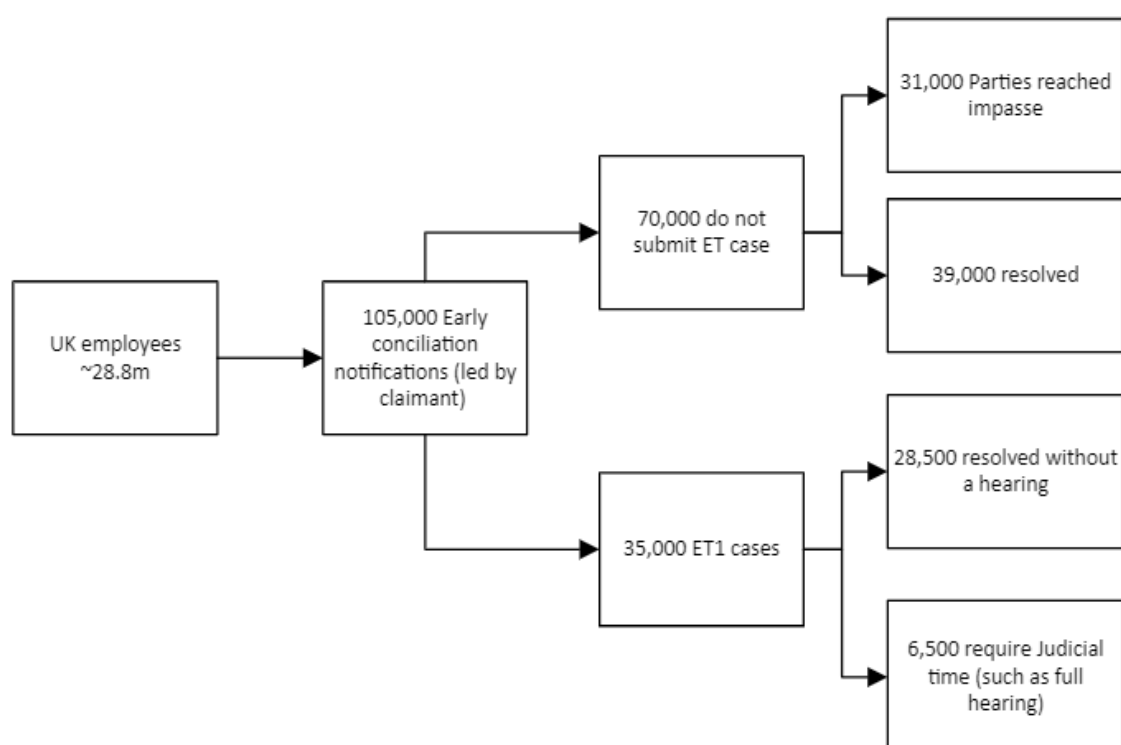
Exemptions and mitigations for SMBs:

140. SMBs are not exempt from most of these measures because a large proportion of the workforce is employed in SMBs. Exemption would undermine the objectives of this policy package and violate the underlying principle that all workers have the right to better working practices no matter who they work for. Non-exemption of SMBs also minimises the complexity for businesses to understand and comply with these measures as their situation changes, as well as any enforcement costs. Furthermore, exempting small and micro businesses from these measures could create perverse incentives, where small businesses seek not to grow to avoid being captured by this legislation, undermining the policy objectives.
141. Nevertheless, where there is likely to be a disproportionate impact in SMBs but an exemption is not appropriate, Government will consider mitigation options. Ahead of final policy decisions at secondary legislation, Government plans to undertake extensive engagement with SMBs and business representatives to understand and test where mitigations can be made that still deliver the policy objectives. including ensuring that businesses have access to guidance and access to advice to help navigate the changes, as well as providing any preventative steps employers should be taking.

## Section 14. Impact of reforms on the enforcement system

142. Many of the measures in this Bill will extend or create new employment rights for workers. If these rights are infringed, it could lead to more workplace disputes. If disputes cannot be resolved internally, then affected workers will be able to enforce their rights by making a claim which is likely to increase the number of dispute cases for early conciliation services provided by ACAS and cases for Employment Tribunals (ET).
143. The impact of the Bill on the enforcement system is difficult to accurately predict because the number of cases that enter the system each year fluctuates and the impact depends on behavioural factors, such as employers' willingness and ability to comply with regulation, and employees' willingness to bring forward a dispute. As such, our analysis at this stage is based on the current state of the system and the route a claimant takes. A simplified route of a claimant to resolution is outlined in Figure A2 below. In 2023/24 there were around 105,000 early conciliation notifications to ACAS, which will have led to around 35,000 ET1 forms of which 6,500 case required judicial time<sup>224</sup>.

Figure A2: Simplified route of Claimant to resolution<sup>225</sup>



144. Our analysis of the impact on the enforcement system is based on the policies included in the Bill at introduction. This means Make Work Pay policies that will be implemented over the next few years, and have a significant impact on the system, such as extending ET time limits, are not considered within the following analysis. Therefore, this analysis should be interpreted as an initial assessment that will be refined over time.
145. To illustratively assess the impact on the system, where possible policy-specific IAs have considered the impact on the enforcement system using a tailored approach<sup>226</sup>. Where this has not been possible, a more generalised method of using current average rates of 'Employment Tribunal cases

<sup>224</sup> ACAS. '[ACAS annual report and accounts, 2023 to 2024](#)'. 2024; ET1 claims may not progress to a full hearing as due to the other options available such as further conciliation, private settlements and case withdrawals

<sup>225</sup> Calculations based on ACAS annual report data and Office for National Statistics Labour Force Survey. Claim numbers count 'multiple' claims as a single case. Figures may not sum due to rounding.

<sup>226</sup> The IAs which do so are: 'Make general unfair dismissal protection a day one right', 'Require employers to take "all reasonable steps" to stop sexual harassment before it starts' & 'Employer liability for all workplace harassment of employees by third-parties'

per employee<sup>227</sup> has been used to approximate the total impact. For those policies, we assign a proxy jurisdiction area(s) to each policy measure, and the estimated additional claims have been calculated by multiplying the number of workers who gain a right as a result of each policy change by the claim per employee rate for that jurisdictional area(s). This number of expected additional cases is then transformed into impact on ACAS and ETs using current proportions of cases who use these services. We assume the percentage of claimants who proceed from submitting an ET1 form to an ET case is 18.6%<sup>228</sup> and the number of ACAS early conciliation notifications is assumed to be treble the number of ET1 forms<sup>229</sup>. This analysis assesses the impact on the number of cases rather than the number of claims, as the latter can vary significantly depending on the nature and jurisdiction of each case. Additionally, a single claim may cover more than one jurisdiction. The average number of total jurisdictional complaints within the system per ET1 case is 4.1<sup>230</sup>.

146. Based on the current route of claimants and cases through the system, the overall quantifiable impact is expected to be an increase of around 15%<sup>231</sup> in cases to the ‘individual enforcement’ system. This would mean an extra 15,000 early conciliation notifications to ACAS (20,000 additional complaints into the system<sup>232</sup>), 4,750 more ET1 cases and 875 additional cases which require judicial time, such as a full hearing. As the details for some measures included within the Bill will not be decided until secondary legislation, these are unable to be quantified at this stage, but we expect these will alter the potential number of workers in scope and likelihood of a worker making a claim. Therefore, the analysis outlined below is subject to change and further analysis will be undertaken ahead of secondary legislation to comprehensively understand the impact on the system. A summary of the current expected impact on enforcement by measure is presented in Table A12 below.

Table A12: Impact of policy measure on ACAS and Employment Tribunal case numbers<sup>233</sup>

Measure	Impact on ACAS (EC case numbers)	Impact on Employment Tribunals	Justification
Day 1 unfair dismissal rights	Increase- Estimated at 10,500 additional ACAS claims.	Increase- Estimated impact of an additional 3,350 ET1 cases of which 620 progress to require judicial time	This change grants 9 million people with less than 2 years in their current job the right to make an unfair dismissal (UD) claim. The Unfair Dismissal jurisdiction accounted for 12% of all jurisdictional complaints to ETs in 22/23 and therefore this policy represents the largest expected impact on the existing system. Further detail is available within the individual IA.
Right to reasonable notice of shift with payment for shifts cancelled, moved and curtailed at short notice	Increase- Estimated at 2,500 additional EC notifications, corresponding to 3,500 complaints.	Increase- Estimated increase of 850 additional ET1 cases and 150 cases which require judicial time.	The changes to Zero-Hour Contracts are expected to impact 2.4 million workers. The assessed impact of change to right to payment for late cancellation on the enforcement system is based on the frequency of cases within the jurisdictions of: Equal pay, National minimum wage, and Unauthorised deductions (formerly the Wages Act). These jurisdictions represented 30% of all complaints to ETs in 22/23 and therefore an additional 2.4 million workers with the right to make a claim is expected to lead to an increase in cases.

<sup>227</sup> i.e., Number of ET1 cases in 22/23 divided by workers currently in scope.

<sup>228</sup> 6,500 employment tribunal hearings out of 35,000 ET1 claims

<sup>229</sup> 105,000 early conciliation notifications for 35,000 ET1 claims

<sup>230</sup> Calculated based on Ministry of Justice. ‘[Tribunal Statistics Quarterly](#)’. 2023. Table ET\_1.

<sup>231</sup> Note figures are rounded to avoid spurious accuracy given the indicative nature of this analysis.

<sup>232</sup> Number of ET1 notifications uplifted by 4.1, the average number of complaints by case, calculated based on Ministry of Justice. ‘[Tribunal Statistics Quarterly](#)’. 2023. Table ET\_1.

<sup>233</sup> Note figures have been rounded to not display false confidence in estimates.

Table A12 (continued)

Measure	Impact on ACAS (EC case numbers)	Impact on Employment Tribunals	Justification
Right to guaranteed hours	Slight increase-900 additional EC notifications, 1,200 additional complaints.	Slight increase-300 additional ET1 claims and 55 additional cases which require judicial time.	The changes to Zero-Hour Contracts are expected to impact 2.4 million workers. The assessed impact of right to regular contract on the enforcement system is based on the frequency of cases within the jurisdictions of Part time worker regulations and written statement of terms and conditions. These jurisdictions represented 2.5% of all complaints to ETs in 22/23 and therefore an additional 2.4 million workers with the right to make a claim is expected to lead to a slight increase in cases.
Day 1 right to paternity leave and unpaid parental leave	Slight increase-600 additional EC notifications, 800 additional complaints.	Increase-195 additional ET1 cases of which 35 require judicial time.	Changes to day one parental leave are estimated to see 1.5 million employees gain the right in addition to the 8.9 million employees who currently have rights. The jurisdiction area which is closest is “Suffer detriment and/or dismissal-pregnancy”, but as this is not a perfect representation of all parents the category of “Others” has also been used as a proxy to be more reflective of all. These jurisdictions represented 3.4% of all complaints to ETs in 22/23 and, due to a smaller number of workers gaining the right than the previous policy changes, the expected impact is a smaller increase in number of cases.
Require employers to take “all reasonable steps” to prevent sexual harassment of their employees	Slight increase-125 additional EC notifications.	Slight increase-45 additional ET1 cases of which 8 progress to require judicial time	This impact has been calculated by taking the average number of cases which included the phrase “sexual harassment” from ET decision data base and using analysis to provide an expected increase in this number
Requiring employers to not permit the harassment of their employees by third parties	Slight increase-100 additional EC notifications	Slight increase-30 additional ET1 cases of which 6 require judicial time.	This measure’s IA assesses a small increase the number of discrimination cases accepted at ETs a result of introducing employer liability for the harassment of their employees by third parties.
Establish the Fair Work Agency to bring together existing state enforcement functions	Decrease-Magnitude dependent on policy development	Decrease-Magnitude dependent on policy development	The Fair Work Agency (FWA) is designed to create a single ‘state enforcement body’ and add new areas of state enforcement of employment rights, including state enforcement of holiday pay (which is not currently state enforced) and statutory sick pay (SSP) where there is currently a dispute resolution service provided by HMRC. ACAS and ETs are responsible for ‘self-enforced’ employment rights and so making holiday pay ‘state-enforced’ will reduce the pressure on both ACAS and ETs in the longer term. It is not possible at this stage to assess how many cases this will take away from each individual enforcement system as holiday pay cases can be complex and/or crosscutting which means they may still require a tribunal. However, the FWA will likely result in a reduction in holiday pay related ACAS and ET cases.
All other measures not named above	Negligible or unquantifiable impact		The other measures included in the Bill are expected to have a negligible or unquantifiable impact on ACAS and ETs as they are assessed to either: <ol style="list-style-type: none"> <li>1) Strengthen existing rights.</li> <li>2) Clarify existing rights.</li> <li>3) Repeal existing regulations which have small case numbers.</li> <li>4) Require further detail to inform analysis as policy detail is to be established following consultation.</li> </ol>

## Section 15. Wider Impacts

### Economic Growth

147. The Government is clear that economic growth is a top priority and is committed to a plan for long term national revival, ensuring that the economy works for businesses. Many of the policies within the Bill could help support the Government's mission for growth. Our assessment is that the package could have a direct and positive impact on growth, but we would expect this to be small. Moreover, by boosting protections and the quality of work for the poorest in the labour market, the package will help to raise living standards across the country and create opportunities for all.
148. The size of the economy is determined by the number of people in employment and how productive they are. Employment rights can impact on labour demand, labour supply (i.e., workforce participation), and productivity, and therefore impact on economic growth. There are a number of channels through which this can occur which are relevant to the Bill measure. These are covered below.

#### Channel for Economic Growth: Wellbeing and Productivity

149. As well as being good for workers' health, wellbeing and job satisfaction, employment protections can improve productivity<sup>234</sup>, thereby benefiting businesses. The efficiency wages theory suggests that when workers feel valued and are satisfied with their jobs, they are expected to become more engaged and committed to their place of work and therefore work more efficiently. This efficiency is seen to drive higher productivity and in turn can increase business output and economic growth.
150. Bosworth and Warhurst (2020) show that productivity is 8% higher amongst workers most satisfied with their pay compared to those who are least satisfied with their pay<sup>235</sup>. Similarly, Bryson et al. (2017)<sup>236</sup> and De Neve et al. (2019)<sup>237</sup> also find a positive association between employee job satisfaction and productivity. Böckerman and Ilmakunnas (2012) go further and identify a causal relationship between job satisfaction and improvements in productivity. They show that a one standard deviation increase in job satisfaction can increase productivity by 6.6%<sup>238</sup>. However, there are varying definitions across studies on the scope of factors underpinning job satisfaction. As such, whilst there is evidence of a link between job satisfaction and productivity, these do not provide direct evidence on the policies within the Bill that can be applied in our cost-benefit analysis.

#### Channel for Economic Growth: Greater Labour Market Participation

151. Increasing labour market participation is another factor in growing the size of the economy. Policies that improve the quality and flexibility of work can encourage greater participation by increasing the range of jobs and working patterns that are attractive to workers and as such, increase employment and decrease unemployment.

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<sup>234</sup> Oswald AJ and others. '[Happiness and Productivity](#)'. Journal of Labor Economics 2015: Volume 33(5), pages 789–822.

Bellet C and others. '[Does employee happiness have an impact on productivity?](#)'. Saïd Business School 2019: Working Paper 13

<sup>235</sup> Bosworth D and others. '[Does good work have a positive effect on productivity? Research findings](#)'. 2021

<sup>236</sup> Bryson A and others. '[Does employees' subjective well-being affect workplace performance?](#)'. Human Relations 2017: Volume 79(8), pages 1017-1037

<sup>237</sup> De Neve and others. '[Does Employee Happiness have an Impact on Productivity?](#)'. 2019.

<sup>238</sup> Böckerman P and others. '[The Job Satisfaction-Productivity Nexus: A Study Using Matched Survey and Register Data](#)'. Industrial and Labor Relations Review 2012: Volume 65(2), pages 244-262

152. A meta-analysis by Brancaccio et al. (2020)<sup>239</sup> on the relationship between labour market regulation and employment shows that 51% of studies find a negative relationship between labour market deregulation and employment, suggesting labour market regulation is supportive of employment outcomes, whereas 28% of studies find the effect to be ambiguous, with 21% finding a positive relationship.
153. The provision of better-quality work, more family friendly employment protections and flexible working rights through the Bill could increase the range of jobs and working patterns that suit individuals. Evidence suggests this could particularly benefit those who are currently inactive or intermittently working due to childcare responsibilities, long term illness or disabilities. For example, Gumy, Plagnol and Piasna (2022) investigated to what extent job satisfaction<sup>240</sup> affects women's labour market outcomes after their first childbirth in the UK and found that higher levels of overall job satisfaction pre-childbirth increased the probability of women returning to work sooner, as well as to the same job during a given sample period<sup>241</sup>. Additionally, another study finds that extensions of paid leave lengths have shown to have a positive influence on female employment rates and on the gender ratio of employment<sup>242</sup>. Providing greater support to workers with health problems has also been linked to reduced levels of early labour market exits<sup>243</sup>.
154. Given heightened economic inactivity is one of the biggest challenges the UK currently faces, providing working conditions that fit around responsibilities outside of work is key to ensuring employers have strong talent pools to hire from and that those who are hired are as productive as possible.

#### Channel for Economic Growth: Greater incentives to invest

155. Investment is key to driving productivity growth. The rise in labour costs associated with increasing employment protections could encourage greater commitment and investment in firm-specific human capital which in turn can have positive impacts on productivity and real wage growth.
156. For example, Autor et al. (2007) find that increasing employment protection leads to more capital being invested per unit of labour work<sup>244</sup>. Similarly, Cingano et al (2014) show how an increase in firing costs (like those that 'Making Unfair Dismissal a Day One Right' are expected to create) also increases capital investment per unit of labour work<sup>245</sup>.
157. Although other studies find negative effects<sup>246</sup>, Janiak and Wasner (2014) identify a non-linear relationship between employment protections and investment. In economies with low employment protection, additional protections increase capital investment per unit of labour work<sup>247</sup>. This may apply to the UK as it ranks in the bottom quartile of the OECD's employment protection index<sup>248</sup>. They also find that employment protections increase investment in human capital.

<sup>239</sup> Brancaccio E and others. '[A Meta-analysis on Labour Market Deregulations and Employment Performance: No Consensus Around the IMF-OECD Consensus](#)'. Review of Political Economy 2020: Volume 32, pages 1–21

<sup>240</sup> Job satisfaction relates to job security, work hours and work content, but excludes pay.

<sup>241</sup> Gumy JM and others. '[Job Satisfaction and Women's Timing of Return to Work after Childbirth in the UK](#)'. Work and Occupations 2022: Volume 49(3), pages 345-375.

<sup>242</sup> Thévenon O and others. '[Labour market effects of parental leave policies in OECD countries](#)'. 2013

<sup>243</sup> Phoenix Insights. '[Beyond the Great Retirement](#)'. 2023.

<sup>244</sup> Autor DH and others. '[Do employment protections reduce productivity? Evidence from US States](#)'. The Economic Journal 2007: Volume 117, pages F189-F217

<sup>245</sup> Cingano F and others. '[Employment Protection Legislation, Capital Investment and Access to Credit: Evidence from Italy](#)'. The Economic Journal 2014: Volume 126(595) pages 1798-1822

<sup>246</sup> Cingano F and others. '[The effects of employment protection legislation and financial market imperfections on investment: evidence from a firm-level panel of EU countries](#)'. Economic Policy 2010: Volume 25(161), pages 117-163.

<sup>247</sup> Janiak A and others. '[Employment Protection and Capital-Labor Ratios](#)'. 2014

<sup>248</sup> Organisation of Economic Co-operation and Development. '[Indicators of Employment Protection](#)'. 2022. (Accessed October 2024)

158. There is also evidence to suggest that the strengthening dismissal protections could foster innovation by providing employees with the security of work needed to undertake the risks required for innovation<sup>249</sup>. As such, whilst the most direct impact of the Bill's reforms will be benefits for workers, they may also knock-on benefits for the wider economy from incentivising more investment.

#### Channel for Economic Growth: Market dynamism - reducing the risks associated with job switching

159. As outlined above, productivity is essential to economic growth, with reallocation across industries and firms crucial to the efficiency gains required to raise productivity. As such, job switching from less to more productive firms is good for overall productivity<sup>250</sup> and workers who switch jobs tend to see pay rises on average three times higher than those who do not<sup>251</sup>.

160. The measures within the Bill have the potential to contribute to this productive reallocation. For instance, the provision of basic individual rights from day one for all workers could incentivise greater job switching by providing workers with more security when changing jobs<sup>252</sup>.

#### Channel for Economic Growth: Market dynamism - reallocation effects

161. Imposing higher standards on businesses may mean that less productive firms exit the market. Under the theory of the standard competitive model, any limits on the freedom of contract will impose some form of resource cost on a business and as such, lead to an increase in unemployment<sup>253</sup>. However, in reality markets are subject to imperfections and friction, which means that in many cases low productivity employers can survive in the labour market, competing on low pay and poor terms and conditions. Therefore, it is possible that stronger employment protections can in fact benefit more productive businesses, who are better placed to adapt to higher labour costs, allowing them take over the product markets and employment shares of those less productive firms.

162. If this occurs, then overall productivity would rise by a 'batting average' effect i.e., the remaining employers are on average more productive than before. Although this may not benefit all businesses, it should lead to an overall net welfare gain to society. Whilst there is little evidence of this empirically in the UK, there is evidence of these impacts occurring in Germany in 2015 following large increases in the minimum wage<sup>254</sup>. The higher labour costs forced less productive businesses out of the market, allowing more productive businesses to 'hoover up' workers in those less productive firms and as a result gain a greater share in the market. Albeit it should be noted this reallocation may not be immediate and so there could be some negative impacts in the short term before markets adjust.

163. We know that market dynamism is an important channel for growth in the UK, with around 60% of the fall in productivity growth since 2008 being attributed to the falling reallocation of resources in the economy<sup>255</sup>. Therefore, whilst there is little UK-specific evidence, it is plausible to assume that this

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<sup>249</sup> Acharya VV and others. '[Labor Laws and Innovation](#)'. The Journal of Law and Economics 2013: Volume 56(4), pages 997-1037. and Belloc F. '[Employee Representation Legislations and Innovation](#)'. 2016.

<sup>250</sup> Martin JP and others. '[Setting It Right: Employment Protection, Labour Reallocation and Productivity](#)'. De Economist 2011: Volume 160(2), pages 89-116.

<sup>251</sup> Office for National Statistics. '[Job changers and stayers, understanding earnings, UK: April 2012 to April 2021](#)'. 2022.

<sup>252</sup> Organisation for Economic Co-operation and Development. '[Employment Outlook 2020: Worker Security and the COVID-19 Crisis](#)'. 2020.

<sup>253</sup> Addison JT others. '[The Economics of Employment Protection](#)'. Journal of Labor Research 2003: Volume 24, pages 85-128.

<sup>254</sup> Dustmann C and others. '[Reallocation Effects of the Minimum Wage](#)'. The Quarterly Journal of Economics 2022: Volume 137(1), pages 267-328.

<sup>255</sup> This figure is an estimate. It is Based on Office for National Statistics. '[Estimates of total factor productivity from the Annual Business Survey, Great Britain: 1998 to 2019](#)'. 2022; This data shows that the growth contributors...



channel of impact could occur and as such, potentially provide an environment for those businesses which are more productive and efficient to flourish.

### Offsetting impacts on growth

164. It should also be noted that higher labour costs could also have a direct and negative impact on the level of labour demand in the economy. If labour demand levels cause employers to cut staffing levels, this would weigh on growth, unless employers subsequently invest sufficiently in capital which means increased productivity offsets the fall in employment.
165. The impact on labour demand will depend on whether employers can absorb or pass on costs. Where they can successfully do so (i.e. because they have a strong degree of 'wage-setting' or pricing power), then the negative impact on employment and therefore output will be negligible. As laid out in Section 12, it is likely that employers will offset the costs placed on them to some degree by adapting and/or passing on costs.
166. Furthermore, the prevailing labour market conditions will also influence the risks to employment. If the labour market is tight when the package is implemented (i.e., labour demand is strong relative to supply, so workers are scarce, and employers are having to compete to recruit and retain staff), it is less likely employers will react to higher labour costs by letting workers go. Although recent labour market data suggests that the labour market is normalising (e.g., vacancies are back towards pre-pandemic levels), the balance of demand and supply moving forward is unclear. Whilst demographic change is likely to weigh on labour supply over the medium-term, the impact of other factors like the Government's policy ambition to reduce net migration and reduce the current heightened levels of long-term sickness are more uncertain.
167. Given the magnitude of the costs of the package, the evidence to date of how employment legislation impacts employment outcomes, and the current state of the labour market, we believe the risks to employment to be small at a macro level. However, if those risks were to materialise to a significant degree it would at least partially offset the positive impacts from the channels discussed above. These risks could be greater for individual groups in the labour market though, and this is explored in more detail in Section 16 ('Unintended Consequences') below.

### Overall impact

168. On balance, we believe the impact on growth could be positive (i.e. the positive channels above outweigh the offsetting effects) but the direct impact would be small in magnitude. This is because the package is well targeted at low-paying sectors meaning that many of the channels covered above are less applicable for a large part of the economy. In addition, the evidence between employment rights and growth in the UK is limited, but where we do have strong, policy-specific evidence it often indicates that the policy has had a negligible effect on growth. For example, the National Living Wage, which has imposed a similar magnitude of costs on a similar part of the labour market in recent years as we expect the Bill to have, has had a limited impact on productivity and participation (and by extension growth) in either direction. It is right that there is evidence linking flexible working to stronger productivity and this change will boost productivity for some workers and some employers, but the increase in uptake of 'making flexible working the default' is relatively small compared to the number of people employed and therefore, at a macroeconomic level, the impact on average productivity will be small.

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(continued)... associated with reallocation across industries, reallocation across firms inside industries and growth from net entry and exit (unambiguously market dynamism) reduced by 76 percentage points from the period 1999-2007, to the period capturing 2011-2019. This is 60% of the productivity fall between those periods.

169. Whilst we conclude that the direct impact would be small, it is likely that by boosting protections and the quality of work for the poorest in the labour market, the package will enhance lower-paid workers' share in the benefits of growth and boost equality in work. This is more than just good for equality; it could be good for the economy too as there is evidence that equality is important for 'sustainable' growth over the long-term. For example, the OECD note that higher inequality can lead to underinvestment in human capital and weaker adoption of technologies<sup>256</sup>. They estimate that as a result of rising inequality between 1990 and 2010 output in the UK was almost nine percentage points lower than it could have otherwise been. As a result, by increasing the security, quality and equality of work, it's possible that the Bill could also indirectly support the Government's mission to grow the economy beyond a small direct impact, helping to raise living standards across the country.

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<sup>256</sup> Organisation for Economic Co-operation and Development. '[Trends in Income Inequality and its Impact on Economic Growth](#)'. 2014.

## Section 16. Unintended Consequences

170. As with any regulatory intervention, if not well-targeted and well-designed, the Bill measures have the potential to cause unintended consequences. The main risks include higher labour costs weighing on demand for workers and damaging employment prospects, costs being passed back onto workers in the form of worse terms and conditions and increasing the incentives to employ more workers on casual and temporary contracts. If those risks do occur, the Bill could harm some of the workers the package is trying to support. The strength of the evidence for each of these risks is considered in turn below.
171. If businesses' ability to adjust their workforce to optimal levels is hindered by the costs of the Bill, this could slow the rate at which reallocation in the face of economic shocks can occur. Economic theory suggests that when the labour market is in equilibrium, firms will react to higher labour adjustment costs by reducing both job creation and destruction. This in turn reduces, or slows, the flow of workers across the market<sup>257</sup>.
172. There is some evidence that employment reforms make employers less willing to hire workers<sup>258</sup>, including evidence specific to the strengthening of dismissal protections. For example, the OECD noted that more stringent dismissal and hiring policies involve an inherent trade-off between job security for workers who have a job, and firm adaptability to changes in demand conditions or technology<sup>259</sup>. Likewise, Martin and Scarpetta (2012)<sup>260</sup> also find that employment protections can reduce job reallocation and creation if they increase the costs of reallocation, which in turn means that some workers lose out from employment protection reforms. This is because workers who are displaced due to higher labour costs end up worse off in the long run due to longer periods of unemployment and/or lower real wages in post-displacement jobs.
173. As laid out in Section 15, we deem the risk of significant unemployment effects from the package to be small. This is because the overall size of the costs placed on employers is similar to the magnitude of costs associated with the rises in the National Living Wage, which have caused little to no employment effects (suggesting there is a significant degree of monopsony power amongst low paying employers), and even where employers are forced to cut labour, it is likely that more productive firms will react by assuming their market share (such as the example of what happened in Germany). In addition, the literature generally suggests employment rights regulation to either be supportive of or ambiguous towards employment outcomes<sup>261</sup>.
174. Nevertheless, those risks to employment will be highest for workers with the weakest attachment to the labour market, including: (1) the low-paid, who are already most likely to be let go from work in a downturn; (2) disabled workers, who face a large 'employment gap'; and (3) the youngest workers, since they are still gaining experience and skills. The risks will also be higher in local labour markets where demand is weaker, i.e., those that tend to have lower average incomes or higher levels of unemployment.
175. In particular, this will need to be considered ahead of policy design decisions on 'unfair dismissal a day one right' and the reforms to zero hours contracts. Given there is evidence that suggests that there is a negative relationship between dismissal protections and hiring rates, employers may

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<sup>257</sup> Bjuggren CM. ['Employment protection and labour productivity'](#). Journal of Public Economics 2018: Volume 157, pages 138-157

<sup>258</sup> European Commission. ['Employment protection legislation: its economic impact and the case for reform'](#). 2003.

<sup>259</sup> Organisation for Economic Co-operation and Development. ['OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis'](#), 2020; section 3: Recent trends in employment protection legislation.

<sup>260</sup> Martin JP and others. ['Setting It Right: Employment Protection, Labour Reallocation and Productivity'](#). De Economist 2012: Volume 160(2), pages 89-116

<sup>261</sup> Brancaccio E and others. ['A Meta-analysis on Labour Market Deregulations and Employment Performance: No Consensus Around the IMF-OECD Consensus'](#). Review of Political Economy 2020: Volume 32(1), pages 1-21

respond to the unfair dismissal policy by taking on fewer young workers or 'riskier' hires, for example, those with long-term health conditions or ex-offenders. Likewise, as zero hours contracts are used disproportionately by young workers (many alongside study), disabled workers, and those from ethnic minority backgrounds, so the risk of reducing the availability of this type of work would fall greatest on these groups. Ultimately, the risks will be determined by how restrictive the policies on variable hours contracts are and how statutory probation periods operate in practice. Both issues will be determined through secondary legislation following full consultation with relevant stakeholders.

176. Another risk that will be considered through policy design is that strengthening the level of employment rights for permanent workers could increase the incentive to employ people on more casual and temporary forms of contracts, such as agency workers, fixed term contracts, or moving to self-employed or 'limb b' worker' operating models, to avoid higher labour costs. Currently, the UK has a low level of workers in 'involuntary' temporary or casual work compared to OECD countries. As pointed out by CIPD (2024)<sup>262</sup>, this may in part be due to the current balance between the rights for permanent, temporary and casual work in the UK. Although empirical evidence on this dynamic is limited, with no UK specific studies conducted, analysis of Italy (Hijzen, Mondauto and Scarpetta, 2017<sup>263</sup>) found that increased employment protection led to Italian firms making greater use of workers on temporary contracts thereby reducing worker and depressing labour productivity. In addition, the OECD advise that employment reforms should seek to avoid creating a large divergence in regulatory (and tax) treatment, as this creates incentives for employers to employ workers on less secure forms of contract<sup>264</sup>. Although not included in the Bill, the Government laid out in the Plan to Make Work Pay its intention to consult on reforms to the employment status framework, which determines what employment rights workers are entitled to. This consultation will investigate in detail the differences between workers and the genuinely self-employed.
177. The pass-through of higher labour costs from businesses to other parties could also create an unintended consequence, for example, if costs are passed back to workers in the form of reduced wage growth. The literature is not conclusive on the extent that this happens in response to higher protections. Some studies show that, in the US mandating maternity health insurance was passed onto workers via lower wages for women<sup>265</sup>, and another study found that across several European countries nine-month maternity leave entitlements reduced wages by 3–4%<sup>266</sup>. Not all studies concur though. For example, some show that maternity legislation in the US and the UK had no effect on wages and actually mildly increased employment<sup>267</sup>. Similarly, Ruhm and Teague (1997), using information from 17 European and North American countries, showed that short to moderate entitlements to parental leave are positively related to per capita incomes and labour force participation<sup>268</sup>.
178. Furthermore, is little evidence of pass-through onto workers from the National Living Wage increases. This may be in part because on a mechanical level, the wage floor means that employers cannot pass those costs back to those same workers. However, some employers have reported that higher wage increases for the lowest paid has in part been paid for by smaller pay rises for higher-paid members of their workforce, yet there is limited evidence this impact has meaningfully affected

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<sup>262</sup> Chartered Institute of Personnel and Development. '[Analysis: Proposed changes to unfair dismissal rules risk more insecure work](#)'. 2024.

<sup>263</sup> Hijzen A and others. '[The impact of employment protection on temporary employment: Evidence from a regression discontinuity design](#)'. Labour Economics 2017: Volume 46, pages 64-76

<sup>264</sup> Organisation for Economic Co-Operation and Development. '[Jobs Strategy](#)'. 2018.

<sup>265</sup> Gruber J. '[The incidence of mandated maternity benefits](#)'. The American Economic Review 1994: Volume 84(3), pages 622-641

<sup>266</sup> Ruhm CJ. '[The Economic Consequences of Parental Leave Mandates: Lessons from Europe](#)'. The Quarterly Journal of Economics 1998: Volume 113(1), pages 285-317

<sup>267</sup> Waldfogel J. '[The Family Gap for Young Women in the United States and Britain: Can Maternity Leave Make a Difference?](#)'. Journal of Labor Economics 1998: Volume 16(3), pages 505-545

<sup>268</sup> Ruhm CJ and others. '[Parental Leave Policies in Europe and North America](#)'. National Bureau of Economic Research 1995: Working Paper Number w5065

wages. Ultimately, the extent that passthrough wages occurs will depend on a variety of factors, including employers' wage and price-setting power, their ability to absorb costs, and how much flexibility they have against minimum standards. If costs cannot be passed on or absorbed, then employers may cut hours offered to workers, future hiring activity, and may make redundancies in order to cut costs. At a macro-economic level, we expect these affects to be relatively small, but the risks are higher for some groups than others.

179. Overall, we do not believe there is a strong case that the Bill will lead to negative impacts on those workers it is seeking to benefit. However, there is sufficient evidence around potential unintended consequences to highlight the risks that will need to be considered during policy development work ahead of secondary legislation. These are also areas which Government will need to monitor and evaluate so that there is a clear understanding on how reforms are impacting on employers and workers.
180. The Government will seek to minimise the risk of these unintended consequences through the policy development process. This is why the reforms will be delivered in partnership with businesses and trade unions, using extensive consultation to ensure Government gets the detail right before changes are implemented.

## Section 17. Sectoral Impacts

181. The Bill is likely to have a varying impact across sectors because the workers who the package targets are not equally spread across the labour market. We have assessed this sectoral variation in each of our policy-specific IAs and this section provides a summary of that work.
182. Since not all impacts are quantifiable at this stage, producing a breakdown of our monetised costs and benefits by sector would be misleading. Instead, to account for those non-quantifiable impacts, we assessed the sectoral impacts based on the available evidence and used this to categorise the impact of each measure on broad sectoral groupings into red, amber and green. These scores refer to whether the measure is certain to disproportionately impact a sector (red), likely to disproportionately impact a sector (amber), or unlikely to disproportionately impact the sector (green).
183. Figure A3 provides the results of this exercise, split by the large, medium and small impact measures. The policies are ordered from left to right on the number of red and amber scores given to that policy, and we exclude those policies where there are no different impacts by sector expected (i.e., every box for that policy would be green).
184. Since the Bill aims to improve jobs security and pay for vulnerable and low pay workers, it is unsurprising that the sectors that we expect to be most impacted mostly fall within the boundaries of those defined as “low-pay sectors”<sup>269</sup>. Figure A3 shows that out of the 9 measures deemed “large impact” they are most likely to impact Health and Social Work (6 measures), Education (5 measures), Accommodation and Food (4), Transport and Storage (4), Wholesale and retail trade (3) and Arts and Recreation (3), and Administration and support services (3).
185. Changes to variable hours contracts covered by the ‘right to a guaranteed hours contract’ and ‘right to reasonable notice and payment for late cancellation of shifts’, are likely to have the broadest impact across sectors. This is due to their heavy use in some sectors, and particularly in those where labour demand fluctuates throughout the year. This is notable in the hospitality sector, where workers are three times as likely to be on a variable-hours contract as the average worker (41% versus 13% respectively)<sup>270</sup>.
186. Furthermore, while unfair dismissal is expected to impact all sectors, some sectors, such as ‘accommodation and food services’ and ‘arts, entertainment and recreation industries’, contain a higher share of employees with less than two years of tenure<sup>271</sup>. There is some indication that ‘manufacturing’ and ‘wholesale and retail’ are disproportionately represented among employment tribunal cases of unfair dismissal compared to their share of employment<sup>272</sup>.
187. Establishing the Fair Work Agency is likely to most impact low-paying sectors, as both DBT and HMRC expect that sectors that are at a higher risk of National Minimum Wage (NMW) underpayment, such as hospitality, education, and health, are also more likely to be non-compliant with holiday pay regulations. Therefore, compliant employers in those sectors will benefit the most from better support and stronger enforcement creating a fairer and more level playing field.
188. The Trade Union reforms are expected to impact public service dominated sectors such as Education, Health, Public Administration and Transport. This is largely due to the fact that the public sector has a much higher rate of unionisation. In 2023, approximately 45.7% of employees in the Education sector, 41.5% of employees in the Public Administration sector, 36.9% of employees in the

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<sup>269</sup> Low Pay Commission. [‘The LPC has updated its definitions of ‘low-paying sectors’](#). 2023.

<sup>270</sup> Resolution Foundation. [‘Firm foundations: Understanding why employers use flexible contracts’](#). 2024.

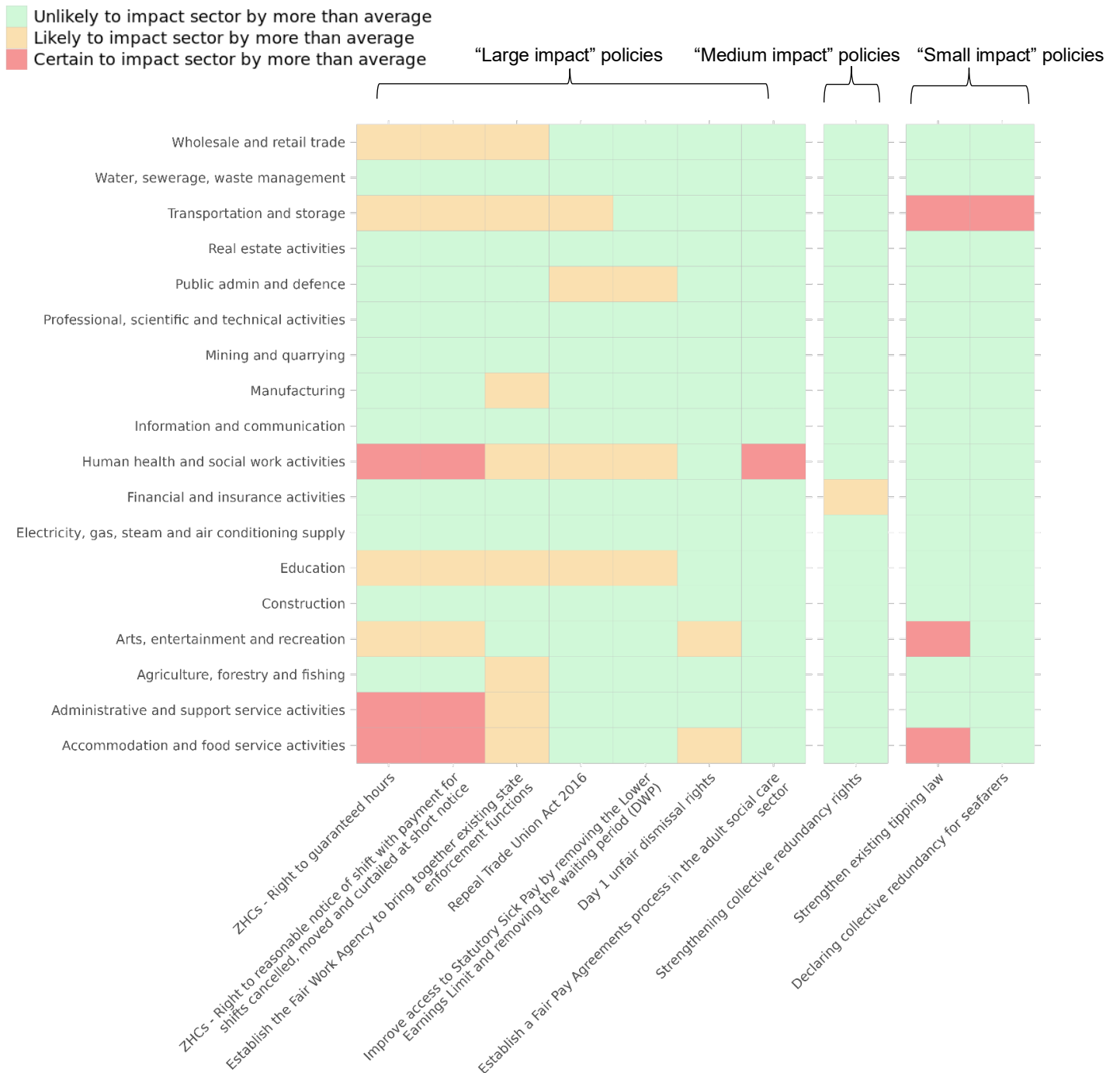
<sup>271</sup> Based on Department for Business & Trade analysis of the Labour Force Survey microdata, January to March 2024.

<sup>272</sup> Department for Business, Energy & Industrial Strategy. [‘Survey of employment tribunal applications 2018’](#). 2020.

Health and Social Care sectors and 33.9% of employees in the transport and storage sector were members of a union, compared to an average of 22.4% of all employees in the UK<sup>273</sup>.

189. Lower impact policy measures, such as tightening the tipping law are also expected to have an impact on low-paying sectors. Face-to-face services where tipping is a common practice include, but are not limited to, bars, restaurants, and hair and beauty.

**Figure A3: Heatmap of sectoral impacts by Employment Bill policies that are expected have specific sector impacts**



**Source:** DBT Analysis, supporting evidence in policy specific IAs

<sup>273</sup> Department for Business & Trade. 'Trade union statistics 2023'. 2024.

## Section 18. Regional Impacts

190. The measures in Employment Bill are economy-wide and therefore will be applicable to employers and workers across Great Britain (GB). However, since the impact will vary by sector and there is variation in density of different industries across, the benefits and costs will be concentrated in certain geographies.

191. As laid out in Section 17, we expect the impact of the Bill to be concentrated low-paying sectors. These sectors include, among others, hospitality, retail, transport, employment activities (agencies), social care, textiles, hair and beauty and call centres. Figure A4 shows the employment density of low-paying sectors across travel to work (TTWA) areas. The employment density is calculated using employment figures from the Business Register and Employment Survey (BRES) using the average over the 2019-2022 period. In effect this employment density is a measure of how much the local labour market relies on jobs that tend to be lower paid, and more likely to be impacted by the Bill.

192. The densities are calculated using a location quotient:

$$LQ = \frac{\left(\frac{E_{i,r}}{E_r}\right)}{\left(\frac{E_i}{E}\right)}$$

Where  $E$  is the number of people employed in industry  $i$  and region  $r$ . In our analysis,  $i$  represents any industry considered in the LPCs low-pay sectors, and  $r$  represents the TTWA. A location quotient equal to 1 suggests that the share of employment in low-pay sectors in the TTWA is the same as across GB. A location quotient above 1 suggests that the proportion of employment in low-pay sectors in the TTWA is above the GB average, and below 1 suggests that the proportion of employment in low-pay sectors is below the GB average.

193. Firstly, this analysis shows that the Bill will deliver benefits for workers across the country, with the concentration of low paying sectors fairly even across GB<sup>274</sup>. Secondly, those areas that do have a slightly greater concentration of jobs in low paid sectors, such as areas in central Scotland, North Wales, the East of England, and areas of Southwest England will be those where workers benefit most.

194. Most of these regional disparities are driven by employment in hospitality, which makes up approximately 20% of employment in the “low pay sectors” based on average employment between 2019-2022. It should be noted that this reflects the proportional impact, rather than the absolute impact. For example, London employs the most hospitality workers (~400k), but the employment density (location quotient) is only just higher than the average. This tells us that it’s likely that in more workers in London will benefit from the Bill than other parts of the country, but this is largely a result of more people working in London as a whole, with the benefits being more concentrated in other regions.

195. Looking further into the low-pay sectors which are likely to be disproportionately impacted by measures in the Employment Rights Bill, healthcare activities, including social care, tend to be marginally more concentrated in areas of Southwest Scotland, parts of the South West coast, and in areas in the South East coast. Wholesale and retail tends to be more concentrated in areas of the Midlands such as Peterborough or Kettering, likely due to a centralised access to the market nationwide<sup>275</sup>. However, the regional spread of local service sectors such as leisure, hair and beauty and childcare, is more evenly distributed.

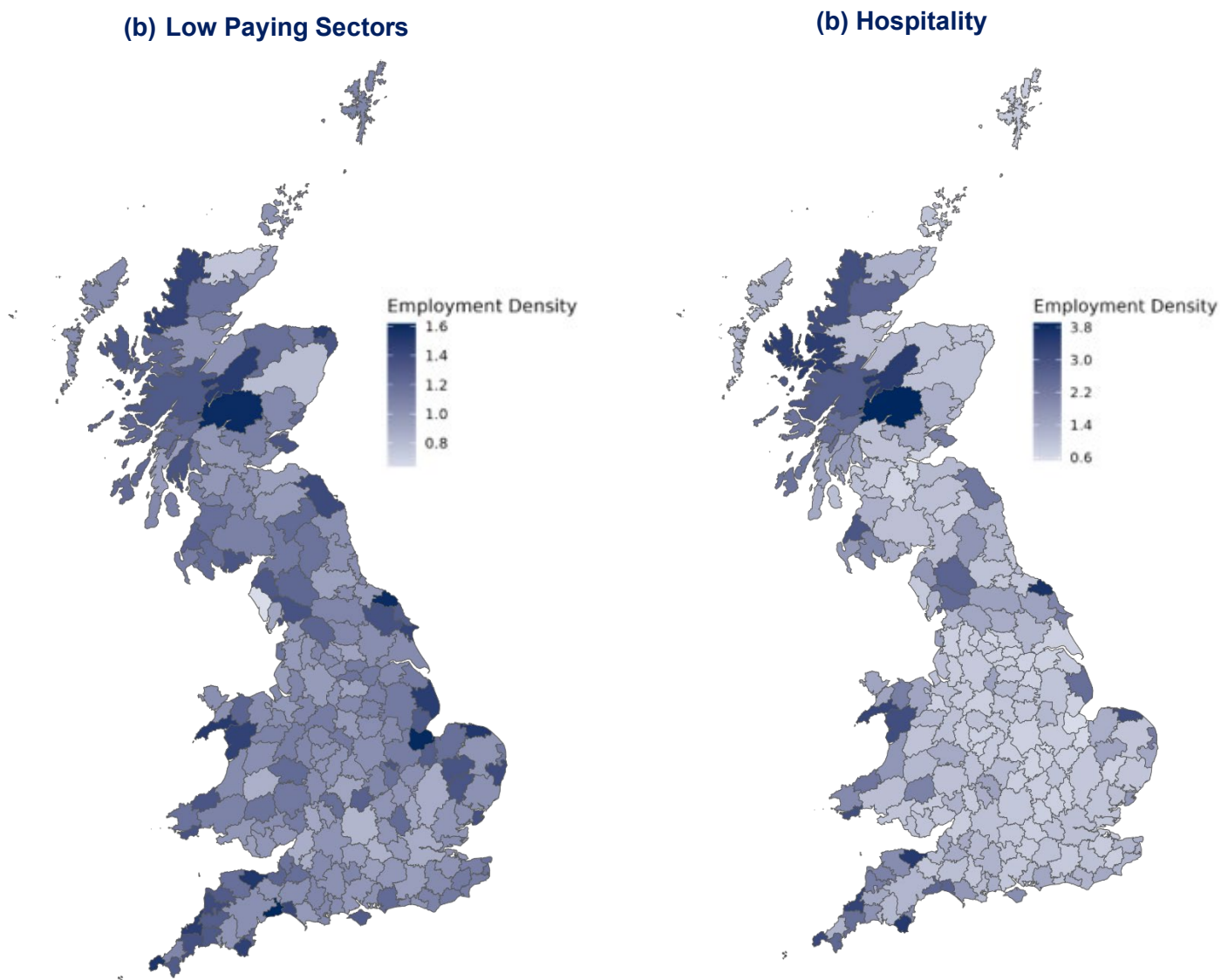
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<sup>274</sup> Note that this data is for unavailable Northern Ireland.

<sup>275</sup> Department for Business & Trade analysis of Business Register and Employment Survey (BRES).



Figure A4: Employment Density of Low Paying Sectors, by Travel to Work Area (2019-2022)



Source: DBT analysis of Business Register and Employment Survey data<sup>276</sup>

196. While workers in regions with a greater concentration of low paid sectors will benefit the most from more secure and better-quality work, employers in those regions will face a higher proportion of the costs. This suggests those regions may be more exposed to the employment risk associated with the higher cost to business that are discussed in Section 16, especially if this coincides where local labour demand is weaker and the business environment less robust. For example, Figure A4 shows that some coastal regions have a greater density of low paying sectors, suggesting costs from the Bill will be greater there, and we also know that coastal regions tend to have lower employment rates than inland<sup>277</sup>.

197. The final factor that will influence benefits and risks on regional basis is the level of monopsony power across different local labour markets. Where monopsony power is greater, i.e. there is less

<sup>276</sup> Department for Business & Trade analysis of the: Nomis, Official Census and Labour Market Statistics '[Business Register and Employment Survey](#)'. 2022.

<sup>277</sup> House of Commons Library. '[Employment of people living in rural](#)'. 2024.

competition among employers for workers and employers have more ‘wage-setting power’, the risks to employment will be lower. This is because those employers are more likely to be able to absorb costs and/or pass on costs (as discussed in Section 10. Analysis from the Competition and Markets Authority (CMA)<sup>278</sup> finds that there is a strong relationship between low-pay sectors and employer market power. They found that across the UK, the mean labour market Herfindahl Hirschman Index (HHI) is highest in Scotland and Wales. Therefore, the risks of unemployment in these regions due to employment density in low-pay sectors may be mitigated by the current level of employer market power in these regions.

198. More detailed regional analysis can be found where relevant in the policy-specific IAs. We plan to extend and refine our spatial analysis in the coming months, assessing the regional footprint of costs on business, the resilience of local labour markets, and the level of monopsony power. This will provide a framework for assessing how the relative benefits and costs to employers and employees differ across different parts of the country.

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<sup>278</sup> Competition and Markets Authority. [‘Competition and market power in UK labour markets’](#). 2024.

## Section 19. Public Sector Equality Duty analysis

### The duty

199. The Equality Act 2010 protects against unlawful discrimination based on the following protected characteristics:
- Age
  - Disability
  - Gender reassignment
  - Marriage and civil partnership
  - Pregnancy and maternity
  - Race
  - Religion or belief
  - Sex and sexual orientation
200. The Department for Business and Trade is subject to the public sector equality duty (PSED) set out in the Equality Act 2010. It requires public bodies to have due regard to the need to:
- a. Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act
  - b. Advance equality of opportunity between people who share a protected characteristic and those who do not, and
  - c. Foster good relations between people who share a protected characteristic and those who do not
201. An equality analysis is an important mechanism for ensuring that we gather evidence to enable us to identify the likely positive and negative impacts that policy proposals may have on certain groups, and to estimate whether such impacts disproportionately affect such groups. In many cases for this policy package, broad powers are proposed to be taken in primary legislation, with detailed parameters of policy to be set out in secondary legislation subject to consultation. Therefore, at this stage it is not possible to provide a final equalities assessment. Government will undertake more detailed analysis in advance of subsequent secondary legislation and take this into consideration for any monitoring and evaluation plans.
202. So we will continue to have regard to the aims of the public sector equality duties, and at this stage, make an initial top-down assessment of the proposals against each of the three aims. Hence this equalities analysis captures the expected broad impacts across this package of measures, highlighting where particular measures may either positively or negatively disproportionality impact those with protected characteristics.
203. By targeting issues of job security, job quality and fair pay, this package of measures is expected to have an overall positive impact and benefit protected characteristics that are disproportionately represented in low pay, low quality, insecure, vulnerable jobs, especially via advancing equality of opportunity. Workers who are female, younger or from ethnic minority groups are more represented in the low-paid and insecure work that the Bill targets the most<sup>279</sup>. In line with this we expect that these groups are those set to benefit the most from improving the quality of work, increasing worker voice, strengthening worker protections, and reforming the enforcement system. In addition, many policy measures are targeted directly at workers with protected characteristics.
204. It should be noted that as outlined in Section 16 ('Unintended Consequences'), some of these groups are also those for whom the risks to job prospects from higher labour costs is greatest. Overall, we deem this risk to be relatively small, but if these risks were to occur, then this would offset the benefits to the protected groups.
205. Several measures impact the rights of workers with protected characteristics either directly or indirectly. These measures are expected to reduce unlawful discrimination, harassment, victimisation

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<sup>279</sup> Trade Union Congress. ['BME women far more likely to be on zero-hours contracts'](#). 2023.

and any other conduct prohibited by the Act. By enhancing equality of opportunity, treatment, improving worker satisfaction through better terms and conditions for workers, and improving outcomes for all in the workplace, we expect benefits for workers with protected characteristics by improving job quality for these workers.

206. An equalities analysis for each individual measure can be found within the policy-specific IAs, and Table A13 summarises PSED impacts of all measures in the Bill. The key measures that are expected to have varying impacts across workers with the protected characteristics are:

- a. **Protections against dismissal for pregnant workers** - this policy aims to reduce the amount of discrimination towards pregnant women and mothers returning to the workplace. Starting a family is shown to have negative impacts on career outcomes for women, affecting women's earnings but not that of men<sup>280</sup>. If a pregnant woman/new mother avoids dismissal and remains employed, there will likely be positive effects on the well-being and career progression.
- b. **Day 1 right to Unpaid Parental Leave** - parents aged 30 to 44 are most likely to benefit from this policy change, representing 62% of those in scope<sup>281</sup>. This is somewhat consistent with findings of the Parental Rights Survey<sup>282</sup>, which found that 51.9% of fathers and 43.4% of mothers were aged between 30 and 40, although it is hard to directly compare as there is no data available for those aged between 40 and 44.
- c. **Day 1 Paternity Leave** – whilst it is fathers with less than 6 months tenure that will benefit from this change, due to data limitations we use all fathers as the comparator group at this stage. According to the Parental Rights Survey<sup>283</sup>, most fathers are aged 30-34 (28%), followed by those aged 35-39 (23%), and those aged 40 and over (20%). In terms of the ethnicity of fathers, 70% of fathers surveyed are 'White', 17% are 'Asian' and 8% are 'Black'. The data for fathers with a disability illustrates that 6% of fathers have a physical or mental health condition lasting or expected to last 12 months or more.
- d. **New right to unpaid bereavement leave** – whilst the policy is not targeted at any specific group (all employees will be eligible for bereavement leave), particular groups may benefit more than others depending on policy design. For example, if the death of a grandparent is not included in the scope of the policy, the population entitled to bereavement leave will become older (as grandchildren would no longer be eligible). There is also some evidence of disproportionate impacts by age, due to the size of different worker age cohorts (i.e., more employees in the 35-49 age group) and ethnicity as the share of families with three or more children varies from 14% in White British families to 41% in Pakistani families and 38% in Bangladeshi families<sup>284</sup>. However, the impact by group will ultimately depend on the family relationship that is in scope of the policy, which is to be determined through secondary legislation.
- e. **Right to reasonable notice of shift with payment for shifts cancelled, moved and curtailed at short notice, and a right to guaranteed hours** – the workers in scope of these changes are more likely to be female (51% of those in scope compared to 48% across the wider workforce), in the 16-24 group (24% of those in scope compared to 10% across all workers), and identify as being in the Black ethnic group (11% of those in scope compared to relative to 4% across all

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<sup>280</sup> Kleven H and others. [‘The Child Penalty Atlas’](#). 2023

<sup>281</sup> Department for Business & Trade analysis of Annual Population Survey (Jan to Dec 2023) microdata

<sup>282</sup> Institute for Employment Rights Survey. [‘Parental Rights Survey 2019’](#). 2023; A representative survey involving more than 3,300 parents and referenced here [SPL Evaluation](#)

<sup>283</sup> Institute for Employment Rights Survey. [‘Parental Rights Survey 2019’](#). 2023; A representative survey involving more than 3,300 parents and referenced here [SPL Evaluation](#)

<sup>284</sup> Children’s Commissioner. [‘Children’s Commissioner for England launches preliminary findings of The Family Review at Policy Exchange’](#). 2022.

workers). Therefore, these changes are likely to disproportionately benefit workers who have at least one these protected characteristic.

- f. **Day 1 unfair dismissal rights** – young employees are disproportionately represented among employees with less than two-year tenure and are more likely to switch jobs, suggesting they might disproportionately benefit from protection from stronger dismissal protections. Around 85% of employees aged 16-19 years old and 58% of employees aged 20-24 years old have worked for their current employer for less than two years, compared to the average across all employees of just 30%<sup>285</sup>. In the year to April 2021, 14.2% and 14.1% of those aged between 16 and 20 years, and aged between 21 and 24 years, respectively, had changed jobs. This is compared with 5.1% of employees aged between 35 and 49 years who changed jobs<sup>286</sup>. Employees with a limiting illness or disability are overrepresented at 22% of unfair dismissal cases despite comprising just 13% of employees. Black employees are also overrepresented at 9% of unfair dismissal cases despite comprising just 3% of employees<sup>287</sup>.
- g. **Dismissal for failing to agree to variation of contract, etc (Fire and Rehire)**– there is limited evidence on the characteristics of those victim to fire and re-hire practices. Nevertheless, a 2021 TUC online poll<sup>288</sup> of 2,231 individuals in England and Wales found nearly a fifth of 18- to 24-year-olds said their employer had tried to re-hire them on inferior terms during the pandemic. In addition, Black and Minority Ethnic (BME) workers had been faced with ‘fire-and-rehire’ at nearly twice the rate of white workers (15% compared to 8%), as well as working class workers (12% compared to 7% for those from higher socio-economic groups).
- h. **Establish a Fair Pay Agreements process in the Adult Social Care (ASC) sector** – the ASC workforce has a high share of female workers (81% of workers in ASC are female, compared to 47% of the economically active population), older workers (29% of workers in ASC are aged 55 and over, compared to 21% of workers in the economically active population), and workers who are Black, African, Caribbean or Black British (14% in ASC compared to 4% in wider population)<sup>289</sup>.
- i. **Strengthening workers’ rights to trade union access, recognition and representation**<sup>290</sup> – the proposed policies are likely to benefit to union members, who are more likely to be disabled, older (35 plus), women, of Black or White ethnicity than employees overall. Union members in important public services such as health, education, rail, fire, and border security, are more likely to be female, aged 35 plus, Christian, to have a disability, and to be from an ethnic minority<sup>291</sup>.
- j. **Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period** – the policy will benefits low-income and part-time workers who previously were ineligible for SSP. Based on an replacement rate of 80%, the groups that are expected to benefit most are: the youngest (16 to 24) and oldest workers (65 and over), female workers, and workers with a disability<sup>292</sup>.

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<sup>285</sup> Department for Business & Trade analysis of Labour Force Survey microdata.

<sup>286</sup> Office for National Statistics. [‘Job changers and stayers, understanding earnings, UK: April 2012 to April 2021’](#). 2022.

<sup>287</sup> Department for Business, Energy & Industrial Strategy. [‘Survey of employment tribunal applications 2018’](#). 2020.

<sup>288</sup> Trade Union Congress. [“‘Fire and rehire’ tactics have become widespread during pandemic – warns TUC”](#). 2021.

<sup>289</sup> Skills for Care. [‘The State of the Adult Social Care Sector and Workforce 2023 \(skillsforcare.org.uk\)’](#). 2023. (Accessed October 2024)

<sup>290</sup> Including: Strengthen trade unions’ right of access; Simplify trade union recognition process; New rights and protections for trade unions representatives; Introduce a duty for employers to inform workers of right to join a trade union; Additional protection from blacklisting.

<sup>291</sup> Department for Business & Trade. [‘Trade Union Membership statistics’](#). 2024.

<sup>292</sup> Department for Work and Pensions. [‘Family Resources Survey: financial year 2022 to 2023’](#). 2024.

- k. Establish the Fair Work Agency (FWA) to bring together existing state enforcement functions** – lower paid workers are more likely to have their rights infringed upon and are also less likely to enforce their rights through employment tribunals, and therefore will benefit most from the FWA<sup>293</sup>. Research from the Low Pay Commission shows that lower paid individuals are more likely to be female, from Bangladeshi, Pakistan and other ethnic minority backgrounds, be younger, or have a disability<sup>294</sup>.
- l. Strengthen existing tipping law** – the following groups are more likely to be in tipping industries and, therefore, were more likely to benefit from the policy: men, people of Bangladeshi and Pakistani background, people with no religion and people aged from 35 to 49<sup>295</sup>. The policy could also particularly benefit groups of workers who have less voice in the workplace such as women, younger workers (aged 16-34 years old), and workers with a physical or mental health condition or illness, as these were less likely to report that they had opportunities for voice and opinions to be heard at work<sup>296</sup>.

207. In addition, several measures also specifically aim to reduce harassment, including:

- Whistleblowing protections against sexual harassment.
- Increase protection from sexual harassment in the workplace (EQH). Including:
  - Requiring employers to not permit the harassment of their employees by third parties
  - Require employers to take “all reasonable steps” to prevent sexual harassment of their employees
  - Enabling regulations to specify specific steps employers must take to prevent sexual harassment

208. It is expected that these measures have the potential to have a particularly positive impact on women, with the Government survey on sexual harassment finding that almost three times more women (8%) than men (3%) experienced at least one instance of sexual harassment in the last year<sup>297</sup>. In addition, there is some evidence to suggest that LGBT people, ethnic minorities and those with limited disabilities are disproportionately affected by sexual harassment in the workplace<sup>298</sup>. As such, taking steps towards protecting those who experience harassment in the workplace could contribute to reducing sexual harassment, advancing equality of opportunity, and fostering good relations with regard to sex, and potentially other protected characteristics.

209. Finally, two measures target gender pay gap issues, and could benefit women as well as potentially other protected characteristics<sup>299</sup>:

- Requiring large employers to publish Equality Action Plans
- Ensuring outsourced workers are included in gender pay gap reporting

<sup>293</sup> Citizens Advice. [‘From rights to reality: Designing a Fair Work Agency that delivers for the most vulnerable workers’](#). 2024.

<sup>294</sup> Low Pay Commission. [‘The NLW and protected characteristics: differences in employment and minimum wage coverage by ethnicity, disability, and gender’](#). 2023.

<sup>295</sup> Department for Business, Energy & Industrial Strategy. [‘Impact Assessment: Preventing employer deductions from worker tips’](#). Pages 34-37. 2022.

<sup>296</sup> Fair Work Convention. [‘Fair Work Convention Survey of Hospitality Workers and Businesses in Scotland 2023’](#). 2024.

<sup>297</sup> Office for National Statistics. [‘Experiences of harassment in England and Wales: December 2023’](#). 2023.

<sup>298</sup> Government Equalities Office. [‘2020 Sexual Harassment Survey’](#). 2020.

<sup>299</sup> Behavioural Insights Team. [‘How to Improve Workplace Equity: Evidence-based Actions for Employers How to Improve Workplace Equity’](#). 2022.

Office for National Statistics. [‘Principal projection - UK population in age groups’](#). 2024.

YouGov. [‘Seven in ten British businesses outsource to third parties’](#). 2019.

Table A13: Heatmap of PSED impacts by Employment Bill policy area, based on analytical assessment of main impacts

	Expected positive impact									
	Either no impact or limited supporting evidence of a positive impact									
	Greater risk of unintended consequences for those with a protected characteristic									
Measure	Age	Disability	Gender Reassignment	Marriage or civil Partnership	Pregnancy and Maternity	Race	Religion or Belief	Sex	Sexual Orientation	Greater risk of unintended consequences ?
ZHCs - Right to reasonable notice of shift with payment for shifts cancelled, moved and curtailed at short notice										
ZHCs - Right to guaranteed hours										
Establish the Fair Work Agency to bring together existing state enforcement functions										
Establish a Fair Pay Agreements process in the Adult Social Care sector										
Day 1 Unfair dismissal rights										
Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period										
Dismissal for failing to agree to variation of contract, etc (Fire and rehire)										
Repeal Strikes (Minimum Service Levels) Act 2023										
Repeal Trade Union Act 2016										
Strengthening workers' rights to trade union access, recognition' and representation *										

\*Including: Strengthen trade unions' right of access; Simplify trade union recognition process; New rights and protections for trade unions representatives; Introduce a duty for employers to inform workers of right to join a trade union; Additional protection against blacklisting

Table A13: (continued)

Measure	Age	Disability	Gender Reassignment	Marriage or civil Partnership	Pregnancy and Maternity	Race	Religion or Belief	Sex	Sexual Orientation	Greater risk of unintended consequences?
Strengthening collective redundancy rights										
Protections against dismissal for pregnant workers										
New right to unpaid bereavement leave										
Day 1 right to paternity leave and unpaid parental leave										
Strengthen existing tipping law										
Declaring Collective Redundancy for Seafarers										
Requiring employers to not permit the harassment of their employees by third parties										
Make flexible working the default										
Requiring large employers to publish Equality Action Plans										
Ensuring outsourced workers are included in gender pay gap reporting										
Require employers to take "all reasonable steps" to prevent sexual harassment of their employees										
Whistle-blowing protections against sexual harassment										
Enabling regulations to specify specific steps employers must take to prevent sexual harassment										



## **Section 20. Trade implications**

210. As set out in the Better Regulation Framework guidance, all IAs must consider whether the policy measures are likely to impact on international trade and investment.
211. From a legal standpoint, the Bill does not impact international trade as it is compliant with international obligations, nor will it introduce requirements on foreign-owned companies that go above and beyond those which are UK-owned. As a result, there are no specific implications for trade partners or foreign businesses operating in the UK.
212. From an economic standpoint, the Bill will predominantly affect workers in non-traded sectors, such as hospitality and social care, and therefore is unlikely to have large impacts on UK trade. Furthermore, since the increase in labour costs relative to total wage costs is small, any impact on the comparative advantage of UK exporters will be small.

## **Section 21. Environment: Natural capital impact and decarbonisation**

213. We expect there to be no or negligible impact on the environment. We will continue to consider this assessment for subsequent secondary legislation, including in our monitoring and evaluation plans.

## **Section 22. Analytical risks and assumptions**

214. This IA provides an indicative assessment of the impacts that could result from primary legislation. This represents the best estimate for the likely impacts given the current stage of policy development, but these will need to be refined as policy development continues. Where applicable, Government will publish updated IAs alongside future consultations and secondary legislation.
215. We have used the best available evidence throughout this impact analysis. However, the strength of the evidence base on which to assess these changes is mixed. In some areas we have strong evidence based on research, survey data, such as the ONS' Labour Force Survey, academic literature, the experience of other countries, and evaluation of previous policies. We have established frameworks for assessing the direct costs to business and benefits to workers of similar legalisation, and there is a wealth of descriptive evidence on the experience of workers and how businesses operate in different sectors. In addition, there is extensive evaluation evidence on the impact of the National Minimum and National Living Wage on the UK labour market. Whilst this is not a perfect proxy for the impact of the wider set of measures included in the Plan to Make Work Pay, the evidence on the National Living Wage provides some insight into the way that businesses and workers react to employment regulation and what this means for the wider economy.
216. Ultimately, the impact of the package will depend on how businesses and workers react to the changes in the Bill, and how the economy subsequently adapts. These indirect effects are by their very nature uncertain, and therefore we have not tried to overinterpret the likely impacts of the Bill.
217. Finally, we have tried to remove issues of double counting for policies that have large overlaps when aggregating the impacts, but this is not always possible. For example, we have assessed familiarisation costs for different elements within the policy package. It is likely that some companies will have to familiarise themselves with more than one policy change. This

therefore poses a risk of overestimating the costs that businesses have to familiarise themselves with. Likewise, we only count the impact of increased workforce planning across the measures on variable hours contracts once.

218. Our analysis will be refined as we continue to build the evidence base to inform policy decisions working with stakeholders, and policy development allows for more detailed analysis.

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**Department for Business and Trade**

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