

Enactment impact assessment

Title: Dismissal for failing to agree to variation of contract, etc (Fire and Rehire)

Type of measure: Primary Legislation

Department or agency: Department for Business and Trade

IA number: DBT-032-24-CMRR

RPC reference number: N/A

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1. Summary of proposal

1. Employers may sometimes propose changes to employees' contracts of employment. If employees do not agree to some or all of the contractual changes proposed by the employer, the employer may dismiss employees, before offering to re-engage them, in substantively the same roles, in order to effect the changes. This is referred to as "fire and rehire". Employers may also sometimes dismiss employees and then hire someone new to do the same role but with a varied contract of employment, this is referred to as 'fire and replace'.
2. Once the fire and rehire provisions of the Act come into effect, fire and rehire will be 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, the reason for the changes was to address those difficulties, and the employer could not reasonably have avoided the need to make the changes. This document henceforth uses the term 'financial difficulties exemption' to reflect this exemption. Similarly, the term 'core terms' is used henceforth in this document in replacement of 'restricted variations' for ease of reading.
3. The exception to this is fire and replace with non-employees. Fire and replace with non-employees (e.g. agency workers) to do substantially the same work as the employees they are replacing, and where this is not due to a reduced need for that work will be an automatic unfair dismissal, unless the employer is in severe financial difficulties and has no reasonable alternative. There will be no distinction between core and non-core terms, as these are cases which go beyond the variation of an employment contract.

4. In addition, the Act specifies factors which the Employment Tribunal must consider when deciding if a fire and rehire has been fair. This applies in cases where an employer has made a dismissal in order to make changes to an employee's core terms but meets the financial difficulties exemption, or where an employer has dismissed an employee to make a variation that is not a restricted variation (i.e. not to core terms), or where an employer has dismissed an employee in order to replace them with a non-employee but meets the financial difficulties exemption. These factors differ depending on the type of dismissal but include whether the employer has consulted with the employee and any relevant trade union or employee representatives on the proposed contractual changes and whether the employer offered the employee anything in return for agreeing to a variation.
5. This Enactment Impact Assessment reflects the impact of the policy included in the Employment Rights Bill as it receives Royal Assent, updating the previous impact assessment for amendments to the legislation that have occurred over the course of the passage of the Employment Rights Bill through Parliament.
6. This Enactment Impact Assessment focuses solely on the impact of the primary legislation and therefore considers the protection from 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, and reductions to leave entitlement from the practice of fire and rehire. A separate Options Assessment will be published to accompany the consultation considering the secondary legislation on whether certain shift changes should be protected and the expenses and/or benefits in kind to exclude from protections.
7. This Impact Assessment estimates a total Net Present Social Value (NPSV) of £-100.2m over the ten-year appraisal period (with a range of possible estimates between £-50.2m and £-150.1m), a total Equivalent Annual Net Direct Cost to Business (EANDCB) of £97.6m (net cost)¹, and a total Equivalent Annual Net Direct Cost to Households (EANDCH) of £-99.1m (net benefit), as a result of the fire and rehire Act measures (2024 prices, 2026 present value).
8. 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 our analysis of leave entitlement – the lost output to employers is monetised as greater than the gained value of leisure time for employees that is imperfectly proxied by wages.
9. The policy is expected to reduce the number of instances of fire and rehire. 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.

2. Strategic case for proposed regulation

10. Employers may sometimes propose changes to employees' contracts of employment. If employees do not agree to some or all of the contractual changes proposed by the employer, the employer may dismiss employees, before offering to re-engage them, in substantively the same roles, in order to effect the changes. This is referred to as "fire and rehire". Employers may also sometimes dismiss employees and then hire someone new to do the same role but with a varied contract of employment, this is referred to as 'fire and replace'. Although sometimes referred to as dismissal and re-engagement, in the rest of this document both situations of fire and rehire and fire and replace will come under the term 'fire and rehire'.

¹ The Public sector has been excluded from the EANDCB.

Currently employers may be able to use fire and rehire where they have a sound business reason for seeking to change a contract of employment. This may include responding to economic changes, changing working practices or harmonising terms and conditions.

11. In 2020 the Advisory, Conciliation and Arbitration Service (Acas) conducted a fact-finding exercise with stakeholders to better understand the practice, its use and impact². The findings of this exercise were published in June 2021 reporting:
 - The practice was not a new phenomenon but had become more prevalent in the pandemic.
 - The practice was increasingly used as a pressure tactic in the early stages of negotiations.
 - While much of the attention on dismissal and re-engagement was driven by high-profile cases involving large employers and unionised workforces, its use was more widespread across a range of sectors, business sizes and across unionised and non-unionised workforces.
 - It is used as a practice for a range of circumstances and reasons such as:
 - redundancy scenarios, both to minimise redundancies by cutting pay roll costs, and to enable the maximum reduction in head count by for example changes to the working hours for remaining staff;
 - harmonising terms and conditions between staff;
 - introducing flexibility into contracts;
 - interrupting continuity of service; and
 - negotiations around organisational responses to changes in consumer behaviour, sectoral change or changing operational needs.
12. The previous Government developed a Code of Practice on fire and rehire but did not change the law. The new measures in the Employment Rights Act will restrict employers' ability to use fire and rehire. Fire and rehire will be an automatic unfair dismissal in relation to 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), unless the employer is in severe financial difficulties and has no reasonable alternative. Fire and rehire will not be an automatically unfair dismissal for changes to other terms, such as location and job role, but subject to enhanced protections to ensure employers meaningfully consult and negotiate with employees when doing so. Fire and replace with a non-employee (as defined in the Act) will be an automatic unfair dismissal unless the employer is in severe financial difficulties and has no reasonable alternative.

Rationale for intervention

13. The government intervenes in the labour market to extend employment rights for efficiency and equity reasons. A well-functioning labour market, which provides necessary rights and protections, provides employees with high quality jobs whilst also empowering business to operate competitively.
14. From an economic theory perspective, the practice of fire and rehire and the threat of its use provides undue bargaining power to the employer in employer-employee relationships. The threat of fire and rehire is often enough to ensure employees agree to lower pay and reduced terms and conditions. In addition to the strong equity reason for intervention, there is an efficiency argument. Power asymmetry in bargaining can create quasi-rents that the more powerful party can capture. This power asymmetry can therefore incentivise the more powerful player to act strategically, which can lead to a less optimal outcome socially. In other words, the option of fire and rehire could incentivise businesses in general to pay less or provide lesser

² Acas (2021), '[Dismissal and re-engagement \(fire-and-rehire\): a fact-finding exercise](#)'

employment terms and conditions to employees (allocative inefficiency). In turn, this can lead to less optimal outcomes for society (e.g. lower standards of living, health, wellbeing).

15. The Government does not think the current laws and Statutory Code of Practice on dismissal and re-engagement strike the right balance between protections for employees and flexibility for employers to restructure where they genuinely have no alternative. While the Statutory Code of Practice on fire and rehire aims to make fire and rehire a last resort, the current legal framework allows it to be used when an employer has a sound business reason for seeking to change a contract of employment. This can include responding to economic changes, amending working practices, or harmonising terms and conditions.
16. The Government considers this to be too imbalanced against the interest of employees. The scope of changes which can be imposed via fire and rehire includes matters such as pay and increases or decreases to working hours, which can have significant impacts on individual livelihoods.
17. The overall policy aim is to significantly reduce the use of fire and rehire by restricting the circumstances when the practice of fire and rehire is permissible. Fire and rehire will be an automatic unfair dismissal in relation to 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), unless the employer is in severe financial difficulties and has no reasonable alternative. The aim is to only allow fire and rehire for a change to core terms in these narrow circumstances, rather than banning them outright, to mitigate potential negative consequences such as an increase in employee redundancies and/or business insolvencies. The exception here is fire and replace with non-employees where there will be no distinction between core and non-core terms, as these are cases which go beyond the variation of an employment contract.
18. The government is also intending to consult on whether specified shift patterns should be protected as a core term and if so which (thereby making fire and rehire on these an automatic unfair dismissal unless the employer is in severe financial difficulties and has no reasonable alternative) and on the expenses and benefits in kind which may be excluded from core terms protected relating to reductions in pay.

Impact of no intervention

19. The evidence on the prevalence of the practice of fire and rehire is limited. Department for Business and Trade (DBT) analysis of a survey conducted in 2022 by YouGov on behalf of DBT suggests that 12,100 businesses might engage in the practice of fire and rehire each year (<1% of employers) and this could affect up to 125,000 workers. It is important to acknowledge the time and context in which this survey was conducted as a possible limitation to this data. As this data covers the pandemic period, the estimates are likely to be on the higher side due to the economic conditions businesses were facing at the time. Please see Annex A for further information on the YouGov survey cited above. Data from the ONS Business Insights and Impacts on UK Economy survey corroborate that this practice is rare. Wave 133 reports that 3.4% of businesses changed employment contracts in the last 12 months and the number who reported changing contracts by dismissing staff and rehiring them on new employment contract terms is so low, it had to be suppressed³.

³ ONS (2025) Business and Insight Survey Wave 133

20. Lack of intervention would keep the door open to continued use of fire and rehire with subsequent detrimental impacts to employees.

3. SMART objectives for intervention

21. The objectives of the fire and rehire policy are to limit the use of fire and rehire so that employers will only be able to use the practice to change 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) where they genuinely have no alternative, where they are in financial difficulties which threaten their business and to ensure any occurrence follows a fair process based on dialogue and common understanding between employers and employees.

22. The intended outcomes are to (i) reduce the occurrence of fire and rehire; (ii) ensure any occurrence of fire and rehire follows proper consultation process with relevant parties.

23. SMART objectives

- A reduction in the number of employers engaging in, or threatening to engage in, the practice of fire and rehire each year.
- A reduction in the number of employees affected by or threatened by the practice of fire and rehire each year.
- An increase in the proportion of fire and rehire cases in which employers engaged in meaningful consultation with employees.
- Employer flexibility to make reasonable changes to certain employees' employment conditions (that are out of scope of the automatic unfair dismissal protections).

Link to growth

24. As a result of this policy, there may be productivity benefits from providing better pay and providing better employment security. 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.

25. There is some evidence that boosting employment rights can support higher participation and increased productivity. For example, the OECD is clear in their Jobs Strategy⁴ that labour market flexibility alone is not sufficient for a high-performing labour market, and that policies that boost job quality and inclusiveness must also play a role.

26. As well as being good for workers' health, wellbeing and job satisfaction, employment protections can improve productivity. Oswald and others (2015)⁵ find wellbeing boosts performance at work with four different experiments. Similarly, Bellet and others (2024)⁶ find a positive impact of happiness on productivity. Similarly, Bryson and others (2017)⁷ and De Neve

⁴ Organisation for Economic Co-operation and Development (2018). 'Good Jobs for All in a Changing World of Work'.

⁵ Oswald AJ et al (2015) 'Happiness and Productivity'. Journal of Labor Economics: Volume 33(5), pages 789–822.

⁶ Bellet C and others. 'Does employee happiness have an impact on productivity?'. Saïd Business School 2019: Working Paper 13

⁷ Bryson A et al (2017). 'Does employees' subjective well-being affect workplace performance?'. Human Relations: Volume 79(8), pages 1017-1037

and others (2019)⁸ also find a positive association between employee job satisfaction and productivity.

27. There is also a large literature that argues that job insecurity can be damaging to both physical and mental wellbeing as argued by Green (2020)⁹. Insecure work is associated with numerous negative health and wellbeing impacts, which in turn is related to worse productivity. Work Foundation (2023)¹⁰ polling found that 'insecure' workers were twice as likely as secure workers to experience job related stress 4-6 days of the week (26% compared with 13%), in particular related to uncertainty over total earnings. Their polling also finds that these insecure workers are nearly four times more likely to experience this poor mental health when they also lack confidence in being able to afford an unexpected expense. Negative health outcomes have an impact on worker and therefore firm productivity.
28. On the other hand, preventing fire and rehire will reduce the flexibility of employers to forcibly reduce some employment terms and conditions. This may lead to internal inefficiencies from having non-harmonised contracts or being prevented from certain operational changes which might improve the employer's productivity. We would expect mutual agreement to yield better outcomes for workers than when changes are forced through via fire and rehire. Fire and rehire enables employers to reduce labour input costs to a larger extent.
29. Employers generally do not fire and rehire and there is an argument that those who do are benefitting from an uncompetitive practice to reduce their costs. Recent evidence from the ONS Business Insights and Conditions Survey reports that 63% of employers making changes to terms do so through consultation, negotiation and voluntary agreement with employees while <1% used fire and rehire.
30. Overall, the policy supports inclusive growth. The scale of impact on growth is expected to be marginal, given the small population affected as an outcome of this policy. However, this policy is part of a much bigger policy package, The Employment Rights Act, which seeks to foster inclusive growth. Please see the 2025 Employment Rights Act economic analysis for further detail¹¹.

4. Description of proposed intervention options and explanation of the logical change process whereby this achieves SMART objectives

31. As a result of the Employment Rights Act, fire and rehire will be an automatic unfair dismissal in relation to 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), unless the employer is in severe financial difficulties and has no reasonable alternative.

Theory of change

32. **Input:** Primary legislation.

⁸ De Neve et al (2019). 'Does Employee Happiness have an Impact on Productivity?'

⁹ Green, F (2020) Health effects of job insecurity. IZA World of Labor

¹⁰ Work Foundation (2023) [Zero Choices: Swapping Zero-Hour Contracts for Secure, Flexible Working](#)

¹¹ HM Government (2025), ['Employment Rights Act economic analysis'](#).

33. **Outputs:**

- Fire and rehire dismissals related to core terms will be considered to be an unfair dismissal, unless the employer can demonstrate that they were in financial difficulties threatening their business and that they could not avoid the need to change the employee's employment contract.
- Fire and replace with non-employees (as defined in the Act) will be considered to be an unfair dismissal, unless the employer can demonstrate that they were in financial difficulties threatening their business and that they could not avoid the need to change the employee's employment contract.
- The employer should have followed a fair and transparent process, including meaningful engagement with employees, and trade unions or other employee representatives.

34. **Outcomes:**

- A reduction in the number of employers engaging in, or threatening to engage in, the practice of fire and rehire each year.
- A reduction in the number of employees affected by or threatened by the practice of fire and rehire each year.
- An increase in the proportion of fire and rehire cases which had sufficient/adequate consultation.

35. **Impact:**

- Increase in job and income security.
- Fairer employer-employee relations and bargaining.
- Possible productivity benefits from providing better employment security.

36. **Risks:**

- Employers may erode wages over time as an alternative means to generate cost reductions.
- Employers may make redundancies as an alternative means to generate cost reductions.
- Increase in Employment Tribunal cases.

5. Summary of long-list and alternatives

37. This proposal is part of a broader package of policies aimed at strengthening employment rights and protections in the UK labour market. 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. The plan includes over 70 measures which will change the landscape of workers' rights, it will tackle the low pay, poor working conditions and poor job security that has been holding our economy back. The Employment Rights Act represents a vital step in the delivery of this plan.

38. The Government is committed to ending unscrupulous fire and rehire tactics. As noted above, the non-regulatory option of a Code of Practice has already been introduced.

39. **Prevent fire and rehire dismissals relating to core terms except where the employer meets the narrow exception for financial difficulties:** This is a change to the preferred option when the Bill was introduced in Parliament, which made no distinction between core and non-core terms. Under the original option, any and all changes made via fire and rehire would be an automatic unfair dismissal unless the employer could demonstrate that they were facing financial difficulties that threatened their viability, and that changing the employee's contract

was unavoidable. This option was amended during passage of the Bill to provide employers with greater flexibility to make necessary operational changes, such as to an employee's role description, without having to demonstrate that they are in severe financial difficulties.

40. We cannot directly compare the monetised estimates in the rest of this document with those of the original policy. Monetised estimates of the pre-amendment policy were illustrative and our approach to the analysis has evolved (see evidence base section for detail). Nevertheless, while the analysis is not directly comparable, we assess the amendments made during passage will reduce impacts with a significant reduction in costs to business.
41. Other options considered prior introduction of the Bill in Parliament:
42. **Ban fire and rehire with no exemption:** A full ban for employers to use fire and rehire practices even if they had no other reasonable economic alternative. This option would likely lead to a significant increase in redundancies, as employers may not have any other alternatives when they are facing economic difficulties. This may also risk pushing employers towards insolvency. This alternative was discarded because of these risks.
43. **Strengthen the Code of Practice only:** The Statutory Code of Practice on fire and rehire could be amended to discourage the use of fire and rehire unless there is no reasonable economic alternative. However, the Code would not change the current law that allows fire and rehire to be used where an employer has a sound business reason, thereby undermining the effectiveness of the policy in reducing fire and rehire practices. This option was therefore discarded to achieve the intended outcomes of this policy. Nevertheless, Make Work Pay committed to strengthening the Code of Practice in addition to amending the rules around fire and rehire. The Department for Business and Trade may therefore consider this as a complementary policy in future.
44. **Do nothing:** Maintain the current legislation. Employers would be able to use fire and rehire if they have a sound business reason for seeking to change a contract of employment, including responding to economic changes, amending working practices, or harmonising terms and conditions. This alternative was discarded because it would continue to allow the use of fire and rehire in a broad range of scenarios.

6. Description of policy option carried forward

45. **The option carried forward:** Fire and rehire and fire and replace (where the replacement is an employee of the employer) in relation to changes 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) will be automatic unfair dismissals, unless the employer is in severe financial difficulties and has no reasonable alternative. Fire and replace with a non-employee of the employer (where employees are replaced with non-employees to do substantially the same work as the employees they are replacing, and where this is not due to a reduced need for that work), will also be an automatic unfair dismissal unless the employer is in severe financial difficulties and has no reasonable alternative.
46. It restricts the ability of employers to use fire and rehire, thereby protecting employees from having their core terms forcibly amended. Simultaneously, it does not prevent employers from changing employees' core terms through fire and rehire if they can demonstrate that they were facing financial difficulties that threatened their viability, and that changing the employee's

contract was unavoidable (e.g. it was the only way to prevent insolvency). Fire and replace with non-employees (of the employer) makes no distinction between core and non-core terms as these are cases which go beyond the variation of an employment contract. This policy strengthens protections against fire and rehire. It also maintains a degree of flexibility for the business to adapt their labour input costs should they need to, thereby helping prevent additional job losses and possibly business insolvencies. Therefore, this option best meets the policy objectives.

Small and Micro Business Assessment

47. The 2022 YouGov survey provides insight on the use of fire and rehire by business size – see table below. Overall, it finds little difference in the prevalence of fire and rehire by business size, although medium sized businesses are most likely to engage in the practice. Figures in the tables below have been updated since the 2024 Impact Assessment on fire and rehire, as we are now applying the 2024 Business Population Estimates rather than 2023.

Table 1: Businesses engaging in fire and rehire per annum by business size (number of employees)

Businesses engaging in fire and rehire	2 to 9	10 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1,000+
Proportion engaging in fire and rehire within group	0.6%	2.1%	2.3%	2.6%	3.0%	2.2%	1.6%
Estimated number of businesses engaging in fire and rehire	6,600	4,400	600	300	100	50	30

Source: 2022 YouGov survey and Business Population Estimates for Great Britain 2024¹²

48. The table below provides estimates of the number of workers currently affected by fire and rehire by business size. To note, **these estimates are uncertain and are likely over-estimates** but present our best assessment of the prevalence of fire and rehire. The evidence base section presents our method to estimate this.

¹² Department of Business and Trade (2024), '[Business population estimates 2024](#)'.

Table 2: Estimated number of workers affected by fire and rehire per annum by business size (number of employees)

Business size by number of employees	Total	2 to 9	10 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1,000+
Number of workers affected by fire and rehire per annum	125,000	8,000	36,000	8,000	19,000	10,000	11,000	32,000

Source: DBT analysis (2024), rounded to the thousand

49. Regarding the overall fire and rehire Bill measure, smaller businesses could be more exposed to the costs associated with this policy. They may have smaller profit margins and may be more constrained in their ability to raise prices. They do not benefit from the economies of scale that are possible within the largest businesses that could help them to offset costs. Lower reserves and lower levels of investment may mean there are barriers to investing in any productivity improvements that could help them to manage increased labour costs. As a result, the smallest businesses may be more likely to experience some of the potential negative consequences of higher labour costs, including lower profitability and potentially market exit.
50. Exemption: The objective of the policy is to reduce instances of fire and rehire where the employer is trying to change core terms except where they meet the narrow exception for financial difficulties. While the smallest employers are those least likely to engage in the practice according to the YouGov survey, to exempt smaller businesses would cause this policy to fail its intended outcomes thereby leaving employees vulnerable to fire and rehire practices. It also risks creating a two-tier labour market with unfair outcomes to employees of smaller organisations who could face forced reductions to their pay and core employment terms.
51. Mitigation: The objective of the policy is to reduce instances of fire and rehire for changes to core terms except where the employer meets the narrow exception for financial difficulties. Smaller businesses in financial difficulties may be more likely to have no reasonable economic alternative and therefore for fire and rehire to be permitted. Smaller businesses are often most vulnerable to insolvency and financial issues as they typically possess less capital and more limited financial reserves than larger businesses, making them often more susceptible to prolonged cash flow disruptions or unforeseen financial pressures¹³. In addition, where an employer is able to show it meets the narrow exemption for financial difficulties, the Employment Tribunal will consider all the circumstances before determining whether a dismissal was fair or not.
52. That noted, for the cases where fire and rehire is prevented, the impact on smaller businesses may be relatively larger because of the reasons outlined above. Nevertheless, the broader societal benefits of increased job security and fairness in the UK labour market justify the policy's scope.

¹³ PwC (2024) [Insolvency Trends Uncovered-Restructuring Insights Q2 2024](#)

7. Regulatory scorecard for preferred option

Part A: Overall and stakeholder impacts

(1) Overall impacts on total welfare		Directional rating
<p>Description of overall expected impact</p>	<p>On balance, 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. In our analysis, most of the monetised costs to businesses are transfers to households and therefore cancel each other out at a societal level. The negative monetised impacts are driven by leave entitlement – the lost output to employers is monetised as greater than the gained value of leisure time proxied imperfectly by the wage rate. There is also a familiarisation cost to businesses of £0.4m.</p> <p>While the monetised impacts suggest a negative overall impact, we expect the policy to lead to potentially significant unquantified benefits, including higher wellbeing, productivity, and improved fairness. We therefore assess that the policy will likely have positive impacts overall.</p>	<p>Positive</p>
<p>Monetised impacts</p>	<p>The Total Net Present Social Value of the preferred option is £-100.2m (with a range of between £-50.2m and £-150.1m) (net cost) over the ten-year appraisal period (2024 prices, 2026 present value). This is due to a cost to business from the difference in the value of output and of the wage rate which is used to proxy the value of leisure time which results in a benefit to households. All other impacts are transfers between employers to employees.</p>	<p>Negative</p>
<p>Non-monetised impacts</p>	<p>Non-monetised impacts are expected to be positive overall. These include better physical and mental wellbeing and improved productivity.</p> <p>However, employers may respond to this policy change by making redundancies. This would likely only occur in employers that are using fire and rehire to reduce financial pressures, but where these pressures are not significant enough to meet the threshold for the exemption. Please see paragraph 81-84 for further information. Those made redundant could suffer from longer term ‘scarring’ through increased future incidence of unemployment and lower subsequent earnings in employment. We do not think this negative impact to be significant or likely.</p>	<p>Positive</p>

Any significant or adverse distributional impacts?	There is limited evidence on the characteristics of those subject to fire and rehire practices. Nevertheless, a 2021 TUC online poll suggests that fire and rehire practices affect more vulnerable workers (young, lower socio-economic groups, and ethnic minorities), therefore strengthening protections may improve equality and fairness.	Positive
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(2) Expected impacts on businesses

Description of overall business impact	<p>This policy will prevent instances of fire and rehire in relation to core terms, unless the employer meets the narrow exception for financial difficulties.</p> <p>We estimate 12,200 businesses could engage in the practice each year (<1% of employers). As a result of this change, this population will be split into the following – (i) those cases where fire and rehire will be an automatic unfair dismissal, (ii) those cases which will not be an automatic unfair dismissal.</p> <p>The costs outlined below will come from employees retaining their core terms such as maintaining higher pay and leave entitlement. There will also be familiarisation cost of £0.4m to businesses.</p> <p>Overall, we expect this policy to generate a net cost to business.</p>	Negative
Monetised impacts	The EANDCB of the preferred option is £97.6m (i.e. net cost) (2024 prices, 2026 present value).	Negative
Non-monetised impacts	There may be productivity impacts – either positive from improvements in wellbeing and morale, or negative from reduced business flexibility.	Uncertain
Any significant or adverse distributional impacts?	<p>No</p> <p><u>Business sectors</u></p> <p>The YouGov survey finds slight sector variation in the propensity to fire and rehire, with the information and communication sector most likely to engage in the practice, but overall, the difference by sector is small.</p> <p>Overall, while there is some variation in impacts across sectors, these are not deemed significant or adverse.</p> <p><u>Regional impacts</u></p>	Neutral

	No regional impacts to note, this policy will affect businesses all across Great Britain in all sectors. The YouGov survey does not find any significant differences in use of fire and rehire across the UK regions.	
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(3) Expected impacts on households

Description of overall household impact	<p>The impact on households is directionally opposite to that on businesses. Where fire and rehire is prevented, households benefit from better pay and terms compared to the counterfactual because they are maintained as a result of the policy measure.</p> <p>Overall, this policy is expected to generate net benefits to households.</p>	Positive
Monetised impacts	<p>The EANDCH is £-99.1m (i.e. net benefit) (2024 prices, 2026 present value). Monetised benefits of protecting annual leave are likely underestimates due to loss aversion and our approach to monetising the benefits of greater leisure time. Please see the evidence base below for detail.</p>	Positive
Non-monetised impacts	<p>Non-monetised impacts are expected to be positive overall. These include better physical and mental wellbeing, improved productivity, and avoiding activities which are ancillary to work (e.g. commuting) by protecting leave.</p> <p>However, employers may respond to this policy change by making redundancies. This would likely only occur in employers that are using fire and rehire to reduce financial pressures, but where these pressures are not significant enough to meet the threshold for the exemption. This is a potential risk of the policy. It is possible that those made redundant may suffer from longer term 'scarring' through increased future incidence of unemployment and lower subsequent earnings in employment.</p> <p>Please see the evidence base below for further detail.</p>	Positive
Any significant or adverse distributional impacts?	<p>There is limited evidence on the characteristics of those subject to fire and rehire practices. Nevertheless, a 2021 TUC online poll of 2,231 individuals in England and Wales found:</p> <ul style="list-style-type: none"> 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. 	Positive

	<ul style="list-style-type: none"> • 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. • Black and Minority Ethnic workers (15%) had been faced with fire and rehire at nearly twice the rate of white workers (8%). <p>We would therefore expect this policy to generate positive distributional impacts to households.</p>	
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Part B: Impacts on wider Government priorities

Category	Description of impact	Directional rating
Business environment: Does the measure impact on the ease of doing business in the UK?	<p>We conclude that this policy will have a neutral effect on the UK business environment as it will have limited / no impact on the attractiveness of the business environment, on barriers to entry, on market concentration and competition, on foreign investment, and on the scope for businesses to bring innovative products and services to market.</p> <p>The assessment above has been made based on the following:</p> <p>Although at a business level, an increase in labour costs due to the prevention of fire and rehire could reduce investment, these employers may react to higher costs in several ways to offset this. We estimate only 12,200 businesses engage in fire and rehire practices per year. This is a minor proportion (<1%) of the business population therefore the impact on the UK business environment will be minor.</p> <p>The policy has a low administrative cost (which is entirely from a familiarisation cost), which will only impact those who wish to use fire and rehire, a very small percentage of the business population.</p>	Neutral
International Considerations: Does the measure support international trade and investment?	<p>The proposed policy does not impact international trade. The policy will not have any implications for trade patterns and has no links to international obligations.</p> <p>As noted above, this is a minor practice, only used by less than 1% of the business population, as a result we would expect this policy to not affect UK international competitiveness.</p>	Neutral

	Overall, this is a domestic policy focusing on a practice which is not commonly used by employers and therefore, we expect the policy to have a neutral impact on international issues such as trade and investment.	
Natural capital and Decarbonisation: Does the measure support commitments to improve the environment and decarbonise?	We expect that there is no impact on the environment, natural capital, and decarbonisation as a result of these proposed reforms. The regulation does not directly relate to environmental or decarbonisation goals.	Neutral

8. Monitoring and evaluation of preferred option

52. The Department for Business and Trade will lead on all monitoring and evaluation activities.

53. The Government will undertake proportionate monitoring and evaluation of reforms implemented through the Employment Rights Act and associated secondary legislation. To determine whether the policy has met its objectives, we will be monitoring its impacts and will consider undertaking a proportionate review of this policy within 5 years following the policy taking effect.

54. At a high level, our monitoring and evaluation plans will consider:

- whether the measure has achieved its stated objectives (found in section 3 and section 4 of the Enactment Impact Assessment);
- whether the impacts of the policy were in line with those estimated in this Enactment Impact Assessment and the forthcoming Options Assessment on shift patterns and expenses and benefits in kind;
- whether the policy has resulted in any unintended consequences.

55. Our initial monitoring and evaluation work is focussed on baselining, developing key metrics, and ensuring that there is a coordinated programme of research to fill evidence gaps. This work will start shortly.

Key measures and sources of data

56. The table below outlines some of the potential key measures and data sources for the evaluation of the fire and rehire Bill measure. As noted, these are subject to change.

SMART objectives	Sources (non-exhaustive)
1) A reduction in the number of employers engaging in, or threatening to engage in, the practice of fire and rehire each year.	<p>New data collection:</p> <ul style="list-style-type: none"> • A repeat of the 2022 YouGov fire and rehire survey • A follow up qualitative study with businesses on employment decisions and policy impact • Qualitative data collective with key stakeholders <p>Drawing from current data sources:</p> <ul style="list-style-type: none"> • Include contract change questions on the Business Insight and Conditions survey again • Develop further questions for Business Insight and Conditions survey and other business surveys • Draw evidence from the Labour force survey • Explore adding questions to departmental surveys
2) A reduction in the number of employees affected by or threatened by the practice of fire and rehire each year.	
3) Employer flexibility to make reasonable changes to employees' employment terms (that are out of scope of the automatic unfair dismissal protection).	

Overview of considered Monitoring and Evaluation data collection approaches:

57. The intended outcome of this policy is to limit the use of fire and rehire practices. The best option from a research standpoint would be to repeat the 2022 YouGov survey used in this impact assessment within five years of introduction and undertake a before-after comparison.
58. Additionally, we could consider including a recontact question in such a repeat survey to generate a sample of businesses for follow-up discussions on the impact of the policy changes. Although this qualitative research would be externally commissioned, we must account for the potential interviewer effect which could compromise data quality, particularly if businesses feel reluctant to speak candidly about their use of fire and rehire practices when approached on behalf of the government.
59. To assess if the objectives have been met, the survey questions would ask a representative sample of employers if they have changed their employees' terms and conditions in recent years. If they have worsened any terms and conditions, the survey would explore employers' reasons for doing so, including whether they used the threat of fire and rehire in negotiations, and whether they carried out fire and rehire. The number of employees affected by these practices, and their impact on employees, would also be investigated. In this survey, we could also explore other key factors such as cost to businesses and unintended consequences and risks such as redundancies.
60. To note, an effective policy could reduce our ability to capture evidence of fire and rehire and may therefore reduce the value for money of undertaking such a survey. One way of overcoming this could be to expand the scope of the survey and use it as a data collection tool for a range of Employment Rights Act measures. This would enhance the survey's value for money. We will continue to explore this.
61. Alongside considering the value of a repeat of the survey above, we intend to gather intelligence and evidence on the effects of this policy through discussions with Acas, the Employment Tribunal, trade unions, and others. Alongside these efforts, we will monitor real-life instances of fire and rehire through web-based research and continued engagement with the organisations above. This information will be used to assess evaluation options, including the benefit of running a bespoke survey, and other options (e.g. gathering data via existing, ongoing surveys such as the Labour Force Survey and continue to ask and develop questions in the Business Insight and Conditions survey). Furthermore, the Business Insight and

Conditions survey will provide helpful monitoring data, as it is a frequent and ongoing survey providing data from a large number of businesses. We currently have questions in this survey regarding the prevalence of fire and rehire, we will keep monitoring the responses as part of our monitoring and evaluation efforts.

62. A small number of cases may result in redundancies as a consequence of this policy. While we can monitor redundancy rates and levels, it will be difficult to isolate the effects of this policy. Engagement with key stakeholders such as Acas, the Insolvency Service, and trade unions might provide information on this effect. Interviews with businesses and trade associations might provide useful insights, especially following collective redundancy cases. This could bring light to decision-making in redundancy scenarios and if the practice of fire and rehire could have prevented these.

Review objectives

63. Any review or evaluation of this Bill measure would look to assess whether the anticipated outcomes as set out in the Theory of Change and SMART objectives have been achieved, and the extent to which the Bill measure has led to any unintended consequences. This will help to develop our understanding of impact of the Bill measure. These plans will be developed alongside HMT Green Book / Magenta Book guidance.
64. Below are some high-level evaluation questions, these are subject to change and further developments:
- To what extent, has the Bill measure impacted the prevalence of the practice?
 - To what extent, has the Bill measure impacted the use of fire and rehire as a threat in employer-employee negotiations?
 - To what extent have the measures caused increased employee job security?
 - In what ways have the measures achieved their intended outcomes and impacts?
 - In what ways have the measures produced or contributed to any unintended consequences?
65. We will also need to evaluate the economic impact of the Bill measure, including its costs and benefits. These questions will vary depending on the final scope of the evaluation, though this is expected to include:
- What costs have been incurred by employers?
 - What benefits have been generated by the implementation of this Bill measure for both employers and employees?
 - What is the scale of the benefits generated by the implementation of this Bill measure for both employers and employees? What is the nature and scale of direct costs incurred by businesses?
 - What is the nature and scale of indirect costs incurred to businesses and the wider economy as a result of this Bill measure?
66. It is important to note the challenge of attributing the intended policy outcomes covered in our SMART objectives and evaluation questions to the fire and rehire policy alone, any evaluation activities will need to consider the impact of the wider labour market and economic conditions the policy will exist in. For example, the use of fire and rehire by employers could decrease, (SMART objective 1), due to a period of economic stability and a labour market where employers do not need to make changes to employees' terms and conditions, rather than as an impact of fire and rehire policy. This consideration will be reflected in our choice of methods and interpretation of any findings.

67. Gaining qualitative insight from key stakeholders will be one key means to overcome this as we will be able to explore and try and understand the impact of the fire and rehire policy in isolation of the wider economic environment. This insight could also support the design of any additional research we conduct. We will further refine how we will isolate the impact of the policy when developing our monitoring and evaluation plans and exploring methodology further.
68. We will further continue to explore developments to our monitoring and evaluation plans with a focus on how we are gathering insights into the impacts of the policy taking into consideration proportionality and feasibility. We will also consider opportunities to align our monitoring and evaluation work with the wider evaluation of the Employment Rights Act.

9. Minimising administrative and compliance costs for preferred option

69. We expect a familiarisation cost to businesses which we have estimated as a one-off cost of **£0.4m** to businesses in Great Britain.
70. Beyond this, we do not expect significant administrative and compliance costs from this policy. Administrative and compliance costs might be generated for those who engage in fire and rehire following the introduction of the Act when a case is brought against them at the Employment Tribunal. This is deemed a cost to society only in the instances where the employer has operated in accordance with legislation. These employers may need to demonstrate the details of the fire and rehire, their financial position, the lack of any other alternatives, the process followed and other relevant information. They may also incur legal fees. See paragraph 163 about Employment Tribunal impacts.

Declaration

Department:

Department for Business and Trade

Contact details for enquiries:

ERDAnalysisEnquiries@businessandtrade.gov.uk

Minister:

Minister for Employment Rights, Competition and Markets - Kate Dearden MP

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

Summary: Analysis and evidence

For Final Stage Impact Assessment, please finalise these sections including the full evidence base.

Price base year:

2024

PV base year:

2026

	Business as usual (baseline)	Strengthen the Code of Practice only	Preferred way forward	Outright ban
Net present social value (with brief description, including ranges, of individual costs and benefits)	Business as usual is the counterfactual therefore nil.	NPV not calculated. This weaker option would reduce the incidence of fire and rehire to a lesser extent than the preferred option. As a result, impact would be lower. However, the risk of redundancies as an alternative to fire and rehire would be reduced.	£-100.2m (with a range of between £-50.2m and £-150.1m over the ten-year appraisal period)	NPV not calculated. This option would come with a significant increase in the risk of redundancies. It would also increase the risk of insolvencies.
Public sector financial costs (with brief description, including ranges)	Ibid.	Not monetised. Public sector costs would be generated to the extent that a strengthened Code would increase the cost of firing and rehiring, and public sector employers use the practice.	Not monetised. Public sector costs would be generated where public sector employers are prevented from fire and rehire, thereby increasing labour costs compared to the counterfactual.	Not monetised. Public sector costs would be generated where public sector employers are prevented from fire and rehire, thereby increasing labour costs compared to the counterfactual. In addition, costs may be generated from any Universal Credit payments to those made redundant which we

			In addition, costs may be generated from any Universal Credit payments to those made redundant.	expect to be higher than preferred option.
Significant un-quantified benefits and costs (description, with scale where possible)	Ibid.		<p>Better physical and mental wellbeing: Insecure work is associated with numerous negative health and wellbeing impacts.</p> <p>Improved productivity: Negative health outcomes have an impact on worker and therefore firm productivity.</p> <p>Negative impacts from redundancies: Those made redundant may suffer from longer term 'scarring' through increased future incidence of unemployment and lower subsequent earnings in employment. Furthermore, those made unemployed may have negative health and wellbeing effects caused by the stress of losing employment and anxiety around future finances.</p>	<p>Physical and mental wellbeing: It is not clear if these would be net positive or negative impacts to wellbeing. Employees might see wellbeing benefits, due to the negative impacts of insecure work on wellbeing. However, an outright ban could increase redundancies compared to the preferred option, this could result in negative wellbeing outcomes.</p> <p>Increased insolvencies: An outright ban would increase the risk of insolvencies. Businesses facing the most severe financial pressures and engaging in fire and rehire to avoid insolvency could become insolvent as an outcome of this ban. These businesses may not have reasonable alternatives to cut costs in the short-term and redundancies are unlikely to offer the same level of flexibility as a cost-cutting measure.</p>

Results of sensitivity analysis	Ibid.	N/A	N/A	N/A
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Assumptions

The analysis makes several assumptions. The most important are set out below.

Assumption risk	Confidence RAG	Importance	Explanation	Sources	Risks
Prevalence of fire and rehire	Amber	Very high	We use the 2022 YouGov survey as our best evidence.	2022 YouGov survey on fire and rehire.	We think this may be an over-estimate based on conversations with stakeholders, DBT monitoring, and ONS BICS data. In addition, this data covers the pandemic period (employers were asked about experiences in 2020-22) therefore the estimates are likely on the higher side due to the economic conditions businesses were facing at the time. However, we do not hold evidence to robustly adjust this.
Reduction in pay by fire and rehire	Amber/green	High	The analysis assumes pay is reduced by 15% in the best estimate scenario, 2% in the low scenario, and 22% in the high scenario.	Monitoring of fire and rehire cases.	We draw from case study evidence and use a range to account for uncertainty.

Reduction in leave entitlement	Amber/red	Medium	The analysis assumes leave entitlement is reduced by 4 days in the best estimate scenario, 2 days in the low scenario, and 6 days in the high scenario.	Monitoring of fire and rehire cases.	We have limited case study evidence on the use of fire and rehire to reduce leave entitlement. Because it encompasses only the more egregious cases, this evidence may therefore contain an upward bias.
Impact of protecting pensions	Amber	Medium	We do not hold evidence on the extent to which fire and rehire has been used to change pensions nor the extent of any such changes. Pensions demonstrate similar characteristics to pay. To mitigate the limitations of our evidence base, we have used wide sensitivity analysis ranges for our estimates of protecting pay.		
Impact of protecting total hours of work	Amber	Low	The total number of hours worked can only increase or decrease when changed. The impact of this would materialise via pay. We therefore assume this impact is captured by our estimates of the impacts of protecting pay. Any impact relating to schedule changes is captured by the shift change analysis to be published in a forthcoming options assessment.		

Multiplier for redundancy pay	Amber/green	Low	We assume 1.23 pay per year employed. This is estimated with the weighted average of the number of years at each multiplier, assuming retirement at 66 and entering work at 19.	CIPD analysis on benchmarking employee turnover ¹⁴ .	This would amend redundancy pay estimates, with implications for the overall NPSV.
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¹⁴ CIPD (2024) ['Benchmarking employee turnover: What are the latest trends and insights?'](#)

Evidence base

71. The below sets out the evidence unpinning this Impact Assessment. The evidence base and figures explored in this section have changed and been developed since the initial Impact Assessment published in October 2024¹⁵. This reflects two key changes.
72. First, an amendment to the Bill changing automatic unfair dismissal protections against fire and rehire to cover only core terms. Please note, another amendment made during the Bill's passage introduces protections from fire and replace with non-employees (of the employer) but we do not account for this in our analysis. Our evidence does not permit us to distinguish between fire and rehire and fire and replace in our analysis. As a result, this may introduce a slight bias in our estimates because a subset of cases would have different protections than those we model. This would generate greater costs to business and greater benefits to households. However, the analysis also contains biases in the opposite direction, namely we think it overstates the prevalence of fire and rehire. We therefore consider the impact of this omission to be marginal and the order of magnitude of the impacts below to be correct.
73. Second, the refinement of our analytical approach. The latter permits us to provide more robust estimates of the impacts of this policy compared to the illustrative analysis included in the 2024 Impact Assessment. Because the method used is different, the figures contained in this document are not directly comparable to those in the 2024 Impact Assessment. Nevertheless, the estimated impacts following amendments to the policy are expected to be reduced, with a significant reduction in costs to business.
74. This section first provides an overview of the impact of the full fire and rehire policy in theory, before setting out our evidence on the practice of fire and rehire. Following this, it sets out the impact of the policy on fire and rehire cases, before setting out the impacts to business, the impacts to households, and the unquantified impacts. It finishes with the Net Present Social Value (NPSV), Estimated Annual Net Direct Cost to Business (EANDCB), and Estimated Annual Net Direct Cost to Households (EANDCH).
75. The analysis below draws on data from a 2022 YouGov survey, ONS Business Population Estimates data, Annual Survey of Hours and Earnings data and logic-based assumptions to estimate the impacts of this policy. Business Population Estimates data and Annual Survey of Hours and Earnings data are from 2024, and this analysis is in 2024 prices.

Fire and Rehire: Theory

76. Under the policy, we would expect a reduction in the number of cases of fire and rehire because many cases would be an automatically unfair dismissal.
77. This will impact employer labour costs because more employees will now be retained on their same contracts, rather than being moved to contracts with lower pay, fewer days of annual leave, or fewer hours of work.
78. On the flipside, employees will benefit from better pay and other core terms compared to the counterfactual.

¹⁵ Department for Business and Trade (2024), 'Final Stage Impact Assessment, Dismissal for failing to agree to variation of contract, etc (Fire and Rehire)'.

79. Employers will likely take steps to mitigate these costs. For example, they could use temporary workers or negotiate more with employees over terms and conditions. They may also choose to make redundancies, particularly in cases where they are under financial difficulties which they wish to address through fire and rehire, but which are not sufficient to meet the exemption. We explain each of these potential mitigations below:
80. **Negotiate more with employees:** Where employers respond to restrictions on fire and rehire by negotiating more with employees, it is likely employers will incur some additional cost (the costs of running negotiations) but achieve some of the benefits of the fire and rehire outcomes without having to use fire and rehire (e.g. reduced pay or other terms and conditions). This is an intended outcome of the policy. Changes to contracts should be negotiated and agreed between the employer and the employee.
81. **Make redundancies:** employers may also respond by making redundancies. This would likely only occur where employers are using fire and rehire to reduce financial pressures, but where these pressures are not significant enough to meet the threshold for the exemption. This is a potential risk of the policy.
82. Redundancy is often a last resort for employers. In making redundancies, they lose output and may also be required to make a redundancy payment. In addition, the employer is losing factors of production thereby harming its longer-term productive potential. Should the business wish to increase production, it would need to hire new employees and incur recruitment and training costs. Furthermore, productivity may be harmed via a loss of human capital and negative effects on morale. There is a saving in the short term, but there may be a cost in future time periods. In reality then, we would expect businesses to avoid making redundancies where possible.
83. Note whilst a small increase in redundancies is a possible consequence of restricting the use of fire and rehire, this will only lead to an increase in unemployment if these individuals do not find alternative jobs quickly. Given that these are individuals who the employers would have otherwise willingly rehired, it is likely that they would find jobs again relatively quickly at similar employers given the current state of the labour market.
84. Furthermore, even if the above was not true, evidence on the link between redundancy and unemployment suggests that, at sufficiently small scale, most people made redundant find a new job reasonably quickly. For example, ONS data on time spent unemployed tells us that around 60% of those unemployed were unemployed for less than 6 months¹⁶. This is consistent since 2019. This is echoed by the Resolution Foundation: “Prior to the pandemic, more than two-fifths (42%) of people who had been made redundant in the last three months were already employed in a different job, with just over a third (35%) becoming unemployed”¹⁷.
85. **Use temporary workers:** In theory, this policy could incentivise the use of temporary workers as a means to create natural breaks in contracts, thereby providing employers with the opportunity to vary them. However, the fire and rehire clause in the Bill (new section 104I of the Employment Rights Act 1996, inserted by the Bill) will apply to employees on fixed-term contracts¹⁸. In addition, the Bill restricts employers’ ability to dismiss employees and replace them with non-employees (such as agency workers) to do substantially the same work (new

¹⁶ ONS (2025) UNEM01: Unemployment by age and duration: People (seasonally adjusted)

¹⁷ Resolution Foundation (2021), The Resolution Foundation Labour Market Outlook – Quarterly Briefing Q3 2021

¹⁸ The end of a fixed term contract counts as a dismissal for the purposes of the law on unfair dismissal. As a result, employers cannot use the end of a fixed-term contract as an opportunity to revise terms and reengage an employee without their consent to the variation. The protections of the clause would apply in and this could count as an automatic unfair dismissal, unless the employer could show that the dismissal was made for another potentially fair reason.

section 104K of the Employment Rights Act 1996, inserted by the Bill). We therefore do not expect this is a mitigation that will be available to employers.

86. Employers will then also respond to the remaining additional costs they face in a number of ways, such as by absorbing the cost through reduced profits or passing the cost through to real wages (i.e. via higher prices in the short run or lower pay increases over time). We take each of these in turn below. Further discussion on employer reactions to the costs of employment legislation can be found in the Bill Enactment Impact Assessment.
87. **Absorb the cost:** Businesses may look to absorb these costs thereby reducing their profits compared to the counterfactual. This may be restricted for employers in financial difficulty (that are not severe enough to enable the use of fire and rehire financial difficulties exemption).
88. **Pass the cost onto customers:** They may look to pass on costs to customers in the form of higher prices.
89. **Pass the cost through to employees:** They may look to pass costs through to employees in the form of lower wages. Whilst this channel is restricted in the short run, this may translate into smaller pay increases over time as employers look to erode pay over time. Employees may in turn respond to this lower pay through reducing their labour supply.
90. To note, this impact assessment considers there will be no significant impact of the provision which specifies those matters which the Employment Tribunal must consider when assessing whether the employer has acted fairly. These are factors which an Employment Tribunal would likely already consider when deciding whether such dismissals are fair in all the circumstances, and the expectation that employers' consult is already set out in the Code of Practice. Therefore, this largely strengthens certainty and transparency. We do not explore this further.

Evidence on fire and rehire: Pre-policy

91. To understand the prevalence of fire and rehire and to understand the circumstances in which this practice is used by employers, we use the findings from a 2022 YouGov survey commissioned by Department for Business and Trade¹⁹. Figures in the tables below have been updated since the 2024 Impact Assessment on fire and rehire, as we are now applying the 2024 Business Population Estimates rather than the 2023 estimates.
92. The YouGov survey asked respondents, "To the best of your knowledge, has your organisation made changes to any workers' terms and conditions of employment?". Those who selected "Yes, through dismissing staff and rehiring on new terms, following consultation/negotiation where agreement was not achieved" are those which engaged in fire and rehire.
93. These estimates are then applied to 2024 Business Population Estimates data for Great Britain (the same geographical area covered by the policy) to estimate the number of businesses engaging in fire and rehire within each size band, as shown in Table 3.
94. It is important to note that the tables and figures below relate to before the Bill measures come into effect.

¹⁹ Full details of this survey, are provided in Annex A

Table 3: Estimated number of businesses engaging in fire and rehire per annum by business size (number of employees)

Businesses engaging in fire and rehire	Total	2 to 9	10 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1,000+
Proportion engaging in fire and rehire within group	0.95%	0.6%	2.1%	2.3%	2.6%	3.0%	2.2%	1.6%
Estimated businesses engaging in fire and rehire	12,136	6,574	4,469	579	316	122	45	31

Source: 2022 YouGov survey and Business Population Estimates for Great Britain 2024

95. From this breakdown, we then estimate the number of workers affected. The survey does not ask the number of workers affected. However, it asks “Overall, approximately what proportion of workers who were dismissed by your organisation would you estimate were rehired on the new terms and conditions?” with four answers possible: (1) 1% - 25%; (2) 26% - 50%; (3) 51% - 75%; (4) 76% - 100% (results shown in Table 4b below).
96. To estimate the number of workers affected, we start with the average number of workers per employer within each employer size band based on the 2024 Q1 Inter-Departmental Business Register – see table 4a (e.g. within the employer size 2-9, the average employer has 4 employees). We then multiply this by the sum of the product of the midpoints of the proportion of workers affected (as set out in the first column of table 4b) and the % of employers reporting being affected in that way (the value in each cell), across employers of that employer size. To illustrate, for employers with between 2 and 9 employees, we calculate that the average number of workers being fired and rehired within each employer of that size is = (12.5% x 58% x 4 + 38% x 21% x 4 + 63% x 0% x 4 + 88% x 21% x 4).

Box 1: Calculation of the number of workers affected per business

$$\begin{aligned}
 &12.5\% \times \% \text{ employers reporting using fire and rehire on 1\%} \\
 &\quad - 25\% \text{ of their workforce (table 4b)} \\
 &\quad \times \text{ average number of workers per employer (table 4a)} \\
 &\quad + \\
 &38\% \times \% \text{ employers reporting using fire and rehire on 26\%} \\
 &\quad - 50\% \text{ of their workforce (table 4b)} \\
 &\quad \times \text{ average number of workers per employer (table 4a)} \\
 &\quad + \\
 &63\% \times \% \text{ employers reporting using fire and rehire on 51\%} \\
 &\quad - 75\% \text{ of their workforce (table 4b)} \\
 &\quad \times \text{ average number of workers per employer (table 4a)} \\
 &\quad + \\
 &88\% \times \% \text{ employers reporting using fire and rehire on 76\%} \\
 &\quad - 100\% \text{ of their workforce (table 4b)} \\
 &\quad \times \text{ average number of workers per employer (table 4a)}
 \end{aligned}$$

This calculation is performed per employer size band – see table 4c for results.

Table 4a: The average number of workers in a business by business size

Business size by number of employees	Total	2 to 9	10 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1,000+
Average number of workers in a business	5,951	4	20	69	155	347	689	4,668

Source: 2024 Q1 Inter-Departmental Business Register

Table 4b: The proportion of workers affected by fire and rehire by business size

Proportion of workers affected by fire and rehire	Total	2 to 9	10 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1,000+
1% - 25%	64%	58%	39%	84%	38%	60%	54%	80%
26% - 50%	14%	21%	22%	0%	31%	33%	12%	4%
51% - 75%	13%	0%	23%	16%	24%	7%	15%	11%
76% - 100%	9%	21%	16%	0%	7%	0%	18%	5%

Source: 2022 YouGov survey

97. Table 4c presents the estimated number of workers affected by fire and rehire per business. It is estimated by multiplying the relevant figures from table 4a by the relevant figures from 4b.

Table 4c: The number of workers affected by fire and rehire by business size

Workers affected per business	2 to 9	10 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1,000+
Average (rounded)	1	8	14	59	85	254	1,053

Source: 2024 Q1 Inter-Departmental Business Register and 2022 YouGov survey

98. We can then multiply by the number of employers in the size band to estimate the total number of employees who are fired and rehired by employers within that size band. We sum across all size bands to calculate the total below.

99. Note that this policy applies to employees only and not workers. We do not differentiate between both in this analysis and therefore our estimates may overstate the impact of the policy.

100. Based on this survey, we estimate that, **in the baseline, 12,100 employers engage in the practice of fire and rehire each year (<1% of employers) and this could affect 125,000 workers.**

Table 5: Estimated number of workers affected by fire and rehire per annum by business size (number of employees)²⁰

Business size by number of employees	Total	2 to 9	10 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1,000+
Number of workers affected by fire and rehire per annum	125,000	8,000	36,000	8,000	19,000	10,000	11,000	32,000

Source: DBT analysis of 2022 YouGov survey (2025), rounded to the thousand

101. The YouGov data also provides insights on the terms affected – see table 6 below.

Table 6: Breakdown of terms affected by fire and rehire

Terms changed by employers using fire and rehire	Proportion
Proportion of employers using fire and rehire to change pay	20%
Proportion of employers using fire and rehire to change hours of work	30%
Proportion of employers using fire and rehire to change leave entitlement	20%
Proportion of employers using fire and rehire to change none of the above	39%

Source: 2022 YouGov survey

Note: Respondents could select multiple responses. Therefore, the sum of these proportion of responses is greater than 100%. 'None of the above' does not include any cases which changed any of pay, hours, or holiday.

102. We can therefore break down the number of workers by term affected by multiplying the number of cases (125,000) by the proportion relating to any particular term (table 6). Of these, we estimate:

- 49,000 cases impacted non-core terms
- 76,000 cases impacted core terms, of which
 - 25,000 cases reduced pay
 - 38,000 cases changed the agreed hours of work
 - 25,000 cases reduced leave entitlement

103. To note, the sum of cases relating to pay, agreed hours of work, and holiday entitlement is 88,000. This is because a single case will often change more than one term.

104. For this analysis, we assume the impact of protecting pensions is captured within our estimates of protecting pay. This is because we do not hold evidence on the extent to which fire and rehire has been used to change pensions nor the extent of any such change. Pensions demonstrate similar characteristics to pay. We think this approach is reasonable given the limitation of the evidence base.

105. Similarly, this analysis assumes that the impact of protecting reductions to total hours worked is captured within our estimates for protecting pay. This is because the impact of changing the number of hours would materialise via changes to pay. Any impact relating to schedule

²⁰ This table has been updated since the 2024 IA, we have now only included the central estimate, rather than also including min and max estimates.

changes from changing the total number of hours is captured by the shift change analysis to be published in a forthcoming options assessment.

106. We use the YouGov survey as our best evidence. Based on conversations with stakeholders and from DBT monitoring of the press, this may be an over-estimate. However, we do not hold evidence to robustly adjust this.

107. Data from the ONS Business Insights and Impacts on UK Economy survey corroborate that this practice is rare. Wave 133 reports that 3.4% of businesses changed employment contracts in the last 12 months and the number who reported changing contracts by dismissing staff and rehiring the on new employment contract terms is so low, it had to be suppressed²¹.

Reasons for using fire and rehire

108. The survey also asks why the change in terms was sought. This gives us an insight into what proportion of the annual fire and rehire cases may be exempt from the policy on the basis of financial pressures, and also how employers may respond to the policy.

109. Answers are reported separately by employer size but the reasons given are broadly consistent across employers of different sizes, with a reduction in costs due to financial pressures being the top reason given, followed by organisation change. Other common reasons include seeking to mitigate the risks of redundancy, harmonising terms and conditions across the workforce and introducing flexibility into the contract.

Table 7: Reason(s) for reducing workers' terms and conditions (as % of responses) by business size (number of employees)

Reason	Total	2 to 9	10 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1,000+
To reduce costs due to financial pressure	43%	55%	37%	44%	30%	59%	38%	44%
As part of an organisational response to changing customer behaviour or sectoral environment	29%	35%	28%	21%	25%	36%	34%	26%
To mitigate the risks of redundancy	27%	28%	32%	22%	22%	28%	24%	26%
Harmonising terms and conditions across the workforce	25%	23%	19%	14%	30%	27%	21%	29%
Introducing flexibility into contracts	25%	18%	16%	13%	20%	38%	28%	27%
Other	8%	5%	10%	11%	13%	5%	5%	8%
Don't know	7%	0%	2%	18%	4%	12%	11%	6%

Source: 2022 YouGov survey

Notes: multiple responses were permitted therefore totals sum to greater than 100%.

110. For those reportedly engaging in fire and rehire due to financial pressure, a follow-up question was asked: "You said that a reason for your organisation reducing workers' terms and conditions was to reduce costs due to financial pressure. Overall, which of the following best describes the degree of this financial pressure?". Responses from employers include "severe pressure", "moderate pressure", "light pressure" and "unknown".

²¹ ONS (2025) Business and Insight Survey Wave 133

Table 8: Degree of financial pressure (as % of responses) by business size (number of employees)

Degree of financial pressure	Total	2 to 9	10 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1,000 +
Severe pressure	39%	60%	43%	55%	21%	27%	48%	37%
Moderate pressure	51%	32%	55%	45%	68%	59%	37%	52%
Light pressure	8%	3%	3%	0%	11%	9%	15%	9%
Unknown	2%	5%	0%	0%	0%	6%	0%	2%

Source: 2022 YouGov survey

111. Most pertinent to this analysis is the proportion of cases due to severe and moderate financial pressure reported, broken down by term affected. This is used in the analysis to assess the cases which may still be permitted following policy introduction due to the financial difficulties exemption. See table 9 below for the breakdown.

Table 9: Proportion of cases due to severe or moderate financial pressure for a given term affected

Degree of financial pressure	Pay	Hours	Leave entitlement	Non-core terms
Severe pressure	26%	29%	22%	23%
Moderate pressure	22%	17%	8%	23%

Source: 2022 YouGov survey. Note: the columns do not sum to 100% due to rounding.

112. There is a subsequent question which asks if this was in response to imminent financial pressures, expected longer-term financial pressures, or other. We use this subsequent question to adapt for uncertainty on the detail of the financial difficulties exemption.

Degree of contractual variation

113. There is no survey evidence looking at the degree of contractual variations typically resulting from cases of fire and rehire. Instead, we use DBT intelligence of real-world cases to inform our assumptions on this point. This intelligence is drawn from our monitoring of fire and rehire cases, stakeholder conversations with trade unions and business representative organisations, and desk-based research. Due to the sensitivity of such cases, details of individual cases are not provided in this document. We will keep refining and testing this analysis, including through the consultation, further discussions with stakeholders and continued monitoring of fire and rehire cases.

114. **Reduction in pay:** Our analysis assumes pay is reduced by 15% in the best estimate scenario, 2% in the low scenario, and 22% in the high scenario. The sensitivity analysis range reflects the full range of real-world cases identified through our stakeholder engagement and research, while the central estimate reflects our assessment of the most common outcome. These assumptions are reasonable when compared to real cases of fire and rehire.

115. **Reduction in annual leave:** Our analysis assumes leave entitlement is reduced by 4 days in the best estimate scenario, 2 days in the low scenario, and 6 days in the high scenario. The sensitivity analysis range reflects the full range of real-world cases identified through our stakeholder engagement and research, while the central estimate reflects our assessment of the most common outcome. These assumptions are reasonable when compared to real cases of fire and rehire.

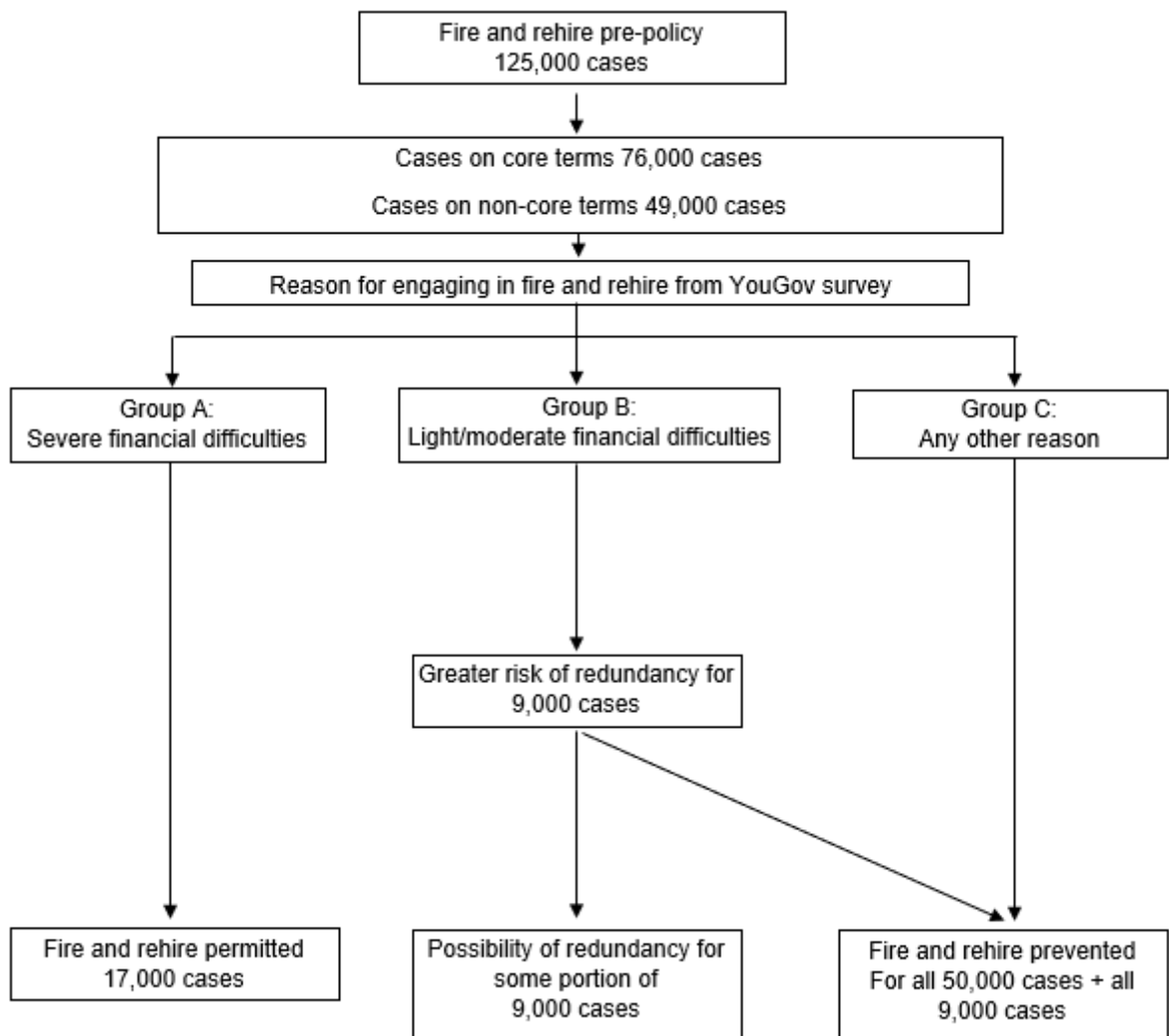
116. To note, to avoid double-counting, we have not included the analysis on shift patterns in this Impact Assessment. This is instead discussed in the forthcoming fire and rehire Options Assessment, which will be published alongside the consultation on whether shift patterns

should be protected as core terms, and if so, which. Similarly, this analysis covers all aspects of pay as set out in the Bill, noting that the government intends to launch a consultation exploring if and which expenses and benefits in kind are to be excluded from protections. Any such provisions relating to shift patterns and expenses and benefits in kind would be set out in secondary legislation. This Enactment Impact Assessment will only focus on the fire and rehire primary legislation.

Impact of the policy

117. Our analysis draws on the YouGov (2022) survey to estimate the population impacted by this policy and the employer reaction to this policy. Specifically, we use data on the terms changed, the reasons for these changes, and the level of financial difficulty the employer was experiencing. We then draw from real fire and rehire cases to derive assumptions that we use to estimate impact, accounting for uncertainty with ranges.

118. The diagram below illustrates our approach to analysis of the full fire and rehire policy²².



²² It is important to note that the 49,000 cases mentioned in the diagram are not on core terms.

119. All impacts are generated by the change in circumstances where fire and rehire is permitted. This would prevent fire and rehire unless changing core terms, where the employer meets the narrow exception for financial difficulties.

Impact of the policy change on fire and rehire cases

120. There are 49,000 fire and rehire cases which relate to terms that are not prevented by the clause (non-core terms)²³. Such dismissals will not be automatically unfair under the new policy. We strip these out from the analysis.

121. As above, we estimate that 76,000 cases impacted core terms, of which:

- 25,000 cases reduced pay (noting we assume this encompasses pensions and total hours)
- 25,000 cases reduced leave entitlement

Financial difficulties exemption

122. Whether an employer will meet the financial difficulties exemption will depend on whether they can meet the criteria set out in new section 104I(7)-(9) of the Employment Rights Act 1996, to be inserted by the Bill. However, there is no official definition of financial difficulties which was used for the purposes of the YouGov (2022) survey. In general, indicators of financial difficulty include unpaid bills to suppliers, outstanding wages to staff, difficulties in settling business costs such as utilities, and more broadly when a business is not able to meet financial obligations. We expect those who report severe and imminent financial pressures would demonstrate such indicators. Meanwhile, those reporting moderate or light financial pressures may demonstrate signs such as lower profits, delays/changes in payments and reduced cash flow. Non-financial indicators could also include high turnover of staff, delays in filing accounts and a declining relationship with the creditors of the business.

123. For the purposes of our analysis, we make the following assumptions about the financial difficulties exemption:

- Central estimate: We assume that fire and rehire cases affecting protected terms are not automatically unfair if the employer is facing employer severe financial pressures.
- A more stringent estimate: We assume that fire and rehire cases affecting protected terms are not automatically unfair if the employer is facing severe and imminent financial pressures. See point 125 below.
- A less stringent estimate: We assume that fire and rehire cases affecting protected terms are not automatically unfair if the employer is facing moderate and severe financial pressures.

124. These levels of financial difficulties are drawn from the YouGov 2022 fire and rehire survey. They are self-reported levels of financial difficulty and there is uncertainty on what respondents interpret each reported level of financial pressure to represent in practice. This introduces subjectivity as different businesses may classify the same indicators as different levels of financial pressure. Nevertheless, it is our best evidence for the purpose of this analysis. It is also important to acknowledge the time and context in which this survey was conducted as a possible limitation. As this data covers the pandemic period (employers were asked about experiences in 2020-22), the estimates of financial difficulty are likely to be on the higher side due to the economic conditions businesses were facing at the time.

²³ 125,000 cases x 39% which do not relate to pay, hours, leave as per table 6.

125. For our central estimate, we assume that all cases which employers report as being due to severe financial pressure would continue to not be automatically unfair because of the exemption in section 1041(7)-(9) although it is important to note that there are other elements to this exemption and therefore “severe financial pressure” cannot act as an exact proxy. We multiply the number of cases on non-core terms (76,000) by the proportion due to severe financial pressure (23% - see table 9). This represents 17,000 cases. We do the same with cases relating to pay, hours, and leave entitlement – multiply the number of cases by the proportion which are due to severe financial pressure as found in table 9.

Table 10: Number of cases permitted due to financial difficulties exemption, by term (central estimate)

Term	Pay	Hours	Leave entitlement	Any core term
Number of cases meeting the exemption	7,000	11,000	5,000	17,000

Note the sum of pay, hours and leave exceeds 17,000 because one case may affect multiple terms.

126. The YouGov data indicates that 63% of employers reporting severe financial pressures, reported that these financial pressures are imminent. We therefore multiply the percentages for severe pressure in table 9 by 63% to reduce the breadth of the financial difficulties exemption and use these adjusted assumptions for our more stringent estimate.

127. For the less stringent estimate, we broaden the financial difficulties exemption. To do so, we sum the percentages in table 9 for severe and moderate pressure and use these adjusted assumptions in our analysis. The table below summarises.

Table 11: Number of cases permitted due to financial difficulties exemption, by scenario

Scenario	Central estimate	More stringent exemption	Less stringent exemption
Number of cases meeting the exemption	17,000 for financial difficulties exemption	11,000 for financial difficulties exemption	35,000 for financial difficulties exemption

128. In our central estimate, there are therefore 19,000 cases relating to pay and 20,000 cases relating to annual leave which may be prevented by the fire and rehire policy. This is estimated by subtracting the cases which are not automatically unfair dismissal because of the financial difficulties exemption (17,000 cases) and because they relate to non-core terms (49,000 cases).

129. Table 12 below summarises outcomes and cost impact across policy scenarios. We outline how we calculate each of the cost to business estimates below.

Table 12: Assumed outcome from fire and rehire changes, by policy landing zones

Assumed outcome from fire and rehire changes	Best estimate - central exemption	More stringent exemption	Less stringent exemption
Fire and rehire not automatically unfair	66,000 cases (53%) Of which: 17,000 (14%) for financial difficulties exemption 49,000 (39%) for fire and rehire on terms which are not protected	60,000 cases (48%) Of which: 11,000 (9%) for financial difficulties exemption 49,000 (39%) for fire and rehire on terms which are not protected	84,000 cases (67%) Of which: 35,000 (28%) for financial difficulties exemption 49,000 (39%) for fire and rehire on terms which are not protected
Fire and rehire not automatically unfair	59,000 cases (47%)	65,000 cases (52%)	41,000 cases (34%)
Cost to business	£97.6m (with a range between £20.3m and £138.6m)	£109.7m (with a range between £22.7m and £155.7m)	£72.3m (with a range between £16.1m and £103.0m)
Benefit to employees	£99.1m (with a range between £17.3m and £140.5m)	£111.6m (with a range between £19.4m and £158.3m)	£71.8m (with a range between £13.1m and £101.9m)

Direct cost to business

130. Based on the 2022 YouGov survey, we estimate 13,000 fire and rehire cases occurred in public administration and other public sector employers. We strip these out from our analysis when estimating the cost to business. They are included in the benefits to households.

131. **We estimate that the immediate cost to business of preventing fire and rehire in these cases would be £97.6m (with range of between £20.3m and £138.6m)** (in the central policy landing zone), with the total cost consisting of the following components:

132. **Cost to employers of keeping higher pay²⁴** estimate that maintaining pay would yield a total cost of **£78.7m per annum (with range of between £10.9m and £110.4m)**.

133. **Policy assumptions:** As explained above, the analysis assumes pay is reduced by 15% in the best estimate scenario (on average £4,800 per annum per employee), 2% in the low scenario (on average £660 per annum per employee), and 22% in the high scenario (on average £6,800 per annum per employee) in a fire and rehire case.

²⁴ To note, the impact of reducing total hours worked is to reduce pay. Therefore, the impact of maintaining total hours worked is included in this estimate.

134. **Method:** To estimate the cost of preventing this reduction in pay, we estimate the reduction in pay per employee from fire and rehire at the sector level by applying the assumed reduction to the sector median wage. The analysis includes a National Living Wage floor. As a result, the maximum reduction in wage is to the National Living Wage assumed at £11.44 reflecting the April 2024 rate (note this is a simplifying assumption as there are other rates for apprentices, those under 18, and 18-20 year olds). This bites for sectors with median wages close to the national living wage (e.g. hospitality). The reduction in pay per employee per hour is multiplied by the number of working hours per year, assumed at 1924 (37 working hours per week and 52 weeks per year), to estimate the prevented reduction in pay per employee per year. This is then multiplied by the number of cases which reduce pay and are not due to severe financial difficulties per sector (approx. 19,000 cases in total).

Box 2: Calculation of cost to employers of keeping higher pay

$$\begin{aligned} & \text{Sector median wage (ASHE data)} \\ & \quad \times \text{assumption on reduction in pay (2\% – 22\% reduction)} \\ & \quad \times \text{the number of working hours per year (1924 hours)} \end{aligned}$$

This calculation is performed per sector, multiplied by the number of relevant cases per sector (cases which reduce pay and are not due to severe financial difficulties - approx. 19,000 cases in total), then aggregated.

135. **Cost to employers of maintaining leave entitlement:** We estimate that maintaining leave entitlement would yield a total cost of **£18.8m (with a range of between £9.4m and £28.2m)**.

136. **Policy assumptions:** The analysis assumes 4 days in the best estimate scenario, 2 days in the low scenario and 6 days in the high scenario.

137. **Method:** The cost to employers is lost production by the employees. For each day worked, employers incur a cost (wages and additional non-wage labour costs) and receive a benefit (output). When an employee takes a day of annual leave, employers continue to incur the cost but does not receive the benefit. In effect, the policy change permits employees to take additional leave compared to the counterfactual and therefore the cost to business is lost output. We use data on median output per worker per hour per sector²⁵. This hourly estimate is multiplied by 7.4 to estimate the net lost output per day (37 working hours per week divided by 5). It is then multiplied by the number of days of leave from our policy assumptions above. This is then applied to the cases which reduce annual leave entitlement and are not due to severe financial difficulties per sector (approx. 20,000 cases in total).

Box 3: Calculation of cost to employers of maintaining leave entitlement

$$\begin{aligned} & \text{Output per hour worked (ONS data)} \times \text{working hours per day (7.4 hours)} \\ & \quad \times \text{assumption on number of days (2 – 6 days)} \end{aligned}$$

This calculation is performed per sector, multiplied by the number of relevant cases per sector (cases which reduce leave entitlement and are not due to severe financial difficulties - approx. 20,000 cases in total), then aggregated.

²⁵ ONS (2025) Quarterly Output per hour worked by section-level industry aggregations, Current price (CP) in GBP.

138. **Cost to business of familiarisation:** We estimate the familiarisation cost to be a one-off cost of **£0.4m**.

139. We assume that only businesses who are considering fire and rehire in the year the policy is introduced would need to familiarise themselves with the details of the new provision, having already familiarised themselves with the existing law. We do not hold evidence on the number who consider fire and rehire but do not subsequently engage in the practice. We therefore assume that only half of employers who consider fire and rehire proceed. We double the number of businesses currently engaging in fire and rehire per year, giving 24,000 businesses. This impact would only realise upon introduction as we assume these are businesses considering fire and rehire as an option and would need to familiarise themselves with the legislation once again. We then assume this takes an HR manager 30 minutes to familiarise themselves at a wage rate of £26.31/hour as per the Annual Survey of Hours and Earnings²⁶. The wage is uplifted by 21% to reflect non-wage costs²⁷.

Box 4: Calculation of one-off familiarisation cost

<p><i>Number of businesses incurring familiarisation cost (24,269)</i> <i>× time taken to familiarise (30 minutes)</i> <i>× wage of HR manager (£26.31 per hour)</i> <i>× nonwage cost uplift (21%)</i></p>

Employer behavioural response to costs

140. As set out earlier in paragraphs 79-89 of this impact assessment, employers may take a range of actions to mitigate the costs they face. Employers are likely to negotiate or make redundancies to generate some of the savings they would have otherwise achieved via fire and rehire. While employers would incur a cost in negotiating, a successful outcome from these negotiations would reduce the cost to employers of this policy. Where redundancies are made as an alternative, the costs to business identified above would not occur on these cases but businesses would incur a cost in the form of redundancy payments and lost output. Meanwhile households would forgo the benefits identified below, incur a cost in the form of lost wages, and benefit from receiving redundancy payment.

141. There is significant uncertainty on the extent to which these reactions would occur and their strength. They are therefore not accounted for in our estimates. As above, we assume that any employer considering redundancy as an alternative would be in financial difficulties which are not sufficient for the financial difficulties exemption. Therefore, we estimate the below ranges for the number of employees whose fire and rehire would be prevented by the policy, but who may be at risk of redundancy instead.

²⁶ ONS (2025), Annual Survey of Hours and Earnings, Table 5.5a.

²⁷ DBT (2024) analysis of UK Economic Accounts, 2023 data and Annual Survey of Hours and Earnings, 2023 data.

Table 13: Risk of redundancy from fire and rehire changes by policy landing zones

Assumed outcome from fire and rehire changes	Best estimate - central exemption	More stringent exemption	Less stringent exemption
Fire and rehire not permitted, at risk of redundancy	0-9,000 (0-7%)	0-11,000 (0-9%)	0-3,000 (0-3%)

Benefits to households

142. **We estimate that the benefit to households from preventing fire and rehire would be £99.1m (with a range between £17.2m and £140.5m)** in the central policy landing zone. Note this is greater than the cost to business because the benefits to households include public sector employees. This is composed of the following:

143. **Benefit to households of keeping higher pay:** We estimate that maintaining pay would yield a benefit of **£89.1m per annum (with range of between £12.3m and £125.5m)**. This is a direct transfer from employer to employee, from businesses to households.

144. **Benefit to households of maintaining leave entitlement:** We estimate that maintaining leave entitlement would yield a total benefit of **£10.0m per annum (with a range of between £5.0m and £15.0m)**.

145. Method: The benefit to an employee of maintaining leave entitlement is preventing a reduction in leisure time. Annual leave provides a worker with paid time off. The employer is effectively paying a wage for the worker's leisure time.

146. Market prices are often used to represent willingness-to-pay in cost-benefit analysis. The market price of a day of work is the day's wage. The argument here is that a person's wage is the revealed preference for that person's time. Assuming a median wage of £17.17 per hour (2024 GB median wage)²⁸, the value of a day of annual leave would be £127.06 per person (assumes 7.4 working hours per day). We estimate this for each sector.

147. We multiply the estimated value of a day of annual leave by our assumptions on number of days leave reduced in a fire and rehire case (central = 4; low = 2; high = 6) and by the number of cases relating to leave entitlement (approx. 20,000 in total). We estimate that maintaining leave entitlement would yield a benefit of leisure time worth £10m per annum (with range of between £5m and £15m).

148. Note this is likely an underestimate due to loss aversion. There are many studies in behavioural economics and in psychology which find humans have a greater aversion to loss than a desire for gain. Prospect theory embeds these findings into economics²⁹. Building on this theory and on the evidence that underpins it, we might expect that preventing a loss of leave would generate greater benefits than those estimated by the wage, the price of purchasing more leave. We do not account for this in our estimates.

149. More broadly, the wage is an imperfect estimate of an individual's value of time. A myriad of factors affect the wage one is paid, including location or the demand and supply of workers in

²⁸ ONS (2025), Annual Survey of Hours and Earnings, Table 5.5a.

²⁹ Kahneman, D. Tversky, A. (1979) Prospect Theory: An Analysis of Decision under Risk

the sector, properties of the job itself etc. While a wage is compensation for time, it is not equivalent to the value of time. Nevertheless, lacking bespoke studies on the value of leisure time, we use wages as our best evidence.

150. In addition, there is a benefit from avoiding activities which are ancillary to work. The most prominent here is commuting. There is a resource cost saving and a time cost saving from avoiding the commute to work. We do not quantify this impact. Our benefit estimates are therefore further under-estimates.

Box 5: Calculation of benefit to households of maintaining leave entitlement

*Sector median wage (ASHE data) × working hours per day (7.4 hours)
× assumptions on number of days (2 – 6 days)*

This calculation is performed per sector, multiplied by the number of relevant cases per sector (cases which reduce leave entitlement and are not due to severe financial difficulties - approx. 20,000 cases in total), then aggregated.

Unquantified costs and benefits

151. This analysis is our best attempt to estimate the impacts of the options under consideration. Nevertheless, there are impacts which we have not quantified, for example as noted in the section above there might be a benefit of avoiding activities which are ancillary to work, we have not provided a monetised impact of this. Below we have listed further impacts which are not quantified:

152. **Better physical and mental wellbeing:** Insecure work is associated with numerous negative health and wellbeing impacts. Work Foundation (2023) polling found that 'insecure' workers were twice as likely as secure workers to experience job related stress 4-6 days of the week (26% compared with 13%), in particular related to uncertainty over total earnings³⁰. Their polling also finds that these insecure workers are nearly four times more likely to experience this poor mental health when they also lack confidence in being able to afford an unexpected expense.

153. Several systematic reviews and meta-analyses have found adverse mental and physical health effects of precarious employment and job insecurity (Llosa et al., 2018 and Pulford et al., 2022). For example, Llosa et al (2018)³¹ meta-analysed 56 samples (53,405 participants in total) and estimated a statistically significant correlation where increasing precarious employment corresponded to worsening mental health symptoms – a composite made up of depression (21%), anxiety (17%), emotional exhaustion (27%), life satisfaction (25%), and psychological well-being (22%) which were also all individually significant. Further, Pulford et al (2022) meta-analysed 29 studies and found people in persistent precarious employment were 1.53 times more likely to have poor self-rated health and 1.44 times more likely to suffer from poor mental health symptoms³². Similarly, a study in the European Union (including the UK at the time) found that individuals in precarious employment were 17% more likely to

³⁰ Work Foundation (2023) [Zero Choices: 'Swapping Zero-Hour Contracts for Secure, Flexible Working'](#)

³¹ Llosa, J. A., Menéndez-Espina, S., Rodríguez Suárez, J., Agulló-Tomás, E. (2018), '[Job insecurity and mental health: A meta-analytical review of the consequences of precarious work in clinical disorders](#)'.

³² Pulford, A et al. (2022), '[Does persistent precarious employment affect health outcomes among working age adults? A systematic review and meta-analysis](#)'.

declare having more than one health problem and 17% less likely to declare no health problems.³³

154.**Productivity:** Negative health outcomes have an impact on worker and therefore firm productivity. Please see section 3, subsection ‘link to growth’ for further information regarding productivity.

155.**Redundancies:** Those made redundant may suffer from longer term ‘scarring’ through increased future incidence of unemployment and lower subsequent earnings in employment. Furthermore, those made unemployed may have negative health and wellbeing effects caused by the stress of losing employment and anxiety around future finances. However, we expect these employees to find alternative employment quickly, given they are dismissed for not accepting the change to non-core terms.

Net present social value

156. We expect the following impacts in real terms per annum. This policy will generate a cost to employers which will mostly be transferred as a benefit to households. The cost to employers is slightly greater than the benefit to households, this is driven by annual leave – the lost output to employers is monetised as greater than the gained value of leisure time that is imperfectly proxied imperfectly by the wages rate.

Table 14: The impact to business and households per annum as a result of changes to fire and rehire

Impact	Business	Households
Preventing forced reductions to pay	£ -78.7m per annum (with range of between £-10.9m and £-110.4m)	£ + 89.1m per annum (with range of between £12.3m and £125.5m)
Preventing forced reductions to annual leave	£ -18.8m (with a range of between £-9.4m and £-28.2m)	£ + 10.0m per annum (with a range of between £5.0m and £15.0m)
Total	£ -97.6m (with range of between £-20.3m and £-138.6m)	£ + 99.1m (with a range between £17.3m and £140.5m)

Note the impacts to households are greater than the impacts to business because we strip out public sector employers from impacts to business whereas public sector employees are included in the impacts to households

157. We assume these impacts are flat in real terms over time. This is because we do not hold evidence to support any change in profile over time. Therefore, we make the assumption that the prevalence and characteristics of fire and rehire would not have evolved over time.

158. Nevertheless, the introduction of the Code of Practice on Dismissal and Re-engagement in July 2024 will likely reduce the prevalence of fire and rehire. Therefore, the impacts below are likely over-estimates.

159. The Total Net Present Social Value is £-100.2m (with a range of between £-50.2m and £-150.1m) (net cost) over the ten-year appraisal period (2024 prices, 2026 present value). As

³³ Matilla-Santander, N., Martín-Sánchez, J. C., González-Marrón, A., Cartanyà Hueso, A. (2020), ‘[Precarious employment, unemployment and their association with health-related outcomes in 35 European countries: a cross-sectional study](#)’.

noted above, this is due to a cost to business from the difference in the value of output and of the wage rate which is used to proxy the value of leisure time which results in a benefit to households. All other impacts are transfers between employers to employees.

160. The Estimated Annual Direct Cost to Business is £97.6m (net cost) over the ten-year appraisal period (2024 prices, 2026 present value)³⁴.

161. The Estimated Annual Direct Cost to household is £-99.1m (net benefit) over the ten-year appraisal period (2024 prices, 2026 present value).

Public sector financial costs

162. The policy could generate costs to the public sector, insofar that it restricts the use of fire and rehire in the public sector. There is evidence of local government using fire and rehire practices, therefore this policy could increase costs compared to the no-policy counterfactual with subsequent opportunity costs. Based on the 2022 YouGov survey, we estimate 13,000 fire and rehire cases occurred in public administration and other public sector employers. Note the financial difficulties exemption applies differently to local authorities and public sector employers, please see legislation Explanatory Notes for detail.

163. In addition, there may be an increase in Employment Tribunal cases as a result of the policy change. The existing Code of Practice on Dismissal and Re-engagement sets out the legal expectations that employers must follow in a situation where fire and rehire may be used. If an organisation is found to be in breach of the Code, there is a potential for a 25% uplift in tribunal compensation awards. In the 'Do Nothing' baseline, employees can already bring a claim against their employer. However, the circumstances where the practice is deemed permissible are reduced and it is possible that this would increase the probability of employees bringing claims, thereby increasing the number of Employment Tribunal cases. We cannot estimate this.

164. We do not expect an increase in Acas notifications. This is because the existing Code stipulates that an employer should contact Acas before raising the prospect of fire and rehire. The change in circumstances where the practice is deemed permissible does not affect this.

³⁴ Public sector employers have been excluded from the EANDCB.

Annex A: Department for Business and Trade / YouGov 2022 survey

Background

There is limited evidence on the prevalence of employers changing employment contracts without employees' consent. To monitor the prevalence of dismissal and re-engagement and to understand the circumstances in which this practice is used by employers, YouGov Plc was commissioned to carry out a survey on behalf of the Department for Business and Trade.

The survey asked a representative sample of employers about whether they have changed their workers' terms and conditions in recent years. If they have worsened any terms and conditions, the survey explored employers' reasons for doing so, including whether they used the threat of fire and rehire in negotiations, and whether they carried out fire and rehire. The number of workers affected by these practices, and the number of disciplinary or grievance meetings employers have had in the past year and their impact on workers, were also investigated.

Aims

The survey aimed to understand:

- Changes and reductions of benefits in workers' terms and conditions;
- Proportion of workforce affected by the changes;
- How the changes were achieved (including fire and rehire practices);
- Attitude of workers towards the proposed changes;
- Impact of dismissals as a result of the changes;
- The proportion of the dismissed workforce that was rehired;
- Reasons for the reduction of terms and conditions for workers;
- Number of disciplinary/grievance meetings;
- Employers attitude towards the right of having a representative;
- The outcome and impact of these procedures.

Methodology

Sample

The total sample size consisted of 2,513 employers, stratified by employer size and broad sector. The data have been weighed and are representative of all UK employers.

Design and Materials

The research adopted a quantitative survey design and consisted of two stages. Initial questions were used to filter the sample to questions on reducing terms and conditions. The full survey consisted of 30 questions and responses were stratified by:

- Business size;
- Business sector;
- Business industry;
- Business region.

Procedure

Data collection was undertaken between 22nd April - 9th May 2022. The survey was conducted using an online interview administered to members of the YouGov Plc UK panel of 800,000+ individuals who have agreed to take part in surveys. Emails were sent to panellists selected at random from the base sample. The e-mail invited them to take part in a survey and provided a generic survey link. Once a panel member clicked on the link, they were sent to the survey that they are most suitable for, according to the sample definition and quotas. For example, the sample definition could be "GB adult population" or a subset such as "GB adult females". The responding sample was weighted to the profile of the sample definition to provide a representative reporting sample. The profile is normally derived from census data or, if not available from the census, from industry accepted data. The data is anonymous and individual employers are not identifiable. The information collected is used for statistical analysis only. The outputs produced by YouGov Plc are tables showing various aggregated data and a datasheet with weights.

Limitations

While the survey aimed at establishing employers' practices and has ensured the anonymity of participating businesses, there are several limitations that must be considered when interpreting the data. Firstly, businesses may be uncomfortable disclosing poor management practice due to social desirability bias, and therefore some data may be an underestimate of actual prevalence. Secondly, the targeted sample of workers and employers affected by "fire and rehire" is a minority group in the labour market. Therefore, it would be difficult and costly to reach this group through a random probability quantitative survey, suggesting that the true population representation in the sample is likely to be underestimated. Lastly, the survey can only provide insights into individuals' perspective on the issue rather than determine whether employers have breached the employment law. It's also important to acknowledge the time and context in which this survey was conducted as a possible limitation. As this data covers the pandemic period, the estimates are likely to be on the higher side due to the economic conditions businesses were facing at the time.