

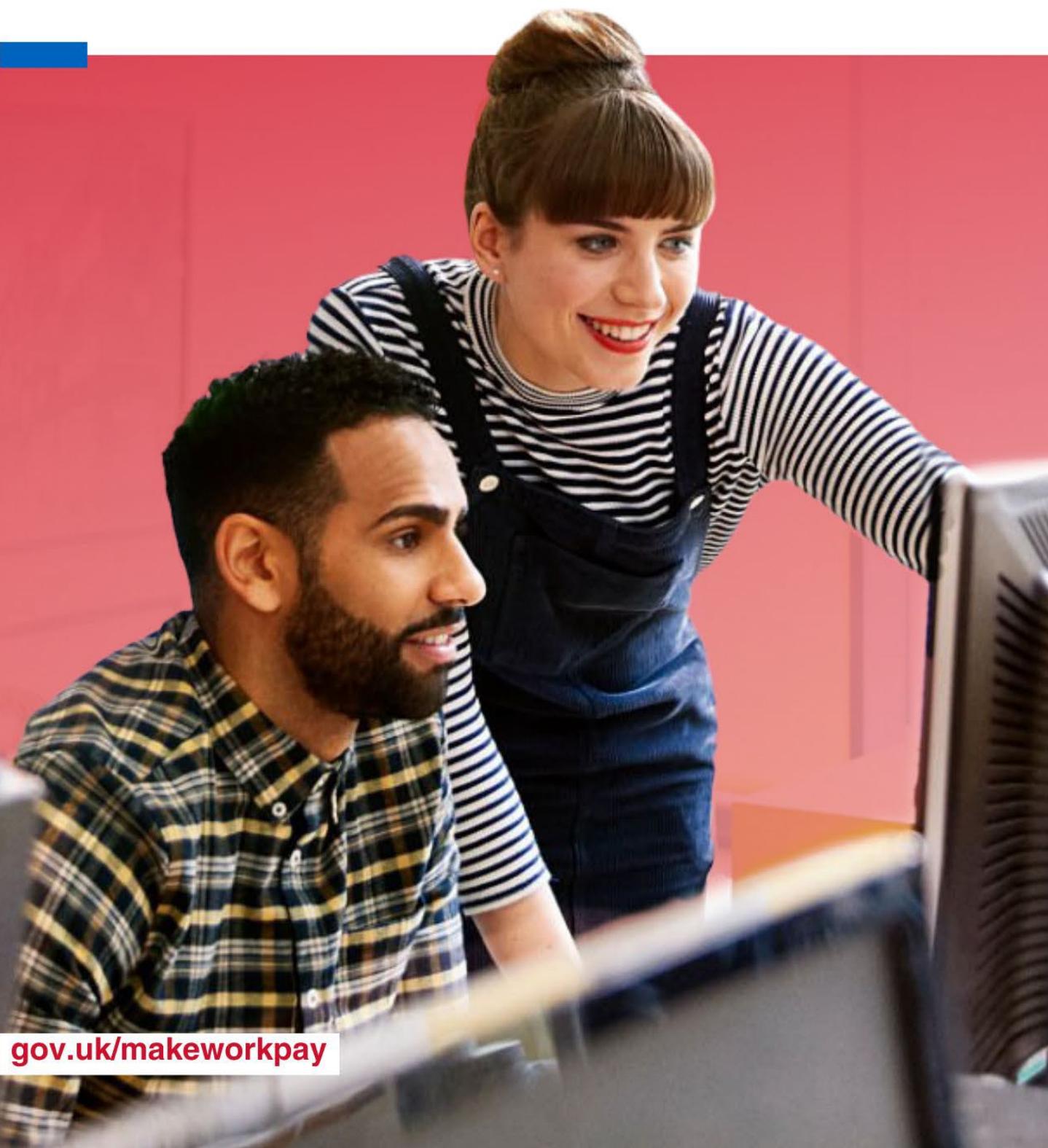


UK Government

# Employment Rights Act 2025

## Economic Analysis

January 2026



[gov.uk/makeworkpay](http://gov.uk/makeworkpay)

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# Foreword

On 18 December 2025, the Employment Rights Bill received Royal Assent to become the Employment Rights Act 2025, marking a significant milestone in delivering our Plan for Change by ensuring employment rights are fit for a modern economy, empowering working people and contributing to economic growth.

In October 2024, alongside introduction of the Act, the Government published a comprehensive package of analysis on the impact of the Employment Rights Act 2025, providing an initial, indicative assessment of the impacts that could result from primary legislation. This was based on the best available evidence and consultation with external experts and stakeholders, including academics and thinktanks, representing the best estimate for the likely impacts at that stage of policy development. This initial package showed there are clear, evidence-based benefits from tackling issues holding back the UK labour market.

Since the introduction of the Employment Rights Act 2025, there have been more than 600 amendments made to the Act during its passage through Parliament. The main changes to the original Act provide for:

- Applying the zero-hours contracts measures to Agency Workers.
- Setting the percentage rate of Statutory Sick Pay.
- Extending unpaid bereavement leave to cover pregnancy loss before 24 weeks.
- Reviewing the duties people can take time off work to do under the Time Off for Public Duties legislation, with specific reference to Special Constables.
- Voiding non-disclosure agreement for harassment and discrimination.
- Refining the fire and rehire measures in relation to restricted variations, application to the public and private sector and agency workers.
- Reducing the qualifying period of employment for the right to claim unfair dismissal, from two-years to six-months and ensuring the qualifying period can only be varied by primary legislation in future.
- Removing the current cap on compensatory awards for unfair dismissal claims.
- Increasing the maximum period of the collective redundancy protective award.
- Extending Social Care Negotiating bodies to Scotland and Wales.
- Creating a mandatory Seafarers' Charter.
- Defining Umbrella Companies for the purposes of regulation.
- Producing guidance setting out the circumstances in which 14-16 year olds may undertake voluntary work in heritage railways settings.
- Improving the process and transparency around trade union recognition and access.
- Simplifying industrial action processes.
- Increasing the time limit within which employees are able to make an Employment Tribunal claim from 3 months to 6 months.

As stated throughout the passage of the Act, it has always been our intention to refine our analysis as policy development continues, working closely with external experts. We have followed the principles and techniques of the Green Book, Better Regulation Framework and the Government's Guide to Making Legislation. In doing so, we have provided proportionate analyses of impacts on businesses, households (workers), and the wider economy. For example, during passage of the Act, to support scrutiny and understanding, we published five further impact assessments, which cover key elements of amendments made. These assessments cover: extending employment tribunal time limits, non-disclosure agreements, extending bereavement leave to include pregnancy loss, implementing the Mandatory Seafarer's Charter, and implementing international conventions (Maritime Labour Convention and Work in Fishing Convention).

Otherwise, the changes made to this Act during passage have not significantly changed the overall economic assessment. Further analysis undertaken continues to support our initial assessment that the Act could have a small, positive direct impact on economic growth. 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.

While Enactment Impact Assessments are required only for primary legislation that has been amended in its passage through Parliament in such a way as to significantly change the impacts of the policy on business, we continue to uphold our commitment to refining our analysis as policy development continues. We have produced this Enactment Summary Impact Assessment, within which includes an updated assessment of implementing a 6-month qualifying period for unfair dismissal and removing the compensation cap, alongside a separately published updated assessment of the Act's Fire and Rehire policy.

The Enactment Summary Impact Assessment represents our updated overarching summary analysis and reflects the final contents of the Act, presenting additional evidence and analysis while addressing concerns raised in the Regulatory Policy Committee's (RPC) opinion. The RPC have acknowledged these changes, noting that further scrutiny of this assessment is not required under the Better Regulation Framework.

We also plan to publish further assessments when we consult on proposed regulations, for which Government has laid out a timeline in the Act's Implementation Roadmap. We will continue to produce proportionate analyses of impacts on businesses, households, and the wider economy to help inform policy development, stakeholder views and Parliament.

The Government will continue to undertake comprehensive engagement and consultation on the implementation of Make Work Pay and the Employment Rights Act 2025, to ensure that these changes work for both workers, and businesses of all sizes.

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

# Executive Summary

The Government's plan to Make Work Pay will bring our employment rights legislation into the 21st century, extending the employment protections already given by the best British companies to millions more workers across the country. The plan will help more people to stay in work, improve job security, strengthening the foundations of our economy and improving living standards.

The Employment Rights Act 2025 is a vital step in delivering on this commitment and was introduced to Parliament on 10 October 2024 before receiving Royal Assent on 18 December 2025.<sup>1</sup> This Government is committed to working in partnership with businesses, trade unions and other stakeholders to deliver these reforms. On 1 July 2025, the Government published an Implementation Roadmap for the Employment Rights Act, providing clarity for employers and workers on how and when Government will engage and consult on the detailed implementation of this Act once it becomes law, and when measures will take effect.

The Government has produced a comprehensive package of analysis on the impact of the Employment Rights Act 2025. 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 28 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, where many reforms require further policy development and consultation before implementation, our cost-benefit analysis is still indicative. 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 Act 2025, 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 Act. Not acting would enable poor working conditions, insecure work, inequalities and broken industrial relations to persist.
- Over 18 million employees – more than half of UK workers, will directly benefit from better conditions and those benefiting indirectly from having a more secure work environment.
- The Act 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 refire' practices. Many policy changes in the Act will target the issues identified by the independent Taylor Review of Modern Working Practices.<sup>2</sup>
- There will be further benefits for those in work from better job satisfaction, improved wellbeing and health, which could amount to billions of pounds a year, benefitting employers too; 22.1 million working days were lost due to stress, depression or anxiety in 2024/25,<sup>3</sup> equivalent to £6.5 billion of lost output a year.
- 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.
- Delivering those benefits will place a direct cost on employers. While the IA presents a range to reflect variability, the central estimate, based on detailed economic modelling and the best available evidence, is

<sup>1</sup> UK Parliament. '[Employment Rights Act 2025 – Parliamentary Bills](#)'. 2025.

<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](#)'. 2025. (Accessed November 2025)

an estimated direct cost to business of £1 billion per year once the Act is fully implemented. These costs are expected to represent no more than a modest increase of 0.1% on total employment costs, most of which will represent a transfer from businesses to their workers. For businesses who rely on flexible contracts or low-paid employment, these changes could be more significant, at least in the short run. However, we deem risks to hiring and overall 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 do not want to 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 businesses to grow.
- Many of the policies within the Employment Rights Act 2025 help support the Government’s Mission for Growth. We conclude the package could have a small, positive direct impact on economic growth, equivalent to an estimated 0.04% increase of GDP. 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 Act 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.
- After the Act’s implementation, the UK will move up the rankings for employment protections amongst OECD countries, shifting from near the bottom towards closer to the average. This demonstrates that the Act not only addresses fairness, productivity and economic growth in the domestic economy, but also moves the UK closer to our international partners.
- 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.
- The groups that will disproportionately benefit most from the Act include women, younger workers and people with disabilities. Analysis shows the risk to employment prospects for these groups is expected to be negligible. Government is committed to delivering this change in partnership with businesses, trade unions, public sector employers and civil society to make sure we get the detail right.

The structure of the document is as follows:

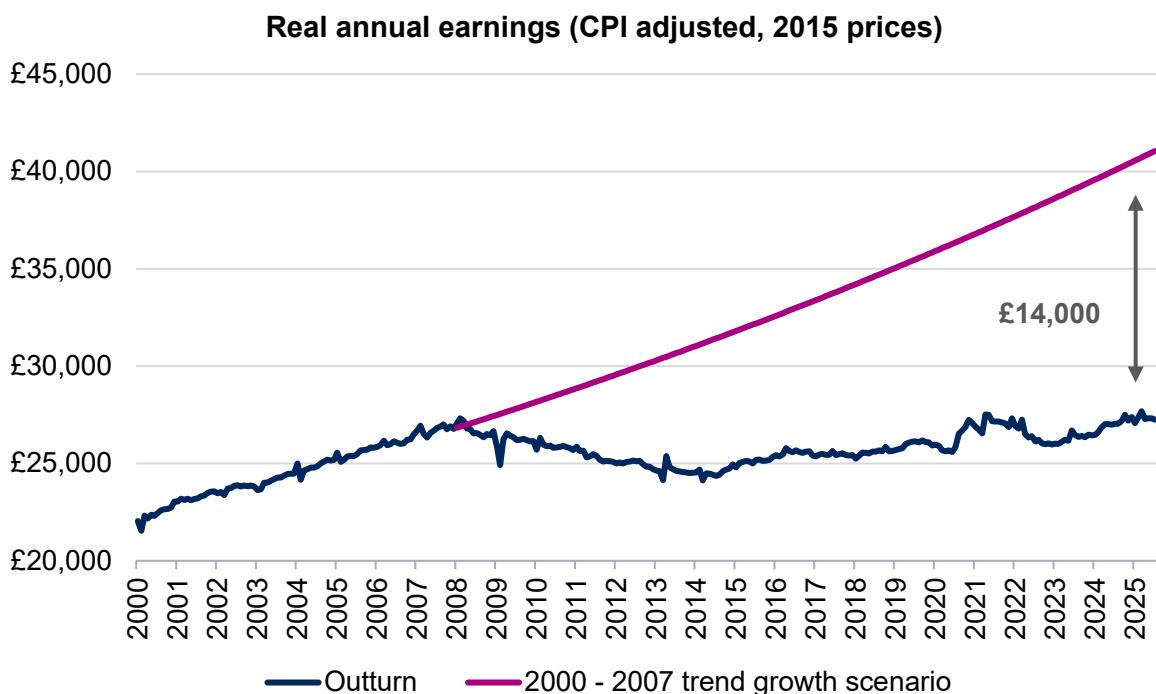
- **Section 1** provides a brief description of the issues in the labour market that the Plan to Make Work Pay and the Employment Rights Act 2025 aim to address.
- **Section 2** articulates the objectives of the Employment Rights Act 2025.
- **Section 3** is an explanation of our analytical approach, limitations to our evidence base and assessment.
- **Section 4** 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 5** provides a brief conclusion of this analysis.
- **The Annex** contains our Enactment IA, which provides more detailed analysis of the package. This is supported by 28 ‘policy-specific’ IAs, covering all our underpinning evidence, methodological information, and calculations. These IAs are published alongside this document on [www.gov.uk/guidance/employment-rights-bill-impact-assessments](http://www.gov.uk/guidance/employment-rights-bill-impact-assessments).

# 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 Act 2025, see Section 9 of the Enactment 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 doubled between 2008 and 2022,<sup>6</sup> there are near-record levels 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> DBT calculations; trendlines added by DBT.

<sup>4</sup> Office for National Statistics. '[EMP17: People in employment on zero hours contracts](#)'. 2025. (Accessed November 2025)

<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 2025)

<sup>7</sup> Office for National Statistics. '[INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#)'. People who are unable to work due to long-term sickness. (Accessed September 2025).

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

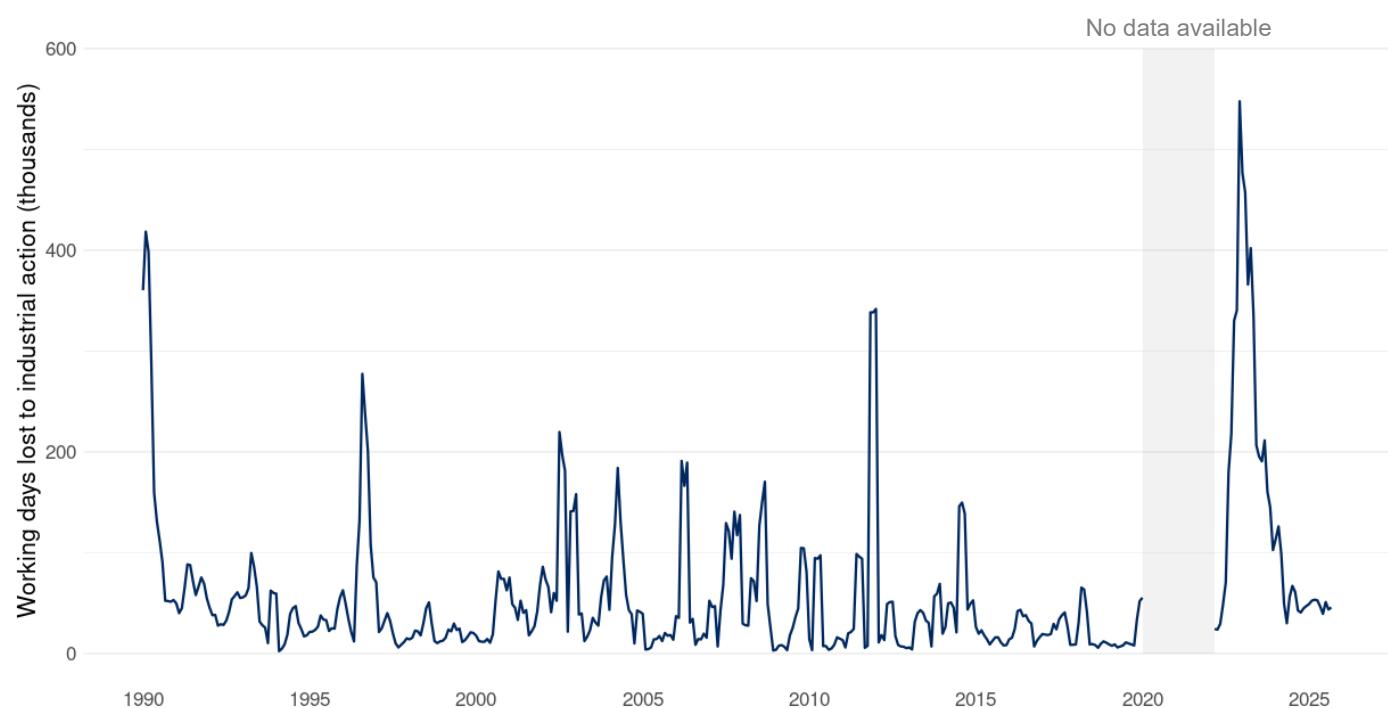
<sup>9</sup> Trade Union Congress. '[Falling behind on labour rights](#)'. 2024

<sup>10</sup> Office for National Statistics. Monthly Wages and Salaries Survey, '[EARN01: Average weekly earnings](#)' and '[X09: Real average weekly earnings using consumer price inflation \(seasonally adjusted\)](#)'. 2025. (Accessed October 2025).

Notes: Annualised earnings based on average weekly earnings, adjusted for inflation using the Consumer Price Index (CPI).

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 15 years ago, and the average worker would be around 50%, or roughly £14,000 a year, better off if wages had continued to grow as they did leading into the 2008 financial crisis (see Figure 1).<sup>11</sup> There is considerable variation across different occupations and regions. For example, a construction worker in the North East 20 years ago was earning the equivalent of £28,000 in today's prices, while today they are earning slightly more at £31,500. But for some jobs and occupations, pay has gone backwards – a secretary in the West Midlands 20 years ago was earning the equivalent of £21,000, while today they are earning just £19,000.<sup>12</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 the NHS strikes alone during 2023 cost the taxpayer more than £1 billion.<sup>13</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>14</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, 1990-2025



Source: Office of National Statistics<sup>15</sup>

<sup>11</sup> Department for Business and Trade analysis based on Office for National Statistics. Monthly Wages and Salaries Survey, '[EARN01: Average weekly earnings](#)' and '[X09: Real average weekly earnings using consumer price inflation \(seasonally adjusted\)](#)'. (Accessed October 2025).

<sup>12</sup> Department for Business and Trade analysis of Office for National Statistics, '[Earnings and hours worked, region by occupation by four-digit SOC: ASHE Table 15](#)'. 2025. (Accessed October 2025); wages adjusted for inflation using the Consumer Price Index (CPI).

<sup>13</sup> National Health Service England. '[Financial performance update](#)'. 2023

<sup>14</sup> Resolution Foundation. '[Enforce for good](#)'. 2023. (Accessed October 2025)

<sup>15</sup> Office for National Statistics. '[Labour disputes: working days lost due to strike action: UK \(thousands\)](#)'. 2025. (Accessed October 2025)

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 growth the country needs.
6. Therefore, it is imperative that Government acts now, especially given the demographic and technological changes that the UK labour market is facing, which will drag on growth and increase inequalities if not tackled.

## 2. What are the objectives of Make Work Pay and the Employment Rights Act 2025?

*For a detailed set of objectives and a full logic model for the Act see Section 3 of the Enactment 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 are working with trade unions, businesses and wider stakeholders, consulting on how to best implement the Plan to Make Work Pay.
10. The Employment Rights Act 2025 ('the Act') represents a vital step in the delivery of this plan, covering 31 policy measures (for a full list see Section 1 of the annex). The Government has published the Implementation Roadmap,<sup>16</sup> which lays out Government's plan for our anticipated implementation dates for different parts of the Act, providing clarity for public and private sector employers and trade unions on when we expect to see the changes take place on the ground. The objectives of the Act 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 key 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 reduce the number of days lost to strike action by allowing working people to organise collectively through trade unions, as well as 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.
  - j. Achieving all of this whilst keeping the barriers to business growth low, creating the right conditions for productivity and growth.

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<sup>16</sup> Department for Business and Trade. '[Implementing the Employment Rights Bill: roadmap](#)'. 2025

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 Sections 10-12 of the Enactment Summary IA in the annex.*

#### What have we published?

12. The Department for Business and Trade (DBT) has produced a comprehensive package of analysis that covers our assessment of the Act. Initially in October 2024, this package consisted of 23 Regulatory Impact Assessments (IAs), covering each measure in the Act as it was introduced,<sup>17</sup> including those led by DWP, Cabinet Office and Department for Transport.
13. The Regulatory Policy Committee (RPC) provided independent scrutiny of the initial package of analysis published in October 2024,<sup>18</sup> with Government meeting the requirements set out in the Better Regulation Framework.<sup>19</sup> We cover more detailed discussion of their opinion and explain how we address it in the annex of this document.
14. We have continued developing and refining our analysis since then, including publication of additional impact assessments where key amendments have been made, plus this updated overarching assessment ('Enactment Summary IA'), which aggregates impacts across the package and explains our evidence base for the package as a whole. The RPC have acknowledged the changes we have made to address their feedback and noted that additional scrutiny is not required under the Better Regulation Framework.
15. Our analysis provides a rigorous and consistent assessment of the potential impacts of the powers contained within the Act. Since the Act does not determine the finalised regulatory requirements for many policies, the analysis is indicative at this stage. More detailed analysis will follow alongside consultation and when specific policy design is determined through secondary legislation. The Enactment 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).
16. Our IAs comply with the principles and techniques of the HMT Green Book and the Better Regulation Framework. That is, 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.
17. 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. While a year on we have been able to monetise more of these policy-specific impacts, in some cases it remains that 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

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<sup>17</sup> Note that some measures have been bundled into a single IA for simplicity.

<sup>18</sup> Regulatory Policy Committee. '[Employment Rights Bill: RPC opinion](#)'. 2024.

<sup>19</sup> Department for Business and Trade. '[Better Regulation Framework Guidance](#)'. 2023.

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.

18. Where we are unable to fully 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. Ultimately, the costs and benefits of the Act are dependent on the detail of the policy in secondary legislation, so this assessment aims to provide transparency and to demonstrate the possible magnitude of impact but does not represent a forecast.

#### The strength of our evidence base

19. As mentioned, we have developed our initial assessment much further through continued engagement with external experts, including world leading academics. Since the introduction of the Act in October 2024, we have also addressed the main analytical risks and assumptions identified by the Regulatory Policy Committee, including broader macroeconomic analysis and further clarity on the expected direct costs and benefits. On balance, based on both our initial and updated assessment, the additional evidence and analysis supports the conclusion that the Act will be net beneficial to society.

20. Generally, the strength of the evidence base varies across policy areas: in some cases, we have strong causal evidence from research, survey data (such as the ONS Annual Survey of Hours and Earnings), academic literature, international experience, and evaluations of previous policies. In other areas, the evidence is less developed, particularly where the reforms are novel or where the impacts depend on behavioural responses that are inherently uncertain. Since our initial assessment, we have developed methods for quantifying the impact of these behavioural responses on a macroeconomic scale. We have established frameworks for assessing direct costs to business and benefits to workers and have drawn on a wealth of descriptive and evaluative evidence, including the impact of the National Minimum and National Living Wage on the UK labour market. While this is not a perfect proxy for the wider set of measures in the Plan to Make Work Pay, it provides valuable insight into how businesses and workers may react to employment regulation and the likely implications for the wider economy.

21. However, in other areas, the evidence base is weaker, and this means there is uncertainty over the potential impacts of some elements of the Act. 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 but as mentioned above, we have further developed methods for quantifying the macroeconomic impact of the Act. The interactions between policies within the Act 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 hour contract in social care, who has only been with their employer for 6 months, is likely to be impacted by several of the reforms, such as a right to guaranteed hours, reasonable notice of shifts, or dismissal protections.

22. 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 potential variability. Therefore, our IAs should be read with these caveats and the stage of policy development in mind, for which the majority represents the Act as it was introduced in October 2024.

23. For implementation, we will continue to work with stakeholders and experts to refine our analysis through further individual assessments supporting secondary legislation, and our monitoring and evaluation framework will ensure that real-world impacts are tracked and used to inform future policy decisions.

## Engagement and extension of the analysis

24. The Government has committed to continuing full and comprehensive engagement and consultation on the implementation of the Plan to Make Work Pay and the Act. As such, we set up a programme of engagement with external experts, from academia, thinktanks, Business Representative Organisations (BROs) and trade unions. Their feedback continues to be invaluable in helping to shape and extend our assessments, 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 our analysis through further individual assessments and build our evidence base further before final policy decisions are made and secondary legislation is laid before Parliament.
25. Our IAs cover analysis of the policies within the Act, 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 Act's Implementation Roadmap,<sup>20</sup> which was published on 1 July 2025.
26. The Government intends to monitor and evaluate the policies contained within the Act to understand their effectiveness. This will draw on existing sources of data but also require Government to collect new data and evidence. With such a large change programme, evaluation will need to be undertaken in phases and at different levels and stages, allowing time for policy changes to embed and take effect before measurement is meaningful. This has begun with the commissioning of external expertise to deliver a scoping study which will support the creation and identification of baseline data alongside the design of programme-level metrics and evaluation plans. 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>20</sup> Department for Business and Trade. '[Employment Rights Bill Implementation Roadmap](#)'. 2025.

## 4. What is the expected impact of the Employment Rights Act 2025?

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

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

### Overall Impact

#### Who will be affected?

28. The Act 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). The Act is set to benefit over 18 million workers in every corner of the UK – around 60% of workers.<sup>21</sup>

29. 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 employed on ‘exploitative’ zero hours contracts, strengthen existing 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. In 2025, approximately 9 million people were employed in occupations defined by the Low Pay Commission as low-paying,<sup>22</sup> equivalent to nearly a third of the workforce. Of these people, around 5 million earned less than £1.50 an hour above the National Minimum and National Living Wage thresholds.<sup>23</sup> Figure 3 below provides additional insight into the distribution of low, middle and high earners across major sectors.

30. Reforms that provide earlier access to workplace protections will also benefit low-paid workers the most, as tenures tend to be shorter in lower-paying sectors.<sup>24</sup> Making Unpaid Parental Leave a Day One right will bring an additional 1.5m parents into scope,<sup>25</sup> while reducing the qualifying period for unfair dismissal will extend protections for 6.3 million employees.<sup>26</sup>

31. On the other hand, the impact of the Act 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

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<sup>21</sup>The 18 million figure is based on Department for Business and Trade analysis of the Labour Force Survey (October to December 2024) to avoid double counting, and includes workers that will benefit from changes to unfair dismissal, zero hour contracts, Statutory Sick Pay, trade union reform, Fair Pay Agreements, paternity leave, protections for pregnant workers, tipping law, collective redundancy, equality plans and harassment for outsourced (third-party) workers. Due to data limitations, not every measure is included in the analysis, and so we deem it reasonable to assume an even greater number of workers will benefit from the Act either directly, or indirectly. As of November 2025, there are around 30.3 million payrolled employees in the UK, Office for National Statistics '[Earnings and employment from Pay As You Earn Real Time Information, UK: November 2025](#)'.

<sup>22</sup> We adopt the definition used by the Low Pay Commission. '[Low-paying sectors review](#)'. 2023.

<sup>23</sup> Note that in 2024 there were a further 1.9m workers who earn less the National Living Wage plus £1.50 but work outside of these ‘low-paying’ occupations.

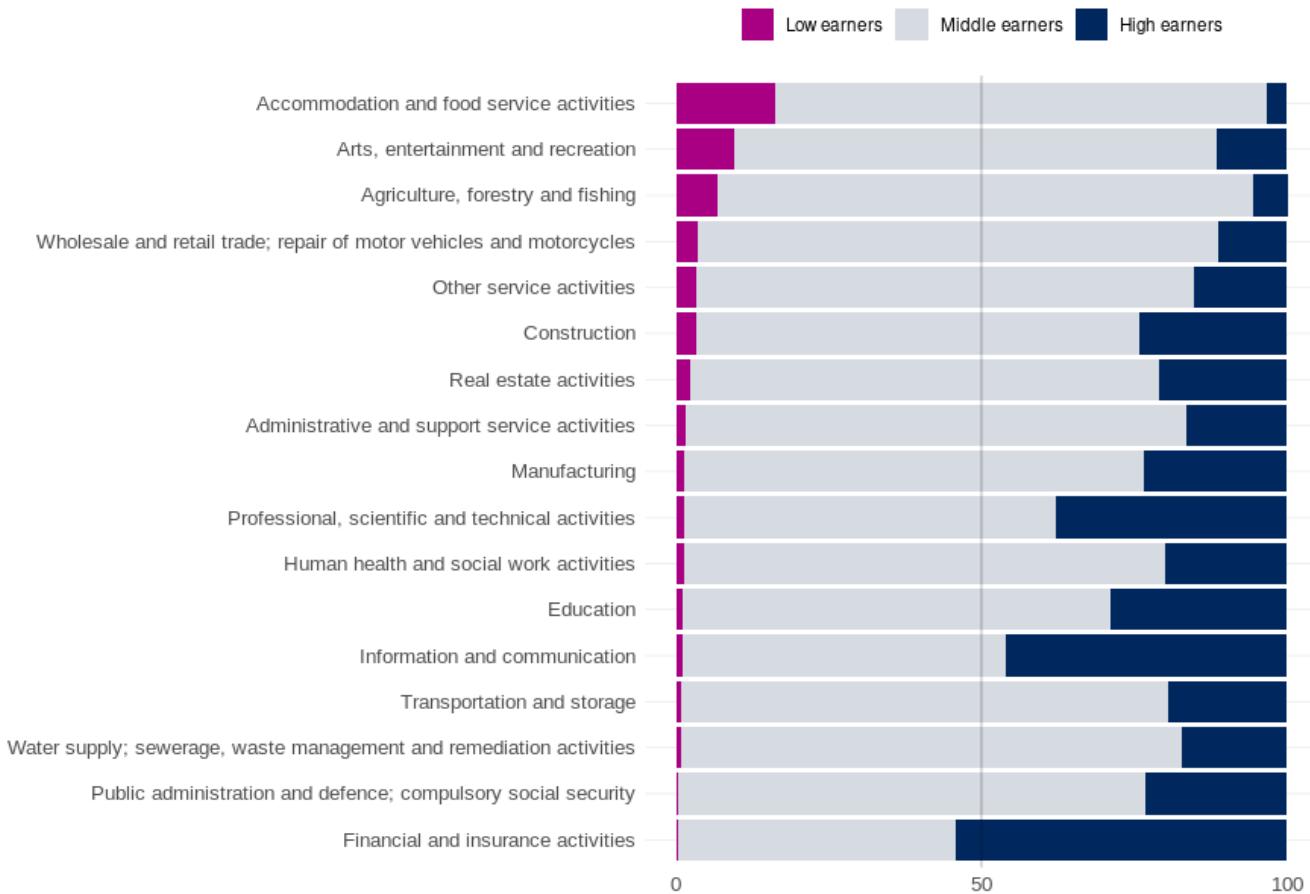
<sup>24</sup> See analysis in policy-specific impact assessments.

<sup>25</sup> Department for Business and Trade analysis of Annual Population Survey microdata – see ‘Making parental leave a day one right’ Impact Assessment for the full methodology.

<sup>26</sup> Department for Business and Trade analysis of Labour Force Survey. Analysis averages 12 releases from Q1 2022 to Q4 2024.

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>27</sup> around 40% of employers have an occupational sick pay scheme more than the statutory minimum,<sup>28</sup> around 30% of employers who hire shift workers already provide payments for late notice cancellations,<sup>29</sup> and around 80% of workers get above the statutory minimum annual leave entitlement.<sup>30</sup> This is because many employers recognise that good terms and conditions are important for retention, recruitment and productivity.

Figure 3: Percentage of low, middle and high earners across major sectors, 2025



Source: Office for National Statistics<sup>31</sup>

Note: Low pay is defined as pay below two-thirds of median hourly earnings and high pay is defined as pay that is higher than 1.5 times median hourly earnings.

32. 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>32</sup> Over time, the simplifications to the

<sup>27</sup> Chartered Institute of Personnel and Development. '[Flexible and hybrid working practices in 2023: Employer and employee perspectives](#)'. 2025.

<sup>28</sup> Department for Work and Pensions. '[Employer Survey 2022: research report](#)'. 2023. Table 3.5.

<sup>29</sup> Chartered Institute of Personnel and Development. '[Zero-hours contracts: Evolution and current status](#)'. 2022.

<sup>30</sup> The Resolution Foundation. '[Low Pay Britain 2023](#)'. 2023.

<sup>31</sup> Office for National Statistics. '[Low and high pay in the UK - Office for National Statistics](#)'. 2025.

<sup>32</sup> Department for Business and Trade. '[Trade Union Membership, UK 1995-2024: Statistical Bulletin](#)'. 2025.

union recognition process and the new right of access could lead to greater union membership in other parts of the economy, but this is uncertain.

33. There are a few elements of the Act that will impact workers across the whole labour market rather than in specific sectors or occupations. For example, the Right to Bereavement Leave including pregnancy loss will ensure that employees who are going through the toughest personal circumstances are afforded dignity at work, with up to 2.7m employees a year to gain right to the entitlement.<sup>33</sup> Likewise, requiring large employers (over 250 employees) to publish an equality action plan will impact employers and workers across the labour market.
34. 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. The exception might be if 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).
35. 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 an expected 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>34</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.
36. Sub-group analysis which breaks down the impact by business size, sector, region, and worker characteristics is provided in Section 16 onwards in the annex.

#### How will these groups be impacted?

37. The most direct and immediate impact of the policies contained within the Act 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:
  - a. **The repeals of the TU Act (2016) and MSL Act** represent a transfer of bargaining power to workers covered by collective bargaining agreements.
  - b. **The Fair Pay Agreement in Adult Social Care** will represent a transfer to workers in the sector in terms of better pay (cash transfer) and terms and conditions from their employers.
  - c. **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).
  - d. **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.
  - e. 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

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<sup>33</sup> HM Government. '[Options assessment for new rights to unpaid bereavement leave including pregnancy loss](#)'. 2025. (Accessed November 2025). 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.

<sup>34</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.

exchequer from penalties paid), and from those non-compliant employers to compliant employers as they are no longer able to undercut them.

38. 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>35</sup>
39. 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 impacts sections below.

## Costs

### Direct Costs

40. We have continued developing our evidence base and analysis since the introduction of the Act in October 2024, enabling us to more precisely estimate the Act's costs. The initial approach taken now appears overly cautious. As demonstrated in our Enactment Summary IA (see Sections 11 and 12 in annex), once fully implemented, we expect the policies within the Act to impose a direct annual cost on business of around £1 billion per year. This figure does not include the impact from implementation of the Fair Pay Agreement in the social care sector, which is subject to future negotiation – part of the costs are likely to be funded by local authorities and self-funders.
41. For transparency, we still present ranges for each policy measure that include 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 manage variable demand. However, the upper bound of this cost range represents a deliberately cautious upper estimate, including potential non-monetised impacts and representing the unlikely scenario in which the maximum potential cost of impact for every measure in the Act were to recur annually. This is highly unlikely, especially since implementation will be phased, businesses will adapt over time to mitigate costs, and it reflects the state of policy design and the evidence base in October 2024, not January 2026.
42. In practice, our updated assessment, based on the best available evidence and clearer implementation timelines, suggests the actual cost will be closer to £1 billion per year (see Section 11 - Table A10 in annex). Importantly, this is not a forecast. Rather this assessment aims to provide transparency and to demonstrate the possible magnitude of impact; the size of which will ultimately depend on policy decisions taken at secondary legislation. Our estimates will be refined over time through further assessments of impacts when we consult on proposed regulations.
43. To contextualise the size of this impact, total employment costs in the UK were £1.4 trillion in nominal terms in 2024.<sup>36</sup> This means the estimated increase represents around 0.1% of the UK's total pay bill, rising to less than 0.4% if we use previous upper-bound scenario. As noted in Paragraphs 29 and 30, this cost would be concentrated largely on employers in lower-paid sectors rather than spread evenly across the economy. Even if we assume the entire cost falls on such sectors, the equivalent uplift in the wage bill for that part of the economy would be around 0.3% (and below 1.4% using the previous upper bound).<sup>37</sup>

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<sup>35</sup> Note that we do not count costs to non-compliant businesses (e.g., fines, compensation, and arrears paid).

<sup>36</sup> Office for National Statistics. '[UK \(S.1\): Compensation of employees \(D.1\) Uses: Current price: £m: SA](#)'. 2025. (Accessed November 2025)

<sup>37</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 2025), that was used to calculate the uplift percentage of 0.4%, with

44. 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 an expected 12-week reference period, as well as following an annual review, is estimated at around £160 million per year.<sup>38</sup> 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. **Reducing the qualifying period for unfair dismissal to six months** – employers could make changes to hiring, dismissal and management practises to minimise the risk of litigation for dismissal and minimise unproductive employee-job matches. The 2024 IA on ‘Day One’ rights estimated a net direct cost to business of around £42m per year.<sup>39</sup> This order-of-magnitude was largely driven by the legal cost of handling additional Acas and Employment Tribunal cases, and the cost of settlements. Given the reduction in population of employees in scope of additional protections under a qualifying period of six months, it is expected that the net direct cost to business will now be lower. This estimate excludes the impacts of more resource-intensive dismissal processes for employers dismissing staff with six to twenty-four months’ tenure, which could lead to higher costs for business. However, we expect a six-month qualifying period will mean businesses have continued confidence to hire and manage their workforce.
- 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.

45. Our analysis suggests that the direct costs of other Act 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.

46. 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.

47. In general, the business burdens associated with the Act 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 response to costs

48. 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. Other responses include raising prices, investing

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the Office for National Statistics’ [Table 2.1d: Summary supply and use tables 2021](#). 2023. (Accessed November 2025), 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’ compromised in 2021 (approximately 25%) is applied to the total 2024 CoE number. This figure is then used to calculate the uplift if the entire direct cost fell on those sectors.

<sup>38</sup> This is based on the zero hour contract rights affecting 2.4 million workers, which includes those on zero-hour contracts, agency workers and those who are paid hourly and had hours which varied week-to-week. This does not correspond to a particular hours threshold, and as such may be higher or lower at different hours thresholds, which will be set out in secondary legislation after consultation.

<sup>39</sup> HM Government. [‘Employment Rights Bill economic analysis’](#). 2025.

more (and less) in technology and training, cutting pay growth for other workers, and cutting recruitment.<sup>40</sup>

49. Whilst that evidence is backward-looking, ONS survey data 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 (42% of businesses) or to absorb within profit margins (34% of businesses).<sup>41</sup> Other responses included to reduce the number of employees (22%), reduce wages for other employees (15%), or limit overtime hours (13%).<sup>42</sup>
50. 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.
51. 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 other 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 14 of the annex.
52. 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>43</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 costs on their employers, without adverse impacts on employment.<sup>44</sup> In addition, there is some evidence that boosting employment rights can support higher participation and increased productivity (e.g., Deakin and others, 2024).<sup>45</sup> Likewise, the OECD is clear in their Jobs Strategy 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.<sup>46</sup>
53. 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>47</sup> This suggests that the higher

<sup>40</sup> Low Pay Commission. '[National Minimum Wage - Low Pay Commission Report 2024](#)'. 2025.

<sup>41</sup> Office for National Statistics. '[Business insights and impact on the UK economy](#)'. Wave 139 edition. 2025. (Accessed November 2025)

<sup>42</sup> Office for National Statistics. '[Business insights and impact on the UK economy](#)'. Wave 139 edition. 2025. (Accessed November 2025)

<sup>43</sup> Competition and Markets Authority. '[Competition and market power in UK labour markets](#)'. 2024.

<sup>44</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>45</sup> Digital Futures at Work Research Centre. '[The economic effects of changes in labour laws: new evidence for the UK](#)'. 2024.

<sup>46</sup> Organisation for Economic Co-operation and Development. '[Good Jobs for All in a Changing World of Work](#)'. 2018

<sup>47</sup> Chartered Institute of Personnel and Development. '[Low Pay Commission consultation 2024](#)'. 2024.

labour costs placed on firms due to the Act 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 74 onwards.

### Impact on the Enforcement System

54. 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.
55. The measures in the Act 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 an Acas claim, which is likely to increase the number of dispute cases for early conciliation services provided by Acas and employment tribunal (ET) cases.
56. We have undertaken illustrative analysis that considers the possible impact of the Act measures most likely to affect the enforcement system. This suggests that the Act could increase the volume of cases in the 'individual enforcement' (i.e. Acas and Employment Tribunal) system by around 17%, 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.
57. 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 full confidence. The implementation of the Plan to Make Work Pay will also lead to changes in the enforcement landscape, such as the Fair Work Agency and other reforms to the enforcement landscape, which creates further uncertainty for the net impact of the system.
58. This means our initial analysis on the impact of the Act on enforcement is subject to change as policy development continues. We continue to work with the Ministry of Justice, HM Courts and Tribunal Service, and Acas to refine this assessment further.
59. DBT and Ministry of Justice (MoJ) have also set up a Dispute Resolution System Taskforce to support HMG in reforming the employment dispute system, so it works better for both workers and businesses. The taskforce consists of Government Officials and a small but balanced set of senior representatives from stakeholders from Trade Unions (TUs), Business Representative Organisations (BROs), Legal Representative Organisations (LROs), and Third Sector Organisations (TSOs). The Taskforce's expertise will help support Government to develop reform measures that promote prevention of workplace disputes as we develop policy to ensure the current system including Acas and Employment Tribunals is more efficient and resilient.

### Public Sector Costs

60. There are likely to be costs to the public sector from reforms in the Act. 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.
61. 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 Adult Social Care will likely lead to higher costs for local authorities' commissioning services and for self-funders. There is limited room for Adult Social Care 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.

62. 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

63. The Act 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.

64. Over 18 million employees across the country – around 60% of UK workers – will benefit from the Act.<sup>48</sup> This includes those benefiting directly from better conditions and those benefiting indirectly from having a more secure work environment.

65. 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. around £1 billion 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 and 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. **Ending unscrupulous 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 including pregnancy loss** will ensure that employees who are going through the toughest personal circumstances are afforded dignity at work, with up to 2.7m employees a year to gain right to the entitlement.
- 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**.

66. 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

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<sup>48</sup> Please refer to Section 16 in the annex for methodological detail.

changing unexpectedly.<sup>49</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.

67. 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.
68. In addition, greater use of flexible working could open opportunities for businesses to employ from a wider pool of talent from across the country, with a majority of employers already recognising this.<sup>50</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>51</sup>
69. 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 it 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.
70. 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>52</sup>
71. Whilst it is not possible to robustly proportion these benefits to the policies in the Act (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 Act. For example, we know that:
  - a. The Health and Safety Executive estimate that stress, depression or anxiety accounted for 22.1 million working days lost in 2024/25,<sup>53</sup> equivalent to a loss of £6.5 billion in output per year.<sup>54</sup> There is also evidence this is concentrated in some of the sectors impacted by the Act, 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>55</sup> These value a one unit increase in subjective wellbeing on a ten-point scale at £15,500, based on the

<sup>49</sup> Felstead A and others. ‘[Insecurity at Work in Britain: First Findings from the Skills and Employment Survey 2017](#)’, 2018

<sup>50</sup> Chartered Institute of Personnel and Development. ‘[Flexible and hybrid working practices in 2023: Employer and employee perspectives](#)’. 2025.

<sup>51</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>52</sup> Bryson A and others. ‘[Worker voice, managerial response and labour productivity: an empirical investigation](#)’. 2006.

<sup>53</sup> Health and Safety Executive. ‘[Working days lost in Great Britain](#)’. 2025. (Accessed November 2025).

<sup>54</sup> Office for National Statistics. ‘[Output per hour worked, UK](#)’. 2025. 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>55</sup> HM Treasury. ‘[Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance](#)’. 2021.

relationship between changes in income and wellbeing. International evidence suggests that being in a secure job is worth a tenth of a WELLBY.<sup>56</sup> Using these values, and the assumption that the Act may increase the security of work and therefore wellbeing for c.2 million workers (as per paragraph 67), the package could have wellbeing benefits of over £3 billion a year.

- c. Research by the TUC shows if the Act produces improvements in employee wellbeing, industrial relations and labour market participation, the benefits could total around £10 billion per year, outweighing the costs.<sup>57</sup>
- d. 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>58</sup> 1.8 million workers report not receiving a payslip,<sup>59</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>60</sup> Even reducing this by a small amount would deliver significant benefits to workers and create a fairer business environment for employers.
- e. 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>61</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.
- f. Acas estimate that the annual cost of workplace conflict for UK employers is almost £30 billion a year,<sup>62</sup> equivalent to around £20,000 per employer.<sup>63</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.
- g. There are around 390,000 people who give 'looking after family or their home' as their main reason for being economically inactive but want a job.<sup>64</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 £150m per year.<sup>65</sup>
- h. Research by the Living Wage Foundation in 2023 found that many shift workers end up spending money on expensive childcare or transport to cover last minute shifts or losing out on this money

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<sup>56</sup> Helliwell and others. '[World Happiness Report 2017](#)'. 2017

<sup>57</sup> Trades Union Congress. '[Deadlock is broken – Employment Rights Bill passes](#)'. 2025.

<sup>58</sup> Low Pay Commission. '[National Minimum Wage - Low Pay Commission Report 2024](#)'. 2025.

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

<sup>60</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>61</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>62</sup> ACAS. '[Estimating the costs of workplace conflict](#)'. 2021.

<sup>63</sup> Department for Business and Trade. '[Business Population Estimates](#)'. Table 3. 2025; 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>64</sup> Office for National Statistics. '[INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#)'. 2025. (Accessed December 2025)

<sup>65</sup> Office for National Statistics. '[Output per hour worked, UK](#)'. 2025. 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.

altogether after short notice changes or cancellations. These costs can be up to £600 per year,<sup>66</sup> and the Act will address these costs.

- i. 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>67</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.
72. Overall, it is even more clear in our updated assessment that the Act 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 Act to have wider benefits for the business environment by improving wellbeing, incentivising higher productivity wellbeing and creating a more level playing field for good employers. This could in turn have a knock-on impact on growth. This is covered in the next section.

## **Wider Impacts**

### Growth

73. 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, 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 making flexible working the default*).

Productivity growth in the labour market is key to driving and sustaining economic growth. As discussed, the Act 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>68</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.

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<sup>66</sup> Living Wage Foundation. '[Six Million Face Cost of Living Crisis in Insecure Jobs, with Health and Social Care Workers Worst Affected](#)'. 2023.

<sup>67</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>68</sup> Bosworth D and others. '[Does good work have a positive effect on productivity? Research findings](#)'. 2021

c. **Robust enforcement ensures markets are competitive by holding all businesses to the same standards** (*relevant policies include: the Fair Work Agency, extending Employment Tribunal time limits*)

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>69</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** (*relevant policies include: ending one-sided flexibility, Six Month Qualifying Period for Unfair Dismissal*)

UK employers invested half that of the average EU nation on training per employee in 2015 (the latest comparable data),<sup>70</sup> and the amount they invest has been falling in real terms since 2017.<sup>71</sup> Increasing employment protections could incentivise greater investment in training and better management practises. Firstly, by increasing job security, employers have stronger incentives for upskilling workers and investing in good management practices, enhancing employee capability but also maximising returns on investments that boost productivity. Likewise, reforms that promote job stability, could contribute to better matching of workers to jobs and longer lasting employer-employee relationships. 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>72</sup>

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

Reforms that provide earlier access to workplace protections for all workers means workers will have more security when changing jobs. Job mobility appears to have slowed over time,<sup>73</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>74</sup> While these reforms may encourage job switching, they could also make employers less willing to hire workers, potentially offsetting productivity gains from more efficient job matching. However, evidence suggests these effects are likely to be small. For example, the OECD (2020) notes that whilst dismissal protections can reduce hiring, overall employment impacts tend to be neutral or minor.<sup>75</sup>

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 Act.

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,

<sup>69</sup> Resolution Foundation. '[Enforce for good](#)'. 2023.

<sup>70</sup> Learning and Work Institute. '[Learning at Work: Employer investment in skills](#)'. 2021.

<sup>71</sup> Department for Education. '[Employer Skills Survey](#)'. 2023.

<sup>72</sup> Martin JP and others. '[Setting It Right: Employment Protection, Labour Reallocation and Productivity](#)'. 2011.

<sup>73</sup> Resolution Foundation. '[Changing jobs?](#)'. 2022.

<sup>74</sup> Office for National Statistics. '[Job changers and stayers, understanding earnings, UK: April 2012 to April 2021](#)'. 2022.

<sup>75</sup> Organisation for Economic Co-operation and Development. '[OECD Employment Outlook 2020](#)'. 2020.

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>76</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>77</sup>

74. 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 50, 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.
75. 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 cooling (e.g., vacancies have weakened from recent highs), the balance of labour demand and labour supply is unclear. While policy reform is reducing net migration, demographic change is likely to weigh on labour supply over the medium-term, and the current heightened levels of long-term sickness will impact labour supply over time.
76. Overall, it is clear there are elements of the Act that could support productivity and bring some workers back to the labour market. In addition to this, since publishing our initial assessment last year, we have continued developing our analysis and completed economic modelling to assess the macroeconomic effects of the Act in more detail:
  - a. We provide an updated review of the literature on the effects of stronger employment rights on core macroeconomic variables, including employment, market dynamism, productivity, profits, wages and prices.
  - b. We have published research,<sup>78</sup> which uses a composite index of employment law (Centre for Business Research Labour Regulation Index) to quantify the impact of the Employment Rights Act 2025 on the UK’s level of employment protection. The research finds that after the Act’s implementation, the UK will move up the rankings for employment protections amongst OECD countries, shifting from near the bottom towards closer to the average.
  - c. The above index is then utilised for econometric analysis of UK trends over the past 50 years, which suggests stronger protections have historically supported employment and productivity, with the Act expected to raise employment slightly (around 0.1%). Further cross-country analysis broadly confirms these positive effects, though some trade-offs were noted, such as a smaller share of national income going to labour over time. This is complemented by Computable General Equilibrium (CGE) modelling, which is a type of economic simulation that shows how changes, like more jobs or higher costs, flow through the whole economy. The results from the modelling indicate that under both the central estimate of £1 billion and the cautious upper-bound cost scenario (a 0.4% increase in

<sup>76</sup> Dustmann C and others. ‘[Reallocation Effects of the Minimum Wage](#)’. The Quarterly Journal of Economics 2022: Volume 137(1), pages 267- 328

<sup>77</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 2025); 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.

<sup>78</sup> Deakin and others. ‘[Assessing the legal and economic implications of the Employment Rights Act 2025](#)’. 2026.

employment costs), the Act's changes have a small, positive effect on GDP growth (around 0.04%). This is driven by the expected positive employment effects (of a 0.1% increase in the labour supply).

77. The findings from this work provide additional support for our earlier conclusions, reinforcing the view that the Act could have a small, direct and positive impact on growth. Importantly, by boosting protections and the quality of work for those in the lowest-paid and most insecure roles, the Act will help to raise living standards across the country and create opportunities for all. Further detail on this modelling is provided in Section 14 of the annex.
78. As such, both our initial and updated analysis suggests that this package is pro-growth and could 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.
79. 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 Act will not impact the channels covered in Paragraph 74 for large parts of the economy.
80. Furthermore, the evidence on how changes to employment rights impact 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 in either direction. For example, on the National Living Wage, which has a similar magnitude of impact as the Act, on a similar part of the labour market, there is little suggestion it has had substantial impacts on productivity or participation (and by extension growth) in either direction. 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>79</sup> Therefore, at a macroeconomic level the impact on average productivity will be small.
81. As a result, we do not quantify and 'bank' a boost to economic growth in our policy-specific IAs. Hence, we conclude that the package could have a small, positive direct impact on growth, will ultimately depend on the implementation of the Act.
82. 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 Act 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 14 of the annex.

#### Impact on other Government priorities

83. In addition to supporting the Government's Growth Mission, the Act 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 Act are aligned to these objectives. These links are summarised briefly in Table 1 below.

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<sup>79</sup> HM Government. '[Employment Rights Bill Impact Assessments](#)'. 2024.

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

| Government Priority                       | Relevant Policies in the Act  | Explanation of link to the Act   |
|---|---|--|
| <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 the number one mission of the 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 Act 2025 and the Plan to Make Work Pay, the Government's aim is to bring our employment rights legislation into the 21st century, extending the employment protections already given by the best British companies to millions more workers across the country. We cannot build a strong economy with people in insecure work. So, we must make these changes now to strengthen the foundations of our economy and improve living standards. In turn, this will help making the UK the best place to work and start a business.</p> |
| <b>Kickstart economic growth</b>          |   |  |
| Keep 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 Act 2025 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 launched its Child Poverty Strategy on the 5<sup>th</sup> December 2025 – around 550,000 children will be lifted out of poverty by 2030 – the biggest reduction in a single parliament since records began. The strategy tackles the root causes of poverty by cutting the cost of essentials, boosting family incomes, and improving local services so every child has the best start in life.</p> <p>The Employment Rights Act 2025 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>  |

Table 1 (continued)

| Break down barriers to opportunity                                 |   |   |
|--|---|---|
| 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 Act 2025 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> |

### Distributional Impacts

84. In 2024, we developed initial analysis to understand the distributional impact of the Act on sectors, regions, business size, and the protected characteristics. In the initial assessment, we undertook several quantitative and qualitative analyses to develop our understanding of the impacts.

85. We have since updated our methodological framework to further understand the likely scale of impacts as well as direction. While we have not been able to capture all measures in the Act, this analysis gives a more comprehensive understanding of the scale of impact, and the distributional effects. We discuss the methodology in Section 16 of the annex.

### Small and Micro Employers

86. The Act applies only to employers, defined as businesses with at least one employee under a contract of employment. This excludes those who are self-employed, sole proprietors and partnerships with no employees, which make up a significant share of the UK's 5.6 million businesses. According to Department for Business and Trade Business Population Estimates (2024),<sup>80</sup> around 1.4 million businesses are employers and therefore fall within scope of the Act.

87. Of these employers, across the whole economy, micro, small and medium-sized employers each account for roughly 15% of the workforce, while large employers employ around 50% of employees. Approximately 8.5 million employees work in small and micro businesses (SMBs), 12.8 million in SMEs and around 18 million work for large employers, of which there are close to 8,300.<sup>81</sup> This concentration of employment in larger firms is crucial for understanding the practical impact of the Act.

88. Our updated analysis (see Section 16a) shows that in absolute terms, at least 6.2 million employees working in small and micro businesses will benefit in some way by the Act, compared to 12 million

<sup>80</sup> Department for Business and Trade. '[Business Population Estimates](#)'. 2025. (Accessed October 2025). Department for Business and Trade. '[Business Population Estimates](#)'. Table 2. 2024 (Accessed October 2025); Small and micro business defined as 0-49 employees, SMEs as 50-249 employees, large employers as 250 or more employees.

employees in medium and large-sized businesses. Hence, the majority of the cost is expected to fall on large and medium-sized businesses.

89. However, this analysis contrasts with the proportion of small and micro businesses that will be impacted, so there will be a difference at the business level. Small and micro businesses are likely to be disproportionately impacted by the Act, while medium and large-sized businesses, despite employing more people, benefit from economies of scale and dedicated HR resourcing, meaning they are likely to experience a lower marginal cost per employee for each policy change.
90. We have completed a Small and Micro Business Assessment in Section 16 of the annex and in each of the policy-specific IAs. This shows that 5 of the 8 largest measures are expected to have a disproportionate impact on SMBs.
91. 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.
92. 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 Act, to ensure that these changes work for businesses of all sizes.
93. We note the Regulatory Policy Committee stated their satisfaction with this rationale in their opinion “on the scope options, the IAs generally provide a satisfactory explanation for why it is considered that small and micro businesses (SMBs) should not be exempt from the proposal”.<sup>82</sup>

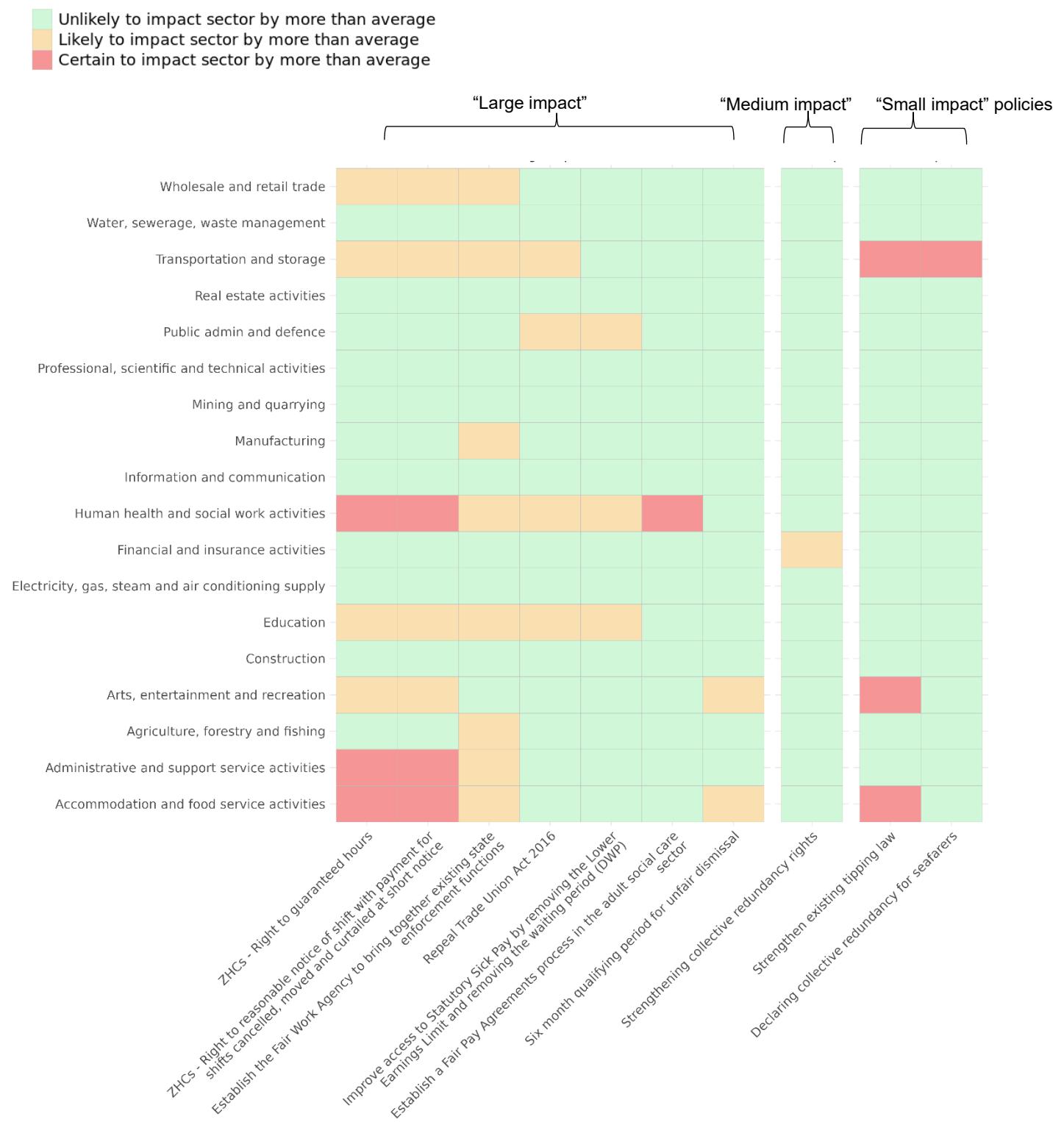
#### Sectoral Impacts

94. The Act 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.
95. 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 Act, we do not expect the impacts to be particularly concentrated in specific sectors.
96. In support of this, our updated analysis indicates that, in absolute terms, “Human health and social work activities” have the highest number of employees that are going to be covered by the Act, with at least 3.5 million employees. This is followed by “Education” (2.2 million), “Public administration and defence” (2.0 million), “Whole and retail trade” (1.6 million), and “Accommodation and food” (1.5 million).
97. These findings are consistent with our original impact assessment, which using qualitative analysis, found that “Human health and social care”, “Education”, “Accommodation and food services”, and “Transport and storage” were among the sectors most likely to be disproportionately impacted by the Act. Our sectoral assessments are covered in more detail in Section 16b of the annex and in the accompanying policy specific IAs.

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<sup>82</sup> Regulatory Policy Committee. ‘[Employment Rights Bill: RPC opinion](#)’. Page 7. 2024.

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



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

## Regional and country impacts

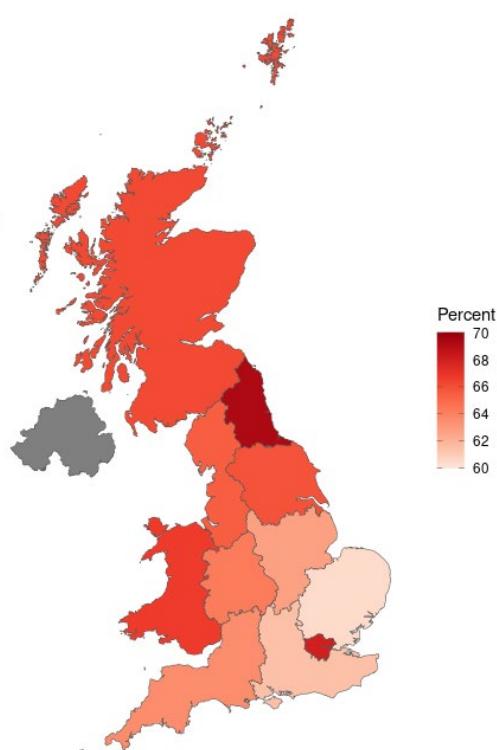
98. The Act is not targeted towards specific regions or countries, with measures being economy-wide and therefore applicable to employers and workers across the whole of Great Britain.<sup>83</sup> Despite this, the geographical footprint of lower-paid work and insecure work will drive the variation in the Act's impact across regions.
99. 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 Act, accounts for a disproportionate amount of economic activity in areas of central Scotland, North Wales and the Southwest England
100. In addition, our updated analysis (see Figure 5) suggests that the North East, London, and Wales are likely to be impacted more; London and the North East's prominence in the analysis largely reflects the high concentration of larger businesses in the area. Looking instead at Figure 5b, which excludes "Requiring large employers to publish Equality Action Plans" from the analysis, suggests that employees in Wales (53.9%) and Scotland (53.2%) are most likely to be covered by at least one of the Employment Act measures. In England, it is the northern regions that are most likely to be impacted (Yorkshire and the Humber [52.6%], North West [51.8%], North East [51.7%]).
101. In relative terms, this updated analysis confirms the evidence present in our previous impact assessment which, based on the regional distribution of employment in low paying sector, found that countries such as Wales and Scotland are disproportionately likely to benefit from measures in the Act.

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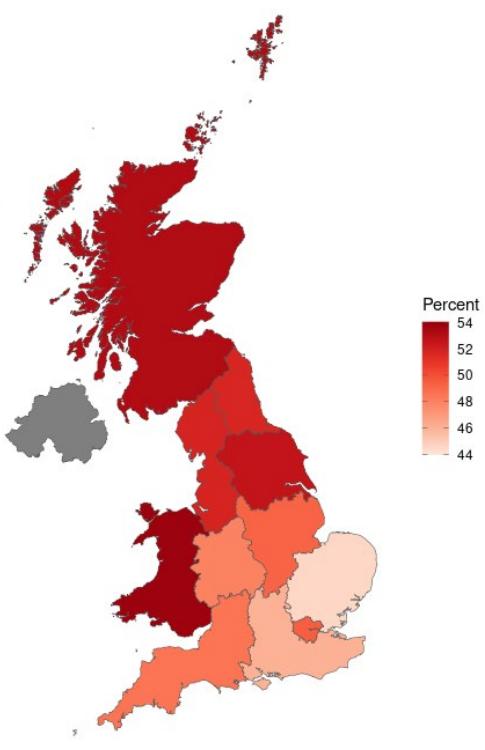
<sup>83</sup> The exceptions to this are: (i) Sections 12 and 13 extend to Northern Ireland only (ii) Section 32 extends to England and Wales, Scotland and Northern Ireland, (ii) Chapter 1 of Part 3 extends to England and Wales but applies in England only (iii) Chapter 2 of Part 3 extends to England and Wales and Scotland but applies to England only, (iv) Chapter 3 of Part 3 and Parts 5 and 6 extends to England and Wales, Scotland and Northern Ireland and Schedule 12 paragraphs 9(3) and (4) extend to Northern Ireland only.

Figure 5: Regional and country distribution of Employment Right Act impacts

*Figure 5a: with Equality Action Plans*



*Figure 5b: without Equality Action Plans*



Source: DBT analysis of Business Register and Employment Survey data<sup>84</sup>

*Note: We present two variations of the analysis, including and excluding the measure 'Requiring large business to publish Equality Action plans'. This is to prevent an over representation of large businesses within the analysis, skewing our understanding of the distributional impacts.*

#### Equalities Assessment

102. 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, insecure 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, and strengthening protections for women who report sexual harassment at work. We provide more detail of the expected equalities impacts in Section 16d of the annex.

#### Unintended Consequences

103. If not well-targeted, the Act 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.

104. 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

<sup>84</sup> Official for National Statistics. ['Business Register and Employment Survey'](#). 2023. (Accessed October 2025)

gap',<sup>85</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.

105. 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, stronger dismissal protections could present a risk to employment levels. The Act seeks to do this by retaining significant flexibility for employers to assess and, if needed, dismiss employees within the first six months of employment at lower cost and risk. However, this will 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.
106. 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 Act seeks to support.
107. 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, temporary, and casual work.<sup>86</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 Act, 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.
108. 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>85</sup> The employment gap for disabled workers is the difference between the employment rate for disabled and non-disabled workers.

<sup>86</sup> Chartered Institute of Personnel and Development. '[Regulation and the Labour Market 2024](#)'. 2024.

## 5. Conclusion

109. The Employment Rights Act 2025 represents a comprehensive set of upgrades to the employment rights framework and is a vital step 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 Act. 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.
110. The Act could help support the Government's Mission for Growth, by raising living standards across the country and creating opportunities for all. The Act 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.
111. As stated throughout the passage of the Act, it has always been our intention to refine our analysis as policy development continues, working closely with external experts. We have followed the principles and techniques of the Green Book, Better Regulation Framework and the Government's Guide to Making Legislation. In doing so, we have provided proportionate analyses of impacts on businesses, households (workers), and the wider economy.
112. The changes made to this Act during passage have not significantly changed the overall economic assessment. Further analysis undertaken continues to support our initial assessment that the Act could have a small, positive direct impact on economic growth. 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.
113. Moreover, we note that since the introduction of the Act (October 2024), the UK economy and labour market have continued to evolve in response to external pressures, such as energy price fluctuations and trade tariffs. There have also been a range of policy developments, including a rise in the National Minimum Wage and changes to employer National Insurance contributions. These shifts have introduced additional considerations for businesses and workers, shaping the broader context in which the Act is being implemented.
114. Nonetheless, our assessment of the Act remains well-founded and has been developed further in consultation with external experts, including world-leading academics. The evidence presented draws on both UK-specific policy evaluations and international literature, continues to support the view that the macroeconomic risks associated with the Act are limited. While the economic environment has changed, the underlying dynamics of the UK labour market remain, including its relatively low baseline protections and prevalence of monopsony power.
115. Our analysis will be refined as policy development continues. We will continue to produce proportionate analyses of impacts on businesses, households, and the wider economy to help inform policy development, stakeholder views and Parliament while ensuring that we continue to engage with experts, so that policymaking is supported by the best possible evidence.
116. For further supporting evidence for our assessment, see the annex as well as policy-specific impact assessments and research published on [www.gov.uk/guidance/employment-rights-bill-impact-assessments](http://www.gov.uk/guidance/employment-rights-bill-impact-assessments).

# Annex: Enactment Summary Impact Assessment

Title: Employment Rights Act 2025: Enactment 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: RPC-DBT-24003-IA(1)

Contact for enquiries: ERDAnalysisEnquiries@businessandtrade.gov.uk

Date: 07/01/2026

## Section 1. Summary of proposal

1. The Government's Plan to Make Work Pay will bring our employment rights legislation into the 21st century, extending the employment protections already given by the best British companies to millions more workers across the country.
2. The plan will help more people to stay in work, improve job security and boost living standards, creating the best environment for business by maximising job security to raise productivity, improving skills and cutting the costs of staff turnover.
3. The government cannot build a strong economy with people in insecure work. Making these changes now will strengthen the foundations of our economy and improve living standards.
4. The Employment Rights Act 2025 ('the Act') is a vital step in delivering the Plan to Make Work Pay, supporting employers, workers, and unions to get Britain moving forward.
5. The Act will bring forward policy measures including:
  - 'day 1 rights' of employment, including entitlement to paternity leave, and unpaid parental leave
  - reducing the qualifying period to take an employer to tribunal for unfair dismissal and the right to written reasons for dismissal upon request, as well as removing the compensation cap
  - establishing bereavement leave, including pregnancy loss leave, and making flexible working the default
  - addressing one-sided flexibility by ending exploitative zero-hours contracts, unscrupulous fire and rehire practices 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
- ensure that employers will no longer be able to take unfair advantage of workers and use NDAs to cover up workplace misconduct

6. Table A1 below shows the full list of policies being delivered through the Act. Separately, the Government has since published the Implementation Roadmap,<sup>87</sup> which lays out Government's plan for our anticipated implementation dates for different parts of the Act, providing clarity for public and private sector employers and trade unions on when we expect to see the changes take place on the ground. It also lays out timing of our consultations for different policy measures, providing clarity for workers and businesses on how and when Government will engage and consult on the detailed implementation of measures in the Act. The 'Next Steps for Make Work Pay' document published in October 2024 outlined how other Make Work Pay policies not covered in the Act will be taken forward.<sup>88</sup>

7. In October 2024, the Government published a comprehensive package of analysis on the impact of the Employment Rights Act 2025, providing an initial, indicative assessment of the impacts that could result from primary legislation. As stated throughout the passage of the Act, it has always been our intention to refine our analysis as policy development continues, working closely with external experts.

8. This Enactment Impact Assessment (IA) provides an updated summary of all measures in the Act, their intent, and the possible impacts of the enabling powers. In doing so, we provide additional evidence that as a whole, supports the case that the Act 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. This updated assessment has been developed in consultation with experts, including world leading academics, and is grounded in the best available evidence as of January 2026.

9. This document is supported by 28 'policy-specific' IAs, covering all our underpinning evidence, methodological information, and calculations for individual measures in the Act. These IAs are published alongside this document on [www.gov.uk/guidance/employment-rights-bill-impact-assessments](http://www.gov.uk/guidance/employment-rights-bill-impact-assessments).

10. This IA reflects revisions to the previous final stage impact assessment to reflect the final contents of the Act and has also been published alongside the enacted legislation on [www.legislation.gov.uk](http://www.legislation.gov.uk).

11. The document has two main parts: (1) the summary pages (covering Sections 1 to 8) and (2) the 'Evidence Base' (Section 9 to 19), which provides an explanation of the underpinning evidence for our assessment. The policy-specific IAs for each measure are published alongside this IA and readers should refer to these for more detailed information on each policy.

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<sup>87</sup> Department for Business and Trade. '[Implementing the Employment Rights Bill: roadmap](#)'. 2025

<sup>88</sup> Department for Business and Trade. '[Next Steps to Make Work Pay](#)'. 2024

Table A1: Policies included in the Employment Rights Act 2025

| Policy Measure   | Title of assessment  | Date published |
|--|--|----------------|
| Repeal Trade Union (TU) Act 2016   | Impact Assessment: Repeal Trade Union Act 2016   | October 2024   |
| Repeal Strikes (Minimum Service Levels) Act 2023   | Impact Assessment: Repeal Strikes (Minimum Service Levels) Act 2023  | October 2024   |
| 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   | October 2024   |
| Dismissal for failing to agree to variation of contract, etc (Fire and Rehire)                                     | Enactment Impact Assessment: Dismissal for failing to agree to variation of contract, etc (Fire and Rehire)                            | January 2026   |
| *Implementing a 6-month Qualifying Period for Unfair Dismissal and removing the compensation cap                   | Employment Rights Act 2025: Economic Analysis  | January 2026   |
| 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   | October 2024   |
| ZHCs - Right to guaranteed hours   | Impact Assessment: ZHCs - Right to guaranteed hours  | October 2024   |
| 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                               | October 2024   |
| 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 | October 2024   |
| Strengthen trade unions' right of access   | Impact Assessment: Strengthening workers' rights to trade union access, recognition and representation                                 | October 2024   |
| 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   | October 2024   |
| Strengthening collective redundancy rights   | Impact Assessment: Strengthening collective redundancy rights  | October 2024   |
| *Collective redundancy – protective awards   | Employment Rights Act 2025: Economic Analysis  | January 2026   |
| Strengthen existing tipping law  | Impact Assessment: Strengthen existing tipping law   | October 2024   |
| Protections against dismissal for pregnant workers   | Impact Assessment: Protections against dismissal for pregnant workers  | October 2024   |
| Making flexible working the default  | Impact Assessment: Making flexible working the default   | October 2024   |
| Day 1 right to paternity leave and unpaid parental leave   | Impact Assessment: Day 1 right to paternity leave and unpaid parental leave  | October 2024   |
| New right to unpaid bereavement leave  | Impact Assessment: New right to unpaid bereavement leave   | October 2024   |
| Extend employment tribunal time limits   | Impact Assessment: Employment Tribunals time limits  | March 2025     |
| Day 1 right to protected time off work to grieve a pregnancy loss before 24 weeks                                  | Impact Assessment: Amending new right to unpaid bereavement leave to include pregnancy loss  | July 2025      |

Table A1 (continued)

| Policy Measure   | Title of assessment   | Date published |
|--|---|----------------|
| Void non-disclosure agreements (NDAs) between employers and workers that prevent a worker from speaking out about harassment and discrimination in the workplace | Impact Assessment: Contractual duties of confidentiality relating to harassment and discrimination                  | July 2025      |
| Requiring large employers to publish Equality Action Plans   | Impact Assessment: Requiring large employers to publish Equality Action Plans                                       | October 2024   |
| Ensuring outsourced workers are included in gender pay gap reporting   | Impact Assessment: Ensuring outsourced workers are included in gender pay gap reporting                             | October 2024   |
| Safer workplaces harassment and sexual harassment (EQH)  | Impact Assessment: Require employers to take “all reasonable steps” to prevent sexual harassment of their employees | October 2024   |
|  | Impact Assessment: Enabling regulations to specify specific steps employers must take to prevent sexual harassment  | October 2024   |
|  | Impact Assessment: Requiring employers to not permit the harassment of their employees by third parties             | October 2024   |
| Close the maritime redundancy notification loophole  | Impact Assessment: Declaring Collective Redundancy for Seafarers  | October 2024   |
| Amend the Seafarers Wages Act so that further provisions may be made to benefit seafarers  | Impact Assessment: Mandatory Seafarers Charter  | March 2025     |
| Introduce the powers to implement international maritime conventions relating to maritime employment   | Impact Assessment: Implementing international conventions   | March 2025     |
| **Procurement – re-instate the two-tier code   | N/A   | N/A            |
| **School Support Staff Negotiation Body  | N/A   | N/A            |

Note:

\*Proportionate analysis of these measures is reflected within this document.

\*\*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.

### Regulatory Policy Committee opinion

12. The Regulatory Policy Committee (RPC) produces opinions of IAs (and Options Assessments) to help departments ensure that the evidence and analysis in them is sufficiently robust. The RPC provide an independent opinion to assist ministerial decision making and parliamentary scrutiny of regulatory proposals. This opinion is published to assist parliamentarians and to ensure that they are available to external stakeholders.
13. The Government has noted the RPC’s opinion on our initial analysis,<sup>89</sup> which assessed the 24 IAs published in October 2024. The RPC’s opinion refers to the strength of the evidence and analysis presented in the IA, not the policy itself.
14. The RPC opinion deemed 15 of the 23 individual IAs fit for purpose, with the remaining 8 IAs deemed not fit for purpose (‘red-rated’). As a result, the RPC’s separate overall assessment of the initial summary IA is ‘not fit for purpose’.

<sup>89</sup> Regulatory Policy Committee. ‘[Employment Rights Bill: RPC opinion](#)’. 2024.

15. It has always been our intention to refine our analysis as policy development continues, working closely with the RPC, external experts, businesses and trade unions. We have been working closely with the RPC to ensure their comments are fully understood, and they are addressed where appropriate. Within this Enactment Summary Impact Assessment, we have addressed concerns of the RPC opinion, with additional supporting information, evidence and analysis. In addition to our initial assessment, we have:

- Expanded discussion of the market failures, including detailed explanations of monopsony power, negative externalities, information asymmetries, and equity. We also address equality and fairness as distinct rationales for intervention, with supporting evidence.
- Undertaken econometric and general equilibrium modelling to estimate the Act's effects on employment, productivity, and growth, and further discuss the potential for cost pass-through to wages and prices. The analysis is supported by further review of the literature, additional external expert engagement, and sensitivity testing, with results indicating a small, positive impact on growth and employment.
- Provided additional clarifications to explain the expected annual direct costs to business.
- Expanded our justifications for each directional rating in the regulatory scorecard.
- Developed our monitoring and evaluation planning further to provide a more comprehensive, phased plan, including programme-level and policy-specific evaluation approaches, identification of key indicators and data sources, and a timeline for post-implementation reviews.

16. The RPC have acknowledged these changes, noting further scrutiny is not required under the Better Regulation Framework

17. As is typical with employment legislation, the technical detail of many of the policies in the Act will be provided through regulations, and in some cases Codes of Practice, after Royal Assent. We will continue to consider the RPC's opinion in future assessments supporting implementation whilst following analytical best practice, applying the techniques and principles within the Better Regulation Framework and HMT Green Book.

## Section 2. Strategic case for proposed regulation

18. 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>90</sup> and only 1 in 6 low paid workers ever fully escape into better paid work.<sup>91</sup>
19. 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 doubled between 2008 and 2022,<sup>92</sup> there are near record levels of people unable to contribute to the economy due to ill health,<sup>93</sup> and businesses have reported persistent labour shortages in recent years.<sup>94</sup> Alongside its poor productivity performance, the UK lags the OECD average on most employment protections.<sup>95,96</sup>
20. 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 around 50% or roughly £14,000 a year better off if wages had continued to grow as they did leading into the 2008 financial crisis.<sup>97</sup> For some jobs and occupations, pay has gone backwards. For example, a secretary in the West Midlands 20 years ago was earning the equivalent of £21,000, while today they are earning just £19,000.<sup>98</sup>
21. As well as stagnant wages, the UK suffers from persistent inequalities. The national gender pay gap still stands close to 13%,<sup>99</sup> and the richest 20% of the population received 43% of the UK's gross income in 2023/24, compared with the poorest 20% receiving 7%.<sup>100</sup> The UK's income inequality is above both the OECD and G7 average.<sup>101</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>102</sup>
22. In addition, the current Trade Union framework has led to poor 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

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<sup>90</sup> Office for National Statistics. '[EMP17: People in employment on zero hours contracts](#)'. 2024. (Accessed November 2025)

<sup>91</sup> Resolution Foundation. '[Low pay and progression in the UK's labour market](#)'. 2017.

<sup>92</sup> Resolution Foundation. '[Ending Stagnation. A New Economic Strategy for Britain](#)'. 2023.

<sup>93</sup> Office for National Statistics. '[INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#)'. 2025. People who are unable to work due to long-term sickness. (Accessed November 2025).

<sup>94</sup> Office for National Statistics. '[Changing trends and recent shortages in the labour market, UK: 2016 to 2021](#)'. 2021.

<sup>95</sup> Trade Union Congress. '[Falling behind on labour rights](#)'. 2024.

<sup>96</sup> Carter and others. '[Assessing the legal and economic implications of the Employment Rights Act 2025](#)'. 2026.

<sup>97</sup> Department for Business and Trade analysis based on Office for National Statistics. Monthly Wages and Salaries Survey, '[EARN01: Average weekly earnings](#)' and '[X09: Real average weekly earnings using consumer price inflation \(seasonally adjusted\)](#)'. (Accessed October 2025).

<sup>98</sup> Department for Business and Trade analysis of Office for National Statistics, '[Earnings and hours worked, region by occupation by four-digit SOC: ASHE Table 15](#)'. 2025. (Accessed October 2025); wages adjusted for inflation using the Consumer Price Index (CPI).

<sup>99</sup> Office for National Statistics. '[Gender pay gap in the UK](#)'. 2025.

<sup>100</sup> Office for National Statistics. '[The effects of taxes and benefits on household income, disposable income estimate](#)'. 2024. Table 12. (Accessed September 2025)

<sup>101</sup> Organisation for Economic Co-operation and Development. '[Income inequality \(indicator\)](#)'. 2022.

<sup>102</sup> Trade Union Congress. '[BME women far more likely to be on zero-hours contracts](#)'. 2023.

the 1980s,<sup>103</sup> and the NHS strikes during 2023 alone cost the taxpayer more than £1 billion.<sup>104</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>105</sup> This weighs on the living standards of the lowest-paid and hurts those businesses that do the right thing by their workers.

23. 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 means that competitors can undercut them.<sup>106</sup> 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.
24. 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.
25. By modernising the UK labour market through reforming Britain's employment rights, the Act 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.
26. A full description of the problems the Act is seeking to tackle, and the justification for why legislation is needed to resolve these problems is included in Section 9 ('Problem under consideration').

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<sup>103</sup> Office for National Statistics. ['Labour disputes; working days lost due to strike action; UK \(thousands\)'](#). 2024. (Accessed October 2025)

<sup>104</sup> NHS, England. ['Financial performance update'](#). 2023.

<sup>105</sup> Resolution Foundation. ['Enforce for good'](#). 2023

<sup>106</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'](#).

## Section 3. Objectives of the Act

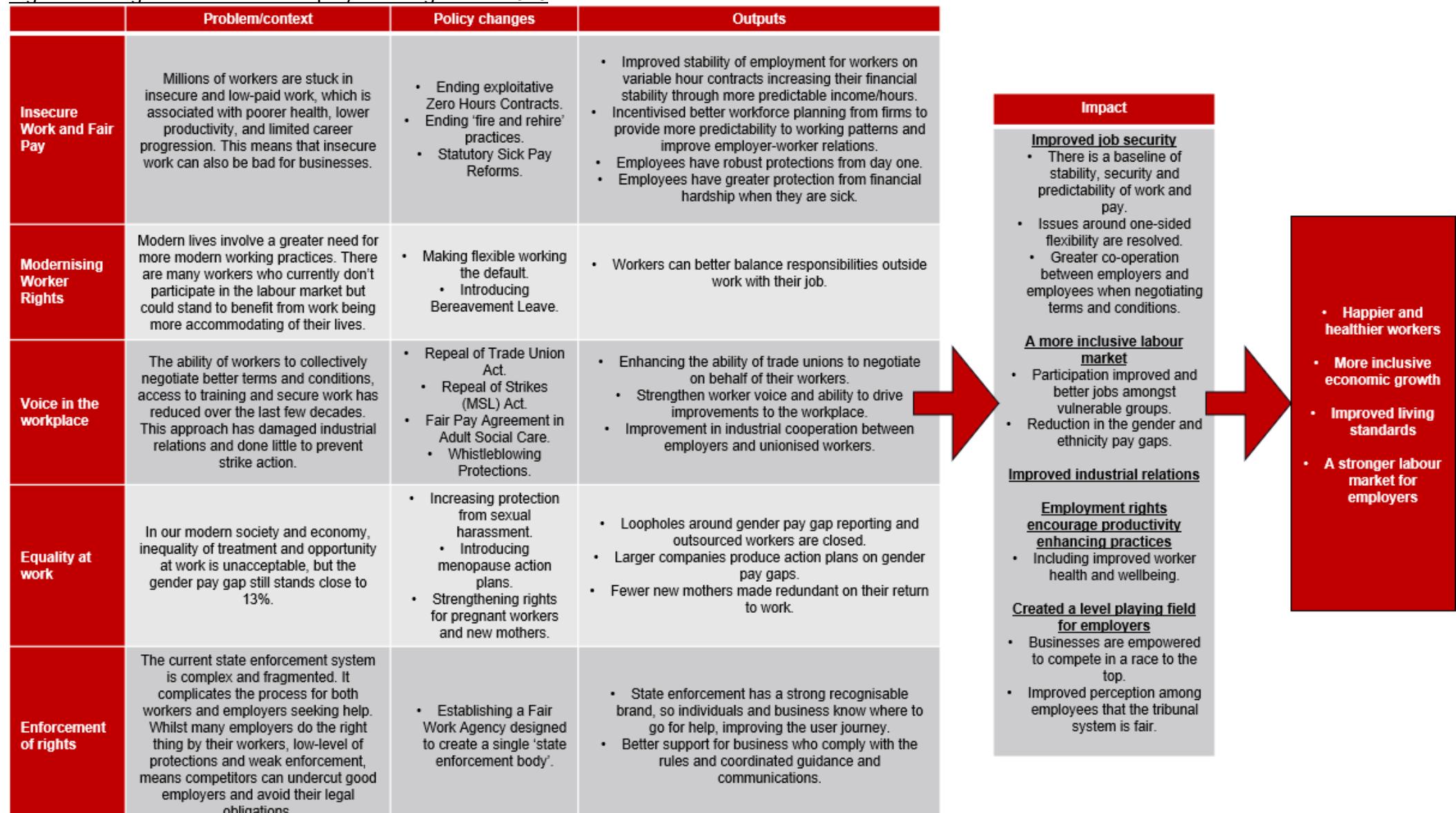
27. By modernising the UK labour market and reforming the UK's employment rights framework, the Government aims to tackle rising insecurity and stagnant living standards. Specifically, the objectives of the Act are to:

- 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.
- j. Achieving all of this whilst keeping the barriers to business growth low, creating the right conditions for productivity and growth.

28. 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.

29. Figure A1 below is a logic model that illustrates how the Act will achieve these objectives. The objectives for each policy contained within the Act are covered in their respective policy-specific IAs.

Figure A1: Logic model for the Employment Rights Act 2025



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

### Policy development and consultation

30. 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 Act is a vital step in delivering the Plan to Make Work Pay, supporting employers, workers, and unions to get Britain moving forward.
31. As is typical with employment legislation, further detail on many of the policies in the Act 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 2026, seeking significant input from all stakeholders. This is covered in more detail in the Next Steps to Make Work Pay document,<sup>107</sup> and is now complemented by the Implementation Roadmap,<sup>108</sup> which was published in July 2025.
32. 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 reflect our additional evidence gathering and provide a clearer articulation of the options under consideration at consultation.

### Inclusion of small and micro business

33. It is important to note that across the whole economy, approximately 8.5 million employees work in small and micro businesses (SMBs), which collectively account for around 30% of total employment; SMBs defined as businesses with fewer than 50 employees, represent 96% of all UK employers.<sup>109</sup> The measures in the Act 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.
34. 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 Act. 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>107</sup> Department for Business and Trade. '[Next Steps to Make Work Pay](#)'.

<sup>108</sup> Department for Business and Trade. '[Implementing the Employment Rights Bill: roadmap](#)'. 2025

<sup>109</sup> Department for Business and Trade. '[Business Population Estimates](#)'. Table 1, Number and percentage of businesses in the private sector and their associated employment and turnover, by number of employees. 2024; Small and micro business defined as 0-49 employees. This figure excludes the number of self-employed people (or 'working proprietors') who run the business.

35. The RPC stated their satisfaction with this rationale in their opinion, noting that “on the scope options, the IAs generally provide a satisfactory explanation for why it is considered that small and micro businesses (SMBs) should not be exempt from the proposal”.<sup>110</sup>
36. 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 Act on SMBs is provided in Section 16.

#### Alternatives to regulation

37. The employment rights framework is underpinned by regulation. This means that the Government can 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.
38. 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 Act will mandate employers to provide rights to workers in line with minimum standards backed by regulation.
39. 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. Non-legislative approaches will continue to be considered throughout the implementation of the Act.

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<sup>110</sup> Regulatory Policy Committee. [‘Employment Rights Bill: RPC opinion’](#). Page 7. 2024.

## Section 5. Regulatory scorecard for preferred option

40. These regulatory scorecards provide an overview of our assessment of the impacts of the Act's measures. This assessment is indicative at this stage; we will refine our analysis through further individual assessments and build our evidence base further before final policy decisions are made and secondary legislation is laid before Parliament.

### Part A: Overall and stakeholder impacts

| (1) Overall impacts on total welfare  | Directional rating |
|---|--------------------|
| <p><b>Description of overall expected impact</b></p> <p>There are clear, evidence-based benefits of government action through the Act. Not acting would enable poor working conditions, insecure work, inequalities and broken industrial relations to persist.</p> <p>The Act is targeted at improving working conditions for the lowest-paid and most vulnerable in the labour market. As such the most direct impact is 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 around £1 billion annually. This represents a modest increase in labour costs for employers to adapt to, equivalent to 0.1% of total UK employment costs.</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. around £1 billion 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 Act 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> | Positive           |

|                              |  |                 |
|------------------------------|--|-----------------|
|                              | <p>Our analysis, using UK and international evidence alongside economic modelling, finds that the Act will help boost employment, improve job quality and productivity, and create fairer competition. Together, these changes could have a small, positive direct impact on economic growth, equivalent to an estimated 0.04% increase of GDP.</p> <p>Overall, the impact of the Act 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>The positive rating reflects the expectation that, if well-targeted and implemented, the Act will deliver a net gain for society as a whole, with the benefits outweighing the costs. This is supported by both quantitative and qualitative evidence, including the direct and indirect benefits for vulnerable workers, the modest scale of costs relative to the overall wage bill, and the expectation of significant non-monetised benefits such as improved wellbeing, equality, and productivity.</p>            |                 |
| <b>Monetised impacts</b>     | <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. This means our net present value is -£2.8 billion over a 10-year appraisal period or -£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 impact of the Act.</p> <p>The rating reflects the limitations of monetisation at this stage of policy development. While the NPV is negative, this is not a policy recommendation, but a reflection of the fact that many of the most significant benefits, such as improved wellbeing, reduced inequality, and a more level playing field for good employers, are not easily monetised and are therefore not captured in this figure. The overall societal value of the Act is likely to be higher than the monetised estimate suggests.</p> | <b>Negative</b> |
| <b>Non-monetised impacts</b> | <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>111</sup> In addition, The Health and Safety Executive estimate that stress, depression or anxiety accounted for 22.1 million working days lost in 2024/25, with evidence this is concentrated in some of the sectors impacted by the Act, e.g., health and social care and education.<sup>112</sup> Our analysis suggests that the value of these wellbeing benefits could be worth billions of pounds a</p>   | <b>Positive</b> |

<sup>111</sup> Felstead A and others. '[Skills and Employment Survey, 2017](#)'. [data collection]. UK Data Service. SN: 8581. (Accessed October 2024)

<sup>112</sup> Health and Safety Executive. '[Working days lost in Great Britain](#)'. 2025. (Accessed November 2025).

|                        |  |                 |
|------------------------|--|-----------------|
|                        | <p>year to individuals and could 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 costs UK employers as much as nearly £30 billion a year.<sup>113</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>114</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 390,000 people aged 16-64 who are economically inactive because they are looking after family or their home but would like a job.<sup>115</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>Many of the policies within the Act could help support the Government's Growth Mission. Whilst we demonstrate that 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 Act 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>The positive rating reflects that these non-monetised benefits are expected to be substantial and are likely to outweigh the monetised costs. The evidence base includes both quantitative estimates (e.g., economic modelling) and qualitative assessments (e.g., a comprehensive review of the literature), supporting our conclusion of strong positive effects for workers, employers, and society.</p> |                 |
| <b>Any significant</b> | <p>The most direct impact of the policies in the Act can be considered as an 'economic transfer' from employers to employees. That is, most of the cost</p>  | <b>Positive</b> |

<sup>113</sup> Assured Compliance and Assessment Solution. '[Estimating the costs of workplace conflict](#)'. 2021.

<sup>114</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>115</sup> Office for National Statistics. '[INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#)'. 2025. (Accessed December 2025)

|   |  |  |
|---|--|--|
| <b>or adverse distributional impacts?</b> | <p>to business represents a benefit to predominantly lower-paid workers. This redistribution will improve equality for those in work. Since workers in low-pay and insecure jobs are likely to value an additional pound more than those who have higher incomes, this transfer is likely to be positive for society. Distributional impacts by worker group, business size, sector and region are considered in the Evidence Base (Section 9 to 19).</p> <p>The positive rating reflects the measures in the Act disproportionately impacting those most at risk of poor job quality and insecurity, and the evidence suggests that the benefits will be greatest for these groups, including protected groups under the Equality Act. This redistribution is expected to improve equality and have a positive societal impact.</p> |  |
|---|--|--|

## (2) Expected impacts on businesses

|   |   |                  |
|---|---|------------------|
| <b>Provide a qualitative description of the expected impact on business</b> | <p>We expect the policies covered within the Act to impose a direct cost on business equivalent to low billion pounds per year (i.e. around £1 billion annually).</p> <p>In general, the business burdens associated with the Act 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 place new practices 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>We deem the impact uncertain because while direct costs are clear and concentrated in certain sectors and business sizes, there are also significant potential benefits (e.g., improved productivity, level playing field) that are less easily quantified. The balance of these factors supports an uncertain rating.</p> | <b>Uncertain</b> |
| <b>Monetised impacts</b>  | <p>The main monetised costs are the familiarisation, administrative and compliance costs, as well as the direct transfer to workers from improvements to both rights and their enforcement. Together these are valued at £1 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. We present a deliberately cautious upper bound (i.e., 0.4% of total annual employment costs) to reflect a scenario in which all potential costs are realised at their maximum. However, as supported by evidence, this is unlikely, and so the true cost is expected to be much closer to the central estimate of £1 billion.</p> <p>The negative rating reflects that, when considering only those impacts that can be robustly quantified, the net present value for business is negative.</p>   | <b>Negative</b>  |

|   |  |           |
|---|--|-----------|
|   | However, this is a partial assessment, as many significant benefits for business are not easily monetised.   |           |
| <b>Non-monetised impacts</b>                              | <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 Act 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.</p> <p>There are also some policies where costs are non-monetised due to a lack of evidence, for example, increasing the maximum Protective Award period that an Employment Tribunal can award for failures to adhere to collective redundancy consultation obligations from 90 to 180 days.</p> <p>The uncertain rating reflects the mix of new compliance burdens and potential benefits from a more competitive and fair business environment, and the lack of strong evidence for a large positive or negative effect.</p> | Uncertain |
| <b>Any significant or adverse distributional impacts?</b> | <p><u>Sectoral impact</u></p> <p>The measures in the Act 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 and country impacts</u></p> <p>The measures in the Act are not targeted at specific regions or countries. However, analysis suggests that low-paying sectors have a slightly higher employment density in the regions of West Scotland, North Wales and the Southwest England. While these regions and countries 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</p>   | Neutral   |

|  |   |  |
|--|---|--|
|  | <p>and hiring intentions in those areas, especially if this overlaps with parts of the labour market where labour demand is weaker.</p> <p>The neutral rating reflects that, while there are distributional impacts by sector and region, these are not expected to be significantly adverse overall, and the Act is designed to avoid creating a two-tier workforce.</p> |  |
|--|---|--|

### (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. around £1 billion 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 unscrupulous fire and rehire practices will prevent core terms (reductions to pay, changes to measures of work done where these determine an element of pay such as sales commissions or target hours, changes to pensions, changes to total hours, reductions to leave entitlement, and specified changes to shift patterns) 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 would benefit up to 2.7 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>The positive rating reflects the expectation that, in addition to the quantified benefits, there will be significant non-monetised gains for workers in terms of wellbeing, equality, and job security.</p> | <p><b>Positive</b></p> |
|---|---|------------------------|

|   |  |                 |
|---|--|-----------------|
| <b>Monetised impacts</b>                                  | <p>Together the monetised benefits to workers are valued at £0.6 billion per year but this does not represent the full impact on workers as many benefits are non-monetised.</p>   | <b>Positive</b> |
| <b>Non-monetised impacts</b>                              | <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 changing unexpectedly.<sup>116</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 22.1 million working days lost in 2024/25, with evidence this is concentrated in some of the sectors impacted by the Act, e.g. health and social work and education.<sup>117</sup></p> <p>The package will also boost wellbeing by improving equality and worker voice in the workplace. We are 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 14.</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 15) and will be mitigated through policy design and consultation therefore are not monetised.</p> <p>Therefore, the positive rating reflects the expectation that the non-monetised benefits for workers will be significant and positive.</p> | <b>Positive</b> |
| <b>Any significant or adverse distributional impacts?</b> | <p><u>Low paid workers</u></p> <p>The Act 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 and country</u></p>   | <b>Positive</b> |

<sup>116</sup> Felstead A and others 'Skills and Employment Survey, 2017'. [data collection]. UK Data Service. SN: 8581. (Accessed October 2024)

<sup>117</sup> Health and Safety Executive. 'Working days lost in Great Britain'. 2025. (Accessed November 2025)

|  |  |  |
|--|--|--|
|  | <p>Analysis suggests that employees in Wales and Scotland are most likely to be covered by at least one of the Employment Act measures. In England, it is the northern regions that are most likely to be impacted Yorkshire and the Humber, North West, North East. 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><b>Protected Characteristics</b></p> <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> <p>Overall, the positive rating reflects the expectation that the Act will benefit those most in need, low-paid, insecure, and vulnerable workers, as well as those with protected characteristics.</p> |  |
|--|--|--|

## Part B: Impacts on wider government priorities

41. The table below assesses the impact of the Act against the priorities set by the Better Regulation Framework. We have also assessed the impact of the Act against the Government's 'Growth Mission' in Section 14.

| Category   | Description of impact  | Directional rating |
|--|--|--------------------|
| <b>Business environment:</b><br>Does the measure impact on the ease of doing business in the UK? | <p>Although the package will place burdens on employers, particularly 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 Act'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 Act will positively or negatively impact investment is ambiguous, but overall, we expect any impacts to be small. This is discussed further in Section 14. Whilst some studies suggest that greater employment protections can increase capital investment, other studies find the opposite effect.</p> | Uncertain          |

|   |   |                |
|---|---|----------------|
|   | <p>Evidence from investment surveys suggests that labour costs and employment protections are not primary considerations for foreign direct investment,<sup>118</sup> and the Act will not make the UK an outlier compared to other European economies.</p> <p>This is supported by additional analysis (see Section 14) which finds that after the Act's implementation, the UK will move up the rankings for employment protections amongst OECD countries, shifting from near the bottom towards closer to the average. This is despite a noticeable increase in the UK's dismissal law protections, and the Act representing the largest upgrade in UK employment protections for several decades. Having said this, the UK would become a leader in some areas, particularly with provisions on zero-hours contracts and parental leave.</p> <p>As such, we deem the rating uncertain. This is because while the Act introduces new compliance requirements and costs, it also brings important benefits for the business environment as a whole. Stronger enforcement and a more level playing field will benefit compliant employers by reducing unfair competition. The overall effect on investment and competitiveness is ambiguous, as the balance between new burdens and improved business conditions will depend on implementation and business adaptation.</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> |                |
| <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>Furthermore, 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>119</sup> Moreover, the Act will not lead the employment rights framework to be an outlier compared to many of other European economies that the UK will be competing with for FDI.<sup>120</sup> If the Act 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>121</sup></p> <p>Therefore, we expect the impact to be neutral because the overall impact on international trade and investment is expected to be negligible. The Act predominantly affects non-traded sectors, the increase in labour costs is modest, and the UK's employment rights framework will remain in line with international norms. There is no</p>   | <b>Neutral</b> |

<sup>118</sup> EY Global Limited. '[EY UK Attractiveness Survey - June 2025](#)'. 2025. (Accessed October 2025)

<sup>119</sup> EY Global Limited. '[EY UK Attractiveness Survey - June 2025](#)'. 2025. (Accessed October 2025)

<sup>120</sup> Resolution Foundation. '[Low Pay Britain 2024](#)'. 2024. (Accessed October 2024)

<sup>121</sup> World Skills UK. '[Wanted: skills for inward investors](#)'. 2022. (Accessed October 2024)

|  |   |                |
|--|---|----------------|
|  | evidence that the Act will create a competitive disadvantage or deter foreign investment. |                |
| <b>Natural capital and Decarbonisation</b><br><br>Does the measure support commitments to improve the environment and decarbonise? | There are no expected impacts to natural capital and decarbonisation.                     | <b>Neutral</b> |

## Section 6. Monitoring and evaluation of preferred option

42. Such a transformative programme of change will take several years to deliver and fully implement before impacts begin to be realised in the years following implementation. The Implementation Roadmap lays out Government's plan for the anticipated implementation dates for different parts of the Act.<sup>122</sup> In summary, implementation will be in phases, with the first phase of measures to take effect at Royal Assent or soon afterwards. Common commencement dates will be used to commence the majority of regulations laid using the powers provided for in the Act (6th April and 1st October).

43. The Government will undertake proportionate monitoring and evaluation of reforms introduced through the Act. 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 the package as a whole. The same will be done for each individual reform because each have a range of distinct objectives, and so metrics against which success should be measured will be influenced by stakeholders and external factors.

44. We adopt a phased approach to monitoring and evaluation and have recently commissioned a scoping study where we will work with independent experts to conduct a comprehensive mapping exercise, identify key programme-level metrics and design robust long term evaluation plans. Detailed below are our current plans but we also plan to publish an updated comprehensive monitoring and evaluation plan in 2026.

### Theory of Change

45. In 2024, we developed a logic model (see Figure A1) which outlined the policy measures set out in the Act. This was designed to identify what should be measured to understand the policy intervention, forming the foundation for evaluation and continuous improvement. We plan to update this through our comprehensive mapping exercise, which includes developing this logic model further in collaboration with relevant stakeholders as part of the scoping study. We also plan, at a disaggregated policy level, to supplement this with complementary 'thematic' models, which will set out specific detailed regulatory and policy change, with updates as the policy design evolves and in consultation with a range of key stakeholders.

46. The redeveloped logic model will also aid the identification of unintended consequences of the Act, such as unexpected changes in both employee and employer behaviour. We discuss these dynamics further in Section 15.

47. To monitor emerging risks in the labour market, we have identified a variety of forward-looking indicators that could act as 'early warning' signs such as (but not limited to):

- **Recruitment and Employment Confederation (REC) Index for Staff Demand and Staff Availability**  
Assesses staff demand and availability from responses to questionnaires sent to a panel of around 400 UK recruitment and employment consultancies.
- **ONS data for Job Postings**  
Textkernel data collected using comprehensive web-scraping software which downloads job advert information from approximately 90,000 job boards and recruitment pages.
- **ONS data for HR1 Notifications**  
Weekly data showing the number of potential redundancies from Insolvency Service HR1 forms and the number of employers proposing redundancies.

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<sup>122</sup> Department for Business and Trade. '[Implementing the Employment Rights Bill: roadmap](#)'. 2025.

- **CIPD Labour Market Outlook Survey**  
Covers additional forward-looking indicators such as net employment balance, recruitment intentions, intention to hire from disadvantaged groups and pay expectations.
- **Lloyds Business Barometer**  
Range of standard monthly questions from business activity and economic optimism to staff levels, wages and prices charged. Regional and sector insights are included within the report to provide an extra tier of information.

48. We will also monitor business, employee and public sentiment where possible and appropriate, using panels and surveys.

### **Evaluation Approach**

49. Using the theory of change to inform methodological approach, we have determined the most effective approach to monitoring and evaluation will be a combination of both a top-down approach (i.e. evaluation at MWP programme-level) and bottom-up approach (i.e. specific individual policy evaluations).

### **Programme Level**

50. The top-down approach will focus on the cross-cutting impacts of the Act with the aim of identifying contribution to outcomes, and where possible determine causation. We will also seek to account for any regional/country and sectoral variation, and identify the interactions between how different policies impact different or overlapping demographics.

51. The plan for the programme-level evaluation will be structured around the themes set out in the Plan to Make Work Pay, whereby individual policies are grouped depending on shared objectives and we will seek to monitor progress towards expected outcomes. Work will take place across three core phases: 'Scoping', 'Thematic' and 'Overall'. This is summarised below in Figure A2.

Figure A2: Programme-level evaluation activity

|                                       |   |
|---------------------------------------|---|
| Scoping<br>(Year 1)                   | <ul style="list-style-type: none"> <li>Independent expertise has been commissioned to carry out a scoping study with the following objectives:           <ul style="list-style-type: none"> <li>Revise and finalise Theory of Change</li> <li>Test and improve current baseline metrics through a deep dive into data sources, identify KPIs for monitoring and highlight gaps with suggestions for filling these</li> <li>Develop data collection plan and appraise evaluation approaches to create a clear timeline of evaluation methods accounting for impact across all groups</li> </ul> </li> </ul>  |
| Thematic<br>Evaluation<br>(Years 2-4) | <p>Monitoring and evaluation activities to be focused on each of the six themes of MWP and include:</p> <ul style="list-style-type: none"> <li>Continuous monitoring of metrics and unintended consequences against baselines.</li> <li>Capture process learning related to the implementation of policies.</li> <li>Build an understanding of the impact of the Act on different affected groups, exploring emerging evidence of outcomes.</li> <li>Provide evidence for the outcomes of each thematic area including what works well and less well.</li> <li>Identify additional outcomes generated during data collection and revise the evaluation framework accordingly.</li> <li>Continue to develop monitoring and evaluation plans to incorporate policies beyond the Act.</li> </ul> |
| Overall<br>Evaluation<br>(Year 5)     | <p>Synthesise the findings of thematic and policy specific evaluation activities to focus on the Act as a whole in order to:</p> <ul style="list-style-type: none"> <li>Provide evidence for the delivery and impact of the Act overall including what has worked well and less well.</li> <li>Assess the extent to which the Act has met the original policy objectives set out in the Impact Assessment, and any new outcomes identified during the evaluation.</li> <li>Identify the contribution of each of the themes to the Act as whole where possible.</li> <li>Explore interaction between each of the themes and how they influence the Act as a whole</li> <li>Capture learning related to the implementation of the Act as a whole.</li> </ul>                                    |

### Employment Rights Act 2025: Policy-specific evaluations

52. From a bottom-up perspective, evaluation should be proportionate to the size of the policy change and expected impacts. For policy measures with the largest expected impacts (e.g. zero hour contract measures), we expect to conduct specific evaluation studies to ensure we monitor and capture impacts. For smaller policy reforms (e.g. strengthening the existing tipping law), we will undertake lighter-touch evaluation (e.g. largely through stakeholder engagement).

**Table A2: Expected Monitoring and Evaluation activities proportional to the impact of measures in the Employment Rights Act 2025**

| <b>Low Expected Impact</b>   | <b>Medium Expected Impact</b>  | <b>High Expected Impact</b>   |
|--|--|---|
| <p>A relatively light-touch approach to evaluation, which would normally include a consultation with populations expected to be impacted by changes (e.g. employers, employees and trade unions).</p> <p>Potentially monitor existing data, but if quantitative data are not readily available, qualitative data will be sufficient.</p> | <p>A fuller approach to monitoring and evaluation combining evidence from multiple data sources.</p> <p>This could include a bespoke survey with reasonably high response rates to capture outcomes for business should be employed and both process and impact evaluation should be considered.</p> | <p>A comprehensive approach to evaluation with a well-designed counterfactual is expected where possible.</p> <p>This should include formal and wide-ranging consultation of affected populations and analysis of published data sources, and commissioning of bespoke research if necessary.</p> |

53. The policy-specific descriptions of monitoring and evaluation plans are provided in the respective IAs.

### **Evaluation Design**

54. We intend to deliver a comprehensive evaluation plan which will cover process, impact and value for money elements, as defined below in Table A3. High-level evaluation questions for the programme are presented in the table. Under each of these high-level evaluation questions will sit a set of more specific and in-depth sub-questions which are to be developed.

Table A3: Types of evaluation and evaluation questions

| Process Evaluation   | Impact Evaluation   | Post implementation review:  |
|--|---|--|
| <p>Examines the activities involved in implementation of an intervention and the pathways by which the policy was delivered.</p> <p>Focuses on questions such as what is working and less well, and why?</p>   | <p>Focuses on the changes caused by an intervention; measurable achievements which either are themselves, or contribute to, the objectives of the intervention.</p> <p>Typical questions include what measurable outcomes, both intended and unintended, occurred?</p>  | <p>Considers whether the benefits of a policy are outweighed by the costs, and whether the intervention remains the most effective use of resources.</p> <p>Focuses on whether the policy has been successful in delivering objectives</p>   |
| <p>What can be learned from how the intervention was delivered?</p> <ul style="list-style-type: none"> <li>▪ How are businesses implementing and reacting to policies?</li> <li>▪ Are workers being reached as intended?</li> <li>▪ How satisfied are employers and employees with the changes?</li> <li>▪ How aware are employers and employees of the changes?</li> <li>▪ What is the uptake of new rights?</li> </ul> | <p>What difference did the intervention make?</p> <ul style="list-style-type: none"> <li>▪ What have been the impacts on workers, employers, and unions?</li> <li>▪ How accurate was our (ex-ante) assessment to the actual (ex-post) impact of the policy?</li> <li>▪ Have there been unintended consequences from the policy, or through any mechanism put in place to deliver the policy?</li> <li>▪ What are the lessons learned that could be transferred to other areas?</li> <li>▪ How have new rights changes how employers operate?</li> </ul> | <p>Was this a good use of resources?</p> <ul style="list-style-type: none"> <li>▪ What extent is the new regulation working and has the policy achieved its objectives?</li> <li>▪ Is government intervention still required?</li> <li>▪ Is the existing form of government regulation still the most appropriate approach?</li> <li>▪ If this regulation is still required, what refinement could be made, if any?</li> <li>▪ If this regulation is not required, but government intervention in some form is, what other regulation or alternatives to regulation would be appropriate?</li> </ul> |

### Data Monitoring

55. Data monitoring plans, including baseline data for the individual measures in the Act, will be put in place. To monitor and track changes, we will be monitoring a number of key data sources that align with the key outcomes and impacts of the 'theory of change' to see whether the measures in the Act 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 15 for a detailed discussion).

56. We will draw upon 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>123</sup> HMRC's RTI data, and the Annual Survey of Hours and Earnings. These official data sources will also be supplemented by surveys ran by thinktanks, research organisations and stakeholder groups, some of which informed the assessment in this Enactment IA.
57. Table A4 below outlines potential impact metrics and their data sources (hyperlinked) including productivity, unemployment and inactivity alongside outcomes such as wage growth, personal wellbeing, industrial relations, enforcement and employee satisfaction. At this stage, these are indicative and are being developed further in consultation with stakeholders.
58. Additionally, where needed, we will commission bespoke research to address monitoring gaps, and a full impact evaluation will be delivered by an independent external contractor. The form of these is to be further developed within the scoping phase.

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<sup>123</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 November 2025)

Table A4: Potential data sources and impact metrics

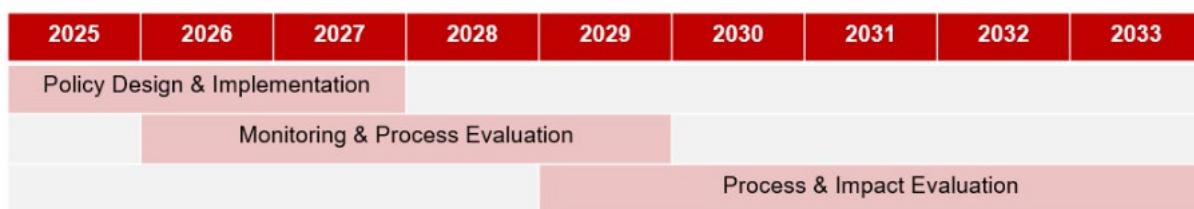
|                            | Family Friendly   | Fair Pay  | Security of Work  | Equality at Work  | Enforcement  | Voice at Work  |
|----------------------------|---|---|---|---|--|--|
|                            | <i>Promoting flexibility</i>  | <i>Raise living standards</i>   | <i>Create more secure roles</i>                             | <i>Create the right working conditions</i>                        | <i>Protect rights</i>  | <i>Improve conditions</i>                                      |
| <b>Short Term Outcomes</b> | <b>Workplace flexibility</b>  | <b>Wage Growth</b>  | <b>Precarious Work</b>                                      | <b>Inclusive Labour Market</b>                                    | <b>Active Enforcement</b>  | <b>Workers Voice</b>   |
|                            | <a href="#"><u>CIPD Good Work Index</u></a>   | <a href="#"><u>ASHE</u></a>   | <a href="#"><u>Labour Force Survey</u></a>                  | <a href="#"><u>Labour Force Survey</u></a>                        | <a href="#"><u>ACAS Annual Report</u></a>  | <a href="#"><u>Labour Force Survey</u></a>                     |
|                            | Over half said work did not affect their outside commitments (56%), with about a quarter (24%) disagreeing. | Median weekly earnings for full-time employees were £766.60 in April 2025, a 1.1% increase in real terms – this can be focused on MWP sectors | 3.5% Q3 2025 – percentage of workers on zero hour contracts | Various demographics, e.g. ethnicity, social mobility, gender etc | Various, e.g. 85% of users able to take clear action following their call in 24-25 | 22% of employees were Trade Union members in 2024.             |
| <b>Long Term Outcomes</b>  | <b>Employee satisfaction</b>  | <b>Income Inequality</b>  | <b>Insecure Work</b>  | <b>Gender Pay Gap</b>   | <b>Justice for Breaches</b>  | <b>Industrial Relations</b>                                    |
|                            | <a href="#"><u>CIPD Good Work Index</u></a>   | <a href="#"><u>OECD</u></a>   | <a href="#"><u>UK Insecure Work Index</u></a>               | <a href="#"><u>ONS UK Gender Pay Gap</u></a>                      | <a href="#"><u>ACAS Annual Report</u></a>  | <a href="#"><u>Collective Agreement Coverage</u></a>           |
|                            | Most people said they were satisfied with their job (70%)   | UK Gini index of 0.4 (2022) meaning that income inequality is above both the  | 44.1% of workers experience no forms of insecure work       | The national gender pay gap still stands close to 13%.            | Various, e.g. 79% of ET cases were positively resolved following Acas              | Around 68% of employees in the public sector had their pay and |

|                              |  |                      |  |  |                         |  |
|------------------------------|--|----------------------|--|--|-------------------------|--|
|                              | and only 13% said they were dissatisfied   | OECD and G7 average. |  |  | conciliation in 2024-25 | conditions negotiated for them by a union. In comparison, this figure was 15.4% for the private sector |
| <b>Cross Cutting Impacts</b> | <p>Labour Productivity – £47.27 Q1 2025 (4.2% increase from same period last year) - <a href="#">ONS Quarterly Productivity Estimates</a></p> <p>Unemployment (rose in August to October 2025 to 5.1% (+0.1%)), Vacancies (small decrease by 2,000 (0.2%)) and Inactivity (marginally down in the last quarter at 21% (-0.01%)) - <a href="#">ONS Monthly Labour Market Overview</a></p> <p>Wellbeing has declined in all measures, which includes life satisfaction, feeling that the things done in life are worthwhile, happiness, and anxiety – <a href="#">ONS Personal Wellbeing</a></p> |                      |  |  |                         |  |

## **Post implementation reviews (PIRs) and evaluation timings**

59. The timing of policy evaluation is dependent on secondary legislation. Our expectation is that most evaluation activity will occur in 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. Figure A3 sets out an indicative timeline for the planned implementation of measures in the Act as well as our monitoring and evaluation activities.

Figure A3: Indicative timeline of Monitoring and Evaluation activities



60. As is typical with changes to employment legislation, the Act gives the Government a series of powers in primary legislation which can then be used to define the detailed policy in secondary legislation or regulations, supported by Codes of Practice and guidance. Throughout implementation, proportionate PIR plans will be developed to determine the extent to which respective policy has delivered its objectives set out in both the primary legislation (the Act) and secondary legislation.

61. Because implementation is staggered, evaluation activity will be in phases dependent on each policy, beginning with monitoring and process evaluation focusing on implementation before progressing to impact evaluation when impacts can be realised. Once complete, these evaluations will provide an effective, holistic assessment as to how the Act is working in practice but is not anticipated until 2033 (i.e. five years following implementation of the final measures).

62. However, some measures will take effect shortly after the Act receives Royal Assent. These include:

- Repealing most of the Trade Union Act 2016 and the Strikes (Minimum Services Levels) Act 2023
- Protections against dismissal for taking industrial action

63. While there is not a statutory requirement to undertake a PIR for repeals, we recognise these measures represent a broad suite of reforms to trade union legislation, so we will continue to consider the impacts as part of our wider monitoring planning set out earlier.

64. For protections against dismissal for taking industrial action, as is standard practice, we will review the impact of this within 5 years of taking effect unless it is proportionate and feasible to combine this PIR with another planned review(s) of related trade union regulations, meaning a review could occur later. This is in line with Government guidance.<sup>124</sup>

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<sup>124</sup>HM Government. '[Producing post-implementation reviews: principles of best practice](#)'. 2024.

## Section 7. Minimising administrative and compliance costs

65. 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. We want employers, workers, trade unions and other stakeholders to have the time and space to work through the detail of each key measure with us. As we set out in our Next Steps to Make Work Pay, Government will take a phased approach to engagement and consultation on these policy measures, as well as phasing commencement.
66. Phasing consultation will allow employers from all sectors, workers, trade unions and other stakeholders to fully engage with the complex policy issues at hand and will ensure Government is appropriately considering the most effective way forward. Phasing commencement will mean stakeholders will be able to plan their time and resources to make sure they are ready when the changes come in.
67. 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.
68. The Government is committed to ensuring there is sufficient support and guidance for employers of all sizes. We will be working closely with Acas and others to develop Codes of Practice and guidance on measures where these are needed. We have committed to ensuring time is built into our implementation plans to allow stakeholders, including small businesses, to familiarise themselves with changes in law, Codes of Practice and guidance.
69. Many of the measures in the Act build on existing legislative provisions where there is already guidance and Codes of Practice. When we make changes through regulations, we will also work to update relevant guidance and Codes as a result.
70. Government will also ensure that, where appropriate, guidance is published to ensure all stakeholders have the information required to make necessary adjustments.
71. We know one of the main places that people turn to for reliable, accurate information on legal requirements is gov.uk. Work is currently underway to ensure that our digital content is useable, easy to navigate and accessible to all stakeholders.

# Declaration

**Department:**

Department for Business and Trade

**Contact details for enquiries:**

ERDAAnalysisEnquiries@businessandtrade.gov.uk

**Minister responsible:**

Minister for Employment Rights, Competition and Markets, Kate Dearden

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: *Kate Dearden.*

Date: 07/01/2026

## 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)   |
|-------------------------------|------------------------------------|--|
| Net present social value      | 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> |
| Public sector financial costs | Used as baseline for the analysis. | <p>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>125</sup> so reforms to those contracts will place costs on sectors which are in part funded by the Exchequer.</p> <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>  |

<sup>125</sup> Office for National Statistics. '[EMP17: People in employment on zero hours contracts](#)'. 2025. (Accessed November 2025)

|   | <b>1. Business as usual (baseline)</b> | <b>2. Preferred way forward (if not do-minimum)</b>   |
|---|--|---|
|   |  | Given the likely implementation timelines for most policies, most of these costs are unlikely to materialise in this financial year. This is covered in Section 10 to 12 in more detail.  |
| <b>Significant un-quantified benefits and costs</b> | 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>126</sup> Our illustrative analysis shows that wellbeing benefits of the Act 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 22.1 million working days lost in 2024/25, equivalent to £6.5 billion of output lost per year, with evidence this is concentrated in some of the sectors impacted by the Act, e.g. health and social work and education.<sup>127</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>126</sup> Felstead A and others. '[Skills and Employment Survey, 2017](#)'. [data collection]. UK Data Service. SN: 8581. (Accessed October 2024)

<sup>127</sup> Health and Safety Executive. '[Working days lost in Great Britain](#)'. 2025. (Accessed November 2025)

|  | <b>1. Business as usual (baseline)</b> | <b>2. Preferred way forward (if not do-minimum)</b>  |
|--|--|--|
|  |  | <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>128</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 390,000 people aged 16-64 who are economically inactive because they are looking after family or their home but still want a job.<sup>129</sup></li> </ul> <p>Many of the policies within the Act 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 Act 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 (and risk costs, and optimism bias, where relevant)</b> | Used as baseline for the analysis.     | <p>If not well-targeted, the measures in the Act 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 there could be greater incentives for employers to use temporary work if reforms are not considered 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</p>   |

<sup>128</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>129</sup> Office for National Statistics. ['INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)'](#). 2025. (Accessed December 2025)

|  | <b>1. Business as usual (baseline)</b> | <b>2. Preferred way forward (if not do-minimum)</b>   |
|--|--|---|
|  |  | unions, using extensive consultation to ensure Government gets the detail right before changes are implemented.   |
| <b>Results of sensitivity analysis</b> | Used as baseline for the analysis.     | <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 around £1 billion per year. 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

72. The UK labour market consists of the daily interactions between the 43 million working-age adults,<sup>130</sup> the 1.4 million businesses that employ them,<sup>131</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 700,000 people moving between jobs in a typical quarter.<sup>132</sup>

73. In the three months to October 2025, the employment rate was 74.9% (equivalent to ~32 million people in employment), the unemployment rate was 5.1% (~1.8 million people), and there were around 21% of the working age population (~9 million people) who were economically inactive.<sup>133</sup>

74. 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 is near record highs.<sup>134</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.

75. 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>135</sup> and only 1 in 6 low paid workers ever fully escapes into better paid work.<sup>136</sup>

76. 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>137</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 (e.g. through getting more people into work and higher net migration) accounting for three fifths of underlying growth,<sup>138</sup> while GDP per capita, which is what drives living standards, has flatlined.<sup>139</sup> As the 2024

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<sup>130</sup> Office for National Statistics. '[LFS: Population aged 16-64: All: Thousands: SA](#)'. 2025. (Accessed November 2025)

<sup>131</sup> Department for Business and Trade. '[Business Population Estimates](#)'. 2025; Table 2. (Accessed October 2025).

<sup>132</sup> Office for National Statistics. '[X02: Labour Force Survey flows estimates](#)'. 2025. (Accessed November 2025)

<sup>133</sup> Office for National Statistics. '[Labour market overview, UK](#)'. 2025. (Accessed December 2025)

<sup>134</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>135</sup> Office for National Statistics. '[EMP17: People in employment on zero hours contracts](#)'. 2025. (Accessed November 2025)

<sup>136</sup> Resolution Foundation and Social Mobility Commission. '[The Great Escape? Low pay and progression in the UK's labour market](#)'. 2017.

<sup>137</sup> Bank of England. '[A millennium of macroeconomic data for the UK](#)'. (Accessed October 2024)

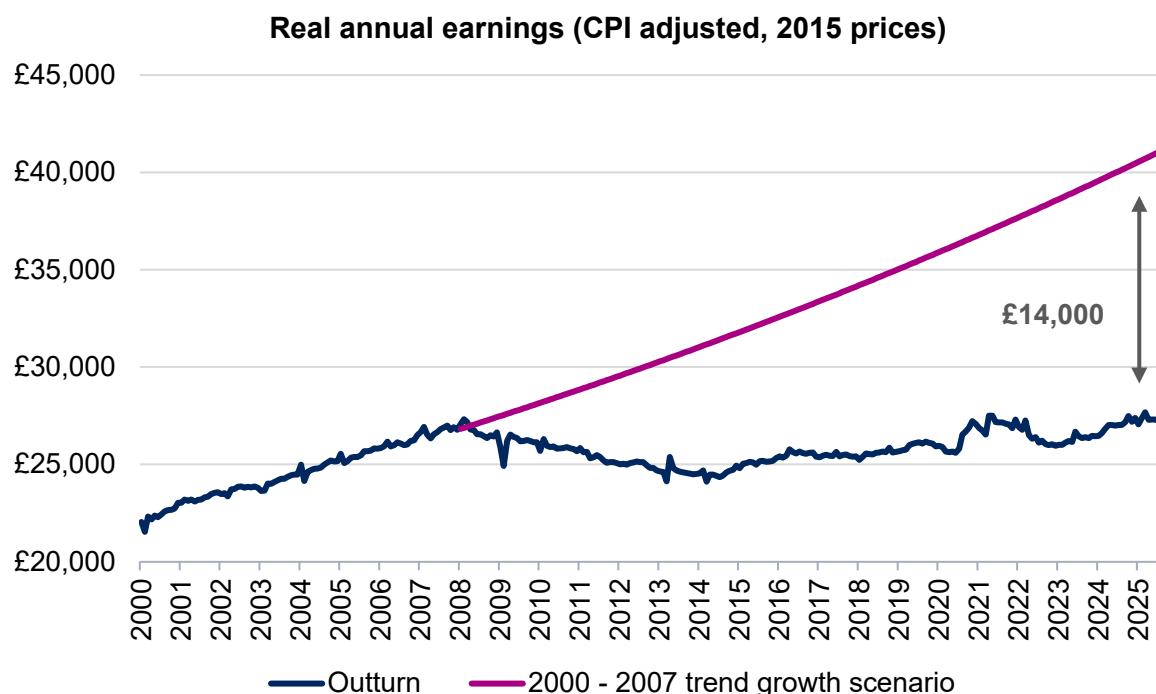
<sup>138</sup> Department for Business and Trade calculations based on ONS national accounts. '[Growth accounting: multi-factor productivity estimates, UK](#)'. 2020. (Accessed October 2025)

<sup>139</sup> Office for National Statistics. '[Growth accounting: multi-factor productivity estimates, UK](#)'. 2020 (Accessed October 2025)

Autumn Budget highlighted, had the UK economy grown at the average rate of OECD economies since 2010, GDP would have been £171 billion higher in 2024.<sup>140</sup>

77. The productivity gap with France, Germany and the US, doubled between 2008 and 2022 to 18%.<sup>141</sup> Average output per worker for G7 nations (excluding Japan and the UK) was 16% above the UK level in 2021.<sup>142</sup> This stagnation in productivity growth means that in real terms, average wages have barely increased from where they were before the 2008 financial crash, and today, the average German household is around 20 percent wealthier than their British peers.<sup>143</sup> If wages had continued to grow as they did leading into the 2008 financial crisis, the average worker would be around 50% better off, equivalent to around £14,000 a year (see Figure A4 below).<sup>144</sup>

Figure A4: Average weekly earnings with trendlines (2015 prices)



Source: Office for National Statistics, DBT calculations; trendlines added by DBT.

Notes: Annualised earnings based on average weekly earnings, adjusted for inflation using the Consumer Price Index (CPI).

78. 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

<sup>140</sup> HM Treasury. '[Autumn Budget 2024](#)'. 2024.

<sup>141</sup> Resolution Foundation. '[Ending Stagnation. A New Economic Strategy for Britain](#)'. 2023.

<sup>142</sup> Office for National Statistics. '[International comparisons of UK productivity \(ICP\), final estimates - Office for National Statistics](#)'. 2023. (Accessed October 2024)

<sup>143</sup> Organisation for Economic Co-operation and Development. '[Household disposable income](#)'. 2023. (Accessed September 2025)

<sup>144</sup> Office for National Statistics. Monthly Wages and Salaries Survey, '[EARN01: Average weekly earnings](#)' and '[X09: Real average weekly earnings using consumer price inflation \(seasonally adjusted\)](#)'. (Accessed October 2025).

years against the backdrop of the fall in living standards due to the ‘cost-of-living crisis’.<sup>145</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>146</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.

79. In addition, the recent independent final report of the Keep Britain Working review highlights that the UK has been sliding into an economic inactivity crisis,<sup>147</sup> driven largely by ill-health (2.8 million workers are out of the labour market due to long-term sickness)<sup>148</sup> and by barriers to work faced by disabled people. Although inactivity has fallen slightly over the past year, it remains above pre-pandemic levels;<sup>149</sup> over 1 in 5 working-age people are now out of work and not looking for work, higher than many comparator countries such as Netherlands (14.5%), Sweden (15.9%) and Denmark (17.7%).<sup>150</sup> There are also 800,000 more people out of work now due to health problems than in 2019. This trend is bad for employers too, who lose on average £120 per day in profit from sickness absences – now at a 15-year high – and face costs to replace staff which stretch into the tens of thousands of pounds each time.<sup>151</sup> This causes disruption, lost capacity and unplanned costs.

80. The UK also faces persistent and complex inequalities. In the financial year 2023/24, the richest 20% of the population received 43% of the UK’s gross income, compared with the poorest 20% receiving 7%.<sup>152</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>153</sup> The UK’s income inequality is above both the OECD and G7 average.<sup>154</sup>

81. 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 extend 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>155</sup>

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<sup>145</sup> Office for National Statistics. '[Labour disputes; working days lost due to strike action; UK \(thousands\)](#)'. 2024. (Accessed November 2025)

<sup>146</sup> Bimpang 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>147</sup> HM Government. '[Independent report. Keep Britain Working: Final report](#)'. 2025.

<sup>148</sup> Office for National Statistics. '[INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#)'. 2025. (Accessed December 2025)

<sup>149</sup> Office for National Statistics. '[A01: Summary of labour market statistics](#)'. 2025. (Accessed November 2025)

<sup>150</sup> Organisation for Economic Co-operation and Development. '[Infra-annual labour statistics, Percentage of working age population in the same subgroup, Calendar and seasonally adjusted](#)'. 2024. (Accessed November 2025).

<sup>151</sup> CIPD. '[Health and wellbeing at work](#)'. 2025.

<sup>152</sup> Office for National Statistics. '[The effects of taxes and benefits on household income, disposable income estimate](#)'. 2024. Table 12. (Accessed September 2025)

<sup>153</sup> Office for National Statistics. '[Household total wealth in Great Britain: April 2018 to March 2020](#)', 2022.

<sup>154</sup> Organisation for Economic Co-operation and Development. '[Income inequality \(indicator\)](#)', 2022. (Accessed October 2024)

<sup>155</sup> Overman HG and others. '[Spatial disparities across labour markets](#)'. Oxford Open Economics 2024: Volume 3(1), pages i585–i610

82. 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 is still at 12.8% in 2025 for all UK employees, down from 19.8% in 2013.<sup>156</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>157</sup>

83. Looking forward, the Treasury's Panel of Independent Forecasters expects the unemployment rate to remain low in the next couple of years (4.9% by the end of 2025 and at 4.9% the following year). Productivity is expected to grow by 0.3% in 2025 and by 0.7% in 2026, which would mark a continuation of the sluggish growth seen since the global financial crisis.<sup>158</sup>

84. 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 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.<sup>159</sup> 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

85. The UK labour market has notable strengths, high participation and employment (including for disadvantaged groups), a skilled work force, and it can respond effectively to economic shocks. However, as discussed, this has not been accompanied by strong productivity gains, wage growth, or rises in real household disposable income – at least since 2009.

86. The UK is seen to have a highly "flexible" labour market, ranking 4<sup>th</sup> amongst EU and OECD countries.<sup>160</sup> This means that there are relatively few frictions that prevent employers and employees from adapting and responding to changing economic conditions. 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 (20.3% vs 15.1% of the population in 2024);<sup>161</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>162</sup>

87. 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

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<sup>156</sup> Office for National Statistics. '[Gender pay gap in the UK](#)'. 2025.

<sup>157</sup> Office for National Statistics. '[Ethnicity pay gaps, UK](#)'. 2023.

<sup>158</sup> HM Treasury. '[Forecast for the UK economy](#)'. 2025. (Accessed November 2025)

<sup>159</sup> National Foundation for Education Research. '[The Skills Imperative 2035: Rethinking skills gaps and solutions](#)'. 2024.

<sup>160</sup> Lithuanian Free Market Institute. '[Employment Flexibility Index](#)'. 2020.

<sup>161</sup> Organisation for Economic Co-operation and Development. '[Part-time employment rate](#)'. (Accessed September 2025)

<sup>162</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.

more productive roles; the rate of job-to-job moves in Great Britain are second highest in the OECD.<sup>163</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 pay rises on average three times higher than those who do not.<sup>164</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.

88. 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>165</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>166</sup> This may create more insecurity for those workers who cannot gain permanent employment.

89. However, some aspects of flexibility, especially the relatively modest levels of protection afforded to workers around firing and some forms of flexible contracts, are associated with poor quality and insecure forms of work. Workers often do not experience the benefits of this flexibility, and can face unpredictable hours and last-minute shift cancellations, leading to unstable income and difficulty managing finances. Poor job quality is associated with poorer health,<sup>167</sup> lower productivity,<sup>168</sup> and limited career progression.<sup>169</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).

90. 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>170</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

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<sup>163</sup> Organisation for Economic Co-operation and Development. '[Labour market transitions across OECD countries: Stylised facts](#)'. 2021.

<sup>164</sup> Office for National Statistics. '[Job changers and stayers, understanding earnings, UK](#)'. 2022.

<sup>165</sup> Chartered Institute of Personnel and Development. '[Regulation and the Labour Market 2024](#)'. 2024.

<sup>166</sup> National Foundation for Education Research. '[The Skills Imperative 2035: Rethinking skills gaps and solutions](#)'. 2024.

<sup>167</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>168</sup> Bosworth D and others. '[Does good work have a positive effect on productivity? Research findings](#)'. 2021

<sup>169</sup> Work Foundation. '[No Progress? Tackling Long-Term Insecure Work](#)'. 2024.

<sup>170</sup> Organisation for Economic Co-operation and Development. '[Jobs Strategy](#)'. 2024.

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 risks of unintended consequences are minimised. This is covered in Section 15.

### The UK's enforcement landscape

91. 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 £40 million on 'state-enforcement' each year.<sup>171</sup>
92. 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>172</sup> between 850,000<sup>173</sup> and 2 million<sup>174</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>175</sup>
93. 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>176</sup> There is also evidence to suggest that low-paid migrant workers have trouble in finding information on getting access to minimum employment rights under the current system.<sup>177</sup> As such, the Government believes the system is fragmented and ineffective.
94. 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>178</sup> The current system is also a source of inequality – presently, 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>179</sup>

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<sup>171</sup> HMRC National Minimum Wage enforcement: £31.5m, Gangmasters and Labour Abuse Authority (GLAA) enforcement: £6.3m, Employment Agency Standards Inspectorate (EAS): £1.5m, Director of Labour Market Enforcement (DLME): £0.7m. ['United Kingdom Labour Market Enforcement Strategy 2025 to 2026, Director of Labour Market Enforcement'](#). 2025.

<sup>172</sup> Low Pay Commission. ['National Minimum Wage - Low Pay Commission Report 2024'](#). 2025.

<sup>173</sup> Department for Business and Trade analysis of the Annual Survey of Hours and Earnings 2023 microdata.

<sup>174</sup> Trade Union Congress. ['Action plan to reform labour market enforcement'](#). 2021.

<sup>175</sup> Resolution foundation. ['Enforce for good'](#). 2023.

<sup>176</sup> Resolution foundation. ['Enforce for good'](#). 2023.

<sup>177</sup> Modern Slavery and Human Rights Policy and Evidence Centre. ['UK agriculture and care visas: workers exploitation and obstacles to redress'](#). 2024.

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

<sup>178</sup> Resolution foundation. ['Enforce for good'](#). 2023.

<sup>179</sup> Citizens Advice. ['From rights to reality, designing a fair work agency that delivers'](#). 2024.

## Quality of work and insecure jobs

95. Measuring quality of work is complex. There are several approaches, all with varying strengths and weaknesses. For example, the ONS,<sup>180</sup> the Chartered Institute of Personal Development (CIPD)<sup>181</sup> and the International Labour Organization (ILO)<sup>182</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 do not give a definitive answer to whether job quality has improved or declined 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>183</sup>

96. 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>184</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>185</sup>

## Insecure work

97. 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>186</sup> accounting for 3.8m workers in total. 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>187</sup>

98. 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>188</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>189</sup> while 14% of workers on variable hours report

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<sup>180</sup> Office for National Statistics. '[Job quality in the UK – analysis of job quality indicators: 2021](#)'. 2022.

<sup>181</sup> Chartered Institute of Personnel and Development. '[Understanding and measuring job quality](#)'. 2018.

<sup>182</sup> International Labour Organization. '[A rough guide to measuring job quality in market systems development: Operational guidance](#)'. 2023.

<sup>183</sup> Warwick University. '[Mapping indicators of the quality of work on to large scale data sources](#)'.

<sup>184</sup> Chartered Institute of Personnel and Development. '[Good Work Index 2023: Survey Report](#)'. 2023.

<sup>185</sup> Office for National Statistics. '[Job quality in the UK – analysis of job quality indicators: 2021](#)'. 2022.

<sup>186</sup> Resolution Foundation. '[Firm foundations: Understanding why employers use flexible contracts](#)'. 2024.

<sup>187</sup> Low Pay Commission. '[A Response to Government on 'One-sided Flexibility'](#)'. 2018.

<sup>188</sup> Resolution Foundation. '[Firm foundations: Understanding why employers use flexible contracts](#)'. 2024.

<sup>189</sup> Low Pay Commission. '[A Response to Government on 'One-sided Flexibility'](#)'. 2018.

receiving less than a day's notice of their shift schedules (55% said they get less than a week).<sup>190</sup>

99. 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>191</sup> The negative impacts of these types of contracts are covered in the 'Market Failures' section below.

## Rationale for intervention: Market Failures

100. There are several market failures which explain why the labour market does not deliver 'optimal' outcomes for society. These range from 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.

101. As we discuss below, there is evidence to suggest that these market failures have contributed to lower wages, lost productivity and inequality in the labour market, both between workers and businesses, but also between businesses who want to do the right thing, and those who undercut them. This makes a strong case for the Government to introduce legislation to bring about new and/or strengthened worker protections. The Act 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

102. 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.

103. The Competition 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>192</sup> Likewise, the OECD find that, across Denmark, France, Germany and Portugal, a 10% increase in labour market concentration lowers the daily wage by

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<sup>190</sup> Living Wage Foundation. '[Almost one-third of working adults given less than a week's notice of working hours](#)'. 2022.

<sup>191</sup> Resolution Foundation. '[Low Pay Britain 2024](#)'. 2024.

<sup>192</sup> Competition and Markets Authority. '[The CMA's research on competition and UK labour markets](#)'. 2024.

0.2%-0.3%.<sup>193</sup> Both studies use a Herfindahl-Hirschman index (HHI)<sup>194</sup> to identify the extent of monopsony power. While high levels of concentration could also reflect things other than weak competition, there is a variety of empirical evidence documenting monopsony frictions in UK labour markets; these rely on causally estimating fundamentals such as labour-supply elasticities to the firm, which do not suffer from the same issues as HHIs.<sup>195</sup> These estimates complement the use of HHIs by providing causal evidence of market power, thereby reinforcing the validity of HHIs as indicative of monopsony frictions in UK labour markets.

104. 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.
105. 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 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.<sup>196</sup>
106. This degree of imbalance is likely to vary by sector across the economy (see Section 16b for further detail). For example, almost 90% of the public sector is covered by collective agreements, compared to just 20% of private sector,<sup>197</sup> which suggests workers in public services such as health, education, and transport may already benefit from relatively greater bargaining power compared to those in low-paid private sector work. However, issues in these sectors like fragmented bargaining units, use of agency staff, or localised monopsony can perpetuate imbalance. That is why the measures in the Act are designed to address both widespread and sector-specific imbalances in bargaining power.

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<sup>193</sup> Organisation for Economic Co-operation and Development. '[Employment Outlook 2022: Building Back More Inclusive Labour Markets](#)'. 2022.

<sup>194</sup> This index uses the employment shares of all firms in a labour market to place said market on a scale between 0 (a perfectly competitive market) and 10,000 (a market with a single employer). If labour markets are more concentrated, this might indicate that employers have more market power, and be suggestive of monopsony power. However, high levels of concentration could reflect things other than weak competition. Indeed, the CMA note that "the technologies firms use to produce outputs and the career choices of workers in a certain location might both lead to concentrated labour markets without necessarily presenting competition concerns.

<sup>195</sup> Bassier I and others. '[Vacancy duration and wages](#)'. 2025. Review of Economics and Statistics, pages 1-28; Bassier I and Manning A. '[Estimating labour market power: the long and short of it](#)'. 2025. London School of Economics and Political Science. Centre for Economic Performance: Volume 2108; Datta N. '[Local monopsony power \(CEP Discussion Paper\)](#)'. 2024. Centre for Economic Performance: CEPDP2012; Datta N. '[The measure of monopsony: The labour supply elasticity to the firm and its constituents \(CEP Discussion Paper\)](#)'. 2023. London School of Economics and Political Science. Centre for Economic Performance: CEPDP1930.

<sup>196</sup> Organisation for Economic Co-operation and Development. '[OECD Employment Outlook 2022](#)'. 2022.

<sup>197</sup> Department for Business and Trade. '[Trade Union Membership, UK 1995-2024: Statistical Bulletin](#)'. 2025.

## Negative externalities

107. 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.

108. We know that insecure work can be harmful for workers, with insecure work having been linked to lower worker physical and psychological health generally in the UK.<sup>198, 199</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>200</sup>

109. Additionally, studies have identified that insecure work contributes to poor physical and mental health, which can reduce productivity.<sup>201</sup> Bosworth and Warhurst (2020) find that job insecurity has a negative relationship with labour productivity,<sup>202</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>203</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>204</sup> Together this suggests that the labour market will deliver an excessive amount of insecure work without Government intervention.

## Positive Externalities

110. 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>205</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

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<sup>198</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>199</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>200</sup> Farina E and others. '[Is Precarious Employment Bad for Worker Health? The Case of Zero Hours Contracts in the UK](#)'. 2020

<sup>201</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>202</sup> Bosworth D and others. '[Does good work have a positive effect on productivity? Research findings](#)'. 2021

<sup>203</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>204</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>205</sup> Department for Business, Energy and Industrial Strategy. '[Post-Implementation Review of the 2014 Flexible Working Regulations](#)'. 2014.

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 flexibly.<sup>206</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>207</sup>

111. 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>208</sup>
112. 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

113. In labour markets, asymmetric information, describes a situation where there is a gap between the information that employers and employees have. Employers may possess more or better information than employees regarding terms and conditions, employment rights, or workplace practices. This gap generally results in suboptimal decisions and allocations of resources.
114. Addressing information gaps like lack of awareness of statutory entitlements can help remove these information asymmetries and can support decisions that are better for employers and better for workers.<sup>209</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.
115. 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>210</sup> This is because temporary employees may find it more challenging to build the internal relationships necessary for knowledge sharing.<sup>211</sup>

#### Equality

116. The Act is designed not only to address market failures in the labour market, but also to advance equality and fairness. As set out in Section 9, there are significant inequalities in the UK labour market, particularly in the quality of work. The equalities analysis (see Section 16d) shows that the benefits of the Act are likely to be concentrated among people with protected characteristics. Women, younger workers, ethnic minorities, and disabled people are disproportionately

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<sup>206</sup> Centre for Economics and Business Research. '[Impacts of a flexible working culture](#)'. 2014.

<sup>207</sup> Department for Business and Trade (forthcoming) Employee Rights Survey 2020.

<sup>208</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>209</sup> Chartered Institute for Personnel and Development. '[Talking about voice: employees' experiences](#)'. 2019.

<sup>210</sup> Sias PM and others. '[A Comparison of the Communication Behaviours of Temporary Employees and New Hires](#)'. 1997. *Communication Research*: Volume 24(6), pages 731-754.

<sup>211</sup> George E and others. '[Non-standard work and workers: Organizational implications](#)'. 2015

represented in low-paid, insecure work, making them more likely to experience unpredictable hours, limited progression, and exploitative practices.

117. These equity considerations are distinct from the economic rationale for intervention. The Act includes measures that specifically target groups overrepresented in low-paid, insecure work, raising minimum standards for all but with the greatest impact on the lowest paid. This approach is expected to improve equality in the quality of work across the labour market.

118. It is important to note that the Act's approach to equality goes beyond direct anti-discrimination measures. By redistributing resources and security towards the lowest paid, the Act is expected to reduce income inequality and improve social mobility. The Green Book guidance highlights that improvements for lower-income groups have a greater value to society, supporting the view that the Act will be net beneficial to society. By raising minimum standards, improving enforcement, and supporting worker voice, the Act will help advance equality of opportunity and outcome, not only for those with protected characteristics, but for all workers at the lower end of the labour market.

119. We explore these distributional impacts further in regional impacts in Section 18 and impacts on the most vulnerable workers and the Protected Characteristics under the Equality Act in Section 19.

#### Market Failures: Summary

120. Each policy-specific impact assessment covers the market failures which justifies government intervention for that area. Table A5 below summarises the rationales for intervention against each problem identified and non-exhaustive examples of relevant policies.

Table A5: Summary of market failures tackled by Act 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, six month qualifying period, 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                          | x                         | Increasing protection from sexual harassment, introducing menopause action plans and strengthening rights for pregnant workers. |
| <b>Enforcement</b>                | x                               | x                                | x                          | x                         | Fair Work Agency  |

## Section 10. Cost Benefit Analysis

### Analytical Approach

121. All analysis in our IAs follows the principles and techniques 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. 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 measures in the Act can be found in Table A1.

122. It is important to note that while we present an updated assessment, much of this cost-benefit analysis is based on analysis published in October 2024. This means for some measures, it remains difficult to fully estimate the impacts as some policy decisions still need to be consulted on before final policy detail is agreed.

123. 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 Implementation Roadmap and in the policy-specific IAs.<sup>212</sup> 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>213</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.

124. 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 Act. This helps to identify which measures are most significant and will drive the overall impact, showing deliberately broad, illustrative ranges. 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 Act. However, it should be noted these decision metrics only offer a partial view of our assessment, especially on the expected benefits. Finally, in Section 12, 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.

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<sup>212</sup> Department for Business and Trade. ‘[Implementing the Employment Rights Bill: roadmap](#)’. 2025

<sup>213</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.

### Order of magnitude estimates

125. The first step in our analysis is to produce a broad order of magnitude for each policy within the Act. 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. However, as mentioned, we have continued developing our evidence base and analysis since the introduction of the Act, enabling us to more precisely estimate the Act's costs in particular, and we reflect this in Tables A6, A7 and A8 below.

126. Through our analysis, we identify that eight measures in the Act 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, reducing the qualifying period for unfair dismissal to six months, reforms to Statutory Sick Pay (SSP), the repeal of elements of the Trade Union (2016) Act, strengthening the rules around 'Fire and Rehire' practises, and the Fair Work Agency (FWA).

127. Table A6 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 A7 and Table A8. For a fuller explanation of the assessment of those policies, please refer to the relevant policy-specific IA. Note, for proportionality purposes, the eight policies with the greatest impact have received more attention on our cross-package analysis (e.g. sector, regional, growth impacts analysis).

Table A6: Order of magnitude estimates for highest-impact policies in the Act

| #   | 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             |
| <p>Currently, there is no legislatively supported or mandated sectoral collective bargaining in the adult social care sector. The Act enables the Secretary of State to establish a Fair Pay Agreements process in the adult social care sector through secondary legislation.</p> <ul style="list-style-type: none"> <li>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.</li> <li>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>214</sup> and 63% of care home residents were state funded in 2022/23.<sup>215</sup></li> <li>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.</li> <li>The direct benefits would accrue to the ASC workforce, which is large, with 1.6 million people working in the sector in England in 2024/25, equivalent to 5% of all adults in employment, making it a larger workforce than the NHS, construction, transport, or food and drink industries.<sup>216</sup> Similarly, businesses directly impacted would be the 19,000 care providers across the country, many of them SMEs.<sup>217</sup> The subsequent care and healthcare benefits would accrue to the many users of care and healthcare services.</li> <li>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.</li> </ul> |   |   |   |  |                       |

<sup>214</sup> Office for National Statistics. '[Estimating the size of the self-funding population in the community, England: 2022 to 2023](#)'. 2023

<sup>215</sup> Office for National Statistics. '[Care homes and estimating the self-funding population, England: 2022 to 2023](#)'. 2023.

<sup>216</sup> Skills for Care. '[The size and structure of the adult social care sector and workforce in England 2024/25](#)'. 2025

<sup>217</sup> Skills for Care. '[The size and structure of the adult social care sector and workforce in England 2024/25](#)'. 2025

Table A6 (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 |
| The Act introduces a right to a guaranteed hours contract which reflects the hours eligible workers regularly work over a reference period.  |   |                                  |                                 |   |   |
| <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),<sup>218</sup> 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>219</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>220</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 |
| The Act introduces a right to a reasonable notice of shifts, and a right to payment for shift cancellation, movement and curtailment at short notice for those on zero and low hours contracts.  |   |                                  |                                 |   |   |
| <ul style="list-style-type: none"> <li>We estimate that there are around 600k workers in scope who experience unexpected shift cancellations.<sup>221</sup> 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</li> </ul>  |   |                                  |                                 |   |   |

<sup>218</sup> DBT analysis of the Labour Force Survey, based on the groups of workers likely to be impacted by the policy. This is a key input into our analysis. We will continue to refine our assessment as we continue to build our evidence base and as the policy progresses to consultation and secondary legislation, particularly to reflect specific hours thresholds in the methodology and triangulate estimates from multiple data sources.

<sup>219</sup> Chartered Institute of Personnel and Development. ['Zero Hour Contracts: Evolution and current status'](#). 2022.

<sup>220</sup> Trade Union Congress. ['BME women far more likely to be on zero-hours contracts'](#). 2023.

<sup>221</sup> Department for Business and Trade analysis of the Labour Force Survey combined with evidence from the Living Wage Foundation, based on the groups of workers likely to be impacted by the policy. This is a key input into our analysis. We will continue to refine our assessment as we continue to build our evidence base and as the policy progresses to consultation and secondary legislation, particularly to reflect specific hours thresholds in the methodology and triangulate estimates from multiple data sources.

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.

- 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.
- There will be a reduction in flexibility for firms that currently do not plan shifts sufficiently in advance or that regularly cancel shifts at late notice.
- 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.

Table A6 (continued)

| #   | Policy Proposal   | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact   | Net Impact on Society                               |
|---|---|----------------------------------|---------------------------------|---|---|
| 4   | Reducing the qualifying period for unfair dismissal to six months and removing the compensation cap | *Large Cost (£10m-£100m)         | *Large Benefit (£10m-£100m)     | Possible increase in hiring and firing costs for employers, which may in turn impact on hiring and firing rates | Uncertain due to uncertainty on behavioural impacts |
| <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 Act will:</p> <ul style="list-style-type: none"> <li>Reduce the two-year qualifying period for unfair dismissal to six months</li> <li>Reduce the qualifying period for the right to written reasons for dismissal upon request to six months</li> <li>Remove the cap on the compensatory awards which can be awarded by employment tribunals to employees who are found to have been unfairly dismissed</li> </ul> <p>The analysis below reflects the final provisions in the Act, drawing on the evidence and analysis published when the Act was introduced ("2024 IA").<sup>222</sup></p> <p>The Government will convene a series of meetings early in 2026, to enable stakeholders to feed in their perspectives. A summary of responses will also be published in 2026. The Government will also consider what additional dedicated support or guidance might be needed.</p>   |   |                                  |                                 |   |   |
| <p><b>Impacts on business</b></p> <ul style="list-style-type: none"> <li>While implementing a six-month qualifying period will impose a cost on business, we expect this cost will be lower than it would have been for a 'Day One' right. Therefore, relative to a 'Day One' right, the new policy represents a net benefit to business. <ul style="list-style-type: none"> <li><b>Acas claims and ET cases:</b> This cost will be lower under a six-month qualifying period than a 'Day One' right. The additional population in scope is estimated to decrease from close to 9 million under a 'Day One' right to around 6.3 million under a six-month qualifying period. We would expect the cost to business to reduce in line with the reduced population in scope.</li> <li><b>Written reason for dismissal:</b> This cost will be lower under a six-month qualifying period than a 'Day One' right. We estimate that there could be around 100,000 dismissals per year of employees with between six months and two years' tenure.<sup>223</sup> Illustrative, upper bound analysis suggests that the cost to business could be around £2m per year.<sup>224</sup></li> <li><b>Hiring and workforce management:</b> This cost will be significantly lower under a six-month qualifying period than a 'Day One' right. A six-month qualifying period retains significant flexibility for employers to assess and, if needed, dismiss employees within the first six months of employment at lower cost and risk. Many businesses (around 40%) already operate discretionary probationary periods, and the</li> </ul> </li> </ul> |   |                                  |                                 |   |   |

<sup>222</sup> HM Government. '[Impact assessment: Day 1 unfair dismissal rights](#)'. 2024.

<sup>223</sup> Department for Business and Trade analysis of ONS Labour Force Survey. We estimate that there are 540,000 dismissals per year (based on estimating the quarterly average between Q1 2022 to Q4 2024, and multiplying by four). This is indicative (e.g. multiplication may lead to double counting due to survey design and the survey question does not enable an estimate that specifically isolates the number of departures within a single quarter). We then multiply this figure by 22% (the share of employees in scope).

<sup>224</sup> Illustrative analysis based on an HR Manager/ Director (median wage of £29.79 per hour from Annual Survey of Hours and Earnings, uplifted by 22% to account for non-wage labour cost) spending 30 minutes to provide the written reason for dismissal. We apply an upper bound, unrealistic assumption that all employees in-scope request a written reason for dismissal. ONS 2025. [Earnings and hours worked, occupation by four-digit SOC](#). Office for National Statistics. '[UK Economic Accounts](#)'. 2025.

- vast majority are six months or less.<sup>225</sup> A six-month qualifying period is therefore expected to have limited impacts on hiring.
  - **Dismissal processes:** The cost for employers to undertake dismissals will be lower under a six-month qualifying period than a 'Day One' right. We estimate there could be around 100,000 dismissals per year of employees with between six months and two years' tenure. Illustrative analysis suggests that each additional day of administrative time needed could cost around £30m per year.<sup>226</sup> The cost to business will vary on a case-by-case basis and depend on the specific context (e.g. reason for dismissal).
- The cost of removing the compensation cap for unfair dismissal is likely to be limited at the aggregate. In practice, few awards reach the cap. In 2023/24, there were 646 awards for unfair dismissal in employment tribunals reported, and the median award was £6,746.<sup>227</sup> Fewer than 40 awards (around 6%) in 2023/24 for unfair dismissal were greater than £50,000. Employment tribunals will continue to calculate compensatory awards to reflect the losses that employees suffer because of being dismissed unfairly. Some high-paying sectors may be particularly affected.
- The costs to businesses will be mitigated by expected benefits. The 2024 IA set out a range of possible benefits and supporting survey evidence, including performance management improvements, investment in training, and productivity improvements due to higher employee wellbeing, job security, and tenure.
- Small and micro businesses are more likely to be impacted as they are more likely to employ staff with between six months and two years' tenure,<sup>228</sup> less likely to use contractual probationary processes,<sup>229</sup> and generally have more limited legal and HR resources (see Section 16a).

#### ***Impacts on households***

- Around 6.3 million employees (22% of all employed 16+) have been working with their current employer for between six months and two years thus benefiting from increased job security.<sup>230</sup>
- We expect the impact of the policy will be positive for households, and lead to similar benefits as those in the 2024 IA with impacts scaling based on the size of the population affected. The impacts assessed qualitatively in the 2024 IA included (a) higher job security, health and wellbeing for employees gaining protections against unfair dismissal, (b) pay benefits due to higher job switching and fewer dismissals, and (c) the increased legal costs due to additional Acas and Employment Tribunal cases, and potential benefits of settlements and tribunal awards. In addition, we expect that the right to a written reason of dismissal on request from 6 months will increase transparency and employee confidence.
- As stated above, the impact of removing the compensation cap is expected to be limited at the aggregate level. However, certain groups may benefit from the removal of the cap more than others, such as high-paid employees or those with limited re-employment opportunities.
- Section 16d sets out the policy's expected impact on groups with protected characteristics.

<sup>225</sup> Office for National Statistics. '[Business insights and impact on the UK economy Wave 133](#)'. 2025. (Accessed December 2025)

<sup>226</sup> Illustrative analysis based on an HR Manager/ Director (median wage of £29.79 per hour, uplifted by 22% to account for non-wage labour costs) and 7 hours per day on a full-time basis. Office for National Statistics. '[Earnings and hours worked, occupation by four-digit SOC](#)'. 2025. Office for National Statistics. '[UK Economic Accounts](#)'. 2025.

<sup>227</sup> Ministry of Justice. '[Employment Tribunal Data 2023-24](#)'. 2024

<sup>228</sup> Department for Business and Trade analysis of Labour Force Survey. Analysis based on Q1 2022 to Q4 2024 release.

<sup>229</sup> Office for National Statistics. '[Business Insights and impact on the UK economy Wave 133](#)'. 2025

<sup>230</sup> Department for Business & Trade analysis of the Office for National Statistics Annual Population Survey.

Table A6 (continued)

| #   | Policy Proposal   | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact             | Net Impact on Society                               |
|---|---|----------------------------------|---------------------------------|-----------------------------------|---|
| 5   | Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period | *Large Cost (£100m-500m)         | *Large Benefit (£100m- £500m)   | 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 Act removes the requirement to earn at least the Lower Earnings Limit in order to be eligible for SSP. The Act removes 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>*Our initial assessment provided a range of £100m-£1bn for annual direct costs and benefits. This partly reflected uncertainty in the percentage rate being set between 60-80%, which was subject to public consultation. Considering the responses to the consultation and discussions with stakeholders, this rate will be set by the Act at 80% of normal weekly earnings, or £118.75, whichever is lower. The updated range reflects the estimated annual direct costs and benefits for the 80% rate in the SSP IA.<sup>231</sup></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> |   |                                  |                                 |                                   |   |

<sup>231</sup> HM Government. ‘[Impact assessment: Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period](#)’. 2024.

Table A6 (continued)

| #   | Policy Proposal  | Annual Direct Impact on Business  | Annual Direct Impact on Workers   | Wider Economic Impact                                 | Net Impact on Society  |
|---|--|---|---|---|--|
| 6   | 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. | Positive if this leads to an improvement in industrial relations |
| <p><i>The Act repeals 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>   |  |   |   |   |  |
| 7   | Dismissal for failing to agree to variation of contract, etc ('fire and rehire') | *Medium Cost (£10m-£150m)   | *Medium Benefit (£10m-£150m)  | Possible impacts on level of redundancies.            | Positive   |
| <p>The Act limits the use of fire and re-hire, by making it an automatic unfair dismissal in relation to core contractual terms which are protected as ‘restricted variations’ (reductions to pay, changes to measures of work done where these determine an element of pay such as sales commissions or target hours changes to pensions, changes to total hours, reductions to leave entitlement, and specified changes to shift patterns), unless the employer is in severe financial difficulties and has no reasonable alternative.</p>  |  |   |   |   |  |
| <ul style="list-style-type: none"> <li>This policy will prevent instances of fire and rehire in relation to core terms, unless the employer meets the narrow exception for financial difficulties. We estimate 12,200 businesses could engage in the practice each year (&lt;1% of employers), affecting 125,000 workers annually.</li> <li>We expect the net effect to society to be positive. Overall, the policy is expected to reduce the number of instances of fire and rehire. Most of the monetised impacts are transfers from businesses to households and therefore cancel each other out at a societal level. The negative monetised impacts are driven by the analysis of leave entitlement – the lost output to employers is monetised as greater than the gained value of leisure time that is imperfectly proxied by wages. While the monetised impacts suggest a negative overall impact, we expect the policy to lead to potentially significant unquantified benefits, including greater wellbeing, productivity, and fairness. We therefore assess that the policy will have positive societal impacts overall.</li> <li>*Note while the original Impact Assessment did not provide quantified estimates, we have since improved our evidence base and developed a methodology to assess impacts. The full updated assessment is published alongside the Enactment Impact Assessment. The updated analysis indicates this policy is expected to have an EANDCB of £97.6m (net cost, with a range between £20.3m and £138.6m) (2024 prices, 2026 present value) and an EANDCH of £-99.1m (net benefit, with a range between £-17.3m and £-140.5m) (2024 prices, 2026 present value).</li> </ul> |  |   |   |   |  |

Table A6 (continued)

| #  | Policy Proposal   | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact                         | Net Impact on Society                          |
|--|---|----------------------------------|---------------------------------|---|--|
| 8  | 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>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 Act creates 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").</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 A7: Order of magnitude estimates for medium-impact policies in the Act

| #  | Policy Proposal  | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact | Net Impact on Society |
|--|--|----------------------------------|---------------------------------|-----------------------|-----------------------|
| 9  | New right to unpaid bereavement leave (including amending new right to unpaid bereavement leave to include pregnancy loss) | *Medium Cost (£10m-£150m)        | *Medium Benefit (£10m-£150m)    | Negligible            | Uncertain             |
| <p>The Act introduces a new right to Bereavement Leave, allowing employees to take leave from work to grieve the loss of a loved one, including pregnancy loss before 24 weeks. Currently, only employees who lose a child have a statutory entitlement to time off from work for bereavement, and this does not cover pregnancy loss before 24 weeks. This change addresses a longstanding gap in statutory minimum requirements and recognises that pregnancy loss can be experienced as a bereavement. This will ensure that employees who may not have been entitled to leave following the loss of a loved one, including pregnancy before 24 weeks, have a statutory right to protected time off work to grieve.</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 2024.<sup>232</sup></li> <li>According to research by bereavement support charity Sue Ryder, bereavement costs the UK economy an estimated £23bn a year in lost Gross Value Added (GVA) and costs the UK Treasury an estimated £8bn in reduced tax revenues, increased healthcare costs and income support payments.<sup>233</sup></li> <li>In 2024 there were around 630,000 deaths in Great Britain.<sup>234</sup> The population eligible for Statutory Bereavement Leave including pregnancy loss is highly uncertain but could be up to 2.7 million people (depending on the definition of those in scope which will be subject to consultation).<sup>235</sup></li> <li>It is estimated that there could be around 565,000 pregnancies that could be lost to miscarriage, termination, ectopic loss or IVF transfer failure per year, however, the exact number of pregnancy losses is uncertain due to a lack of reliable data.</li> <li>This policy will introduce business familiarisation, re-organisation costs and administrative costs. These costs are presented as illustrative due to the large range of uncertainty in the take-up rate and are driven mainly by familiarisation costs and the cost of lost employee working days.</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> <li>*The recently published Options Assessment presents an updated assessment a year on. The analysis indicates total annual ongoing costs to business of between £40.4m and £95.0m depending on the scope of bereavement leave, and an estimated one-off familiarisation cost of £73.8m.<sup>236</sup></li> </ul> |  |                                  |                                 |                       |                       |

<sup>232</sup> Department for Business and Trade analysis using Office for National Statistics. '[Deaths registered summary statistics, England and Wales](#)'. 2025. (Accessed October 2025); National Records of Scotland. '[Deaths Time Series Data](#)'. 2025. (Accessed October 2025)

<sup>233</sup> Sue Ryder. '[Grief in the workplace](#)'. 2019.

<sup>234</sup> Department for Business and Trade analysis using Office for National Statistics. '[Deaths registered summary statistics, England and Wales](#)'. 2025. (Accessed October 2025); National Records of Scotland. '[Deaths Time Series Data](#)'. 2024. (Accessed October 2025)

<sup>235</sup> HM Government. '[Options assessment for new rights to unpaid bereavement leave including pregnancy loss](#)'. 2025.

<sup>236</sup> HM Government. '[Options assessment for new rights to unpaid bereavement leave including pregnancy loss](#)'. 2025.

| #  | Policy Proposal                            | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact | Net Impact on Society |
|--|--|----------------------------------|---------------------------------|-----------------------|-----------------------|
| <ul style="list-style-type: none"> <li>Benefits include wellbeing benefits to employees from being given the time off work to grieve the loss of a pregnancy, and benefits to employers through decreasing employee presenteeism and possibly loyalty and retention following an employee facing the loss of a pregnancy.</li> </ul>   |  |                                  |                                 |                       |                       |
| 10   | Strengthening collective redundancy rights | Uncertain                        | Uncertain                       | Negligible            | Positive              |
| <p>Collective consultation requirements apply when an employer is proposing to make 20 or more redundancies at one establishment. The Act strengthens protections for employees by amending current legislation to create an organisation-wide trigger for collective redundancy obligations. Secondary legislation will determine the number of redundancies across an entire organisation where employers are required to notify the relevant secretary of state of and undertake collective redundancy consultation. This new trigger will sit alongside the existing trigger to consult whenever an employer proposes to make 20 or more redundancies at one establishment.</p>  |  |                                  |                                 |                       |                       |
| <ul style="list-style-type: none"> <li>In the year ending September 2025, there were more than 3,700 instances of employers in Great Britain initiating a collective redundancy process involving 20 or more employees.<sup>237</sup></li> <li>Net social impacts are expected to be positive. Most impacts are costs to businesses which are transferred to households but the identification of alternatives to redundancies generate certain savings to business which drive a net positive impact to society.</li> <li>The policy in the Act generates no impact because the new threshold is to be set in secondary legislation. A forthcoming Options Assessment will assess impacts of the options to be proposed in consultation.</li> </ul> |  |                                  |                                 |                       |                       |

<sup>237</sup> Office for National Statistics. '[HR1: Potential redundancies](#)'. 2025. (Accessed November 2025)

Table A7 (continued)

| #   | Policy Proposal  | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact | Net Impact on Society |
|---|--|----------------------------------|---------------------------------|-----------------------|-----------------------|
| 11  | Protections against dismissal for pregnant workers       | Medium Cost (£10m-£100m)         | Medium Benefit (£10m-£100m)     | Negligible            | Uncertain             |
| <p>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 Act bans 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.</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> <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> |  |                                  |                                 |                       |                       |
| 12  | Day 1 right to paternity leave and unpaid parental leave | Medium Cost (£10m - £100m)       | Medium Benefit (£10 - £100m)    | Negligible            | Uncertain             |
| <p>Currently, to be eligible for Paternity Leave or Parental Leave, a parent must have met continuity of service requirements with their employer. The Act ensures 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 Act removes this restriction, enabling parents to take their Paternity Leave and Pay after their Shared Parental Leave and Pay.</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 A7 (continued)

| #   | Policy Proposal   | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact | Net Impact on Society |
|---|---|----------------------------------|---------------------------------|-----------------------|-----------------------|
| 13  | Amending new right to unpaid bereavement leave to include pregnancy loss        | Medium Cost (£10m - £100m)       | Uncertain                       | Negligible            | Uncertain             |
| Neither the new entitlement to Bereavement Leave nor the existing Parental Bereavement Leave and Pay, currently covers pregnancy loss before 24 weeks. The Act will extend Bereavement Leave to include a day one right to protected time off work to grieve a pregnancy loss before 24 weeks. This will ensure that employees who may not have been entitled to leave following the loss of pregnancy before 24 weeks have a statutory right to protected time off work to grieve.   |   |                                  |                                 |                       |                       |
| <ul style="list-style-type: none"> <li>It is estimated that there could be around 565,000 pregnancies that could be lost to miscarriage, termination, ectopic loss or IVF transfer failure per year, however, the exact number of pregnancy losses is uncertain due to a lack of reliable data.</li> <li>The Impact Assessment suggests an indicative total NPSV over 10 years is estimated to be between - £172m and -£243m, whilst the EANDCB is estimated to be £19.9m and £28.3m depending on the scope of bereavement leave for pregnancy loss. These costs are presented as illustrative due to the large range of uncertainty in the take-up rate and are driven mainly by familiarisation costs and the cost of lost employee working days.</li> <li>Benefits include wellbeing benefits to employees from being given the time off work to grieve the loss of a pregnancy, and benefits to employers through decreasing employee presenteeism and possibly loyalty and retention following an employee facing the loss of a pregnancy.</li> </ul>  |   |                                  |                                 |                       |                       |
| 14  | Contractual duties of confidentiality relating to harassment and discrimination | Medium Cost (£10m - £100m)       | Uncertain                       | Negligible            | Uncertain             |
| This amendment to the Act will void non-disclosure agreements (NDAs) between employers and workers that prevent a worker from speaking out about harassment and discrimination in the workplace.  |   |                                  |                                 |                       |                       |
| <ul style="list-style-type: none"> <li>The Impact Assessment suggests an indicative total NPSV over 10 years is estimated to be -£27.3m, whilst the EANDCB is estimated to be £3.2m. These are driven mainly by familiarisation and implementation costs.</li> <li>Due to uncertainty around the timing of implementation and familiarisation, the costs presented in this IA assume all impacts occur in Year 1. In practice, uptake and behavioural change may occur more gradually, meaning that costs could be spread over a longer period.</li> <li>The monetised NPSV is currently indicative and does not include significant non-monetised benefits to employees through reduced discrimination and harassment, and being able to disclose allegations of harassment and discrimination. Additionally, the analysis does not account for potential reputational costs businesses may face from public exposure of harassment and discrimination.</li> <li>Although not monetised, benefits include wellbeing benefits to workers from being able to speak openly about experiences of workplace harassment or discrimination, which may support emotional recovery and reduce feelings of isolation, and benefits to employers through fostering a more transparent and inclusive workplace culture.</li> </ul> |   |                                  |                                 |                       |                       |

Table A7 (continued)

| #   | Policy Proposal                  | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact | Net Impact on Society |
|---|----------------------------------|----------------------------------|---------------------------------|-----------------------|-----------------------|
| 15  | Employment tribunals time limits | Small Cost (£0m - £10m)          | Uncertain                       | Negligible            | Uncertain             |
| <p>The Act will amend primary and secondary legislation to increase the time limit within which employees can bring an employment claim to an Employment Tribunal (ET) to six months for the majority of claims, which currently have a time limit of three months. This would bring the time limit for the majority of claims in line with the time limit for statutory redundancy and equal pay claims. The time limits in secondary legislation will be amended separately, via statutory instruments.</p>   |                                  |                                  |                                 |                       |                       |
| <ul style="list-style-type: none"> <li>Annual direct costs to businesses are estimated to be £13.6m. These costs include an estimated 5% increase in cases and an initial familiarisation cost of £13.1m. Evidence suggests that employees tend to act on their own behalf in most cases when making an ET claim. The annual cost of additional claims to workers is estimated to be around £5.3m each year.</li> <li>Although not monetised, it is possible this measure could produce a range of additional benefits as businesses learn from any Tribunals and, as a consequence, staff increasingly feel that they were treated fairly. In addition, workers are expected to benefit from improved access to justice, a simplified system and greater confidence in the ET system for individuals.</li> </ul> |                                  |                                  |                                 |                       |                       |

Table A8: Order of magnitude estimates for low-impact policies in the Act.

| #   | Policy Proposal                                   | Annual Direct Impact on Business  | Annual Direct Impact on Workers   | Wider Economic Impact                                 | Net Impact on Society  |
|---|---|---|---|---|--|
| 16  | Collective redundancy – protective awards         | Uncertain   | Uncertain   | Negligible  | Uncertain  |
| Amendment to the Act increased the maximum Protective Award period that an Employment Tribunal can award for failures to adhere to collective redundancy consultation obligations from 90 to 180 days. This will strengthen workers' protection against abuse of rules on collective redundancies and ensure greater compliance with collective consultancy obligations by employers.   |   |   |   |   |  |
| <ul style="list-style-type: none"> <li>We expect the following impacts from this policy: <ul style="list-style-type: none"> <li>Cost to business from paying a greater Protective Award where collective redundancy obligations are not adhered to (transfer).</li> <li>Benefit to business from prevented redundancies as a result of greater compliance with collective redundancy obligations.</li> <li>Benefit to households from receiving a greater Protective Award where collective redundancy obligations are not adhered to (transfer)</li> <li>Benefit to households from improved outcomes following collective redundancy consultation (prevented redundancies, better redundancy terms, possible reduction in unemployment spell, pay during consultation period terms, possible reduction in unemployment spell, pay during consultation period).</li> </ul> </li> <li>We cannot monetise the impact of this policy due lack of data and the scale of uncertainty caused by this. The directional impact is expected to be positive for households. The directional impact on businesses is uncertain and depends on the extent to which collective consultations are effective at reducing redundancies when they are a suboptimal course of action (not economically efficient). Overall, we expect a net positive impact on total welfare because the cost to business is a transfer to households, and we expect benefits to households and possibly to business from increased compliance with collective redundancy obligations</li> </ul> |   |   |   |   |  |
| 17  | 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. | Positive if this leads to an improvement in industrial relations |
| 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 Act repeals amendments made by the MSL Act meaning minimum service regulations will lapse.   |   |   |   |   |  |
| <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>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> <li>*Our initial assessment assumed high impact was still possible due to the power remaining while the Act progressed through Parliament. However, no employer has used MSLs to date and the Act has received Royal Assent, meaning the ability of employers to require their workers to meet minimum service levels on a day of strike action no longer exists.</li> </ul>   |   |   |   |   |  |

Table A8 (continued)

| #  | Policy Proposal   | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact | Net Impact on Society |
|--|---|----------------------------------|---------------------------------|-----------------------|-----------------------|
| 18   | Strengthening workers' rights to trade union access, recognition and representation | Small Cost (£0 - £10m)           | Small Benefit (£0 - £10m)       | Possible              | Positive              |
| This IA covers several trade union reforms, including:   |   |                                  |                                 |                       |                       |
| <ul style="list-style-type: none"> <li>• Making it easier for unions to gain access to workplaces, to assist individual union members and to help unions to recruit and organise.</li> <li>• Make the recognition process easier by: <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ Removing the 40% support threshold at the recognition ballot stage.</li> <li>▪ Consulting on reducing the 10% application threshold for the Central Arbitration Committee to accept a TU recognition case</li> </ul> </li> <li>• 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 Act also removes 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.</li> <li>• Update the blacklisting legislation to protect a wider range of people from blacklisting due to trade union membership or activity.</li> <li>• Introduce this duty and require employees to 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.</li> <li>▪ Requiring employers to regularly inform workers of their right to join a trade union thereafter.</li> </ul> |   |                                  |                                 |                       |                       |
| 19   | Making flexible working the default   | Small Cost (£0 - £10m)           | Small Benefit (£0 - £10m)       | Possible              | Uncertain             |
| Employees have a day one right to request flexible working, but employers can reject these requests for several reasons. The Act ensures 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   |   |                                  |                                 |                       |                       |
| 20   | Whistle-blowing protections against sexual harassment                               | Small (£0 - £10m)                | Small (£0 - £10m)               | Negligible            | Positive              |
| 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 Act 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.  |   |                                  |                                 |                       |                       |
| 21   | Strengthen existing tipping law   | Small Cost (£0 - £10m)           | Small Benefit (£0 - £10m)       | Negligible            | Uncertain             |
| 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 Act 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.  |   |                                  |                                 |                       |                       |

Table A8 (continued)

| #  | Policy Proposal  | Annual Direct Impact on Business | Annual Direct Impact on Workers | Wider Economic Impact | Net Impact on Society |
|--|--|----------------------------------|---------------------------------|-----------------------|-----------------------|
| 22   | Requiring large employers to publish Equality Action Plans                                       | Small (£0 - £10m)                | Small Benefit (£0 - £10m)       | Negligible            | Positive              |
| 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 Act requires employers to publish an equality action plan alongside the disclosure required by section 78 of the Equality Act 2010. |  |                                  |                                 |                       |                       |
| 23   | Ensuring outsourced workers are included in gender pay gap reporting                             | Small (£0 - £10m)                | Small Benefit (£0 - £10m)       | Negligible            | Positive              |
| The Act enables 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.   |  |                                  |                                 |                       |                       |
| 24   | Require employers to take "all reasonable steps" to prevent sexual harassment of their employees | Small (£0 - £10m)                | Small Benefit (£0 - £10m)       | Negligible            | Positive              |
| The Act requires employers to take 'all reasonable steps' to prevent sexual harassment of their employees.   |  |                                  |                                 |                       |                       |
| 25   | Enabling regulations to specify specific steps employers must take to prevent sexual harassment. | Small (£0 - £10m)                | Small Benefit (£0 - £10m)       | Negligible            | Positive              |
| 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.   |  |                                  |                                 |                       |                       |
| 26   | Requiring employers to not permit the harassment of their employees by third parties             | Small (£0 - £10m)                | Small Benefit (£0 - £10m)       | Negligible            | Positive              |
| The Act will introduce employer liability for the harassment of their employees by third parties.  |  |                                  |                                 |                       |                       |
| 27   | Declaring Collective Redundancy for Seafarers  | Small (£0 - £1m)                 | Small Benefit (£0 - £1m)        | Negligible            | Positive              |
| 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 Act ensures that operators cannot avoid the notification requirement and meaningful consequences of failing to comply with it by registering their ships outside of the UK.  |  |                                  |                                 |                       |                       |

Table A8 (continued)

|  |  |                  |                          |            |          |
|--|--|------------------|--------------------------|------------|----------|
| 28   | Mandatory Seafarers' Charter           | Small (£0 - £1m) | Small Benefit (£0 - £1m) | Negligible | Positive |
| This measure amends the Seafarers Wages Act so that further provisions may be made to benefit seafarers, resembling some requirements from the voluntary charter.  |  |                  |                          |            |          |
| 29   | Implementing international conventions | Small (£0 - £1m) | Small Benefit (£0 - £1m) | Negligible | Positive |
| To maintain compliance with international law and to maintain and enhance its leading international role, the UK must stay up to date with its implementation of international maritime conventions. The Act introduces the powers to implement international maritime conventions relating to maritime employment such as the Maritime Labour Convention and Work in Fishing Convention. The measure proposed does not change the UK's policy position but enables government to continue it. |  |                  |                          |            |          |

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

128. This section aggregates monetised impacts across the 28 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)

129. If it was possible to monetise 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 represent only a partial assessment of the package, and equal weight should be given to our qualitative discussion of benefits and costs in Section 12 below.

130. We provide these 'decision metrics' for the package in line with the Better Regulation Framework and Green Book but emphasise that they should not be interpreted as a full assessment of the Act. 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.

131. According to the Department for Business and Trade Business Population Estimates (2024),<sup>238</sup> the UK has approximately 5.6 million businesses and other organisations, but this headline figure includes a large number of self-employed individuals and owner-partners who do not have employees or are not under a contract of employment. Of these, approximately 4 million are self-employed or non-employing businesses, while around 1.4 million are employers with at least one employee. The Act covers employers; businesses or organisations with at least one employee under a contract of employment. Although employers represent only 26% of all businesses, they account for the vast majority of economic activity, generating 93.1% of total business turnover.

132. 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

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<sup>238</sup> Department for Business and Trade. '[Business Population Estimates](#)'. 2025. (Accessed October 2025).

metrics we interpret households to refer to individual employees, so we do not attempt to map impacts on to a representative household.

133. Table A9 provides a summary of the estimated direct monetised costs and benefits. This 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 £0.6 billion, and the annualised cost to business is £1 billion.<sup>239</sup> As noted above, this should not be interpreted as our assessment being that the package will be negative for society. Rather, we cannot robustly estimate many of the benefits at this stage.

134. A breakdown of the monetised direct costs to business by policy area is provided in Table A10. These may vary slightly to the figures in the policy-specific IA where the price and present value years differ.

**Table A9: ‘Decision metrics’ for Employment Rights Act 2025** (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 Act 2025<br>(summation of individual measures) | -2.8  | -8.3                       | 1.0    | -0.6   |

<sup>239</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’](#). 2025.

**Table A10: 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)

| <b>Impact Assessment</b>   | <b>Business NPV (£m)</b>                            | <b>EANDCB (£m)</b> |
|--|---|--------------------|
| Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period          | -3,467.2  | 419.7              |
| 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*             |
| Dismissal for failing to agree to variation of contract, etc (Fire and rehire)                                     | -784.5  | 97.6               |
| Reducing the qualifying period for unfair dismissal to six months and removing the compensation cap <sup>240</sup> | -364.8  | 42.4               |
| Day 1 right to paternity leave and unpaid parental leave   | -208.6  | 24.2               |
| Strengthen existing tipping law  | -56.3   | 6.5                |
| Establish the Fair Work Agency to bring together existing state enforcement functions                              | -32.5   | 3.8                |
| Contractual duties of confidentiality relating to harassment and discrimination (NDAs)                             | -28.3   | 3.3                |
| Requiring employers to not permit the harassment of their employees by third parties                               | -25.0   | 2.9                |
| Strengthening workers' rights to trade union access, recognition and representation                                | -18.6   | 2.2                |
| Require employers to take "all reasonable steps" to prevent sexual harassment of their employees                   | -13.4   | 1.6                |
| Making flexible working the default  | -12.7   | 1.5                |
| Ensuring outsourced workers are included in gender pay gap reporting   | -11.3   | 1.3                |
| Employment tribunals time limits   | -7.9  | 0.9                |
| Requiring large employers to publish Equality Action Plans   | -7.8  | 0.9                |
| Enabling regulations to specify specific steps employers must take to prevent sexual harassment                    | -4.6  | 0.5                |
| Repeal Strikes (Minimum Service Levels) Act 2023   | -0.1  | 0.0                |
| Implementing international conventions   | -0.0200   | 0.0002             |
| Mandatory seafarers' charter   | -0.0010   | 0.0001             |
| Declaring Collective Redundancy for Seafarers  | -0.0008   | 0.0001             |
| Repeal Trade Union Act 2016  | +5.6  | -0.6               |
| Establish a Fair Pay Agreements process in the Adult Social Care sector  | <i>No impacts have been monetised at this stage</i> |                    |
| 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> |                    |
| Collective redundancy – protective awards  | <i>No impacts have been monetised at this stage</i> |                    |
| Protections against dismissal for pregnant workers   | <i>No impacts have been monetised at this stage</i> |                    |
| New right to bereavement leave   | <i>No impacts have been monetised at this stage</i> |                    |
| Amending new right to unpaid bereavement leave to include pregnancy loss   | <i>No impacts have been monetised at this stage</i> |                    |

\*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 Enactment Summary Impact Assessment to avoid overestimation when aggregating.

<sup>240</sup> Note that these estimates are based on the assessment of the impact of day one rights presented in the 2024 Impact Assessment. See HM Government. '[Impact assessment: day-1-unfair-dismissal-rights](#)'. 2024. Figures are in 2024 prices and 2024 present values. The additional population in scope is estimated to decrease to around 6.3 million under a six-month qualifying period. We would expect the cost to business to reduce in line with the reduced population in scope.

135. As Table A10 shows, for some measures, no impacts have been monetised at this stage. However, the individual IAs include estimates for illustrative purposes. We considered the magnitude of these impacts earlier in Section 10, accounting for these illustrative estimates. However, it is not appropriate to include these as part of our overall monetised estimates above for the following reasons:

- **'Establish a Fair Pay Agreements process in the Adult Social Care sector'**: any ASC FPA would be subject to negotiation. Part of the costs are likely to be funded by local authorities and self-funders. However, we do not want to prejudge or appear to prejudge the outcome of a negotiation. Therefore, until the outcome of negotiation is known, we cannot quantify the costs and benefits of the policy.
- **'Whistle-blowing protections against sexual harassment'**: there is no data available on the extent of sexual harassment cases. However, as the policy clarifies that sexual harassment is in scope of the law, impacts on businesses are expected to be negligible.
- **'New right to bereavement leave' and 'Amending new right to unpaid bereavement leave to include pregnancy loss'**: impacts are highly sensitive to several design decisions that are yet to be finalised, such as which relationships are covered and the length of leave; there is insufficient data on the number of employees who would take up the new entitlement; how many people experience pregnancy loss before 24 weeks, and how many of those would choose to take unpaid leave.

136. Additionally, during the passage of the Act, more than 600 amendments were made. As outlined in the foreword, we have taken a proportionate approach to delivering updated analysis which includes reducing the qualifying period for unfair dismissal to six months and removing the compensation cap, fire and rehire, employment tribunal time limits, collective redundancy protective awards, mandatory seafarers' charter, implementing international conventions. Estimates for the impacts of these measures are reflected in the table above.

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

137. 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 Act 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

##### Refining our estimates

138. In the initial IA published in October 2024, our headline finding was that the Act could impose costs on business in the region of £0.9-£5 billion, with the range reflecting uncertainty and the potential margin for error in non-monetised impacts. At that time, the £0.9 billion figure represented the total monetised costs, while the £5 billion was a deliberately cautious upper estimate. This higher figure included non-monetised impacts, representing the unlikely scenario in which the maximum potential cost of impact for every measure in the Act were to recur annually at their highest level.
139. But as mentioned, we have continued developing our evidence base and analysis since the introduction of the Act in October 2024, enabling us to more precisely estimate the Act's costs. The initial approach taken now appears overly cautious, so while presenting an upper bound of £5 billion is useful for illustrating the limits of possible costs, we discount the figure as:
  - It assumes each policy cost recurs simultaneously at its upper estimate. This is highly unlikely, especially since implementation will be phased.
  - It assumes no adaptation by businesses over time to mitigate costs.
  - It reflects the state of policy design and the evidence base in October 2024, not January 2026.
140. As such, with the additional evidence and analysis we have developed in consultation with external experts, we now have greater confidence that our estimates represents to full suite of costs at this stage in the policy cycle. For example, in our initial assessment on Statutory Sick Pay, the Government provided a range of £100 million-£1 billion for the potential annual direct costs and benefits. This partly reflected uncertainty on aspects of the measure that were to be consulted upon. These consultations have now concluded and based on this, the central estimate is more confidently set at around £400 million direct cost per year.
141. Therefore, based on the measures in the Act being fully implemented, we now estimate the cost to business to be around £1 billion per year. This is our central and best estimate – it reflects the best available evidence and analysis at this point in time. This figure does not include the impact from implementation of the Fair Pay Agreement in the social care sector, which is subject to future negotiation – part of the costs are likely to be funded by local authorities and self-funders.
142. Importantly, this is not a definitive forecast as it is part of an IA. Unlike a forecast, which aims to predict what will happen, an IA considers what could happen under different scenarios, helping decision-makers understand possible outcomes.

143. Ultimately, costs and benefits depend on secondary legislation. While implementation is underway, some uncertainty will remain with policy decisions subject to extensive consultation. Therefore, we have maintained ranges to continue illustrating possible individual magnitudes for each policy within the Act while noting that these occur under extreme assumptions.

### Contextualising costs

144. As discussed in the benefits section below, most of the costs placed on businesses represent a direct benefit to workers in terms of new rights, the strengthening of existing rights and their enforcement. Therefore, the direct benefits to workers are likely to be similar in magnitude to those costs. This, in addition to the significant wider benefits covered later in this section (e.g., better health and wellbeing, equality, supporting more people into work), means we expect the overall costs will be more than offset by the benefits to employers and wider society.

145. Nevertheless, to contextualise the size of this cost to business, total employment costs in the UK were £1.4 trillion in 2024 in nominal terms.<sup>241</sup> This means the estimated increase represents around 0.1% of the UK's total pay bill, rising to less than 0.4% under the previous upper-bound scenario. This cost would be concentrated largely on employers in lower-paid sectors rather than spread evenly across the economy. Even if we assume the entire cost falls on such sectors, the equivalent uplift in the wage bill for that part of the economy would be around 0.3% (and below 1.4% at the previous upper bound).<sup>242</sup>

146. 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.

147. 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.

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<sup>241</sup> Office for National Statistics. '[UK \(S.1\): Compensation of employees \(D.1\) Uses: Current price: £m: SA](#)'. 2025. (Accessed October 2025)

<sup>242</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 2025), 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 November 2025), 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' compromised in 2021 (approximately 25%) is applied to the total 2024 CoE number. This figure is then used to calculate the uplift if the entire direct cost fell on those sectors.

148. 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>243</sup>

149. Whilst that evidence is backward-looking, ONS data 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 (42% of businesses) or to absorb within profit margins (34% of businesses).<sup>244</sup> Other responses included to reduce the number of employees (22%), reduce wages for other employees (15%), or limit overtime hours (13%).<sup>245</sup>

150. Overall, 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 15.

151. 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 accounted for in our headline figures. Moreover, the business burdens associated with the Act 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', which again suggests these decision metrics may be an overestimate of the true impact felt by business once employers and the economy have adjusted.

#### Costs on the public sector

152. There will be costs to the public sector from the measures in the Act. 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.

153. 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 £0.5 million. Expanding state enforcement to include holiday pay enforcement, could cost between £1 million to £33 million annually, with additional associated training for

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<sup>243</sup> Low Pay Commission. '[National Minimum Wage - Low Pay Commission Report 2024](#)'. 2025.

<sup>244</sup> Office for National Statistics. '[Business insights and impact on the UK economy](#)'. Wave 139 edition. 2025. (Accessed November 2025)

<sup>245</sup> Office for National Statistics. '[Business insights and impact on the UK economy](#)'. Wave 139 edition. 2025. (Accessed November 2025)

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.

154. 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 social work sector and 9% of those in the education sector were employed under were employed on a zero-hours contract (ZHCs) in July to September 2025.<sup>246</sup> More specifically, ZHC's are used extensively in the adult social care sector, with 21% of the workforce in England recorded as being on a ZHC, including 35% of all care workers.<sup>247</sup>
155. 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>248</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.
156. 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>249</sup> and 63% of care home residents were state funded in 2022/23.<sup>250</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.
157. 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.
158. 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 financial year.

## Benefits

159. Over 18 million employees across the country – around 60% of UK workers – will benefit from the Act.<sup>251</sup> This includes those benefiting directly from better conditions and those

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<sup>246</sup> Office for National Statistics. '[EMP17: People in employment on zero hours contracts](#)'. 2025. (Accessed November 2025)

<sup>247</sup> Skills for Care. '[The size and structure of the adult social care sector and workforce in England 2024/25](#)'. 2025

<sup>248</sup> Department for Business and Trade. '[Trade Union Membership, UK 1995-2024: Statistical Bulletin](#)'. 2025.

<sup>249</sup> Office for National Statistics. '[Estimating the size of the self-funding population in the community, England](#)'. 2023.

<sup>250</sup> Office for National Statistics. '[Care homes and estimating the size of the self-funding population, England](#)'. 2023.

<sup>251</sup> Please refer to Section 16 for methodological detail.

benefiting indirectly from having a more secure work environment. Given the Act's focus on supporting low-paid and insecure workers, these impacts will be spread across the country, and impacts will be most pronounced in sectors and regions where such employment is concentrated. We discuss these distributional impacts in more detail in Section 16.

160. Most of the costs placed on businesses by the Act 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 and 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. Ending unscrupulous 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 including pregnancy loss will ensure that employees who are going through the toughest personal circumstances are afforded dignity at work, with up to 2.7m employees a year to gain right to the entitlement.
  - 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.
161. Separate to the analysis presented in Impact Assessments, some examples of external supportive analysis of the expected benefits arising from the Act include:
  - Research by the Living Wage Foundation in 2023 found that many shift workers end up spending money on expensive childcare or transport to cover last minute shifts or losing out on this money altogether after short notice changes or cancellations. These costs can be up to £600 per year,<sup>252</sup> and the Act will address these costs.

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<sup>252</sup> Living Wage Foundation. '[Six Million Face Cost of Living Crisis in Insecure Jobs, with Health and Social Care Workers Worst Affected](#)'. 2023.

- Research by the TUC shows if the Act produces improvements in employee wellbeing, industrial relations and labour market participation, the benefits could total around £10bn per year, outweighing the costs.<sup>253</sup>

162. 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 impacts 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.

163. 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 Act. This supports our view that were these benefits to be realised they would more than offset the costs imposed on businesses and therefore mean the Act yields a positive net benefit to society. Note that the impact on growth is assessed separately in Section 14.

### Health, Wellbeing and Job Satisfaction

164. 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>254</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.

165. 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>255</sup> Erickson and others review of the UK specific evidence also finds that precarious employment can adversely affect health outcomes.<sup>256</sup> Since the Act 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.

166. In particular, the Act will increase income security for those on zero and variable hours contracts. Dix and others (2023) 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.<sup>257</sup> 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 that these insecure

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<sup>253</sup> Trades Union Congress. '[Deadlock is broken – Employment Rights Bill passes](#)'. 2025.

<sup>254</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>255</sup> Wang ML and others. '[Job Flexibility, Job Security, and Mental Health Among US Working Adults](#)'. 2024.

<sup>256</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>257</sup> Dix G and others. '[Zero Hours Contracts, ReWage Policy Brief](#)'. 2023.

workers are nearly four times more likely to experience poor mental health when they are faced with an unexpected expense.<sup>258</sup>

167. The Health and Safety Executive quantify the impact of poor worker health on employers, and find that stress, depression or anxiety accounted for 22.1 million working days lost in 2024/25.<sup>259</sup> This is equivalent today to a cost of £6.5 billion in output per year for employers in Great Britain.<sup>260</sup> The same study also finds that these impacts are concentrated in some of the low-paying sectors targeted by the Act, 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.
168. 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>261</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>262</sup> Whilst we do not know the exact size of the increase in life satisfaction for workers benefiting from measures in the Act, if we illustratively assume that the Act 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.
169. 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>263</sup> Since the Act 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.
170. 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 Act would be a significant benefit to society.

## Equality

171. 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,

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<sup>258</sup> Work Foundation. ‘[Limiting Choices: Why people risk insecure work](#)’. 2023.

<sup>259</sup> Health and Safety Executive. ‘[Working days lost in Great Britain](#)’. 2024. (Accessed October 2025).

<sup>260</sup> Office for National Statistics. ‘[Output per hour worked, UK](#)’. 2025. (Accessed November 2025); 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 persistent shortages in the labour market, we believe this a reasonable assumption for this illustrative analysis.

<sup>261</sup> HM Treasury. ‘[Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance](#)’. 2021.

<sup>262</sup> Helliwell and others. ‘[World Happiness Report 2017](#)’. 2017

<sup>263</sup> Centre for Economic Policy Research. ‘[Unions raise worker wellbeing](#)’. 2020.

educational attainment and health. Since the Act 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 can reduce income inequality,<sup>264</sup> and OECD analysis that finds wage variation amongst workers is smallest in countries with stronger collective bargaining.<sup>265</sup>

172. Viewing the impact of the Act 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>266</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 Act will have a positive impact on equality for those in work.

#### Robust Enforcement and Competitive Markets

173. 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>267</sup>
174. The measures included in the Act 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.
175. 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

176. 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,

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<sup>264</sup> Tjong and others. '[Income Inequality and Labor Market Regulations: A Comparative Analysis](#)'. 2019

<sup>265</sup> Office for Economic Co-operation and Development. '[Employment Outlook 2018](#)'. 2018.

<sup>266</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>267</sup> Resolution Foundation. '[Enforce for good](#)'. 2023.

and there are several estimates that this cost the economy billions of pounds.<sup>268</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 Act'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.

177. 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>269</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>268</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>269</sup> ACAS. '[Estimating the costs of workplace conflict](#)'. 2021.

## Section 13. Impact of reforms on the enforcement system

178. Many of the measures in this Act 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 the Advisory, Conciliation and Arbitration Service (Acas) and cases for Employment Tribunals (ET).
179. The impact of the Act 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. In 2024/25 there were approximately 125,000 cases eligible for early conciliation with Acas, which led to around 43,000 employment tribunal cases.<sup>270</sup>
180. Our analysis of the impact on the enforcement system is based on the policies included in the Act. Therefore, this analysis should not be interpreted as a forecast but rather an initial assessment that we will continue to refine over time, as policy development following consultation on areas such as zero-hour contracts will alter the overall impact.
181. 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>271</sup> Where this has not been possible, a more generalised method of using current average rates of 'Employment Tribunal cases per employee' has been used to approximate the total impact.<sup>272</sup> 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 proportions of cases who progress through the system. Figures are then uplifted by 22.6% to reflect the growth in number of claims into the Employment Tribunal system since Jurisdictional data was last available to present day.<sup>273</sup>
182. This analysis assesses the impact on the number of cases (i.e. numbers represent the impact on tribunal figures) rather than the number of claims (i.e. each specific complaint within one ET case), as the latter can vary significantly depending on the nature (such as number of claimants) 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>274</sup>

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<sup>270</sup> ACAS. '[ACAS Annual report and accounts 2024 to 2025](#)'. 2025; 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>271</sup> The assessments which do so are: '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', 'Employment tribunal time limits'.

<sup>272</sup> i.e., Number of ET1 cases in 22/23 divided by workers currently in scope.

<sup>273</sup> 42,000 Employment tribunal single claims in 2024/25, 34,500 in 2023/24. Data provided by Ministry of Justice.

<sup>274</sup> Calculated based on Ministry of Justice. '[Tribunal Statistics Quarterly](#)'. 2023. Table ET\_1.

183. Based on the current route of claimants and cases through the system, the overall quantifiable impact is expected to be an increase of around 17% in cases to the 'individual enforcement' system.<sup>275</sup> This would mean an extra 21,000 early conciliation notifications to Acas, 6,900 more Employment Tribunal cases, and 1,300 additional cases which require judicial time, such as a full hearing. As the details for some measures included within the Act 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 A11 below.

184. To note, this analysis is based on the enforcement system as it currently operates. DBT and Ministry of Justice (MoJ) are setting up the Dispute Resolution System Taskforce to support us in reforming the employment dispute system, so it works better for both workers and businesses. The taskforce will consist of Government Officials and a small but balanced set of senior representatives from stakeholders that include Trade Unions, Business Representative Organisations, Legal Representative Organisations, and Third Sector Organisations. The Taskforce's expertise will help support Government to develop reform measures that promote prevention of workplace disputes as we develop policy to ensure the current system including Acas and Employment Tribunals is more efficient and resilient. The policy decisions taken by the taskforce will likely alter the impact assessed below.

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<sup>275</sup> Note figures are rounded to avoid spurious accuracy given the indicative nature of this analysis.

Table A11: Impact of policy measure on Acas and Employment Tribunal case numbers<sup>276</sup>

| Measure  | Impact on Acas (EC case numbers)   | Impact on Employment Tribunals   | Justification   |
|--|--|--|---|
| Reducing the qualifying period for unfair dismissal to six months and removing the compensation cap        | Increase - Estimated at 9,000 additional Acas claims.  | Increase- Estimated impact of an additional 3,000 ET1 cases of which 570 progress to require judicial time | This change reduces the qualifying period for unfair dismissal to six months, granting around an additional 6.3 million employees the right to make an unfair dismissal (UD) claim if they are dismissed. The Unfair Dismissal jurisdiction accounted for 12% of all jurisdictional complaints to ETs in 22/23. Therefore, this policy represents the largest expected impact on the existing system. <sup>277</sup>  |
| Employment Tribunal time limit extension   | Increase - Estimated at 6,250 additional Acas notifications.   | Increase- Estimated impact of an additional 2,100 additional ET1 cases of which 390 require judicial time  | The extension to ET time limits is estimated to lead to a 5% increase in case numbers. There is no assigned jurisdiction, as it is assumed to apply equally to all areas.   |
| Right to reasonable notice of shift with payment for shifts cancelled, moved and curtailed at short notice | Increase - Estimated at 3,000 additional EC notifications.   | Increase- Estimated increase of 1,000 additional ET1 cases and 190 cases which require judicial time.      | The changes to Zero-Hour Contracts are expected to impact 2.4 million workers. <sup>278</sup> The assessed impact of the right to reasonable notice of shifts and to payment for late cancellation on the enforcement system is based on the frequency of cases within the jurisdiction 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. |
| Contractual duties of confidentiality relating to harassment and discrimination                            | Increase – Because of how non-disclosure agreements (NDAs) work, there is no clear evidence showing how many claims are currently prevented. |  | Latest data shows 14,350 Employment Tribunal claims for discrimination or harassment were made in 2024/25. <sup>279</sup> By making it more difficult for employers to use NDAs, fewer allegations of harassment and discrimination may be resolved through settlement agreements. This may lead to an increase in more cases being brought to Acas and the Employment Tribunals. Therefore, we would expect an increase in claims, though due to the nature of NDAs, a robust estimate cannot be provided.   |

<sup>276</sup> Note figures have been rounded to not display false confidence in estimates.

<sup>277</sup> The impacts presented are based on a six-month qualifying period for unfair dismissal and the methodology set out in the previous Unfair Dismissal Impact Assessment. Note as the behavioural response from employers and employees of removing the compensation cap is uncertain based on the best available evidence, we were not able to quantify the impact of changes to the cap. For further information see Table A6.

<sup>278</sup> DBT analysis of the Labour Force Survey, based on the groups of workers likely to be impacted by the policy. This is a key input into our analysis. We will continue to refine our assessment as we continue to build our evidence base and as the policy progresses to consultation and secondary legislation, particularly to reflect specific hours thresholds in the methodology and triangulate estimates from multiple data sources.

<sup>279</sup> Ministry of Justice. [‘Tribunal Statistics quarterly: January to March 2025’](#). 2025. Table ET\_R\_1 (Accessed June 2025).

|  |   |  |   |
|--|---|--|---|
| Right to guaranteed hours  | Slight increase-1,000 additional EC notifications.  | Slight increase-350 additional ET1 claims and 65 additional cases which require judicial time. | The changes to Zero-Hour Contracts are expected to impact 2.4 million workers. The assessed impact of the right to guaranteed hours 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-700 additional EC notifications.    | Increase-235 additional ET1 cases of which 45 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-170 additional EC notifications.    | Slight increase-55 additional ET1 cases of which 10 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-35 additional ET1 cases of which 7 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 | <p>The other measures included in the Act are expected to have a negligible or unquantifiable impact on Acas and ETs as they are assessed to either:</p> <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 14. Wider Impacts

### International context

185. Placing the Act in an international context is important to demonstrate how the UK compares to international norms. It helps to benchmark the UK's position against peer economies, showing that the Act is not only a domestic improvement but also a strategic move to enhance competitiveness, fairness, and support productivity and economic growth.
186. Recently published DBT research uses a composite index of employment law to quantify the impact of the Employment Rights Act 2025 on the UK's level of employment protection.<sup>280</sup> Such indices quantify the extent of employment protection for a given country, at a given point in time. They typically range from 0-1, where, based on international precedent, 0 represents a regime where employment protections are lowest and 1 represents a system where employment protections are highest. The OECD notes that composite indices are appropriate for measuring 'multi-dimensional concepts which cannot be captured by a single indicator'.<sup>281</sup> Employment law is one example of this. Moreover, their ability to make assessments on the state of employment law over time, and between countries, makes them a useful tool for policy analysis.
187. The Centre for Business Research Labour Regulation Index (CBR-LRI) was used for this exercise. The CBR-LRI is an index of labour laws around the world, covering the period between 1970 and the present day.<sup>282</sup> The countries included in the index cover 95% of global GDP. It can be used to benchmark the protective content of labour law rules across countries and over time. As such, it provides a way to evaluate the changes to UK labour law made by the Act. Specifically, we can use the index to see (i) how much more protective, in relative terms, UK labour law will become, and (ii) how the UK will compare to other countries, after the Act is implemented.
188. The CBR-LRI is recognised to be the most comprehensive index of its type.<sup>283</sup> It has a wider topic coverage than the OECD's Employment Protection Indicators (OECD, 2021),<sup>284</sup> and a more extensive year coverage than the World Bank's Employing Workers Index, which was discontinued in 2021,<sup>285</sup> and its Business Ready Index, which so far codes for a limited number of countries, not including the UK, for one year only.<sup>286</sup> Policy makers in other countries and in international agencies have relied on the CBR index to evaluate a number of actual and potential labour law reforms in the course of the past decade.

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<sup>280</sup> Carter and others. '[Assessing the legal and economic implications of the Employment Rights Act 2025](#)'. 2026.

<sup>281</sup> European Union and Joint Research Centre. '[Handbook on constructing composite indicators: methodology and user guide](#)'. 2008. OECD publishing.

<sup>282</sup> Adams Z and others. '[The CBR-LRI dataset: Methods, properties and potential of leximetric coding of labour laws](#)'. 2017. International Journal of Comparative Labour Law and Industrial Relations: Volume 33(1).

<sup>283</sup> Campos NF and others. '[Structural reforms and economic performance: the experience of advanced economies](#)'. 2025. Journal of Economic Literature: Volume 63(1), pages 111-163.

<sup>284</sup> Organisation for Economic Co-operation and Development. '[OECD Indicators of Employment Protection](#)'.

<sup>285</sup> World Bank. '[Employing Workers](#)'. 2021.

<sup>286</sup> World bank. '[Business Ready Index](#)'. 2024.

189. For example, whilst OECD's index predominately covers Dismissal laws, by contrast, the CBR-LRI index covers several key areas of labour law including:

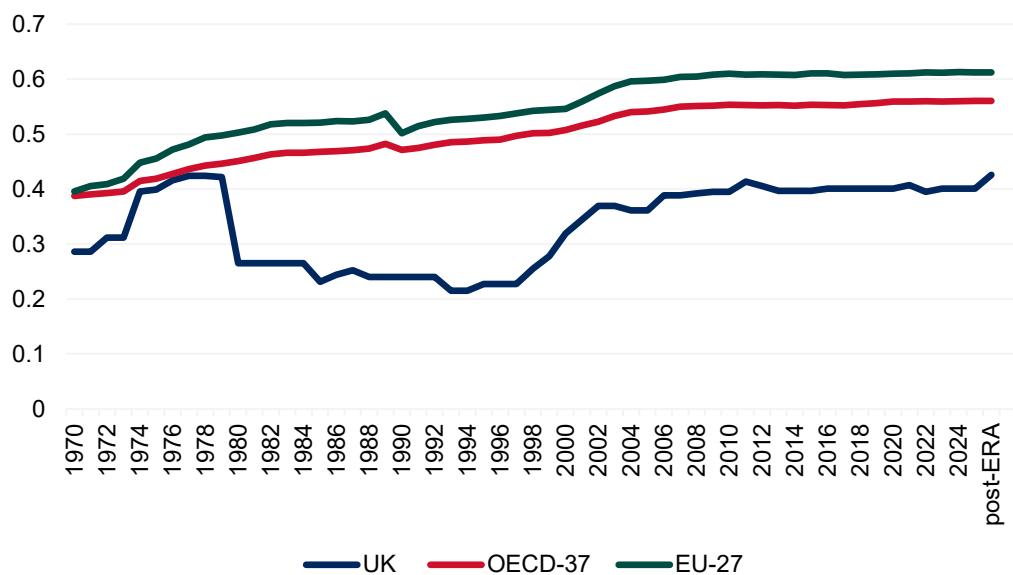
- The laws governing different employment relationships (i.e. the definition of employment status and the legal regulation of part-time work, fixed-term employment and temporary agency work)
- Working time
- Dismissal law
- Employee representation law
- Laws governing industrial action

190. This allows for a more appropriate assessment of the Act's impact given the breadth of issues covered.

191. To conduct the analysis, academics from Cambridge University examined the legal text of the Act, identifying how its implementation would change the UK's legal position with regards to employment law, before mapping this onto the index.

192. As illustrated in Figure A5, the analysis finds that even after the Act's implementation, the UK will move up the rankings for employment protections amongst OECD countries, shifting from near the bottom towards closer to the average.<sup>287</sup> This is despite an increase in the UK's dismissal law protections, and the Act representing the largest upgrade in UK employment protections for several decades. Having said this, the UK would become a leader in some areas, such as the aspects of the Act pertaining the zero-hours contracts and parental leave. Further details can be found [here](#) on GOV.UK.<sup>288</sup>

Figure A5: UK labour law after Employment Rights Act 2025 v. OECD-37 and EU-27



<sup>287</sup> In order to help visualise the changes made by the Employment Rights Act 2025 and wider Plan to Make Work Pay, the Employment Rights Act 2025 is coded as taking effect in 2026. In reality, the majority of the Act is set to be implemented throughout 2026 and 2027, as outlined in the implementation roadmap.

<sup>288</sup> Carter and others. ['Assessing the legal and economic implications of the Employment Rights Act 2025'](#). 2026.

193. The Resolution Foundation's 2025 Low Pay Britain report also supports this assessment. They note that despite the Act altering the UK's dismissal laws, since many key aspects of UK law are not changing (e.g. rules relating to notice periods, redundancy payments, what constitutes an unfair dismissal, and whether employers are obliged to reinstate workers who have been unfairly dismissed), they expect the UK to move up the rankings from 31st today to 26th out of 38 OECD countries in terms of the restrictiveness of regulations on individual dismissals. This is according to the OECD's index for employment protections.<sup>289</sup>

## Economic Growth

194. 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 and workers alike. Many of the policies within the Act are designed to support this mission. As stated throughout the passage of the legislation, it has always been our intention to refine this analysis as policy development continues, working closely with external experts.

195. Since publishing our initial assessment last year, we have continued developing our analysis and completed economic modelling to assess the macroeconomic effects of the Act in more detail. Further detail on this modelling is provided toward the end of this section. The findings from this work provide additional support for our earlier conclusions, reinforcing the view that the Act could have a small, direct positive impact on growth. Importantly, by boosting protections and the quality of work for those in the lowest-paid and most insecure roles, the Act will help to raise living standards across the country and create opportunities for all.

196. The size of the economy is determined by the number of people in employment and how productive they are. Employment rights can influence both labour demand and labour supply (i.e. workforce participation), as well as productivity. As such, they have the potential to affect economic growth through multiple channels. In our initial assessment, we outlined these channels and their relevance to the measures in the Act.

197. We now present an updated review of the literature on the effects of stronger employment rights on core macroeconomic variables, including employment, market dynamism, productivity, profits, wages and prices. We structure this by the channels through which the Act may influence growth, before discussing potential offsetting risks. We then outline the results of our econometric and general equilibrium modelling before concluding with an overall assessment of the Act's potential impact on growth.

## Channels for Growth

### Channel for Economic Growth: Labour Market Participation and Inclusion

#### *Employment rights and labour supply*

198. Increasing labour market participation is a key factor in growing the size of the economy. Policies that improve the quality and flexibility of work can encourage greater participation by

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<sup>289</sup> Resolution Foundation. '[Low Pay Britain](#)'. Page 23. 2025.

increasing the range of jobs and working patterns that are attractive to workers, and as such, increase employment and reduce unemployment.

199. There is evidence to support the notion that increasing employment protections can positively impact labour market participation. A meta-analysis by Brancaccio and others (2020) 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 that labour market regulation supports employment outcomes; 28% of studies find the effect to be ambiguous, and 21% report a positive relationship.<sup>290</sup>

#### *Flexible work and inclusion*

200. The provision of better-quality work, more family friendly employment protections and flexible working rights through the Act 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, Gumi, Plagnol and Piasna (2022) investigated to what extent job satisfaction<sup>291</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>292</sup> Additionally, another study finds that extensions of paid leave lengths have been shown to positively influence female employment rates and the gender ratio of employment.<sup>293</sup> Providing greater support to workers with health problems has also been linked to reduced levels of early labour market exits.<sup>294</sup>
201. Further evidence supports this. For example, Nevala and others conducted a systematic review of the literature, evaluating the efficacy of workplace accommodations for people with disabilities, including flexible working, and found evidence that it promotes employee retention.<sup>295</sup> Similarly, in their meta-analysis, Shifrin and others found that flexible working arrangements were associated with better physical health and fewer somatic symptoms<sup>296</sup>. This could be particularly important for people with existing disabilities, health conditions and older workers who may be especially vulnerable to job-related health risks.<sup>297</sup>
202. 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

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<sup>290</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>291</sup> Job satisfaction relates to job security, work hours and work content, but excludes pay.

<sup>292</sup> Gumi 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>293</sup> Thévenon O and others. '[Labour market effects of parental leave policies in OECD countries](#)'. 2013

<sup>294</sup> Phoenix Insights. '[Beyond the Great Retirement](#)'. 2023.

<sup>295</sup> Nevala N and others. '[Workplace Accommodation Among Persons with Disabilities: A Systematic Review of Its Effectiveness and Barriers or Facilitators](#)'. 2014. Journal of occupational rehabilitation: Volume 25(2), pages 432-448.

<sup>296</sup> Shifrin NV and Michel JS '[Flexible work arrangements and employee health: A meta-analytic review](#)'. 2021. Work and Stress: Volume 36(1), pages 60-85.

<sup>297</sup> Jones and others. '[Work-related health risks in Europe: are older workers more vulnerable?](#)'. 2013. Social science and medicine: Volume 88, pages 18-29.

ensuring employers have strong talent pools to hire from and that those who are hired are as productive as possible.

203. This is particularly relevant for groups disproportionately affected by insecure work. For example, an analysis of ONS labour force survey data by the Work Foundation reported that disabled workers were 1.5 times more likely to be in severely insecure work than non-disabled workers. Disabled women (30% in severely insecure work compared to 22% of disabled men), disabled people from ethnic minority backgrounds (29% of disabled people from Black and Asian backgrounds, 33% from Mixed/Multiple backgrounds and 35% from Other backgrounds were in severely insecure work compared to 26% of white disabled people), and people with autism and mental health conditions (38% and 20% in severely insecure work respectively, compared to 20% with other disabilities and conditions) were especially highly represented in insecure work.<sup>298</sup> By improving access to flexible work and strengthening protections, the Act may help reduce barriers to participation for these groups.

## Channel for Economic Growth: Productivity

### *Employment protections and efficiency gains*

204. As well as being good for workers' health, wellbeing and job satisfaction, employment protections can enhance productivity,<sup>299</sup> benefiting both businesses and the wider economy. 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.

205. 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>300</sup> Similarly, Bryson and others (2017)<sup>301</sup> and De Neve and others (2019)<sup>302</sup> find a positive association between employee job satisfaction and productivity. Böckerman and Ilmakunnas (2012) go further, identifying a causal relationship; a one standard deviation increase in job satisfaction can increase productivity by 6.6%.<sup>303</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 Act that can be applied in our cost-benefit analysis.

206. Other recent evidence reinforces the link between employment protections and productivity gains. Ku (2022)<sup>304</sup> finds that a minimum wage rise in Florida increased effort among low-productivity workers, raising output by 4.6% and offsetting half of added labour costs. Similarly, Giovanis and others (2022) found that flexible employment schemes increased job satisfaction and reduced absenteeism among employees with disabilities and health

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<sup>298</sup> Navani A and others. '[The Disability Gap: Insecure work in the UK](#)'. 2023.

<sup>299</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>300</sup> Bosworth D and others. '[Does good work have a positive effect on productivity? Research findings](#)'. 2021

<sup>301</sup> Bryson A and others '[Does employees' subjective well-being affect workplace performance?](#)'. Human Relations 2017: Volume 79(8), pages 1017-1037

<sup>302</sup> De Neve and others. '[Does Employee Happiness have an Impact on Productivity?](#)'. 2019.

<sup>303</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

<sup>304</sup> Hyejin Ku, '[Does Minimum Wage Increase Labour Productivity? Evidence from Piece Rate Workers](#)'.

conditions.<sup>305</sup> Overall, these studies suggest that higher wages and stronger protections can deliver efficiency gains, reduce churn, and enhance organisational stability.

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

#### *Investment in response to labour costs*

207. 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.
208. Theoretical models such as search-and-matching<sup>306, 307</sup> and insider-outsider<sup>308</sup> frameworks suggest that while employment protections may raise hiring costs, they also incentivise firms to invest more in existing employees, potentially increasing firm-specific human capital. This investment can offset any short-term employment reductions by boosting long-term productivity.
209. While some literature finds that employment protection legislation negatively affects productivity, particularly in high-risk or high-reallocation sectors, other studies show that increased dismissal costs can lead to capital deepening and upskilling, ultimately improving labour productivity. For example, Autor, Kerr and Krugler find that in the US, such costs led to increased capital investment, though total factor productivity declined.<sup>309</sup> These findings are common across other studies that highlight the potential for stronger employment protection legislation to encourage investment in human capital and organisational efficiency.
210. In the UK context, the National Minimum Wage has shown that firms can respond to increased labour costs by improving production efficiency, not through workforce reductions or capital substitution, but via organisational change and training.<sup>310</sup> Further evidence from the Low Pay Commission supports this. They show that, in response to the National Minimum Wage, firms reported adapting to increased labour costs by improving production efficiency rather than reducing employment, consistent with theories of organisational change and efficiency wages.<sup>311</sup>
211. However, economic theory suggests that when the cost of a key input, such as labour, increases, firms adapt by changing how they combine inputs. The extent of this adjustment depends on the elasticity of substitution between labour and other factors like capital. In

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<sup>305</sup> Giovanis E and Ozdamar O. '[Accommodating Employees with Disabilities: The Role of Flexible Employment Schemes in Europe](#)'. 2019. Available at SSRN 3441925.

<sup>306</sup> Lazear EP. '[Job Security Provisions and Employment](#)'. 1990.

<sup>307</sup> Mortenson, D. T., Pissarides, C. A. '[Job Creation and Job Destruction in the Theory of Unemployment](#)'. 1994.

<sup>308</sup> Lindbeck and others. '[The insider-outsider theory of employment and unemployment](#)'. 1991.

<sup>309</sup> Autor DH and others. '[Do employment protections reduce productivity? Evidence from US States](#)'. The Economic Journal 2007: Volume 117, pages F189-F217.

<sup>310</sup> Riley R and Bondibene CR. '[Raising the standard: Minimum wages and firm productivity](#)'. 2015.

<sup>311</sup> Low Pay Commission. '[National Minimum Wage - Low Pay Commission Report 2023](#)'. 2024. (Accessed October 2024)

practice, higher labour costs may lead firms to invest more in technology or shift towards alternative types of labour that are less affected by the policy.

212. These substitution dynamics interact with investment behaviour. Where substitution toward capital is feasible, firms may accelerate automation or organisational change, while in sectors with limited scope for capital substitution, stronger employment protections could encourage investment in human capital and incremental innovation.
213. Evidence shows that the impact of such policies depends on how easily firms can make these substitutions. Harasztosi and Lindner (2019) formally demonstrate that the efficacy of minimum wage policy is, in part, determined by these elasticities.<sup>312</sup> A rich literature, including Katz and Murphy (1992),<sup>313</sup> Giuliano (2013),<sup>314</sup> Aaronson and Phelan (2019),<sup>315</sup> and Cengiz and others (2019),<sup>316</sup> provides estimates of substitution elasticities across skill groups, highlighting that responses vary by sector and worker type. More recent UK evidence from Datta and Machin (2024) adds that monopsony power (measured by labour supply elasticity to the firm) can mediate these effects and offers estimates of substitution between lower and higher-skilled workers in low-pay firms.<sup>317</sup> These findings indicate that impacts of the Act will depend not only on the overall cost changes but also on underlying market structure and firm-level flexibility.

#### *Employment security and innovation*

214. Employment protection legislation can also foster productivity through improved morale, trust, and cooperation. It may encourage investment in human capital and innovation, especially in economies with weaker employment protections like the UK.
215. Although other studies find negative effects,<sup>318</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>319</sup> This may apply to the UK as it ranks in the bottom quartile of the OECD's

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<sup>312</sup> Harasztosi P and Lindner A. '[Who pays for the minimum wage?](#)'. 2019. American Economic Review: Volume 109(8), pages 2693-2727.

<sup>313</sup> Katz LF and Murphy KM. '[Changes in relative wages, 1963–1987: Supply and demand factors](#)'. 1992. The Quarterly Journal of Economics: Volume 107(1), pages 35–78.

<sup>314</sup> Giuliano L. '[Minimum wage effects on employment, substitution, and the teenage labor supply: Evidence from personnel data](#)'. 2013. Journal of Labor Economics: Volume 31(1), pages 155–194.

<sup>315</sup> Aaronson D and Phelan B. '[Wage shocks and the technological substitution of low-wage jobs](#)'. 2019. The Economic Journal: Volume 129(617), pages 1–34.

<sup>316</sup> Cengiz D and others. '[The effect of minimum wages on low-wage jobs](#)'. 2019. The Quarterly Journal of Economics: Volume 134(3), pages 1405-1454.

<sup>317</sup> Datta N and Machin S. '[Government contracting and living wages > minimum wages](#)'. 2024. IZA – Institute of Labor Economics.

<sup>318</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>319</sup> Janiak A and others. '[Employment Protection and Capital-Labor Ratios](#)'. 2014. IZA Discussion Papers.

employment protection index.<sup>320</sup> Janiak and Wasner (2014) also find that employment protections increase investment in human capital.<sup>321</sup>

216. Further, studies such as Acharya and others (2013)<sup>322</sup> and Griffith and Macartney (2014)<sup>323</sup> show that stronger dismissal laws can promote incremental innovation and skill development, though they may hinder radical innovation.

217. 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 innovate. As such, whilst the most direct impact of the Act will be benefits for workers, they may also knock-on benefits for the wider economy from incentivising more investment.

218. These dynamics are further reinforced by employer behaviour in response to rising labour costs. UK evidence from National Living Wage increases shows that firms often respond by improving organisational efficiency and investing in training, rather than reducing headcount.<sup>324</sup> This suggests that the Act's measures could encourage similar responses, particularly in sectors with limited scope for wage suppression or price increases.

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

##### *Job switching, job match quality, and productivity gains*

219. 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>325</sup> and workers who switch jobs tend to see pay rises on average three times higher than those who do not.<sup>326</sup>

220. The measures within the Act have the potential to contribute to this productive reallocation. For instance, the provision of day one rights to sick pay and paternity leave could incentivise greater job switching by providing workers with more security when changing jobs.<sup>327</sup>

221. There is also evidence to suggest that employment protections can improve job match quality. Marinescu (2009) provides empirical support for this mechanism.<sup>328</sup> Studying a 1999

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<sup>320</sup> Organisation of Economic Co-operation and Development. '[Indicators of Employment Protection](#)'. 2022. (Accessed October 2024)

<sup>321</sup> Janiak A and others. '[Employment Protection and Capital-Labor Ratios \(No. 8362\)](#)'. 2014

<sup>322</sup> Acharya VV and others. '[Labor Laws and Innovation](#)'. 2013. The Journal of Law and Economics: Volume 56(4), pages 997-1037.

<sup>323</sup> Griffith R and Macartney, G. '[Employment protection legislation, multinational firms, and innovation](#)'. 2014. Review of Economics and Statistics: Volume 96(1), pages 135-150.

<sup>324</sup> Low Pay Commission. '[National Minimum Wage - Low Pay Commission Report 2023](#)'. 2024. (Accessed October 2024)

<sup>325</sup> Martin JP and others. '[Setting It Right: Employment Protection, Labour Reallocation and Productivity](#)'. De Economist 2011: Volume 160(2), pages 89-116.

<sup>326</sup> Office for National Statistics. '[Job changers and stayers, understanding earnings, UK: April 2012 to April 2021](#)'. 2022.

<sup>327</sup> Organisation for Economic Co-operation and Development. '[Employment Outlook 2020: Worker Security and the COVID-19 Crisis](#)'. 2020.

<sup>328</sup> Marinescu I. '[Job Security Legislation and Job Duration: Evidence from the United Kingdom](#)'. 2009.

British reform that increased job security for workers with 1–2 years of tenure, Marinescu found that the firing hazard for these workers decreased by 26% relative to those with 2–4 years of tenure. Notably, firing hazard for workers with 0–1 year of tenure also decreased by 19%, suggesting that employers responded by improving recruitment practices and match quality.<sup>329</sup>

222. This aligns with the efficiency wage theory and institutional economics, which suggest that stronger employment protections can improve trust and cooperation, reduce frictional unemployment, and enhance long-term employment relationships.<sup>330</sup>

#### *Reallocation and competitive pressure*

223. 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>331</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.
224. 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>332</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.
225. In the context of the UK, we know that market dynamism is an important channel for growth, with around 60% of the fall in productivity growth since 2008 being attributed to the falling reallocation of resources in the economy.<sup>333</sup> Therefore, whilst there is little UK-specific evidence, it is plausible to assume that this channel of impact could occur and as such,

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<sup>329</sup> Marinescu I. ['Job Security Legislation and Job Duration: Evidence from the United Kingdom'](#). 2009.

<sup>330</sup> Saint-Paul G. ['The political economy of employment protection'](#). Journal of Political Economy 2002: Volume: 110(3), pages 672–701.

<sup>331</sup> Addison JT others. ['The Economics of Employment Protection'](#). Journal of Labor Research 2003: Volume 24, pages 85-128.

<sup>332</sup> Dustmann C and others. ['Reallocation Effects of the Minimum Wage'](#). The Quarterly Journal of Economics 2022: Volume 137(1), pages 267-328.

<sup>333</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 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.

potentially provide an environment for those businesses which are more productive and efficient to flourish.

226. This mechanism aligns with findings from the IFS Deaton Review, which highlights the UK's long tail of less productive firms and the growing dispersion in productivity and pay across businesses.<sup>334</sup> The authors note that firm-level inequality can influence aggregate productivity through reallocation from lower to higher-performing firms. In this context, policies that raise minimum standards, such as stronger employment protections, may contribute to a more efficient allocation of resources over time, particularly by encouraging firms with more resilient business models to expand their market share.

### Offsetting impacts on growth

227. 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.

228. 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.

229. 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 cooling (e.g., vacancies are broadly similar to pre-pandemic levels), the balance of labour demand and labour supply is unclear. While policy reform is reducing net migration, demographic change is likely to weigh on labour supply over the medium-term, and the current heightened levels of long-term sickness will impact labour supply over time.

230. 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 15 ('Unintended Consequences') below.

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<sup>334</sup> De Loecker and others. '[Firms and inequalities. IFS Deaton Review of Inequalities](#)'. 2022

## Quantitative assessment of macroeconomic impacts

### Econometric analyses

231. Earlier we discussed the CBI-LRI index. The index has been used by policy analysts, academics and international agencies to evaluate numerous labour law reforms over the course of the past decade. For example, a study using the index to assess the economic effects of labour laws across 117 countries from 1990-2013 has been published by the International Labour Organisation's International Labour Review.<sup>335</sup> Total citations to the index and related articles by its authors currently number over 500.
232. It has also been used to assess the impact of labour laws on a range of economic variables, finding a positive impact of increasing employment protections on innovation,<sup>336</sup> productivity,<sup>337</sup> employment,<sup>338</sup> and equality.<sup>339</sup>
233. The index's lengthy time series, coupled with its wide country coverage, make it particularly appropriate for use in econometric studies. It has been used in time-series analysis to study individual country effects of labour law reforms,<sup>340</sup> and in panel data studies to analyse cross-national trends.<sup>341</sup>
234. In this vein, DBT commissioned research to conduct econometric analyses based off this mapping. This took the form of time-series and panel data analysis of the relationship between labour law and a number of economic variables. Namely, employment, labour productivity (per hour), the labour share of national income (the proportion of national

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<sup>335</sup> Adams Z and others. '[The economic significance of laws relating to employment protection and different forms of employment: Analysis of a panel of 117 countries, 1990–2013](#)'. 2019. International Labour Review: Volume 158(1), pages 1-35.

<sup>336</sup> Acharya VV and others. '[Labor Laws and Innovation](#)'. 2013. The Journal of Law and Economics: Volume 56(4), pages 997-1037; Acharya VV and others. '[Wrongful discharge laws and innovation](#)'. 2014. The Review of Financial Studies: Volume 27(1), pages 301-346; Belloc F. '[Employee Representation Legislations and Innovation](#)'. 2016. (No. 4.2016): Nota di Lavoro; Presidente G. '[Institutions, holdup, and automation](#)'. 2023. Industrial and Corporate Change: Volume 32(4), pages 831-847.

<sup>337</sup> Jäger S and others. '[Marginal jobs and job surplus: a test of the efficiency of separations](#)'. 2023. The Review of Economic Studies: Volume 90(3), pages 1265-1303.

<sup>338</sup> Adams, Z and others. '[The economic significance of laws relating to employment protection and different forms of employment: analysis of a panel of 117 countries, 1990-2013](#)'. 2019. International Labour Review: Volume 158, pages 1-35; Deakin and others. '[An End to Consensus? The Selective Impact of Corporate Law Reform on Financial Development](#)'. 2011. The Selective Impact of Corporate Law Reform on Financial Development. University of Cambridge Faculty of Law Research Paper: Volume (40).

<sup>339</sup> Deakin S and others '[How do labour laws affect unemployment and the labour share of national income? The experience of six OECD countries, 1970–2010](#)'. 2014. International Labour Review : Volume 153(1), pages 1-27; Deakin S and others. '[Labour law and inclusive development: the economic effects of industrial relations laws in middle-income countries](#)'. 2014. In Institutional Competition between Common Law and Civil Law: Theory and Policy (pages 185-209). Berlin, Heidelberg: Springer Berlin Heidelberg.

<sup>340</sup> Deakin S and Sarkar P. '[Assessing the long-run economic impact of labour law systems: A theoretical reappraisal and analysis of new time series data](#)'. 2008. Industrial Relations Journal: Volume 39(6), pages 453-487; Deakin S and Pourkermani K. '[The effects of labour laws on productivity, employment, unemployment and the labour share of national income: analysis of new evidence from the Cambridge Leximetric Database, with a UK-China comparison](#)'. 2024. Global Law Review: Volume 46, pages 5-26 (in Chinese; English language version available at: <https://doi.org/10.17863/CAM.114726>).

<sup>341</sup> Acharya VV and others. '[Wrongful discharge laws and innovation](#)'. 2014. The Review of Financial Studies: Volume 27(1), pages 301-346; Adams Z and others. '[The economic significance of laws relating to employment protection and different forms of employment: analysis of a panel of 117 countries, 1990-2013](#)'. 2019. International Labour Review: Volume 158, pages 1-35.

income paid to workers in the form of wages, salaries etc) and investment (gross fixed capital formation) in the UK between 1970 and the present.

235. Analysis of UK data shows economically positive effects of employment protections. For example, time-series analysis of UK labour law trends since the 1970s found that a one standard deviation increase in the overall LRI index score correlates with a rise in employment of approximately 0.25 percentage points. Given that the Act increases worker protection by around 0.3 standard deviations, its expected impact on employment is modest – an increase of around 0.08%.
236. In addition, cross-country analysis was also conducted, largely supporting UK specific findings. Panel data analysis covering 38 OECD countries, including the UK, from the 1990s to the present, identified potentially positive impacts of increasing employment protection on employment and productivity. However, some negative effects were observed on the labour share of national income. Note that this metric relates to the proportion of national income. Therefore, this finding does not necessarily imply a reduction in wages or salaries as a result of the Act.
237. While panel data findings may not translate uniformly to the UK, the UK's position at the lower end of the OECD protection spectrum suggests scope for beneficial alignment with international standards and best practice. This supports the idea that stronger labour laws can help promote both employment and fairness in the labour market.
238. The analysis also examined newly created sub-indices aligned with the Act. It found:
  - Positive impacts on employment and productivity from measures strengthening rights for zero hours contract workers, and extending parental, paternity, and bereavement leave.
  - A positive impact on labour's share of national income from measures enhancing trade union rights.
  - A negative impact of leave rights on the labour share, suggesting potential distributional trade-offs (see paragraph above).
239. These findings are consistent with earlier studies using the CBR-LRI index e.g., Deakin and Sarkar (2008);<sup>342</sup> Adams and others (2019),<sup>343</sup> which also report small but positive effects of stronger labour laws on employment. The consistency of the findings with previous studies reinforces the view that well-designed labour protections can support inclusive economic growth.

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<sup>342</sup> Deakin S and Sarkar P. '[Assessing the long-run economic impact of labour law systems: A theoretical reappraisal and analysis of new time series data](#)'. 2008. Industrial Relations Journal: Volume 39(6), pages 453-487.

<sup>343</sup> Adams Z and others. '[The economic significance of laws relating to employment protection and different forms of employment: analysis of a panel of 117 countries, 1990-2013](#)'. 2019. International Labour Review: Volume 158, pages 1-35.

240. Overall, the analysis supports our initial assessment, estimating a small, positive impact on employment, as a result of the Act.

#### Economic modelling: Computable General Equilibrium

241. We have also further bolstered this assessment by using computable general equilibrium (CGE) modelling. CGE modelling is most useful for understanding how certain economic shocks translate into economy-wide outcomes. The findings from this modelling support our assessments that the Act could have a small, direct and positive impact on growth.

242. Importantly, this modelling should be seen as one component of our broader analytical framework. While the CGE model enables us to estimate how specific shocks, such as cost or productivity shocks, affect aggregate outcomes like welfare and GDP, such modelling does not validate the shock themselves. However, the shocks we have used are underpinned by a thorough review of the existing literature, supplemented by econometric analysis and tested with external experts. This gives us confidence that the shocks modelled are both reasonable and grounded in robust evidence.

243. General Equilibrium models have been used since the early 1970s to analyse the economic effects of changes in government policy, taxation, trade, technology, environment, and external shocks compared to a counterfactual baseline without the shock.<sup>344</sup> Governments and institutions such as the World Bank, OECD, WTO and IMF use CGE models in the policy development process. These models are based upon a set of structural assumptions rooted in economic theory, describing the interactions between households, firms, and governments in the domestic economy, and the trade linkages between different countries.

244. For this exercise, we deploy a static, small open economy CGE model of the UK economy, designed to assess the 'long-run' equilibrium impacts of either sector-specific or economy-wide external or policy shocks.<sup>345</sup> Its structure allows for a detailed examination of sectoral and macroeconomic effects arising from changes in (amongst other things) production costs, trade costs, and factor input costs (including taxes).

245. In the model, external or policy shocks can typically be implemented as changes in costs, productivity, taxes, or trade barriers. The model can also be adjusted to reflect an increase in employment (i.e. via the labour supply).

246. For our analysis, we model an increase in the labour supply of around 0.1%, as implied by the above econometric analyses with respect to employment. It should be noted that in the CGE model, labour supply reflects the number of hours worked in the economy, whereas in our econometric analysis, employment pertains to the number of workers in the economy. As such, to combine the two modelling approaches we assume that a 0.1% increase in the number of workers in the economy corresponds to a 0.1% increase in hours worked.

247. These labour supply assumptions are then combined with our range of cost to business estimates (whilst we use our best estimate of £1 billion per year, we have also modelled our previous high estimate of £5 billion) to form two scenarios of 'low' and 'high' cost estimates

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<sup>344</sup> Shoven JB and Whalley J. '[A General Equilibrium Calculation of the Effects of Differential Taxation of Income from Capital in the U.S.](#)' 1972. Volume Cowles Foundation Discussion Papers: Volume 561.

<sup>345</sup> In other words, the shock is treated as a permanent one-time event, meaning the modelling does not show the transition or how the economy adjusts over time.

to be modelled. Sectoral inputs were scaled to reflect that the Act will impact some sectors more than others, based on the updated sectoral analysis outlined in Section 16b.

248. With these inputs, the model estimates a small, positive effect on GDP of approximately 0.04% across both the 'low' (£1 billion) and 'high' (£5 billion) cost to business scenarios. Therefore, the positive results found are primarily driven by the positive labour supply assumption, and the expected costs themselves do not have any material impact on GDP.
249. To assess the robustness of these results, a Monte Carlo sensitivity analysis was conducted.<sup>346</sup> The CGE model relies on behavioural parameters, notably the elasticities of substitution, upon which results depend and are sensitive to. To test robustness against the sensitivity of results on these elasticities, the following steps were undertaken:
  - 500 random parameter sets were drawn, varying each elasticity by +/-50% around its central estimate
  - The model was run for each draw
  - GDP and welfare outcomes were aggregated to form a distribution of results
250. The results of this sensitivity analysis confirms that the central result is highly robust under a wide range of plausible elasticities; the GDP effect remains small, and typically positive.<sup>347</sup>

### **Overall assessment**

251. On balance, based on both our initial and updated assessment, 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 Act 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.
252. 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

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<sup>346</sup> A Monte Carlo analysis uses random simulations to predict possible outcomes. It runs thousands of scenarios to show the range of results and their likelihood.

<sup>347</sup> Results of Monte Carlo analysis: (i) 5th-95th percentile GDP impact: -0.00023% to +0.0025% (ii) 5th-95th percentile Welfare impact (Equivalent Variation): -0.0003% to +0.0024%

adoption of technologies.<sup>348</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 Act 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>348</sup> Organisation for Economic Co-operation and Development. '[Trends in Income Inequality and its Impact on Economic Growth](#)'. 2014.

## Section 15. Unintended Consequences

253. As with any regulatory intervention, if not well-targeted and well-designed, the measures in the Act 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 Act 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.

254. If businesses' ability to adjust their workforce to optimal levels is hindered by the costs of the Act, 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>349</sup>

255. There is some evidence that employment reforms make employers less willing to hire workers,<sup>350</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>351</sup> Likewise, Martin and Scarpetta (2012) also find that employment protections can reduce job reallocation and creation if they increase the costs of reallocation, which in turns means that some workers lose out from employment protection reforms.<sup>352</sup> 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.

256. These effects may be more pronounced in high-reallocation sectors or among firms with weaker financial resilience. Cingano and others (2014) find that employment protection legislation negatively impacts productivity in high-reallocation sectors relative to low-reallocation sectors, with the effect also less pronounced in financially sound firms.<sup>353</sup>

257. As laid out in Section 14, after further evidence gathering and quantitative analysis, we continue to assess 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

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<sup>349</sup> Bjuggren CM. '[Employment protection and labour productivity](#)'. Journal of Public Economics 2018: Volume 157, pages 138-157

<sup>350</sup> European Commission. '[Employment protection legislation: its economic impact and the case for reform](#)'. 2003.

<sup>351</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>352</sup> Martin JP and others. '[Setting It Right: Employment Protection, Labour Reallocation and Productivity](#)'. De Economist 2012: Volume 160(2), pages 89-116

<sup>353</sup> Cingano F and others. '[The Effect of Employment Protection Legislation and Financial Market Imperfections on Investment: Evidence from a Firm-Level Panel of EU Countries](#)'. 2009.

suggests employment rights regulation to either be supportive of or ambiguous towards employment outcomes.<sup>354</sup>

258. 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.
259. In particular, this will need to be considered ahead of policy design decisions on measures related to zero hours contracts. Given there is evidence that zero hours contracts are used disproportionately by young workers (many alongside study), disabled workers, and those from ethnic minority backgrounds, the risk of reducing the availability of this type of work would fall greatest on these groups. Ultimately, the risks will be influenced by how restrictive the policies on variable hours contracts are. This will be determined through secondary legislation following full consultation with relevant stakeholders.
260. 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>355</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) found that increased employment protection led to Italian firms making greater use of workers on temporary contracts thereby reducing worker and depressing labour productivity.<sup>356</sup> 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>357</sup> Although not included in the Act, 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.
261. 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>358</sup> and another study found that across several European countries nine-month maternity leave entitlements

<sup>354</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

<sup>355</sup> Chartered Institute of Personnel and Development. '[Analysis: Proposed changes to unfair dismissal rules risk more insecure work](#)'. 2024.

<sup>356</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>357</sup> Organisation for Economic Co-Operation and Development. '[Jobs Strategy](#)'. 2018.

<sup>358</sup> Gruber J. '[The incidence of mandated maternity benefits](#)'. The American Economic Review 1994: Volume 84(3), pages 622-641.

reduced wages by 3–4%.<sup>359</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>360</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>361</sup>

262. Furthermore, there 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 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.
263. Some studies highlight that firms may respond to higher labour costs not only through wage adjustments, but also by altering non-wage job attributes, benefits, or prices. Clemens (2021) emphasises that minimum wage increases can lead to adjustments in non-wage compensation (such as health insurance), job attributes (like effort requirements or schedule flexibility), and even workforce composition, rather than solely affecting wage levels.<sup>362</sup> Machin and others (2003) found that in the UK care home sector, the introduction of the National Minimum Wage led to significant wage compression at the lower end, but only moderate reductions in employment and hours, with little evidence of cost pass-through to consumers due to price regulation.<sup>363</sup>
264. Moreover, we note that since the introduction of the Act to parliament (October 2024), the UK economy and labour market have continued to evolve in response to external pressures, such as energy price fluctuations and trade tariffs. There have also been a range of policy developments, including a rise in the National Minimum Wage and changes to employer National Insurance contributions. These shifts have introduced additional considerations for businesses and workers, shaping the broader context in which the Act is being implemented.
265. Nonetheless, our assessment of the Act remains well-founded. The evidence presented draws on both UK-specific policy evaluations and international literature, continues to support the view that the macroeconomic risks associated with the Act are limited. While the economic environment has changed, the underlying dynamics of the UK labour market remain, including its relatively low baseline protections and prevalence of monopsony power.

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<sup>359</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>360</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>361</sup> Ruhm CJ and others. ['Parental Leave Policies in Europe and North America'](#). National Bureau of Economic Research 1995: Working Paper Number w5065.

<sup>362</sup> Clemens J. ['How do firms respond to minimum wage increases? Understanding the relevance of non-employment margins'](#). 2021. Journal of Economic Perspectives: Volume 35(1), pages 51–72.

<sup>363</sup> Machin S and others. ['Where the minimum wage bites hard: Introduction of minimum wages to a low wage sector'](#). 2003. Journal of the European Economic Association: Volume 1(1), pages 154-180.

266. Overall, our updated assessment supports our initial view that we do not believe there is a strong case that the Act 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.
267. 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 16. Distributional impacts

268. In 2024, we developed initial analysis to understand the distributional impact of the Act on sectors, regions, business size, and the protected characteristics. In the initial assessment we undertook several quantitative and qualitative analyses to develop our understanding of the impacts.
269. For the small and micro businesses assessment (SaMBA), we assigned a RAG (Red, Amber, Green) rating, whether a measure was “Certain to have a disproportionate cost to small and micro business”, “Likely to have a disproportionate cost to small and micro business”, or that we “Do not expect a disproportionate cost to SMBs”.
270. For sectoral impacts, we provided a RAG (Red, Amber, Green) rating for each sector, identifying whether the likely impact of a measure on the sector was “Certain to impact sector by more than average” (Red), “Likely to impact sector by more than average” (Amber), “Unlikely to impact sector by more than average” (Green). This was also split up by the “Large”, “Medium”, and “Small” measures. This enabled us to get an indication of the likely impact across sectors, but with no quantitative measurements. This analysis suggests that Health and Social Work, Education, Accommodation and Food, Transport and Storage, Wholesale and retail trade, Arts and Recreation, and Administration and support services were most likely to be disproportionately impacted by the Act.
271. For our regional assessment, we used the regional distribution of Employment in the Low Pay Commission’s (LPC’s) low pay sectors. This enabled us to understand the likely regional distribution as most policies are targeted towards low-pay and insecure employment. However, not all jobs in low pay sectors are low-paid, and this does not necessarily have a one-to-one relationship with measures in the Act.
272. For our Public Sector Equality Duty analysis, we presented a heatmap that assigned impacts by whether a measure had (i) expected positive impact, (ii) either no impact or limited supporting evidence of a positive impact, and (iii) greater risk of unintended consequences for those with a protected characteristic.
273. We have since updated our framework to further understand the likely scale of impact as well as direction. While we have not been able to capture all measures in the Act, this analysis gives a more comprehensive understanding of the scale of impact, and the distributional effect. We discuss the methodology below.

### Updated Methodology

274. We have updated our methodology for the cross-Act estimates and distributional analysis to generate a more realistic and narrower estimate of the likely impacts of the Act. Previously, we used qualitative analysis to understand disproportionality (SaMBA and sector) and low-pay sector employment for proxies for regional impacts.
275. In this methodology we use a single dataset which contains the highest number of variables we can use to identify whether an individual is impacted by a policy within the Act. Due to the wide range of characteristics, both for individual characteristics, and characteristics of contract type, work, and workplace, we identified the Labour Force Survey (LFS) as the most appropriate. Based on the policy measures where the affected population are identifiable within the survey (outlined below in Table A12), we assign individuals to a

dummy variable to whether they are impacted, or not impacted, by each measure. If an individual is impacted by at least one measure in the Act, then we categorised them as being impacted by the Act. We use this dummy variable to count (using survey weights) the number of individuals that are likely to be impacted by the Act, and using other characteristic groups, understand where these impacts fall by sector, region, business size, and protected characteristic. It is important to note that this analysis reflects the distributional coverage of the Act rather than the costs and benefits.

276. Generally, we can cover policies which use the Labour Force Survey, or derivations of it (e.g. the Annual Population Survey – APS). This enables us to model most policy areas. However, this method is not perfect, as the LFS does not cover every policy measure in the Act. Specifically, we use the October-December (Quarter 4) 2024 variant of the LFS because this is the most recent dataset containing the trade union membership variable (“UNION”). Given there are several measures that will benefit Trade Union members, it is proportional to use this marginally older dataset for the benefit of the wider analysis, rather than omit them for the sake of more recent data.
277. For other policy analyses, standard datasets such as the LFS do not have the sufficient variables, and we must use procured datasets, or use various assumptions from external research to estimate population impacts. As a result, our holistic analysis can be viewed as a conservative estimate of the total number of individuals impacted directly or at least covered by the Act.
278. There are some policy areas which, to some degree, cover or impact all employees in the UK labour market. In these cases, we have judged whether inclusion in the distributional analysis adds further value. For example, including every measure in our holistic analysis would make our assessment that “The Employment Rights Act 2025 benefits every employee in the UK labour market”. While this, in total, is true, this would be an oversimplification and makes distributional impacts unhelpful since the results would simply reflect the distribution of all employees across sectors.
279. While we omit some policy measures, this approach is preferable to one where we simply sum the combined impact of each policy. This is because such an approach may lead to imprecise estimates, and double counting. For example, using the example of the tranche of Employment Rights Act 2025 IAs, the ‘Right to Guaranteed Hours’ IA finds that 2.4 million workers will be impacted (and therefore benefit). Similarly, the ‘Protection against dismissal for pregnant workers’ IA finds that 411,000 workers will be affected. When we look at these IAs together, there is no clear way to understand the total number of workers that will be affected, and this is just across two measures. Whilst we know that there will be a minimum of 2.4 million, and a maximum of ~2.8 million (2.4m + 411,000), the true number lies somewhere in the middle when we account for the fact that some workers employed on a zero-hours contract will become pregnant and therefore benefit from additional protections.
280. With 31 measures, an individual affected by all measures could be counted 31 times in the analysis. This would mean that the calculated number of workers impacted would likely exceed the number of workers in the labour market – something that is evidently impossible. Further, while performing distributional analysis independently for each individual policy (as done in the individual IAs) is useful for understanding policy specific impacts, it is difficult to gain a clear understanding of the holistic distribution of impacts across the economy. This is what we seek to achieve in this Enactment Summary IA.

281. Below, we outline the policy areas we have been able to cover, including how we have measured this impact.

**Table A12 – Policy areas covered in the holistic analysis**

| <b>Policy areas</b>   | <b>How this is measured, and why we measure it this way</b>  |
|---|--|
| New rights and protections for trade unions representatives                                       |  |
| Additional protections from Blacklisting  | This is measured as whether an individual is a trade union member.   |
| Repeal Trade Union (TU) Act 2016  |  |
| Right to reasonable notice of shifts and payment for shifts cancelled at short notice.            |  |
| Right to reasonable notice of shifts and payment for shifts cancelled at short notice.            | This is measured as the number of employees who are on currently on precarious or otherwise insecure working arrangements.   |
| Day 1 right to paternity leave  | This is measured as men who have a dependent child under the age of 1.   |
| Changing the qualifying period for unfair dismissal to 6 months and removing the compensation cap | This is measured as employees who have been in their current job between 6 months and 2 years.   |
| Protections against dismissal for pregnant workers  | This is measured as women who have a dependent child under the age of 1.   |
| Fair Pay Agreements   | This is measured as anyone belonging to the social care sector defined by the MAC including: <ul style="list-style-type: none"><li>• Residential, day and domiciliary care managers and proprietors</li><li>• Registered community nurses</li><li>• Registered specialist nurses</li><li>• Registered nurse practitioners</li><li>• Registered mental health nurses</li><li>• Other registered nursing professionals</li><li>• Nursing auxiliaries and assistants</li><li>• Care workers and home carers</li></ul> |

|  |  |
|--|--|
|  | <ul style="list-style-type: none"> <li>• Senior care workers</li> </ul>  |
| Strengthening existing tipping law                                   | <p>This is measured as anyone working in industries where tipping is common practice, and includes those working in:</p> <ul style="list-style-type: none"> <li>• 49.3 Other passenger land transport</li> <li>• 55.1 Hotels and similar accommodation</li> <li>• 56.1 Restaurants and mobile food service activities</li> <li>• 56.3 Beverage serving activities</li> <li>• 92.0 Gambling and betting activities</li> <li>• 96.0 Other personal service activities</li> </ul> |
| Requiring large employers to publish Equality Action Plans           | <p>This is measured as those working for a large employer.<sup>364</sup></p>   |
| Ensuring outsourced workers are included in gender pay gap reporting | <p>This is measured as those who are working for large employers who "Under contract for a fixed period or fixed-task", are "A sub-contractor" or "Doing freelance work"</p>   |
| Collective Redundancy  | <p>This is measured as those who are working in a business with over 20 employees and were made redundant in the last quarter. This is not a perfect measure as some will have not been made redundant collectively.</p>   |
| Statutory Sick Pay   | <p>We are only able to capture a small proportion of Statutory Sick Pay (SSP) coverage, by include those under the Lower Earnings Limit. Even so, the Labour Force Survey has incomplete pay data and only covers a fraction of the actual estimates of those under the LEL.</p>   |

282. As discussed, to estimate the holistic impacts of the Act, and avoid double counting, we have used the LFS to determine, for which policy areas (outlined above) there is available data, whether an individual is impacted by the Act.

283. Therefore, the following analysis should be viewed as a lower-bound of the coverage of the Act. There are 28 measures for which there is an Impact Assessment, of these, 22 have been costed (see Table A10). As an indication of the coverage of this analysis, based on the costs in the impact assessments, these policies represent between 42% to 88% of Business Net Present Value of the total cost to businesses, and 34% to 86% of the EANDCB. A range is provided as we have been unable to fully cover Statutory Sick Pay which is, in monetised

<sup>364</sup> A large employer is defined as a business with more than 250 employees. The LFS, being an employee survey, has ranged values for where the employee is unsure of the number. This enables us to distinguish between employees in small and micro businesses and medium and large, but not within these groups.

cost terms, the largest measure. This analysis does, however, include the Establishment of Fair Pay Agreements, which is currently non-monetised, strengthening collective redundancy rights, and protections against dismissal for pregnant workers.

284. The following sections of this analysis look at the holistic impact of the Act using these measures, and then undertakes distributional analysis, looking at sectors, regions, business size (SaMBA), and protected characteristics.

#### Overall coverage of the Employment Rights Act 2025

285. Firstly, we use this analysis to gather an understanding of the total impact of the Act on the UK labour market. Overall, the Act will cover all employees in some way and extend rights to other workers (e.g. limb (b) workers). As Employment law in Northern Ireland is devolved, we exclude employees in Northern Ireland from the analysis. As above, our analysis takes a value judgement approach on how we consider coverage to get clearer estimates. Based on the measures and methodology above, our analysis suggests that approximately 18.4 million employees, or around 60% of UK workers will benefit from the Act.<sup>365</sup> This includes those benefiting directly from better conditions (e.g. social care workers) and those benefiting indirectly from having a more secure work environment (e.g. workers between 6 months and 2 years of employment in their current job), or whose employers will have to report on Equality Action Plans. These impacts, however, are unlikely to be distributed evenly across the country, and therefore, in the following sections, we undertake more detailed distributional analysis. This is because the Act targets low-paid and insecure workers, and therefore the impacts will be felt in businesses and areas where these are more prevalent.

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<sup>365</sup> As of November 2025, there are around 30.3 million payrolled employees in the UK, Office for National Statistics '[Earnings and employment from Pay As You Earn Real Time Information, UK: November 2025](#)'.

## Section 16a: Impact on small and micro businesses

286. Table A12 above described the methodology developed to understand the holistic impacts of the Act, using Labour Force Survey data, to model a variety of policy measures. By defining whether individuals are likely to be impacted by the Act, we have also developed distributional analysis including by business size, sector, region and protected characteristics.

287. In this section, we describe the business size impacts using this method. The LFS asks respondents to report the number of employees at their workplace (MPNR02).<sup>366</sup> We use this to categorise whether there are less than 50 (small and micro) or 50 or more employees (medium and large) in their workplace.

288. The Act applies only to employers, defined as businesses with at least one employee under a contract of employment. This excludes those who are self-employed, sole proprietors and partnerships with no employees, which make up a significant portion of the UK's 5.6 million businesses. According to the Department for Business and Trade Business Population Estimates (2024),<sup>367</sup> around 1.4 million businesses are employers and thus within scope of the Act. Revised estimates show that there are approximately 8.5 million employees working in small and micro businesses (SMBs) who fall in scope of measures within the Act.

289. Although SMBs represent 99% of all businesses, they account for only 28% of employment when excluding businesses with zero or one employee. In contrast, whilst there are only around 8,300 large businesses, they employ over a third of the UK workforce. This concentration of employment in larger firms is crucial for understanding the practical impact of the Act.

290. The Act applies across all sectors, private, public, and non-profit. In the private sector, SMBs account for 97% of employers but only 36% of employees. In the public sector, SMBs make up 68.9% of entities but only 0.9% of employment. In the non-profit sector, SMBs represent 94.9% of organisations and 22.7% of employment.<sup>368</sup>

291. Typically, employment rights measures have a disproportionate impact on small and micro businesses (SMBs),<sup>369</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>370</sup>

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<sup>366</sup> Office for National Statistics. '[Labour Force Survey – user guidance](#)'. 2025.

<sup>367</sup> Department for Business and Trade. '[Business Population Estimates](#)'. 2025. (Accessed October 2025).

<sup>368</sup> Department for Business and Trade. '[Business Population Estimates](#)'. 2025; Table 2. (Accessed October 2025).

<sup>369</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>370</sup> Regulatory Policy Committee. '[RPC Small and Micro Business Assessment \(SaMBA\) guidance](#)'. 2019.

292. In addition, low-paid workers are more likely to be employed by SMBs than large firms. Close to half of all minimum wage jobs in 2024 were in small and micro sized firms, though in 2024 the largest number of NLW jobs were found in very large firms (those with 2500 employees or more).<sup>371</sup> Table A13 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.

293. DBT analysis of Experian business data suggests that, based on a statistical model to predict future insolvencies, firms with 1-4 employees are among the most financially vulnerable. These markers began to rise in mid-2022 after the Russian invasion of Ukraine, and subsequent energy market crisis. Despite the rise in vulnerability scores in the last three years, we have not seen a resulting increase in business insolvencies. DBT analysts will continue to monitor this data as measures in the Act are implemented.

Table A13: Gross weekly pay distribution by organisation size (£), 2025<sup>372</sup>

| Employer Size | Percentile |        |        |        |        |        |          |          |          |
|---------------|------------|--------|--------|--------|--------|--------|----------|----------|----------|
|               | 10         | 20     | 30     | 40     | 50     | 60     | 70       | 80       | 90       |
| 1 to 9        | 457.71     | 498.29 | 539.69 | 582.09 | 637.81 | 704.31 | 782.89   | 919.92   | 1,211.26 |
| 10 to 49      | 469.54     | 517.45 | 571.27 | 625.00 | 691.08 | 770.91 | 880.00   | 1,035.00 | 1,341.55 |
| 50 to 249     | 486.72     | 536.62 | 592.42 | 657.98 | 737.85 | 838.00 | 958.25   | 1,137.90 | 1,473.31 |
| 250 plus      | 498.29     | 565.61 | 631.91 | 708.23 | 791.47 | 888.30 | 1,005.68 | 1,171.47 | 1,494.87 |

294. In each of our policy-specific IAs we have undertaken 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.

295. Looking holistically, Table A14 shows the estimated number of employees that are likely to benefit from the Act by business size. We find that approximately 50.7% of employees working for small and micro businesses will benefit from the Act compared to 75.5% of employees working for medium and large businesses. This figure includes policy measures that are designed specifically to target large businesses including “Requiring large employers to publish Equality Action Plans”, which therefore include all large businesses. As this is a relatively low-cost measure, it could bias our understanding of the business size

<sup>371</sup> Low Pay Commission. ['National Minimum Wage - Low Pay Commission Report 2024'](#). 2025.

<sup>372</sup> DBT Analysis of the Annual Survey of Hours and Earnings 2025.

impacts. By removing this measure from the analysis to account for this, we find that 48.1% of large and medium sized businesses will be impacted.

296. In absolute terms, at least 6.2 million employees working in small and micro businesses will benefit in some way by the Act, compared to 12 million employees in large and medium-sized businesses. This analysis is different to the proportion of small and micro businesses that will be impacted, suggesting that while small and micro businesses are likely to be disproportionately impacted by the Act, in absolute terms, the majority of the cost will fall on large and medium-sized businesses. The difference is, on a business level, while more employees in large and medium sized businesses will be impacted, they benefit from economies of scale, and dedicated HR resourcing, and therefore are likely to experience a lower marginal cost per employee for each policy change.

Table A14: Proportion of employees impacted by the Act by business size

|   | <b>Proportion (number) of employees in small and micro businesses impacted</b> | <b>Proportion (number) of employees in large and medium businesses impacted</b> |
|---|--|---|
| Including “Requiring large employers to publish Equality Action Plans”. | 50.7% (6,200,000)  | 75.5% (12,000,000)  |
| Excluding “Requiring large employers to publish Equality Action Plans”. | 50.7% (6,200,000)  | 48.1% (7,600,000)   |

297. We are mindful that this analysis does not include all of the policy measures contained in the Act. To prevent omission of any key policy measures, we have updated the analysis used in our previous impact assessment, and this is outlined below in Table A15 (high impact measures), Table A16 (medium impact measures), and Table A17 (low impact measures). Of the measures not included in the above analysis, six of these are expected to have no disproportionate impact on SMBs, and four of these measures are expected to have a likely disproportionate impact on SMBs. For the remainder, there is expected to be no impact or negligible impact on SMBs.

Table A15: 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>373</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>374</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 is also more likely to make up a greater proportion of total costs for SMBs.  |
| Changing the qualifying period for unfair dismissal to 6 months and removing the compensation cap                 | Likely to have a disproportionate cost to small and micro business. | Small and micro businesses are more likely to employ staff with between six months and two years' tenure, less likely to already use contractual probationary processes, and generally have more limited legal and HR resources.  |
| Dismissal for failing to agree to variation of contract, etc (Fire and Rehire) <sup>375</sup>                     | 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.  |

<sup>373</sup> Internal analysis undertaken by the Department of Work and Pensions estimates that SMBs currently make up 60% of SSP payments.

<sup>374</sup> Resolution Foundation. ['Firm foundations: Understanding why employers use flexible contracts'](#). 2024.

<sup>375</sup> Enactment Impact Assessment: Dismissal for failing to agree to variation of contract, etc (Fire and Rehire). 2026.

298. 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 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>376</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.

299. 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.

300. Tables A16 and A17 below summarise the conclusion of our SaMBAs for the medium and low impact measures in the Act. For more information across all measures see the relevant policy specific IA.

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<sup>376</sup> Department for Business and Trade. '[Trade union statistics 2023](#)'; Table 3.1. 2024.

Table A16: 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.   |
| Amending new right to unpaid bereavement leave to include pregnancy loss        | 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. Evidence from the consultation with employer representatives for the Parental Bereavement leave IA suggests that small and medium size businesses will only familiarise themselves fully with the legislation as and when they really need to (i.e., when the leave is requested). |
| Contractual duties of confidentiality relating to harassment and discrimination | Likely to have a disproportionate cost to small and micro business. | While smaller businesses are less likely to use NDAs in the context of harassment or discrimination due to their simpler organisational structures and fewer formal HR processes, they may face disproportionate compliance costs relative to their size and resources.  |
| 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>377</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>378</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.   |

<sup>377</sup> Equality and Human Rights Commission. ['Pregnancy and maternity discrimination research findings'](#). 2018

<sup>378</sup> HM Government. ['Get financial help with statutory pay'](#).

Table A17: 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.   |
| 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>379</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.   |
| Implementing International Conventions   | Do not expect a disproportionate cost to SMBs                       | Small and micro businesses may be disproportionately impacted by the familiarisation cost, as the cost they experience (if it is one individual per vessel) would be expected to be the same as medium or large firms. However, this cost is expected 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.  |

<sup>379</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.

|  |                            |  |
|--|----------------------------|--|
| 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.   |
| Mandatory Seafarers’ Charter   | No impact expected on SMBs | Based on the scope of vessels calling to UK ports 120 times per year, the Seafarers’ Wages Act estimated that no small or micro businesses are likely to be in scope by this definition. |

Exemptions and mitigations for SMBs:

301. 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 Act 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.
302. 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.

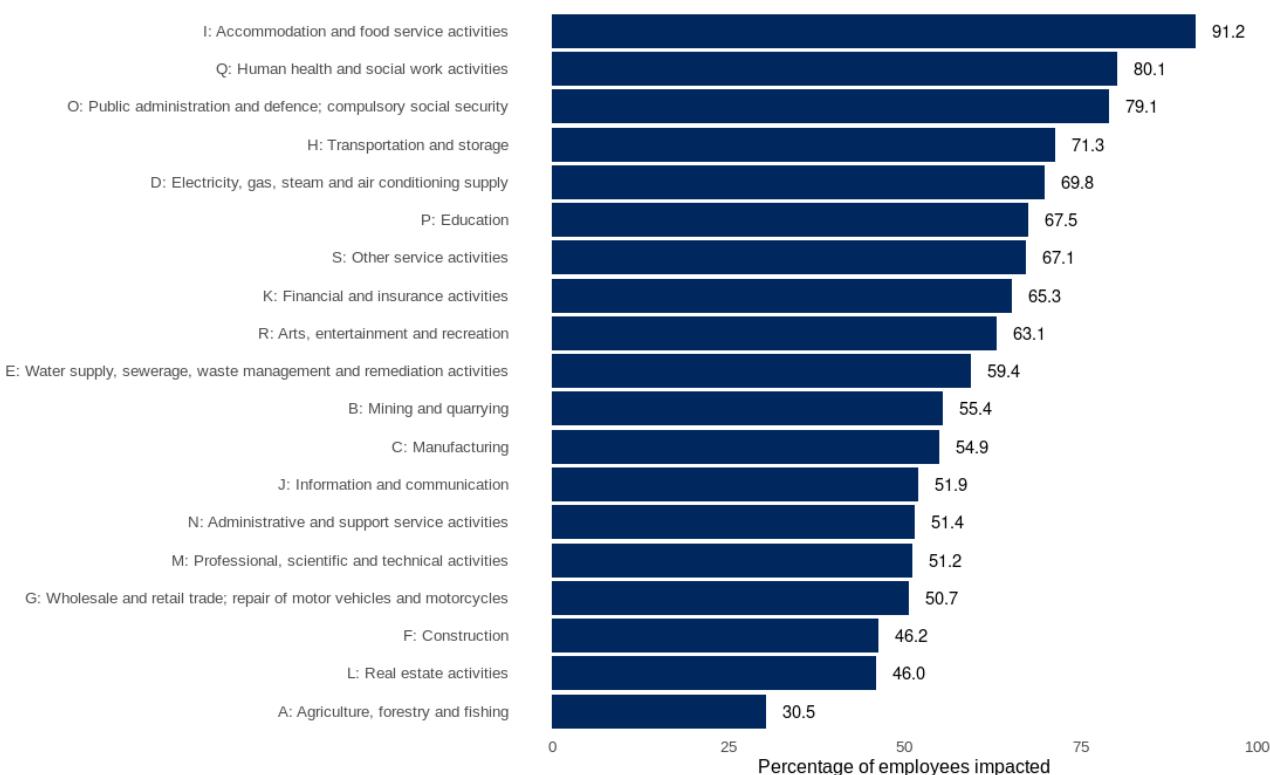
## Section 16b. Sectoral Impacts

303. The Act aims to improve the working conditions for those in low-paid and insecure working conditions. Therefore, these measures will naturally target sectors where these jobs are more prevalent. For example, ONS analysis on the Annual Survey of Hours and Earnings suggests that low-pay jobs are more concentrated in sectors such as hospitality, entertainment, and social care.<sup>380</sup>
304. Figure A6 shows the proportion of employees within each sector that are covered by the Act measures for which we have been able to capture measures using the LFS (see Table A12 for full detail). Accommodation and food services, which includes businesses such as pubs, restaurants, hotels, and holiday sites, has the highest proportion of employees that are expected to benefit from the Act, with over 90% coverage.
305. This high coverage is largely due to measures such as strengthening legislation on tipping, which is directly targeted at parts of this sector where tipping is common practice; approximately 79.5% of hospitality workers will be covered by tipping measures. Other policy measures which are also key drivers in this high coverage are unfair dismissal (which covers 33.4% of the sector), and rights to guaranteed hours, and compensation for cancelled shifts (which covers 33.2% of the sector), explained by the relatively younger workforce, high turnover and variable hour contracts. Please note that breakdowns identifying which policy measures are driving coverage within a sector are larger than the sector coverage itself. This is because there are individuals that are covered by multiple measures within the Act.

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<sup>380</sup> Office for National Statistics. '[Low and high pay in the UK](#)'. 2025. (Accessed October 2025).

Figure A6: Proportion of employees covered by the Employment Rights Act 2025, by sector



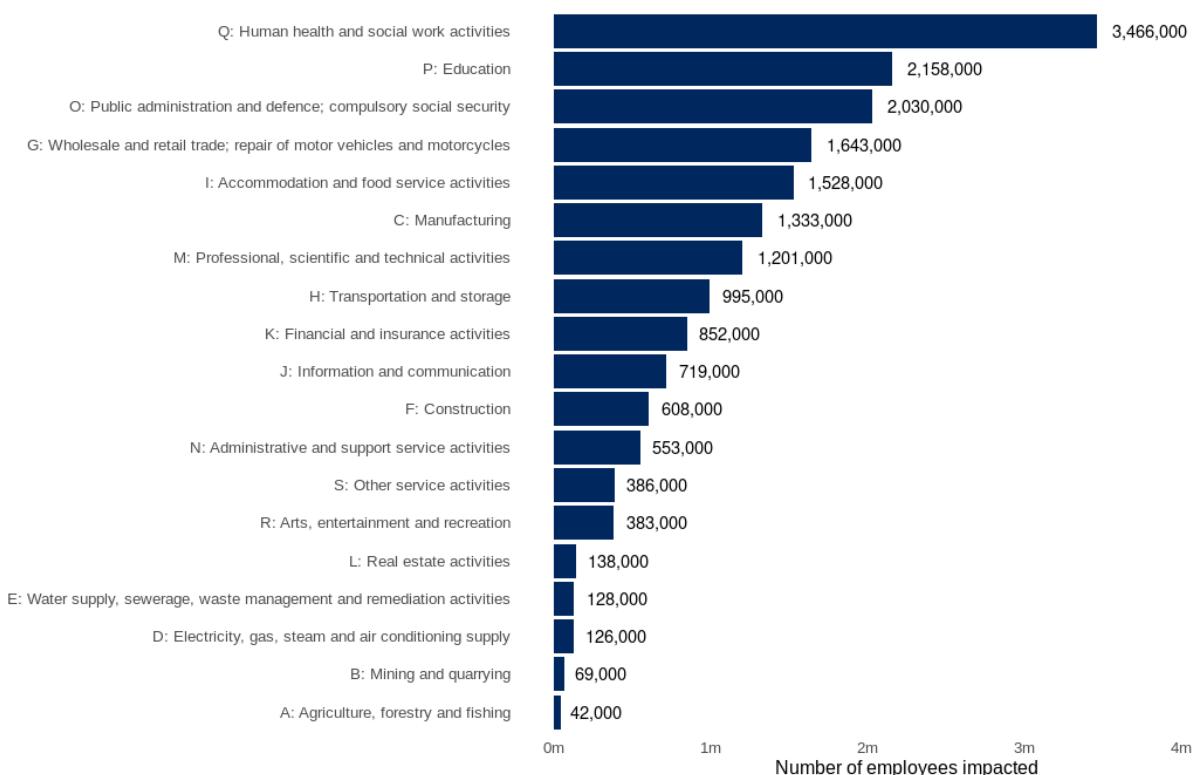
Source: DBT analysis of the Labour Force Survey

306. Employees in the Health and social work sector (80.1%) are also expected to disproportionately benefit. This is largely driven by Fair Pay Agreements (FPAs), which covers 41.9% of the sector, with 33.8% of the sector being covered by Equality Action Plans, 26.6% by trade union measures, 22.3% by unfair dismissal and 12.1% by right to guaranteed hours and compensation for cancelled shift measures.
307. The high coverage in public administration and defence (79.1%), is largely driven by Equality Action Plans (which covers 53.8% of the sector). This is likely because the policy only applies to large organisations. Public administration and defence covers many Government activities such as the Civil Service and police forces which tend to be large organisations, hence why this policy is a key driver of the sector coverage. Other contributors are the trade union measures (which covers 31.5% of the sector) and unfair dismissal (which covers 15.0% of the sector).
308. The transport and storage sector's coverage (71.3%) is driven by the policy to ensure outsourced workers are included in gender pay gap reporting (which covers 35.3% of the sector), trade union measures (which cover 25.9% of the sector), tipping laws (which cover 16.8% of the sector), unfair dismissal (which covers 15.9% of the sector) and the right guaranteed hours and compensation for cancelled shifts (which covers 12.1% of the sector).
309. Arts and recreation's coverage (63.1%) is driven by unfair dismissal (which covers 24.8% of the sector) and the right guaranteed hours and compensation for cancelled shifts (which covers 20.7% of the sector).

310. Shown in Figure A7, in absolute terms, human health and social work activities have the highest number of employees that are going to be covered by the Act, with at least 3.5 million employees. This is followed by Education (2.2 million), public administration and defence (2.0 million), Whole and retail trade (1.6 million), and accommodation and food (1.5 million).

311. These findings are consistent with our original impact assessment, which using qualitative analysis found that “Human health and social care”, “Education”, “Accommodation and food services”, and “Transport and storage” were among the sectors most likely to be disproportionately impacted by the Act. This new analysis, however, suggests that public administration and defence is among the top three sectors that will be covered by the Act. This is however, largely driven by relatively low impact policies such as trade union measures, and the policy to include outsourced workers in gender pay gap reporting, as the sector is dominated by larger sized institutions.

Figure A7: Number of employees covered by the Employment Rights Act 2025, by sector



Source: DBT analysis of the Labour Force Survey

312. In addition to this DBT have undertaken analysis of Experian data from May 2025 to understand the position of businesses within sectors. Experian data suggests that measures that predict future insolvencies suggest that the hospitality sector has the highest level of financial vulnerability across the sectors, followed by Construction, Personal Services. The hospitality sector is inherently more financially vulnerable due to factors such as low barriers to entry and lower profit margins than other sectors. Financial vulnerability scores increased from mid-2022 after the Russian invasion of Ukraine and subsequent energy-price shock, up

to mid-2023. This has remained stable since 2023. This does suggest that, as the Act is likely to impact these sectors, it could lead to higher financial vulnerability for businesses in these sectors. Despite the increase in vulnerability scores, there has been no market rise in insolvencies over the period. We will continue to monitor this data to understand how implementation is affecting business performance.

313. Whilst our updated methodology does not cover all policies, our initial methodology enables an evaluation of each measure. The impact of each measure on broad sectoral groupings is categorised as either 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). In order to cover policy measures omitted in the above analysis, we have updated the sectoral heatmap to give a final indication of sectoral impacts of the Act.
314. Figure A8 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). For the policy areas not included in the above analysis, the only areas where there it is expected that there will be disproportionate impacts on sectors include the Fair Work Agency, and Collective redundancy for seafarers.
315. 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 other pay-related rights, such as holiday pay. Therefore, compliant employers in those sectors will benefit the most from better support and stronger enforcement creating a fairer and more level playing field.
316. Declaring collective redundancy for Seafarers is expected to disproportionately impact the transport and storage sector, clearly due to the fact only this sector will be impacted. The cost impacts of this policy are however likely to be very small.

**Figure A8: Heatmap of sectoral impacts by Employment Act policies that are expected have specific sector impacts**



Source: DBT Analysis, supporting evidence in policy specific IAs

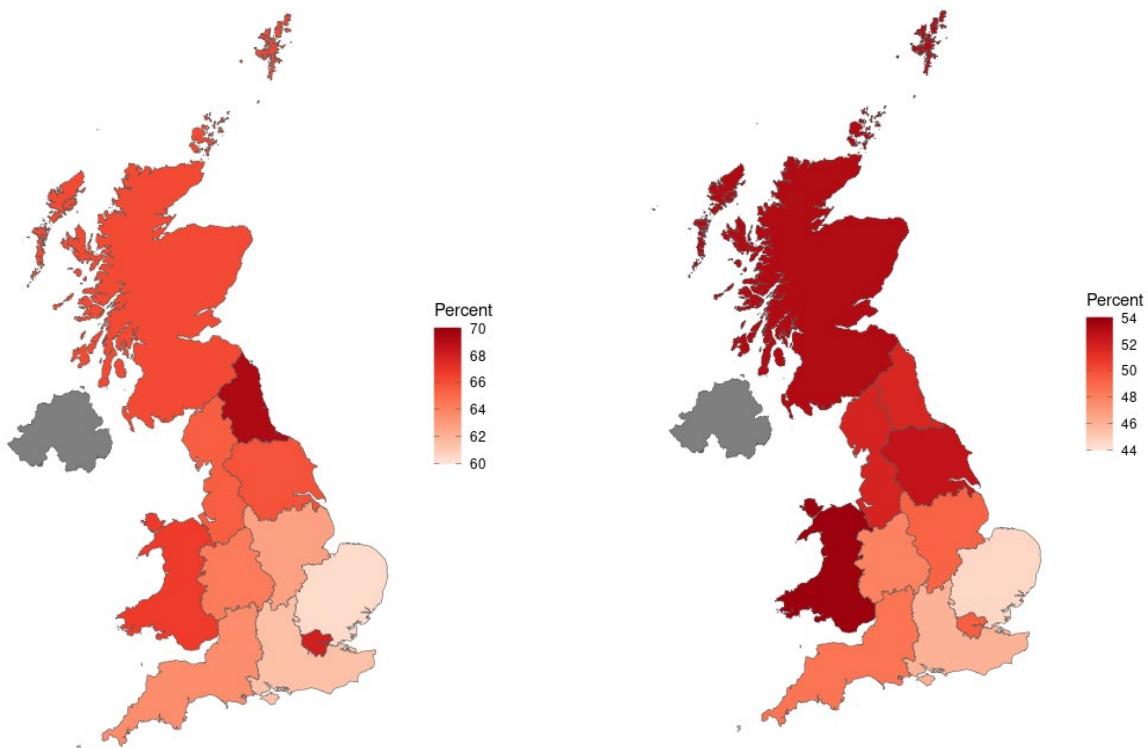
## Section 16c. Regional and Devolved Nation Impacts

317. The measures in the Act 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.
318. As with the SaMBA and sectoral analyses we now present the distributional outputs of the methodology presented in Table A12 for regions and devolved nations. In Figure A9, we present two variations of the analysis, including and excluding the measure ‘Requiring large business to publish Equality Action plans’. This is to prevent an over representation of large businesses within the analysis, skewing our understanding of the distributional impacts.
319. Based on the methodology outlined in Section 16, Figure A9(a) shows the expected coverage of the Employment Act measures we have been able to capture with the available data in English regions and devolved nations. The analysis suggests that the North East, London, and Wales are likely to impacted more; London and the North East’s prominence in the analysis largely reflects the high concentration of larger businesses in the area. Looking instead at Figure A9(b), which excludes “Requiring large employers to publish Equality Action Plans” from the analysis, suggests that employees in Wales (53.9%) and Scotland (53.2%) are most likely to be covered by at least one of the Employment Act measures. In England, the northern regions are most likely to be impacted (Yorkshire and the Humber [52.6%], North West [51.8%], North East [51.7%]).
320. This pattern aligns with evidence from our initial impact assessment, which found that regions with higher employment in low-paying sectors, such as Wales and Scotland, are disproportionately likely to benefit from measures in the Act.

Figure A9: Regional distribution of Employment Right Act impacts

Figure A9(a) with Equality Action Plans

Figure A9(b) without Equality Action Plans



321. Looking at the number of employees affected, London and the South East account for the largest totals, reflecting their overall workforce size rather than a higher proportional impact. Including Equality Action Plans, these regions have at least 2.8 million and 2.6 million employees benefitting from the Act, respectively, falling to 2.0 million and 1.9 million when Equality Action Plans are excluded. In contrast, devolved regions see a higher proportion of businesses and workers impacted, but smaller absolute numbers due to their population size. In contrast, devolved regions see a higher proportion of businesses and workers impacted, but smaller absolute numbers due to their population size.

## Section 16d. Public Sector Equality Duty analysis

322. The Equality Act 2010 protects against unlawful discrimination based on the following protected characteristics:

|  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Age</li><li>• Disability</li><li>• Gender reassignment</li><li>• Marriage and civil partnership</li><li>• Sexual orientation</li></ul> | <ul style="list-style-type: none"><li>• Pregnancy and maternity</li><li>• Race</li><li>• Religion or belief</li><li>• Sex</li></ul> |
|--|---|

323. 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 eliminating unlawful discrimination, advancing equality of opportunity, and fostering good relations. An initial top-down equality analysis has been undertaken to assess the broad impacts of the Act, recognising that detailed assessments will follow as secondary legislation is developed.

324. By improving job quality, worker voice, and protections, the package is expected to positively impact groups disproportionately represented in low-paid, insecure work, particularly women, younger workers, ethnic minorities, and disabled individuals.<sup>381</sup> Several measures directly or indirectly address unlawful discrimination and aim to enhance equality of opportunity and treatment in the workplace.

325. It should be noted that as outlined in Section 15 ('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.

326. An equalities analysis for each individual measure can be found within the policy-specific IAs, and Table A18 summarises PSED impacts of all measures in the Act. 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>382</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>383</sup> This is somewhat consistent with findings of the Parental Rights Survey,<sup>384</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.

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<sup>381</sup> Trade Union Congress. '[BME women far more likely to be on zero-hours contracts](#)'. 2023.

<sup>382</sup> Kleven H and others. '[The Child Penalty Atlas](#)'. 2023

<sup>383</sup> Department for Business and Trade analysis of Annual Population Survey (Jan to Dec 2023) microdata

<sup>384</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](#).

- 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>385</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>386</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 workers). Therefore, these changes are likely to disproportionately benefit workers who have at least one these protected characteristic.
- f. **Changing the qualifying period for unfair dismissal to six months and removing the compensation cap** – we expect the policy to particularly benefit groups that are more likely to be employed for between six months and two years, including young employees. We also expect the policy to reduce the risk of adverse effects on the employment prospects of groups with weaker attachments to the labour market (such as young employees) relative to a ‘Day One’ right. However, some risk may remain depending on how and whether employers adjust their hiring behaviour. Another factor to consider is whether any protected characteristics are over-represented among those who bring a claim for unfair dismissal to the Employment Tribunal. The 2024 IA set out evidence that employees with a limiting illness or disability represent 22% of unfair dismissal cases (compared to 13% of the overall employee population) and Black employees represent 9% of unfair dismissal cases (compared to 3% of overall employee population). These groups may therefore benefit relatively more from extending unfair dismissal protections to employees who have worked with their employer for between six months and two years. We expect the removal of the compensation cap to have a positive, but limited, impact on households. Some groups may particularly benefit, such as high-earning employees or those with limited re-employment opportunities.
- g. **Dismissal for failing to agree to variation of contract, etc (Fire and Rehire)** – there is limited evidence on the characteristics of those subject to fire and rehire practices.

<sup>385</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>386</sup> Children’s Commissioner. ‘[Children’s Commissioner for England launches preliminary findings of The Family Review at Policy Exchange](#)’. 2022.

Nevertheless, a 2021 TUC online poll of 2,231 individuals in England and Wales found that nearly a fifth of (18%) of 18 to 24-year-olds said their employer had tried to rehire them on inferior terms during the pandemic. Also, working-class people (12%) were nearly twice as likely than those from higher socio-economic groups (7%) to have been told to re-apply for their jobs under worse terms and conditions. Furthermore, Black and Minority Ethnic workers (15%) had been faced with fire and rehire at nearly twice the rate of white workers (8%).

- 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>387</sup>
- i. Strengthen workers' rights to trade union access, recognition and representation**<sup>388</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.<sup>389</sup>
- j. Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period** – the policy will benefit 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>390</sup>
- 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>391</sup> Research from the Low Pay Commission shows that lower paid individuals are more likely to be female, from Bangladeshi, Pakistani and other ethnic minority backgrounds, be younger, or have a disability.<sup>392</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>393</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

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<sup>387</sup> Skills for Care. '[The State of the Adult Social Care Sector and Workforce 2023 \(skillsforcare.org.uk\)](https://skillsforcare.org.uk/research/the-state-of-the-adult-social-care-sector-and-workforce-2023/)'. 2023. (Accessed October 2024)

<sup>388</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>389</sup> Department for Business and Trade. '[Trade Union Membership, UK 1995-2024: Statistical Bulletin](https://www.ons.gov.uk/peoplepopulationandcommunity/people/workingpopulationandlabourmarket/employmentandunemployment/tradeunionmembershipuk/2024/03)'. 2025.

<sup>390</sup> Department for Work and Pensions. '[Family Resources Survey: financial year 2022 to 2023](https://www.gov.uk/government/statistics/family-resources-survey-financial-year-2022-to-2023)'. 2024.

<sup>391</sup> Citizens Advice. '[From rights to reality: Designing a Fair Work Agency that delivers for the most vulnerable workers](https://www.citizensadvice.org.uk/advice-by-topic/employment/employment-rights-and-conditions/protecting-workers/protecting-workers-from-fair-work-agency/)'. 2024.

<sup>392</sup> Low Pay Commission. '[The NLW and protected characteristics: differences in employment and minimum wage coverage by ethnicity, disability, and gender](https://www.lpc.org.uk/reports-and-publications/reports/the-nlw-and-protected-characteristics-differences-in-employment-and-minimum-wage-coverage-by-ethnicity-disability-and-gender)'. 2023.

<sup>393</sup> Department for Business, Energy and Industrial Strategy. '[Impact Assessment: Preventing employer deductions from worker tips](https://www.gov.uk/government/publications/impact-assessment-preventing-employer-deductions-from-worker-tips)'. Pages 34-37. 2022.

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>394</sup>

### Measures Addressing Harassment and Gender Pay Gap

327. 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
328. 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>395</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>396</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.
329. Finally, two measures target gender pay gap issues, and could benefit women as well as potentially other protected characteristics:<sup>397</sup>
  - Requiring large employers to publish Equality Action Plans
  - Ensuring outsourced workers are included in gender pay gap reporting
330. To complement the qualitative assessment, the Department undertook a supplementary quantitative analysis to support its initial Public Sector Equality Duty (PSED) assessment. This analysis estimates the proportion of individuals impacted across protected characteristics and mirrors the methodology set out in Section 16, also used for sectoral and regional assessments. It identifies the share of individuals covered by at least one measure in the Act, ensuring alignment with the Act’s objectives to improve protections for vulnerable workers.
331. This supplementary analysis includes protected characteristics for which robust quantitative data is available in the LFS. Specifically, age, disability, ethnicity, marital status, religion, and sex. Other protected characteristics such as gender reassignment, pregnancy and maternity, and sexual orientation were not included due to limitations in the LFS dataset. However,

<sup>394</sup> Fair Work Convention. ‘[Fair Work Convention Survey of Hospitality Workers and Businesses in Scotland 2023](#)’. 2024.

<sup>395</sup> Office for National Statistics. ‘[Experiences of harassment in England and Wales: December 2023](#)’. 2023.

<sup>396</sup> Government Equalities Office. ‘[2020 Sexual Harassment Survey](#)’. 2020.

<sup>397</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.

these characteristics have been considered as part of the Department's policy-specific impact assessments under the Public Sector Equality Duty.

332. The findings indicate that the Act is likely to benefit groups disproportionately represented in low-paid and insecure work. This aligns with the Act's overarching objectives to improve protections for vulnerable workers and contributes to the Government's wider aims to reduce inequality, enhance job quality, and promote fairer labour market outcomes.

**Key Findings:**

- a. **Age:** Younger workers are significantly impacted, with 76% of 16–19-year-olds and 63% of 20–24-year-olds affected. This supports the policy focus on improving protections for younger workers, who are overrepresented in insecure and low-paid roles.
- b. **Disability:** 53% of disabled individuals (as defined by the Equality Act) are impacted, compared to 47% of non-disabled individuals.
- c. **Ethnicity:** Black/African/Caribbean/Black British individuals show the highest proportion impacted (65%), followed by Bangladeshi (61%) and "Any other Asian background" (61%). These findings align with evidence that ethnic minority workers are disproportionately represented in vulnerable employment.
- d. **Marital Status:** 52% of single individuals are impacted, compared to 47% for divorced individuals and 45% for those who are married.
- e. **Religion:** Muslim individuals (60%) are the most impacted religious group, followed by Hindu and Christian groups (both around 49%). Those with no religion are impacted at 47%.
- f. **Sex:** Female workers are more impacted (53%) than male workers (44%), consistent with the broader evidence base that women are more likely to be in low-paid and insecure roles.

333. This analysis supports our initial conclusion that the Act will strengthen working conditions for the lowest-paid and most vulnerable in the labour market, increasing fairness and equality across Britain. It is expected to have significant positive impacts on workers who have insecure contracts and experience poor employer practices.
334. As mentioned earlier, some of these groups also face the greatest risk to job prospects from higher labour costs. While we consider this risk relatively small overall, its occurrence could offset the benefits to protected groups. The Government will continue to refine this assessment as policy development progresses, ensuring that implementation is well-targeted and inclusive.

Table A18: Heatmap of PSED impacts by Employment Act policy area, based on analytical assessment of main impacts

|   | Impact Assessment   |            |                     |                               |                         |      |                    |     |                    |  |
|---|---|------------|---------------------|-------------------------------|-------------------------|------|--------------------|-----|--------------------|--|
|   | Age   | Disability | Gender Reassignment | Marriage or civil Partnership | Pregnancy and Maternity | Race | Religion or Belief | Sex | Sexual Orientation | Greater risk of unintended consequences? |
|   | 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   |   |            |                     |                               |                         |      |                    |     |                    |  |
| Changing the qualifying period for unfair dismissal to 6 months and removing the compensation cap                 |   |            |                     |                               |                         |      |                    |     |                    |  |
| 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 A18: (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 |  |  |  |  |  |  |  |  |  |  |
| Employment Tribunal time limits   |  |  |  |  |  |  |  |  |  |  |
| Amending new right to unpaid bereavement leave to include pregnancy loss                        |  |  |  |  |  |  |  |  |  |  |
| Non-Disclosure Agreements   |  |  |  |  |  |  |  |  |  |  |
| Mandatory Seafarers' Charter  |  |  |  |  |  |  |  |  |  |  |
| Implementing international conventions  |  |  |  |  |  |  |  |  |  |  |

## Section 17. Trade implications

335. 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.

336. The Act is expected to primarily affect workers and employers in non-traded service sectors, such as hospitality, social care, and retail, which are not directly exposed to international competition. Because these sectors do not typically engage in cross-border trade, we would not expect the Act to have significant implications for UK trade. Additionally, the estimated increase in labour costs is modest relative to total wage costs, which further suggests that any impact on the competitiveness of UK exporters is likely to be limited. This assessment is supported by a review of the literature.

337. Earlier in Section 14 we discussed the expected impact of the Act in raising the level of employment protections in comparison to the OECD. Linking this to trade implications, in theory, lower labour standards can offer a short-term competitive edge, but this tends to erode over time. Weak labour protections can reduce overall production costs, especially in labour-intensive sectors, by limiting compliance costs and enabling high-output, low-cost production environments. Poor working conditions (such as long hours, overcrowded facilities, and minimal safety standards) may temporarily increase export volumes by intensifying labour input, but this often comes at the expense of worker wellbeing and operational sustainability. However, in the long run, such practices can entrench low-skill, high-turnover industries, limiting productivity growth and hindering the transition to higher-value, skill-intensive exports.<sup>398</sup>

338. Nonetheless, empirical evidence on the short-run effect on trade is mixed but generally suggests that low labour standards do not systematically confer a trade advantage. On the other hand, many studies find no significant relationship between labour standards and export performance.<sup>399</sup> Labour standards are only one part of total labour costs and often play a smaller role than broader structural factors such as infrastructure, governance, and market access. Some older studies suggest that restricting rights to collective bargaining and freedom of association may enhance competitiveness in unskilled labour-intensive sectors by enabling high-output, low-cost production.<sup>400</sup> However, these effects are typically small, not consistent across countries or sectors, and largely based on dated evidence that should be interpreted with caution. Moreover, while such practices may increase the volume of exports in low-value sectors, they do not necessarily translate into broader trade benefits or support long-term economic upgrading.

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<sup>398</sup> Martin W and Maskus KE. ['Core Labor Standards and Competitiveness: Implications for Global Trade Policy'](#). 2002. Review of International Economics: Volume 9(2), pages 317-328.

<sup>399</sup> Organisation for Economic Co-operation and Development. ['Trade, Employment and Labour Standards'](#). 1996; Rodrik D. ['Labor standards in international trade : do they matter and what do we do about them?'](#). 1996. Overseas Development Council; Flanagan RJ. ['Labor standards and international competitive advantage'](#). 2002. International Labor Standards: Globalization, Trade, and Public Policy: Volume 47; Salem S and Rozental F. ['Labor Standards and Trade: A Review of Recent Empirical Evidence'](#). 2012. J. Int'l Com. and Econ., 4, page 63; Bandyopadhyay K. ['The Impact of Global Labour Standards on Export Performance'](#). 2020. In Sustainability Standards and Global Governance: Experiences of Emerging Economies (pages 113-129). Singapore: Springer Singapore.

<sup>400</sup> Mah JS. ['Core Labour Standards and Export Performance in Developing Countries'](#). 1997. World economy: Volume 20(6); Bakhshi S and Kerr W. ['Labour Standards as a Justification for Trade Barriers: Consumer Concerns, Protectionism and the Evidence: Technical Annex'](#). 2010. Estey Journal of International Law and Trade Policy: Volume 11(1), pages 182-191; Busse M. ['Comparative Advantage, Trade and Labour Standards'](#). 2002; Hasnat B. ['The impact of core labour standards on exports'](#). 2002. International Business Review: Volume 11(5), pages 563-575.

- 339. More recent evidence suggests a positive long run association between stronger labour standards and export performance, though causality remains difficult to establish. Better labour standards are often linked to improvements in productivity, institutional quality, and international reputation, which can enhance trade outcomes. These associations are particularly evident in labour-intensive sectors such as manufacturing and apparel, where better working conditions and labour rights have coincided with higher output and improved product quality.<sup>401</sup>
- 340. From a legal standpoint, the Act 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.

## Section 18. Environment: Natural capital impact and decarbonisation

- 341. 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 19. Analytical risks and assumptions

- 342. This Enactment 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.
- 343. Throughout this analysis, we have used the best available evidence, including macroeconomic modelling (such as econometric and computable general equilibrium analysis), international benchmarking using the CBR-LRI and OECD indices, detailed sectoral and distributional analysis using Labour Force Survey microdata, incorporated scenario and sensitivity analysis to test the robustness of our findings, and continue extensive engagement with external experts, businesses, and trade unions.
- 344. The strength of the evidence base varies across policy areas: in some cases, we have strong causal evidence from research, survey data (such as the ONS Labour Force Survey), academic literature, international experience, and evaluations of previous policies. In other areas, the evidence is less developed, particularly where the reforms are novel or where the impacts depend on behavioural responses that are inherently uncertain. We have

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<sup>401</sup> Kucera D and Sarna R. '[Trade Union Rights, Democracy, and Exports: a Gravity Model Approach](#)'. 2006. *Review of international economics*: Volume 14(5), pages 859-882; Bonnal M. '[Economic Growth and Labor Standards: Evidence from a Dynamic Panel Data Model](#)'. 2010. *Review of Development Economics*: Volume: 14(1), pages 20-33; Yuping D and others. '[Labour rights protection and export expansion: Evidence from SA8000 certification](#)'. 2024. *Journal of Asian Economics*: Volume 95, p.101816; Robertson R. '[Labor compliance programs in developing countries and trade flows: Evidence from Better Work](#)'. 2023. *Economics Letters*: Volume 228, p.111162.

established frameworks for assessing direct costs to business and benefits to workers, and have drawn on a wealth of descriptive and evaluative evidence, including the impact of the National Minimum and National Living Wage on the UK labour market. While this is not a perfect proxy for the wider set of measures in the Plan to Make Work Pay, it provides valuable insight into how businesses and workers may react to employment regulation and the likely implications for the wider economy.

345. Ultimately, the impact of the package will depend on how businesses and workers respond to the changes introduced by the Act, and how the economy adapts over time. These indirect and second-round effects are, by their nature, uncertain and difficult to predict with precision. We have therefore taken a cautious and transparent approach, avoiding over-interpretation of the likely impacts of the Act and clearly flagging areas of uncertainty or evidence gaps. Where possible, we have used ranges, scenario analysis, and sensitivity testing to reflect this uncertainty, and we will continue to refine our analysis within future assessments supporting secondary legislation as more evidence becomes available.
346. 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 businesses 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.
347. In summary, this section reflects our commitment to transparency, rigour, and continuous improvement in the assessment of the Employment Rights Act 2025. We have addressed the main analytical risks and assumptions identified by the Regulatory Policy Committee, including broader macroeconomic analysis and further clarity on the expected direct costs and benefits. For implementation, we will continue to work with stakeholders and experts to refine our analysis through further individual assessments supporting secondary legislation, and our monitoring and evaluation framework will ensure that real-world impacts are tracked and used to inform future policy decisions. We welcome feedback and will reflect updates in future assessments as policy development allows for more detailed analysis and new evidence emerges.

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**Department for Business and Trade**

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