Resolution Foundation

Low Pay Britain 2025

Where next for the Government's employment reforms?

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July 2025

Acknowledgements

The authors would like to thank the following individuals for helpful discussions and input: Nicola Smith, Gail Irvine, Josephine Linton, Alan Felstead, Simon Deakin, Luke Raikes, and officers in the Department for Business and Trade. We would also like to thank colleagues at the Resolution Foundation for their input, particularly Mike Brewer, Ruth Curtice, Gregory Thwaites and Hannah Slaughter. Any errors are the authors' own.

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N. Cominetti and C. McCurdy, *Low Pay Britain 2025: Where next for the Government's employment reforms?,* Resolution Foundation, July 2025

https://doi.org/10.63492/https://doi.org/10.63492/bjv537

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Executive Summary

The Employment Rights Bill (ERB) currently making its way through parliament is a big deal for low-paid workers, who stand to gain the most from its changes. But it's also a big deal for the country, with the row between business groups and unions over its impacts being testament to that.

This year's Low Pay Britain report – the 15th in an annual series taking stock of low-paid work in the UK –takes on three important questions as the ERB heads towards becoming law. First, we look at the big picture: what does the evidence say about the ERB's likely economic impacts? Second, with much of the detail missing from the ERB's provisions relating to hours insecurity, we explore what those details should be. Finally, we look ahead to the Government's planned reforms to employment status, and ask how progress can be made on ambitions to reduce bogus self-employment.

Progress on low pay means attention has (rightly) shifted to job quality

The Government took office with a manifesto pledging big action on both the minimum wage and workers' rights. Since the election, its approach to the adult minimum wage has been to maintain the relative level, a less ambitious stance than recent governments (the adult minimum wage rose faster than average earnings this year due to a data quirk rather than due to policy). This comes after a decade in which the minimum wage rose faster than average earnings, driving down low pay. After hovering above 20 per cent throughout the 2000s and early 2010s, the share of employees earning below two-thirds of median hourly earnings fell to 3.5 per cent in 2024, and

stands at just 1 per cent among employees aged 25 and above.

By contrast, recent governments have done little to tackle problems of workplace insecurity, despite issues like 'one-sided flexibility' (associated with zero-hour contracts and gig work) gaining widespread recognition, and despite successive governments agreeing there is a problem. There are more workers on zero-hour contracts today (3.4 per cent) than a decade ago (2.4 per cent), and the negative impacts of these and related forms of work continue. So the Government deserves credit for seizing this mantle. Strengthening employment rights will have large benefits for lots of (mainly low-paid) workers: 1 million additional workers will become eligible for Statutory Sick Pay for the first time, while the 2.4 million workers who report feeling very anxious about unexpected changes in their shifts will gain new protections.

Raising workers' employment rights is unlikely to have large negative economic effects

The Government now finds itself in a big argument about the impact of employment regulation on economic outcomes. Business groups claim the ERB will have "deeply damaging" economic impacts. The Government and unions, unsurprisingly, claim the opposite: they say it will "solve the UK's productivity puzzle". The weight of the evidence suggests neither is correct: the Bill will have big positive benefits for workers affected, but a best guess is that its wider economic effects will be small, either way.

Our view draws on international evidence. The OECD and researchers at the University of Cambridge have both produced employment regulation indices that quantify the extent and restrictiveness of countries' employment regulation. Taking a snapshot across countries shows a negative relationship between employment regulation and employment levels, but this disappears when one looks at change within countries over time: countries which have strengthened their level of employment regulation haven't tended to see employment fall (or vice versa). An example is seen in Greece, Spain, Italy and Portugal, which all substantially weakened their dismissal regulations since the 1990s but saw no greater improvements in employment rates than other European countries that did not do this.

Wider economic effects are also likely to be small if the Department for Business and Trade (DBT) is roughly right about the impact of the Bill: it estimates upper-end additional costs to business of £5 billion a year. If the Office for Budget Responsibility (OBR) treated these additional costs of employing workers in the same way as they did the recent increase in employer National Insurance Contributions, then that would lead to an estimated employment effect of -11,000 (reducing the employment rate by just 0.02 percentage points), and an estimated impact on the level of average wages worth £2 per week. Even so, such modelling assumes that higher labour costs always lead to lower employment, and it is important to note that the experience of the minimum wage suggests this isn't always the case. But even if it did, then costs at this level would amount to a small economic effect and an acceptable price to pay for better quality jobs for millions of low-paid workers. Proponents also argue there could be countervailing positive economic impacts from employment reform (such as higher participation as workers are attracted by better jobs, or higher productivity via fewer 'inefficient' job separations), although the evidence in favour of these is as weak as the evidence about big negative effects. Either way, the DBT's impact assessments don't put a monetary value on the benefits of the ERB – such as higher worker wellbeing – in the same way they do the costs to businesses.

Finally, it's important to keep the size of the ERB's changes in perspective. The UK starts from a low level of employment regulation – it ranks 34th out of 38 OECD countries on the University of Cambridge's regulation index (which covers forms of employment, dismissals, working time, and unions), and 31st out of 38 OECD countries on the OECD's index relating to dismissing workers. Even after making unfair dismissal a day one right, the strength of the UK's regulation will still only rank 21st out of 38 OECD countries on the OECD's specific index relating to individual dismissals, because many aspects of employment law relating to dismissals (such as minimum notice periods, redundancy payments, and compensation in the event of unfair dismissals) aren't changing.

Nevertheless, signs of recent weakness in the UK's labour market mean that any negative risks should be taken seriously, and avoided if possible. The employment rate has been falling steadily since 2023, and the recent rise in employer NICs – concentrated on the same low

earners whose employers will be most affected by the ERB – has likely exacerbated hiring weakness. With that in mind, the Government could consider simplifying its approach to strengthening unfair dismissal protection. Its approach is to make protection from unfair dismissal a 'day one' right but then have a nine-month probation period where employers have a lower bar to clear to show they have acted reasonably. A simpler approach would be to reduce the qualifying period (the length of time in a job before a worker is eligible for protection against unfair dismissal) from its current two years to three or six months. This would massively improve worker security and bring the UK into line with other rich countries, but lessen employers' worry about getting stuck with bad hires.

The Government has a plan to tackle hours insecurity, but the details are yet to be decided

Action to tackle hours insecurity is among the most important elements of the ERB. The plan has two parts: a right to a contract that reflects the number of hours someone regularly works (expected to be over a 12-week reference period) and a right to reasonable notice of shift patterns and compensation for cancellation at short notice. Although framed as a clampdown on zero-hours contracts, these reforms would potentially (depending on where eligibility thresholds are drawn) apply to many workers who regularly work beyond their contracted hours, and who are vulnerable to losing shifts (and pay).

Most of the detail of these important policies is being left for secondary legislation. The three biggest questions are: where to set any 'low' hours threshold (workers with contracted hours above this threshold wouldn't be eligible for a new contract even if their hours of work vary considerably); what will count as 'reasonable' notice of shift cancellation; and how much compensation employers will have to pay when cancelling with less notice. Here we offer answers to these, but because the evidence base is currently thin (we don't have good information on workers' contracted hours, or on employers' potential responses) they are intended as starting points to be developed. Where there is a trade-off between favouring workers and raising costs for businesses, we have leant towards workers. That's because the starting point is an uneven sharing of risk that needs redressing, and the wellbeing benefits to workers of greater security could be substantial.

On the question of where to set a 'low' hours threshold, we suggest setting this at 25 hours per week. We estimate this would mean at least half of workers on variable hours contracts would be covered by the new entitlement to a contract that reflects their regular hours (although this is uncertain because we lack good data on workers' contracted hours). A very low threshold – say seven to eight hours – would exclude around three-quarters of workers on variable hour contracts from the new entitlement. It would also create an incentive for employers to pre-emptively move workers from zero-hours contracts (ZHCs) to contracts just above the 'low' hours threshold to avoid triggering the right. Moreover, the evidence shows that workers on or around 25 hours per week are just as likely as workers on low hours to face anxiety about unexpected changes to their hours.

On cancelled shifts, we suggest that the threshold for 'reasonable' notice of shift changes should be set at two weeks. This would represent a huge improvement on current practice: currently three-in-four workers on variable hours say they get less notice than this. It would bring the UK in line with parts of the US where two weeks' advance notice is fast becoming standard practice. When shifts are cancelled with less than two weeks' notice, we recommend that compensation is paid on a sliding scale in line with the lateness of the notice, with shifts cancelled with less than 24 hours' notice being compensated in full.

Collectively, these reforms will reduce workers' anxiety and help them plan their lives effectively. There will be costs to business – the Department for Business and Trade estimate costs of £470 million a year, covering administration, payments for shifts at short notice and extra workforce planning . There may also be economic costs, if employers become less able to respond flexibly to changing demand. Nothing in the new rules will prevent employers offering workers additional shifts at short notice, but employers may hesitate to do so if they think this will create an ongoing commitment. There may be unintended consequences for workers if employers shift away from short-hour contracts altogether. We suggest three possible mitigations.

First, the test for 'regularity' – i.e. how many weeks out of the 12-week reference period a worker needs to exceed their contracted hours – should be set at eight. An employer would have to be offering extra

shifts very regularly to create a commitment to keep doing so. Second, the Government may want to consider excluding seasonal peaks (such as summer and December, in the case of hospitality) so that employers can freely scale up in those periods. Third, it may be useful to incorporate a 'buffer', such that workers' hours would need to be meaningfully above their contracted hours to trigger a new entitlement – this would lessen employers' worry about offering small bits of overtime. Each mitigation does risk making the law more complex, and we support further consultation with employers and unions on these details.

Progress on clarifying and enforcing employment status is an essential complement to strengthening employment rights

The ERB boosts the statutory entitlements that come with being a worker (as opposed to being self-employed). One risk of doing so is that it strengthens employers' incentives to take on self-employed contractors rather than hire employees. These incentives have always existed, thanks to the large differences in the taxation of self-employed and employee labour (Employer National Insurance Contributions are not paid on self-employed work, and the rate paid by the worker is lower). Employment and tax law are not perfectly aligned in their treatment of the boundary between self-employment and worker status but in practice there is a lot of overlap. The Government's decision to raise employer National Insurance Contributions from April 2025 has made these incentives larger: the 'tax gap' between employee and self-employed work now equals 9 per cent of the value of the labour for a worker on median earnings. So the combination of these changes may make the problem of 'bogus' self-employment – where an employer contracts someone and pays tax as if that person were self-employed when in reality the relationship is really one of dependent worker –get worse.

The Government proposes to address bogus self-employment by getting rid of the UK's middle-tier employment status ('limb (b)' work): this relatively new innovation (created in 1996) was intended to recognise that some workers have a greater degree of control and dependency on an employer than the self-employed, but not as much as an employee. Limb (b) workers have some employment rights, including minimum wage and holiday pay, but not redundancy pay, unfair dismissal protection, and maternity leave.

The Government argues that the current system is confusing, and this makes it hard for workers to know what they are entitled to. It plans to consult on moving to a two-tier system – getting rid of the limb (b) status. Moving to a two-tier system may help insofar as it would make the system easier to understand. But this wouldn't itself address the main problem with the UK's approach to employment status, which is the lack of clarity in the law. Bogus self-employment will persist if the boundary between it and worker and employee status remains murky. It is imperative that, alongside reform of the number of statuses, the Government provides much more clarity over where the boundaries lie in practice. Indeed, more clarity (or changes that lead to a presumption in favour of worker status unless an employer can argue otherwise) would be a great help even under the current three-tier system.

But even with clearer law, there will remain a big enforcement challenge. Government can make progress on enforcement even without legal reform. Currently, employment tribunals are workers' only route to resolving questions about their status. But backlogs in the employment tribunal system, along with legal costs and the effort involved, put many workers off bringing a claim. The Government must take more of the burden off individuals (and off the employment tribunal system) by establishing its new enforcement body (the 'Fair Work Agency') and tasking it with proactively investigating instances where employers are avoiding their legal responsibilities by misclassifying workers.

The Employment Rights Bill is welcome and ambitious, but it leaves plenty still to do

The ERB is an ambitious undertaking. The Bill itself was 168 pages long at its first reading, with at least 27 important policy changes across multiple areas of employment law. When enacted, it will make life better for millions low-paid workers, in particular by regulating insecure hours. However, it mustn't be the final word on employment reform. The Government has plans beyond the ERB, including action on enforcement and employment status. But even then, there will be more to do to tackle insecurity in the UK's labour market. A priority should be further improvements in Statutory Sick Pay (SSP). The Government's reforms to extend coverage to the lowest earners and make SSP payable from the first day off sick are welcome, but the UK

will continue to have the lowest level of legal income protection for sick workers in the OECD (besides the US and Korea who do not have statutory systems in place).

Section 1

Rapid progress on reducing low pay means the focus of labour market reform has shifted to job quality

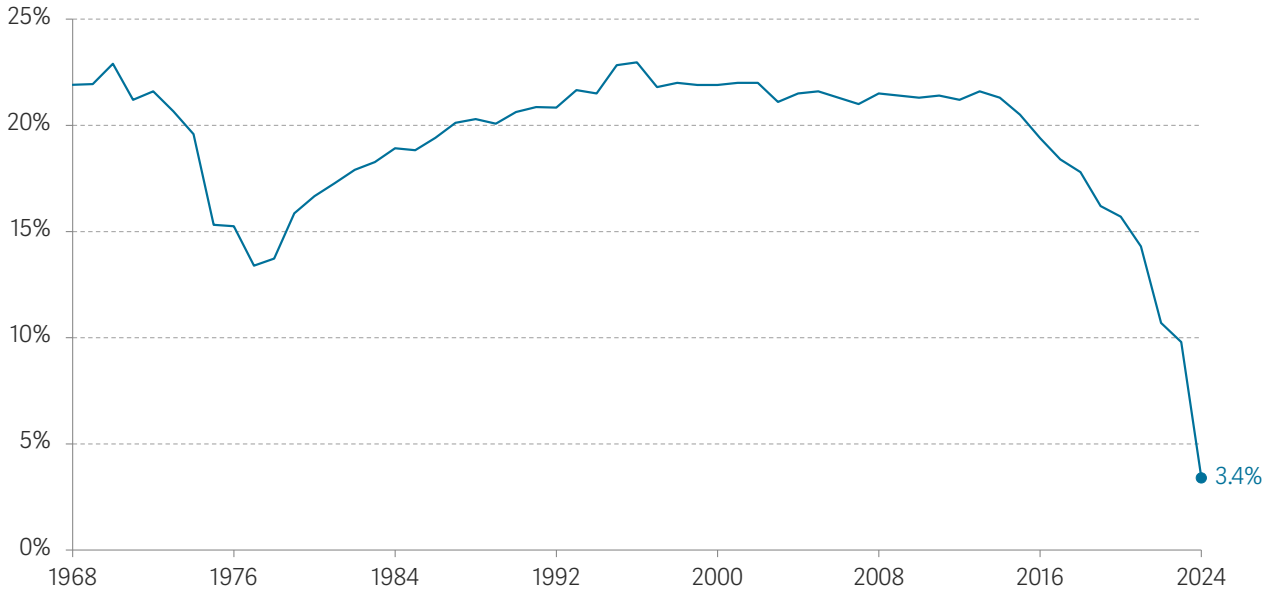
In this year's Low Pay Britain, we focus again on the Government's landmark Employment Rights Bill, currently making its way through parliament, and which is set to deliver important improvements to low earners' working lives. We examine the Bill's impact on employment and growth; discuss the measures relating to insecure hours, where there are lots of important details still to be decided; and look ahead to the employment status reforms which are set to follow later in the parliament. But we begin by noting how the landscape has changed for low-paid workers in the UK over the past decade.

Minimum wage increases since 2015 have all but ended 'low' pay

We have been writing annual 'Low Pay Britain' reports since 2011, making this the 15th edition. The initial impetus for these reports was to place the issue of low pay on the political agenda, and to push for action to reduce its incidence. One established definition of 'low' pay is having hourly pay below two-thirds of the overall median. In 2011, 21 per cent of employees were low paid on this measure, and the low pay rate had been at roughly that level since the mid-1990s (see Figure 1).

FIGURE 1: **The minimum wage has almost eradicated 'low' pay among employees**

Proportion of employees with hourly pay below two-thirds of the median: UK



SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey.

The big change came in 2016 with the introduction of and then sustained increases in the National Living Wage, a higher minimum wage initially for workers aged 25 and above, but since expanded to workers aged 21 and above. This reform led the share of employees in low pay to fall for the first time in a generation. Building on this success, in 2019, Chancellor Philip Hammond announced a new target, for the minimum wage to reach a 'bite' of two-thirds of median hourly wages by 2024, with "the ultimate objective of ending low pay in the UK".[1] The Low Pay Commission set an adult minimum wage rate to achieve this 'bite' in 2024 (although the ONS subsequently revised up its estimate of median hourly pay, so it's possible that it took another year's uprating to get there).[2]

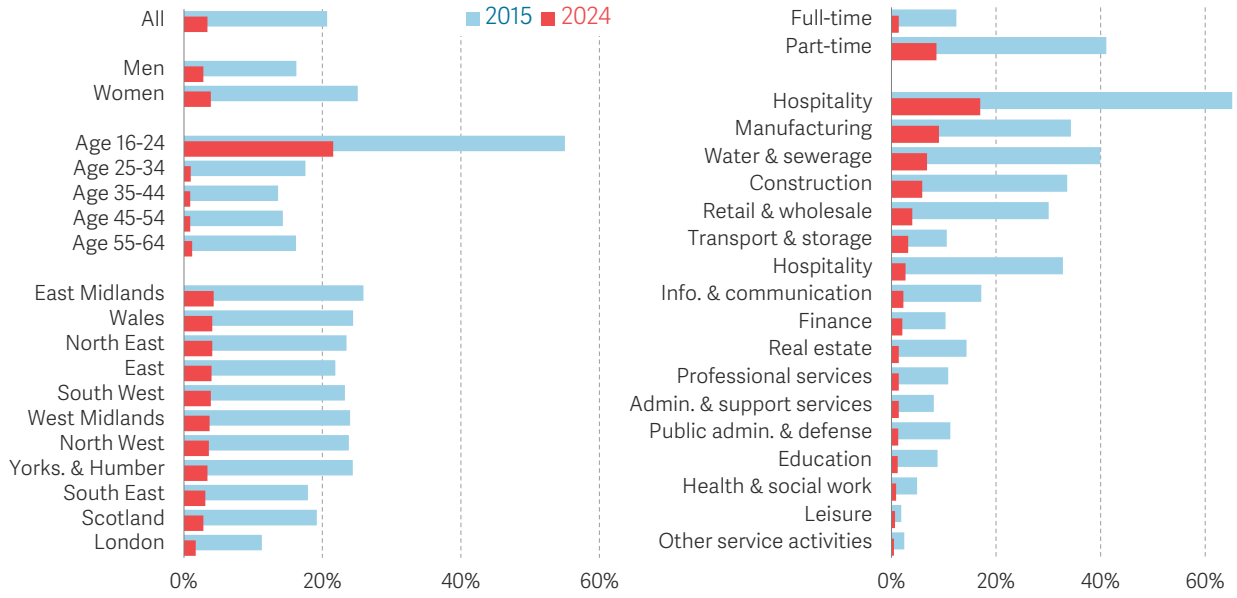
Hitting this benchmark represents a huge achievement. It pushed the share of workers in low pay to 3.4 per cent in April 2024 (the Annual Survey of Hours and Earnings is undertaken annually in April; data for April 2025 won't be published until the autumn). Strictly speaking this might not quite count as 'ending' low pay, as Philip Hammond wanted to. But that's only because the minimum wage for younger workers remains below the low pay threshold. The share of workers in low pay in 2024 over the age of 2025 was just 1 per cent, which is about as close to zero as we might ever expect from an estimate produced from survey data.

1 HM Treasury, Spring Statement 2019: Philip Hammond's speech, March 2019.
2 Low Pay Commission, 2024 report, February 2025.

So it's now only among the youngest workers where (thanks to lower minimum wage levels) low pay is still common (see Figure 2). But even among young workers there has been substantial progress. In 2015, more than half (55 per cent) of workers aged 16-24 were low paid; by 2024 this had fallen to 22 per cent. The reduction in low pay has also been dramatic across all regions, among both men and women, and across all industries. In hospitality, for example, the share of employees in low pay has fallen from 65 per cent to 17 per cent since 2015.

FIGURE 2: **Young workers are the only remaining group where low pay is common**

Proportion of employees with hourly pay below two-thirds of the median: GB



SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

But problems relating to the quality of work have been left largely unaddressed

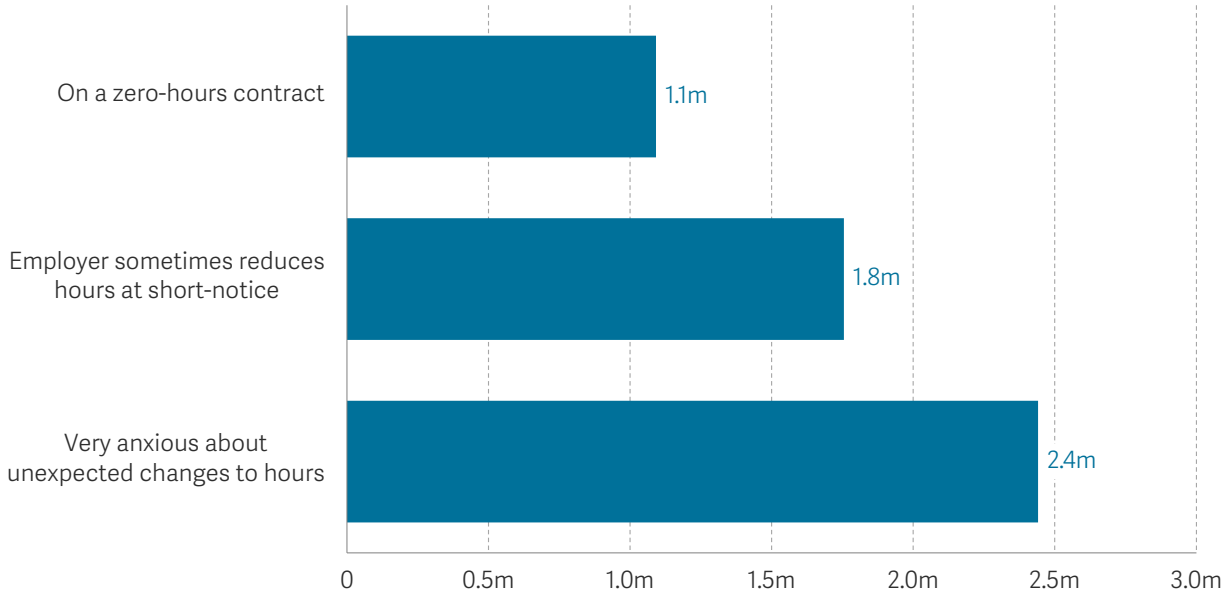
With low pay essentially eliminated, perhaps it's time for us to retire this annual report? Unfortunately not. Pay may be an important part of a job, but it is not everything. In contrast to the impressive progress on low pay, there has been little action under successive governments to raise the quality of work for low earners. In particular, the insecurity which is endemic in parts of the labour market has been left broadly unaddressed, despite the problem gaining widespread recognition in the 2010s. The Theresa May Government published a 'Good Work Plan' in 2018 in response to the Taylor review but the changes it led to were, while welcome, small (the most significant were a right to written terms on day one, and the closing of a loophole which let employers avoid equal pay responsibilities for agency workers).[3]

3 The Taylor Review examined modern working practices in the UK, highlighting issues like one-sided flexibility and bogus self-employment, and called for clearer rights and protections for insecure workers. Department for Business, Energy & Industrial Strategy, Good work plan, December 2018; M Taylor, Good work: the Taylor review of modern working practices, Department for Business and Trade, July 2017.

Zero-hours contracts remain the most prominent example of labour market insecurity: in 2024, 1.1 million workers were on a zero-hours contract.[4] These jobs are insecure because employers have no obligation to provide work, meaning hours (and earnings) can be reduced to zero, including at late notice. But, as Figure 3 shows, the issue of insecurity over earnings and shift patterns go beyond zero-hours contracts. There are 1.1 million workers on a zero-hours contract, but in total (in a separate dataset) 1.8 million workers said they sometimes experience short-notice shift cancellations, and 2.4 million reported feeling 'very anxious' about unexpected changes to their hours.[5]

FIGURE 3: **Millions of workers experience the problems associated with insecure work**

Number of workers with designated characteristic: UK, 2024



NOTES: Number on zero-hours contracts is the average across 2024.
SOURCE: Zero-hours contracts: ONS, Labour Force Survey; Short-notice hours reductions and anxiety about changes to hours: percentage figures from WISERD, 2024 Skills and Employment Survey (figures kindly provided by Professor Alan Felstead), applied to total employment in the Labour Force Survey.

Limiting these behaviours was not part of the 2018 Good Work Plan, despite 'one-sided flexibility' being the core problem highlighted by the Taylor review.[6] The new Government, therefore, deserves credit for taking action where successive previous governments did not, despite agreeing there was a problem.

4 It's difficult to robustly estimate trends over the long-term, because they are affected by a growing public awareness of the term through the early 2010s.
5 These figures come from the 2024 edition of the Skills and Employment Survey, and have changed little since the previous 2017 edition.
6 Department for Business, Energy and Industrial Strategy, Good work: the Taylor review of modern working practices, July 2017.

The rest of this report is organised as follows:

- Section 2 assess what impact (and in what direction) the Employment Rights Bill might have on employment and growth.
- Section 3 looks in detail at the Employment Rights Bill's proposals relating to zero- and low-hours contracts and tries to fill in some of the policy details which will be left to secondary legislation.
- Section 4 looks ahead to reforms to employment status, which the Government says are set to follow later in the parliament.
- Section 5 concludes, by arguing that progress is also needed on sick pay and unemployment benefit.

Annexes explain the employment regulation indices that are used in Section 2, and the approach to quantifying the significance of the Government's employment reforms by employment status in Section 4.

Section 2

The wider economic impact of employment reform

The Employment Rights Bill (ERB) is set to deliver large benefits to affected workers. But businesses are arguing these will come at the cost of damaging wider economic impacts. Government and unions claim the opposite, that the ERB will boost productivity. There is little support for either claim in the data. Countries with stronger employment regulation tend to have lower employment and slightly higher productivity levels, but these relationships disappear when looking at changes within countries over time – casting doubt on the existence of a causal relationship. A best guess is that the ERB is unlikely to have large effects on employment or growth in either direction.

Nevertheless, the ERB is being introduced at a worrying moment for the labour market. Jobs growth has stalled in 2025 and went into reverse in April – likely in part driven by the increase in employer NICs. To mitigate any impact on hiring, the Government could consider a simpler approach to strengthening unfair dismissal protection. The UK's two-year long 'qualifying period' (the length of time someone needs to work before they are entitled to legal protection) could be reduced to three or six months. This would bring the UK into line with other rich countries while creating less confusion for employers than the Government's approach – of making unfair dismissal a day one right but also creating nine-month 'probation periods'.

The Government's Employment Rights Bill (ERB) has provoked a big argument about its economic impacts. On one side are business groups, who say the ERB will have "deeply damaging" implications for growth. [7] These arguments echo those that accompanied the introduction of the minimum wage a generation ago, when those opposed to it warned of large-scale job losses.[8] On the other side of the argument are the Government and unions who are making the opposite claim, that the bill will boost growth. The Government's Employment Rights Minister has claimed the ERB will "help solve the UK's productivity puzzle".[9]

In this section, we argue that, just as turned out to be the case for the minimum wage, claims that employment rights reform will have large negative side effects are probably

7 Lucy Fisher, UK business groups urge peers to amend worker rights' legislation, Financial Times, April 2025.
8 Institute for Government, The introduction of the minimum wage in 1998, 2024.
9 J Madders, Employment reforms will 'help solve UK's Productivity Puzzle', Department for Business, June 2025.

overstated. However, large positive effects also look unlikely. A best guess it that employment reform will deliver benefits for workers without having much impact on wider economic outcomes in either direction.

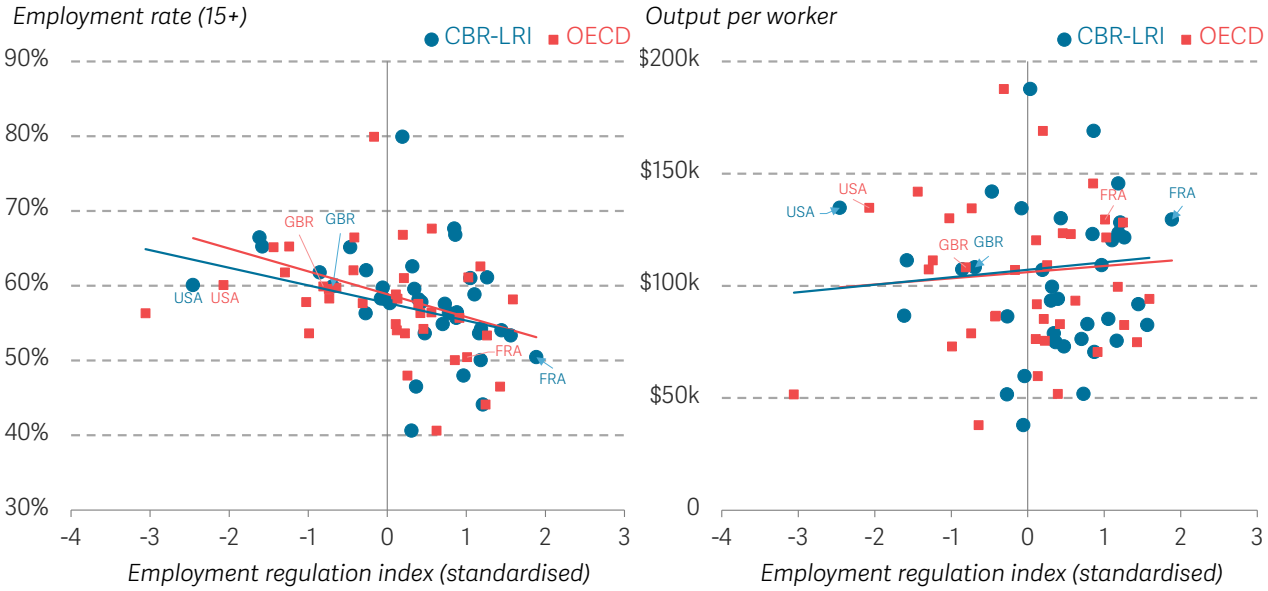
The existence of a negative causal relationship between employment regulation and employment isn't supported in the data

Lots of the evidence on the impact of employment regulation comes from comparing countries, partly because variation in regulation between countries is bigger than variation within countries over time.[10] A cursory look at that evidence suggests higher levels of employment regulation are associated with lower employment and higher productivity levels. These relationships are shown in Figure 4, which plots the strength of employment regulation against the employment rate and productivity (the two measures of employment regulation used – produced by the OECD and the Centre for Business Research at Cambridge University – are explained in Annex 1). The lines of best fit slope down for employment: for example, the US, where employment regulation is weak, has a higher employment rate than some southern European countries (e.g. Italy, Greece, Spain) where regulation is stronger. The line of best fit is upward sloping on the productivity chart (suggesting that higher levels of regulation are associated with greater productivity). The fact that many countries are a long way from the lines of best fit in both panels (Greece and Iceland have similarly strong employment regulation but have employment rates of 41 and 80 per cent), tells us there are other more important determinants of employment and productivity. But it might still be tempting to conclude the plots are showing a causal relationship – that stronger employment regulation is bad for employment and good for productivity.

10 For example, among OECD countries, the between-country variation (SD of 0.83) in the OECD's measure of regulation relating to dismissing individual workers (using the 'version 1' of this measure, which provides data from 1985 to 2019) is four times as big as the within-country variation (SD of 0.22).

FIGURE 4: **A static picture suggests a negative relationship between employment regulation and employment**

Employment regulation indexes versus productivity and employment: OECD countries (5 years to 2019)



NOTES: 'CBR-LRI' refers to the Labour Rights Index produced by the Centre for Business Research at Cambridge University's Business School. Indices have been standardised so that scales are comparable. Output per worker is measured in 2021 dollars adjusted for purchasing power parity.
SOURCE: RF analysis of OECD, Employment Protection Index (version 4); Centre for Business Research, Labour Rights Index; International Labour Organisation, Labour Market Statistics.

That conclusion isn't warranted. Even if we are prepared to go from a cross-sectional relationship to assuming that there is a causal link, the chart alone cannot say which way the relationship goes. Poor employment outcomes might lead to higher regulation if, for example, workers respond by pushing for greater protections.[11] And of course, there could be no causal relationship in either direction - the relationship could be driven by a third factor.

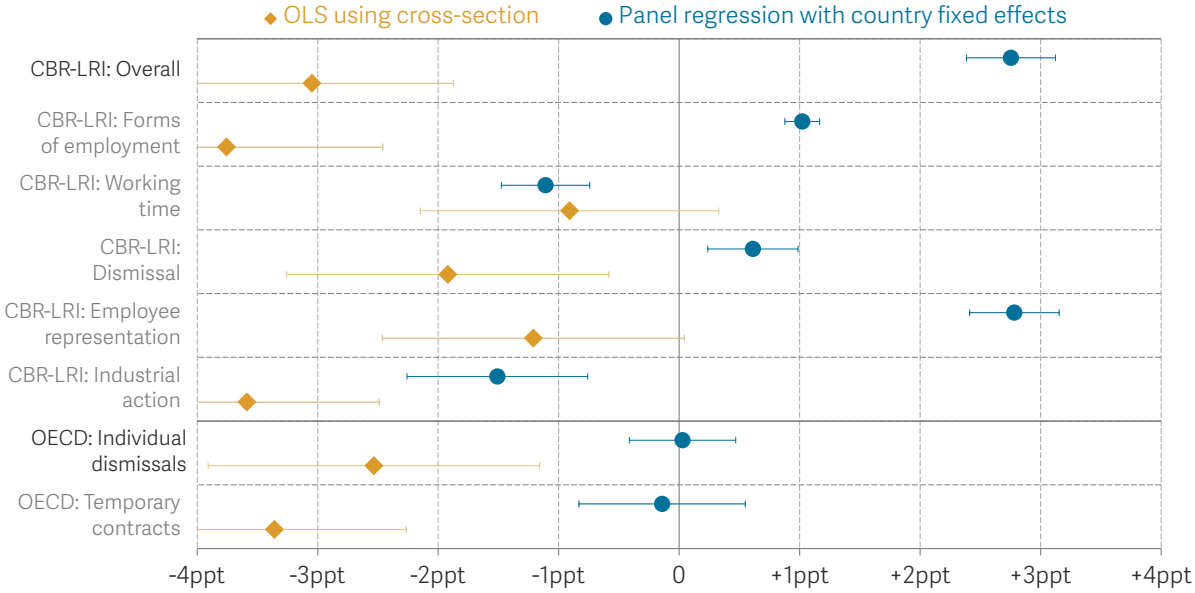
A reasonable alternative is to look at the relationship within countries over time, thereby stripping out the effect of time-invariant country-specific factors. Figure 5 plots the coefficients on different employment regulation indices in regressions with the employment rate as the dependent variable. The coefficients plotted in yellow are from an ordinary least squares regression – they essentially report the slope of the lines of best fit in the scatter plots in Figure 4. As above, these show negative relationships, for the overall OECD and CBR indices (shown in bolder font) as well as their subcomponents. But when we look at within-country variation over time (using panel regressions with country 'fixed effects'), the relationships change. In several cases, the relationship between employment regulation and employment is now positive. This

11 This argument, that 'insider' workers argue for stronger protection, can be found among other places in: G Saint-Paul, The Political Economy of Labour Market Institutions, Oxford University Press, September 2000.

is true for the overall CBR index, as well as CBR sub-components relating to 'forms of employment', dismissal, and employee representation.[12] In some other cases there is no longer a statistically significant relationship in either direction (this is the case for the OECD's indices relating to dismissing workers and the regulation of temporary contracts). The only remaining negative relationships are with the CBR measures of rules relating to working time and industrial action. It is harder to view the cross-country results as evidence of a negative causal relationship from regulation to employment if the same relationship is not present within countries over time.

FIGURE 5: **It's harder to see a relationship between employment regulation and employment within countries over time**

Estimated coefficient on 15+ employment rate of a 1 standard deviation increase in employment regulation, from two types of regressions: OECD countries



NOTES: Error bars represent coefficient standard errors. All employment regulation measures have been standardised, so that coefficients are comparable. Ordinary Least Squares (OLS) using cross-section uses the average of employment and regulation variables from 2015-19. For most countries, employment data is available from early 1990s, so the dataset being used for the panel regressions consists of 38 OECD countries with measures of employment and employment regulation spanning three decades. For the OECD indexes, version 1 of the indices are used because these are available over the full timespan – the latest version (Version 4, which was used in Figure 4) is only available for years 2013-2019. See Annex 1 for more information about the employment indices.
SOURCE: RF analysis of OECD, Employment Protection Index; Centre for Business Research, Labour Rights Index; International Labour Organisation, Labour Market Statistics.

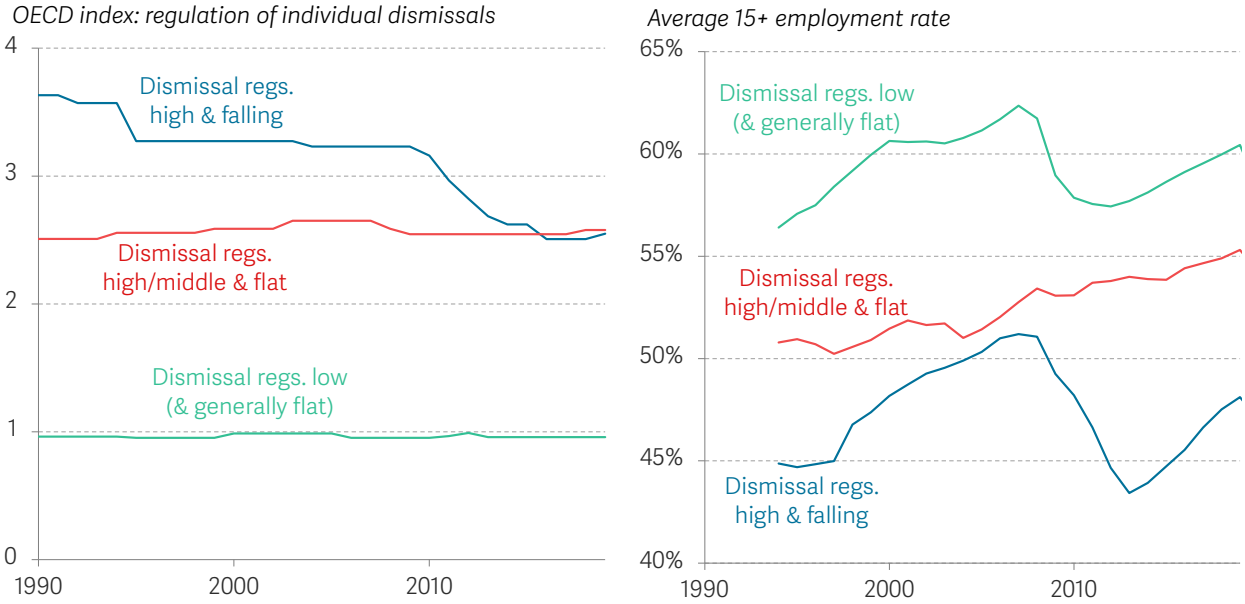
Looking in detail at what happens to specific countries when they increase or reduce their employment regulation provides another lens through which we can view this evidence. Figure 6 creates three groups of OECD countries according to the level and

12 The 'forms of employment' sub-component captures whether the law requires employers to treat workers in non-standard forms of work (such as part-time, temporary and agency work) equally with permanent employees, and also how the law approaches the question of employment status.

trend of their employment regulation: a low regulation group (mainly English-speaking countries), along with two groups of countries with higher levels of regulation (one where the level of regulation didn't change much - mainly central European countries – and another where regulations have been substantially lowered since the 1990s – mainly southern European countries). If employment regulation has a negative causal relationship with employment levels, we would expect the third group to have seen stronger improvements in employment than the other groups.[13] But, taking the period as a whole, that's not what we see. In 2019, the four countries which have substantially reduced their regulation of dismissals since the 1990s (Italy, Greece, Spain and Portugal) had an average employment rate (49 per cent) 4 percentage points higher than the level in 1994 (45 per cent). This is similar to the improvement seen in the low regulation group of countries (+4 percentage points) and the group of countries with high but flat levels of employment regulation (+5 percentage points).

FIGURE 6: **Countries which reduced employment regulation over the past three decades saw the same employment trends as other countries**

OECD employment protection indexes (left panel) and employment rate (right panel) among OECD countries grouped by level and trend of employment protection



NOTES: A higher number in the employment regulation index means regulation is more restrictive. Countries are grouped by the level and trend of their employment protection regulation, as set out in the OECD's Employment Protection Index for individual dismissals. Version 1 of this measure is used because it is available over the full timespan – the latest version (Version 4, which was used in Figure 4) is only available for years 2013-2019. The following groups are used: 'High and falling': Portugal, Greece, Spain, Italy; 'High/middle and flat': Netherlands, France, Germany; 'Low and generally flat': USA, Canada, UK, Ireland, Denmark.
SOURCE: RF analysis of OECD, Employment Protection Index (version 1); International Labour Organisation, Labour Market Statistics.

13 For its measure of employment regulation, the figure uses the OECD's index relating to making individual dismissals.

Overall, the international evidence tells us that although low-employment countries do have stronger employment regulations, on average, this is likely to be due to other factors. This is because changes in employment regulation within countries tend to be associated either with positive changes in employment or with no change in employment at all. These findings are in keeping with the bulk of the theoretical and empirical literature on employment regulation, which tends to find that more restrictive regulation (especially relating to dismissals) lowers worker flows but has little impact on employment or growth (although the OECD do warn that 'overly strict' regulation may have a negative impact on productivity).[14]

The UK will continue to have weaker employment regulation than most other rich countries after the Employment Rights Bill

Along the same lines, it's important to put into context the scale of changes the Government is actually making. The changes are important, but they won't transform the degree of employment regulation in the UK.

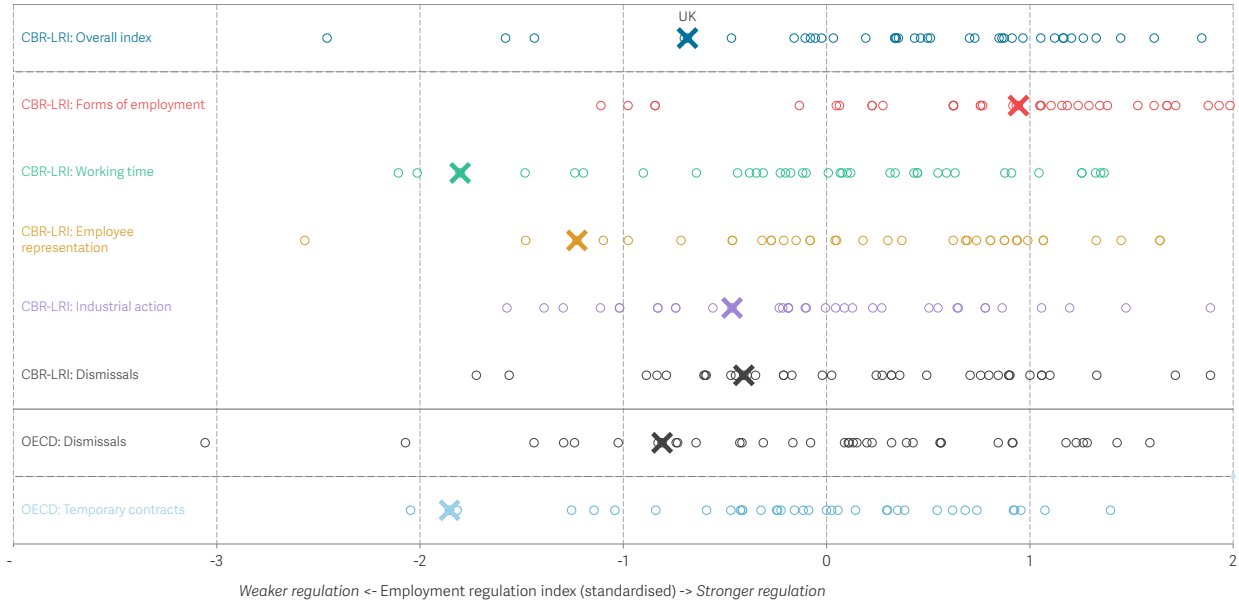
To see this, Figure 7 plots the employment regulation score of OECD countries across several domains. The UK ranks 34th out of 38 OECD countries on the CBR's overall employment regulation index. It ranks 31st out of 38 countries on the OECD's index relating to making dismissals, 36th on the CBR's indices relating to working time and employee representation, and 37th on the OECD's index relating to temporary contracts. The only domain where the UK has a typical level of regulation among OECD countries is when it comes to 'forms of employment', which mainly stems from the UK having adopted EU laws requiring that part-time, temporary and agency workers are treated equally with permanent staff.[15]

14 For a summary, see Section 3 of: OECD, Employment Outlook 2020, July 2020. The impact of lower worker flows on wider economic outcomes is ambiguous – it could dampen productivity growth through less 'good' worker-employer job matches, but it could also induce greater worker effort or greater investment in training by employers.

15 S Deakin, CBR Labour Regulation Index (Dataset of 117 Countries, 1970-2022): Codebook and methodology, University of Cambridge, 2023.

FIGURE 7: **The UK has a lower level of employment regulation than most other rich countries**

Employment regulation indexes versus productivity and employment: OECD countries (5 years to 2019)



NOTES: 'CBR-LRI' refers to the Labour Rights Index produced by the Centre for Business Research at Cambridge University's Business School. Indices have been standardised so that scales are comparable.
SOURCE: RF analysis of CBR-LRI and OECD Employment Protection Index, version 4.

The changes in the ERB are important, but many areas of employment law aren't changing. Even within the specific area of dismissing individual workers, for example, the Government is not changing the rules relating to notice periods, redundancy payments, what constitutes an unfair dismissal, how much compensation employers have to pay when they have been found to have made an unfair dismissal, and whether employers are obliged to reinstate workers who have been unfairly dismissed. These are all factors which affect how easy and costly it is for employers to dismiss workers (and which form part of the OECD's index), and these aren't changing. Of course, getting rid of the qualifying period for unfair dismissal protection is an important change. But even after this change, the UK will still rank only 26th out of 38 OECD countries for the restrictiveness of its regulation relating to individual dismissals, up from 31st today. The University of Cambridge's index is broader and includes more areas of employment law which aren't changing (such as fair pay law and rules around working time), so the impact of the ERB on their overall index is even smaller.[16]

16 It's worth noting that neither the OECD or the University of Cambridge covers every single aspect of employment regulation, and there are some changes being made in the ERB which definitely constitute raising the level of regulation, or the burdens on employers, but which aren't captured in these indexes. That includes some of the changes involved with repealing the 2016 Trade Union Act (such as turnout and support requirements in strike ballot thresholds), the extension of Statutory Sick Pay, and perhaps most importantly, the new right to a guaranteed hours contract and to compensation for shifts cancelled at late notice. The ERB would represent a larger change on an index which captured these elements of employment regulation. Researchers at the University of Cambridge are currently in the process of extending their index to cover ERB-relevant changes – this will be very helpful for assessing the scale of the ERB's changes.

So, the UK currently has a low level of regulation compared to other OECD countries, and in most areas of employment law this will continue to be the case.

If there are negative economic effects, they are likely to be small, and worth it for the prize of improving workers' welfare

The lack of a clear relationship between employment regulation and employment in the cross-country data should reassure policy makers, but it isn't conclusive evidence that there will be no negative economic effects. Given the low degree of headroom that the Chancellor has against the fiscal forecasts, one thing that will matter for the Government is what conclusion the OBR comes to. In March, it said that it expected the impacts on the economy would be "probably net negative", and that it would incorporate them in its next forecast (i.e. the Autumn Budget). The OBR's interim view was that these would be "material" and "possibly substantial" but it's hard to know what that means in practice. If, though, it follows the Department for Business and Trade (DBT)'s quantification of the cost impact on business, then the estimated wider economic impacts will be small. The DBT's impact assessment expects additional costs for businesses of up to £5 billion per year.[17] £5 billion is a small number in the context of overall labour costs of £1.5 trillion, just 0.3 per cent. If the OBR agrees with this cost estimate and also treats this additional cost in the same way as it did April's rise in Employers' National Insurance contributions, then this would produce a negative estimated employment effect of just 11,000, and a negative estimated impact on average wages of £2 per week.[18]

But the test here should not be "does the ERB put up costs for businesses?" – the relevant question is "does the combination of economic and social benefits and costs represents a net improvement in the round?". The DBT did not try to quantify non-monetary welfare impacts, but they are likely to be large. As we showed in the Introduction, 2.4 million workers are 'very anxious' about unexpected changes to their hours. Figure 8 goes further and shows that workers on flexible contracts (zero-hours contracts, non-contract temporary work, or contracts where hours and pay vary) are also more likely than other workers to experience low well-being overall, and depression and

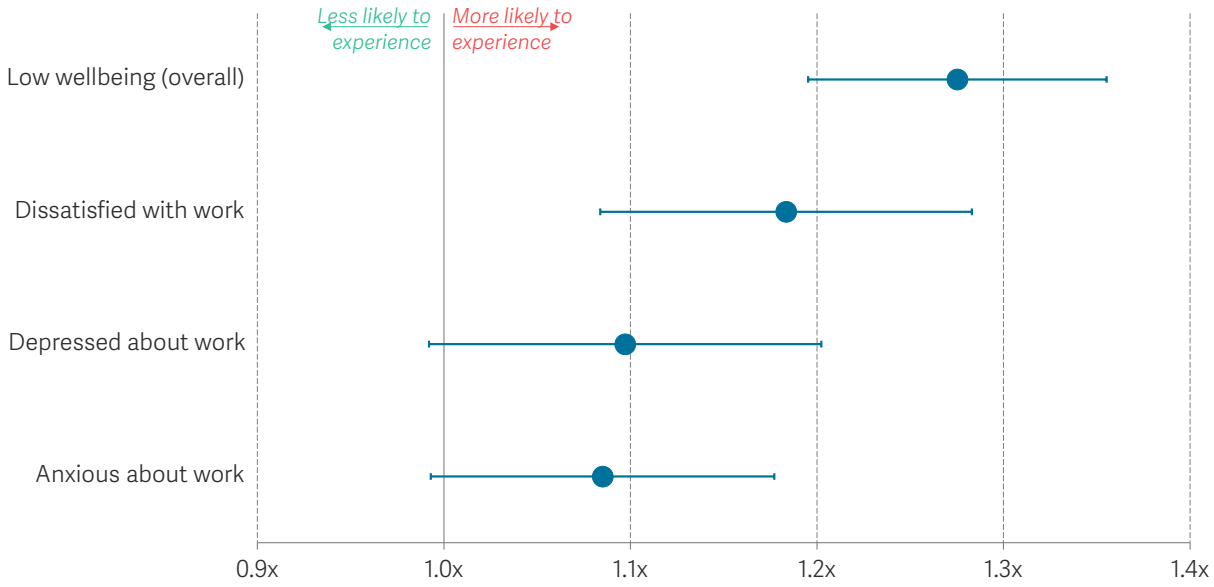
17 Department for Business and Trade, Employment Rights Bill: Economic Analysis, October 2024.

18 This calculation is based on the OBR's approach set out in March which includes employers passing 76 per cent of higher labour costs onto workers in the form of lower real wages, and a labour demand elasticity of -0.4. See: OBR, Economic and Fiscal Outlook, March 2025. The OBR may take a different approach to quantifying the Bill's economic effects than they did the increase in Employer National Insurance Contributions. Their estimate of the ERB's employment effects could be bigger than indicated here if the OBR believe the DBT's impact assessment understates the Employment Rights Bill's costs (for example, the Impact Assessment doesn't attempt to quantify the 'cost' of the new right to guaranteed hours and the right to compensation for cancelled shifts beyond employers' compliance and administrative costs). They could also take the view that the pass through to wages will be more constrained (and, as a consequence, the impact on employment greater) given many workers affected by the ERB's changes will earn at or close to the minimum wage. For more on the interaction of the minimum wage and employers' responses to increases in labour costs, see: N Cominetti & G Thwaites, Minimum wage, maximum pressure?, Resolution Foundation, March 2025. On the other hand, employment effects will be lower than set out here if there are compensating positive labour supply effects, which might be the case to the extent that higher employer costs are transfers to workers, either in cash terms (as will be the case with the extension of Statutory Sick Pay) or via higher job quality. A positive shift in labour supply would imply lower average wages (because improvements in job quality mean workers are willing to work more at a given wage level).

anxiety about work more specifically. The number of workers affected means the value associated with reducing those negative emotions wouldn't have to be very large to make the overall welfare calculation stack up. And that value might be large. One 'willingness to pay' study found that call centre workers were willing to give up 20 per cent of their wages to avoid a schedule set by their employer at a week's notice.[19]

FIGURE 8: **Giving workers access to more secure jobs should improve well-being**

Workers on flexible contracts' relative likelihood of experiencing negative mental states compared to other workers: UK, 2023-2024



NOTES: Chart shows odds ratios following logistic regression. Tails represent 95 per cent confidence intervals. 'Low well-being (overall)' is defined as having a subjective well-being score on based on General Health Questions of 3 or above. 'Dissatisfied with work' is defined as being completely, mostly or somewhat dissatisfied with one's job. 'Depressed (work related)' is a binary indicator derived from scoring 11-15 on a variable which amalgamates responses to questions about how often a worker feels 'gloomy', 'miserable' or 'depressed' about work, which is measured 1-15, with 15 denoting a worse outcome. The indicator 'Anxious (about work)' was derived in a similar way from variables asking how often a worker feels tense, uneasy or worried about work.
SOURCE: RF analysis of Understanding Society.

19 A Mas & A Pallais, Valuing Alternative Work Arrangements, American Economic Review, December 2017. This willingness to pay estimate isn't perfectly suited to valuing the changes being introduced by the Employment Rights Bill because in that study the employer-set schedule included the possibility of evening and weekend work, so study participants may have been 'paying' to avoid working anti-social hours rather than just shift unpredictability. But by way of illustration, even if the willingness to pay to avoid unpredictable hours was 10 per cent rather than 20 per cent, and even if only half of the 2.4 million workers who report feeling 'very anxious' about unexpected shift changes actually had a preference for stable hours, the total 'value' of more predictable hours to those workers would be £1.6 billion per year (using average weekly earnings among zero-hour contract workers in Q4 2024 LFS (£254) as the earnings input).

Reforms are taking place amid a weakening labour market – a simpler plan for strengthening unfair dismissal rights would reduce hiring risks

Even if there is little reason to expect long-term negative effects, the current economic context still gives policy makers a good reason to tread carefully. The labour market is in a fragile position. Despite rapid population growth, the number of employee jobs (as measured by HMRC's PAYE data) has been flat for most of 2025, and falling in the latest data. This has led to a falling employment rate – in April the employment rate fell to a level that meant the total post-pandemic employment rate fall (-1.5 ppts) is now more than half the size of the total fall (-2.5 ppts) experienced during the pandemic. The large increase in employer National Insurance Contributions made in March may have contributed to weak hiring. That's highly relevant context for the ERB because the NICs change (especially when combined with a bigger-than-expected minimum wage increase) had a much larger relative effect on the labour costs of low earners than other workers.[20]

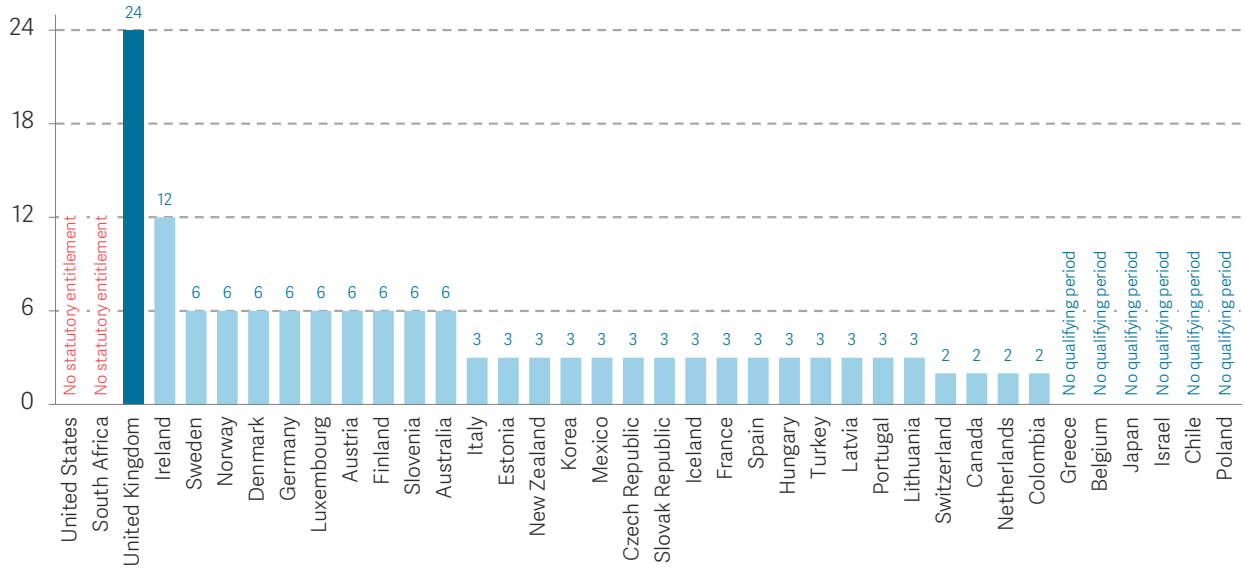
This context means it's appropriate to be cautious about making policy changes which could affect hiring incentives, especially of low-paid workers. With this in mind, the Government should consider taking a different approach to strengthening unfair dismissal protection.

UK law in this area absolutely needs strengthening. As Figure 9 shows, the two-year 'qualifying period' in the UK before workers are eligible for unfair dismissal protection is completely out of step with other rich countries, where qualifying periods between three and six months are the norm. It also doesn't reflect employers' preferences – most employers use probation periods of three to six months, if they use them at all.[21] The ERB will get rid of qualifying periods entirely, to make unfair dismissal protection a 'day one' right. However, alongside this change the Government will introduce a 'probationary period' within which workers will have unfair dismissal protection, but the processes employers have to follow to demonstrate fairness will be lighter touch.[22]

20 N Cominetti & G Thwaites, Minimum wage, maximum pressure?, Resolution Foundation, March 2025.
21 ONS, Business Impact of Covid Study, September 2024.
22 Department for Business and Trade, Next Steps to Make Work Pay, October 2024.

FIGURE 9: **Lowering the qualifying period for unfair dismissal protection to three or six months would bring the UK into line with other countries**

Months in job until worker becomes eligible for unfair dismissal protection: OECD countries, 2019



SOURCE: OECD, Employment Protection Index.

The process employers are required to follow to make 'fair' dismissals during the new 'probation' period could be very minimal. But even so, employers will see that dismissing recently-hired workers will carry some risk of being taken to an employment tribunal where currently there is none (other than for dismissals which are 'automatically' unfair, such as those involving discrimination).[23] A simpler approach would be to keep a qualifying period for unfair dismissal protection, but to reduce it from two years to three or six months. This would still be a huge upgrade in security for workers, and would bring the UK into line with other rich countries. It would be easier for employers to understand than the proposed change, and – we assume – would be less likely to affect employers' hiring decisions.[24]

This section has argued that, just as turned out to be the case for the minimum wage, claims that employment rights reform will have large negative side effects are probably overstated (as are claims of big positive side effects). Should the Government want to tread more carefully, though, then taking a different approach to its proposals to strengthen unfair dismissal rights could reduce uncertainty and complexity for employers with minimal impact on workers. But even if employment reform does come with modest negative economic costs, these can be justified given the substantial well-being boost

23 Acas, Dismissal: Unfair Dismissal, accessed June 2025.
24 Making this change would require an amendment to the Employment Rights Bill itself because the Bill removes the qualifying period from law entirely (as opposed to lowering it to zero).

that the measures would deliver to low-paid workers, including by reducing the insecurity faced by workers on variable hours contracts. The details of these reforms are the subject of the next section.

Section 3

Hours insecurity: filling in the policy details

The plans in the ERB to tackle hours insecurity include a right to a contract reflecting the hours a worker regularly works (over a 12-week period) and a right to reasonable notice of shifts with compensation for cancellations at short notice. These rights will apply to those on zero-hours contracts, agency workers and those on contracts with hours below a yet-to-be-defined 'low' hours threshold, with the implication being that workers whose contracts specify hours above this threshold will be unaffected by the new rights.

The details of these policies will be set in secondary legislation, but we suggest the Government sets the 'low' hours threshold at 25 hours, so as to cover around half of workers on variable hours contracts. We also recommend a minimum two-week notice period for shifts: currently, three-in-four workers on variable hours say they get less notice than this. Finally, we recommend that if shifts are cancelled with less than 24 hours' notice workers should be entitled to full compensation, with a sliding scale applied as the notice given increases.

The Government has set out its plan to tackle hours insecurity, but the detail of this policy is yet to be decided

An important goal of the Employment Rights Bill (ERB) is to tackle hours insecurity. There are two key measures: a right to a contract that reflects the number of hours someone regularly works, and a right to reasonable notice of shift patterns, including compensation if shifts are cancelled without reasonable notice.[25] These are arguably the Government's most important employment reforms – the level of insecurity associated with zero-hours contracts (ZHCs) means there is potential for substantial improvements in workers' welfare.

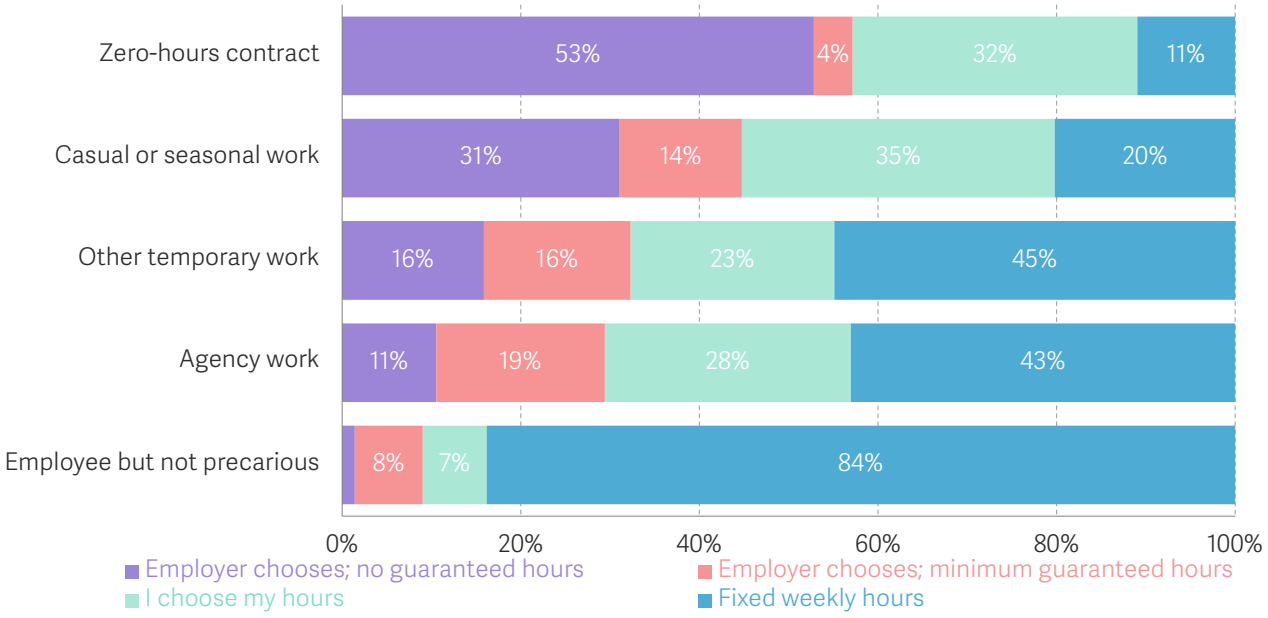
25 The right to a regular-hours contract will be "an automatic entitlement, initiated by the employer". The "worker will be able to decline the guaranteed hours offered and remain on their zero or low hours contract if they prefer". Department for Business & Trade, Consultation on the application of zero-hours contracts measures to agency workers, March 2025.

Rather than banning ZHCs altogether, this plan would help ensure these contracts are only used in circumstances where work is genuinely irregular or where employees have real discretion about whether to accept hours (i.e. where the flexibility is 'two-sided'). Giving ZHC workers a right to a guaranteed hours contract is important for workers' welfare (the main focus of this report), but it also matters for worker power. Without guaranteed hours, employers can effectively sidestep important employments rights like protection from unfair dismissal, by simply reducing a workers' hours to zero rather than formally ending a worker's contract. A guaranteed-hours contract helps close this loophole and limits the risk of exploitation.

But the legislation could also apply to other workers who regularly work beyond their contracted hours, and who are therefore exposed to losing shifts (and pay). This includes agency workers and those on 'low' hours.[26] But as Figure 10 makes clear, the most acute form of hours insecurity – where workers neither have guaranteed hours nor control over their schedule – is most prevalent among workers on zero-hours contracts. A full half of zero-hours contracts workers don't have any say over their unpredictable hours.

FIGURE 10: **Half of workers on zero-hours contracts don't have any say over their hours**

Proportion of variable contract workers' hours determined in various ways: UK, 2022-2023



NOTES: Survey wave covers two calendar years.
SOURCE: RF analysis of ISER, Understanding Society.

26 The Government is still consulting on exactly how the agency worker arrangements will work in practice, particularly around the division of responsibilities between agencies and end hirers. This list may also be extended to include casual, temporary and seasonal workers. See: Department for Business & Trade, Consultation on the application of zero-hours contracts measures to agency workers, March 2025; UK Government, Employment Rights Bill: Economic Analysis, October 2024.

Important as these reforms are set to be, most of the policy details are being left to secondary legislation. But the fine detail is crucial: it will determine whether these measures are effective in curbing insecurity. The biggest questions are:

- where should the 'low' hours threshold be set (such that workers whose contracted hours are above this level won't have a right to a new contract reflecting their regular hours)?
- what should count as 'reasonable' notice of shift cancellation?
- and how much compensation should be paid when shifts are cancelled with less notice than this?

Other policy design questions include how the 'regularity' test is designed, and whether steps are taken to mitigate potential negative impacts on employers' flexibility and willingness to offer workers extra shifts. The rest of this section works through these questions and offers policy makers our suggestions. We believe these offer a reasonable starting point, but it will be important for the Government to consult, as it plans to do next year. In some areas (such as estimates of workers' contracted hours and therefore the number of workers in scope) better evidence will help, and it will be important to learn more about employers' potential responses to policy. The forthcoming consultation should also clarify how the new policies will work in specific industries. Some high-paying occupations (such as piloting) which are organised around variable hours and which could be brought into scope may be candidates for exclusion, to avoid reducing flexibility where workers may not need extra protection.[27]

It's worth stating at the outset that there are clearly trade-offs inherent in these policy decisions. Versions of these policies which most favour workers (be it opting for a high hours threshold, so as to include more workers within the scope of the new rights, or setting compensation levels high) will generally come at higher cost to employers. But the starting point is an uneven sharing of risk in the employment relationship which needs rebalancing. Moreover, uncertainty of demand is something employers should be better placed to handle than workers, so shifting risk from workers to employers should be welfare raising overall. As such, we have considered how costs to employers can be minimised, but in general we have prioritised ensuring the Government's policies deliver their intended benefits to workers.

Where to set a 'low' hours threshold?

The ERB introduces a right to a contract that reflects the number of hours someone usually works. Aside from agency workers and those on ZHCs, this right will also apply to

27 Those with higher paid jobs are generally less anxious about hours changes compared to those with lower paid jobs. For example, just 3 per cent of the highest pay quintile reported being very anxious about unexpected changes to hours worked versus 11 per cent of the lowest paid quintile. Source: RF analysis of 2017 UK Skills and Employment Survey.

workers on contracts that fall below a yet-to-be-defined 'low' hours threshold. Where the Government sets this threshold – i.e. above which point workers will no longer be eligible for a contract that reflects their usual weekly hours – is arguably the single most important missing detail in its plan to tackle hours insecurity. As the employment lawyer Darren Newman puts it:

> *"Where the Government sets that threshold, the right to guaranteed hours could either be a token right of no real significance, or the most fundamental shift in the regulation of working time since the Factories Acts of the nineteenth century".*[28]

Set this threshold too low, and many workers who face genuinely insecure hours will likely be excluded. Set it too high, and you may end up imposing unnecessary administrative costs on employers, or even discouraging them from offering additional hours to their staff (to avoid triggering new contractual obligations). Either way, the effectiveness of this policy rests on getting this policy choice right.

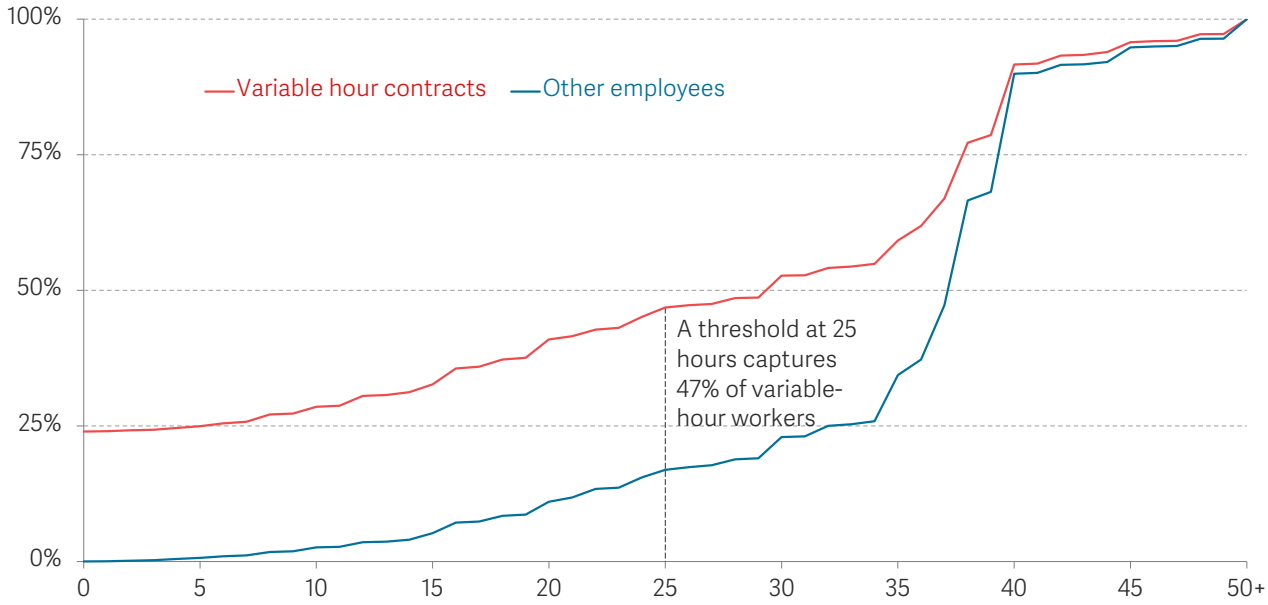
But a major challenge in assessing where this threshold should be set is that many sources of data on the labour market do not tell us workers' contractual hours (except for those on zero-hours contracts). To get around this problem, we use workers' usual hours observed in the Labour Force Survey as a proxy for their contracted hours (recognising that this is an imperfect substitute and will likely overstate the number of contracted hours). Figure 11 shows the cumulative distribution of workers' usual hours worked per week, with the red line displaying workers on variable hours contracts and the blue line showing other employees. The chart highlights that around a quarter (24 per cent) of workers on variable hours have zero contracted hours: these are our ZHC workers.

One option would be to set a very 'low' hours threshold: at, say, seven to eight hours per week, roughly the length of a shift.[29] But this would essentially capture those on zero-hours contracts and not many others. Setting a threshold at this level would leave roughly three-quarters of workers on variable hours without access to a contract that reflects their regular hours. It could also create perverse incentives for employers to pre-emptively switch workers from ZHCs to contracts just above the 'low' hours threshold so as to avoid triggering the new right altogether. If a worker on a ZHC is currently being offered shifts of over 30 hours a week, then them being moved to a nine-hour-a-week contract is hardly reducing their insecurity.

28 D Newman, Guaranteed hours – who will qualify? A Range of Reasonable Responses, December 2024.
29 The CIPD have in the past defined 'short hour contracts' up to 8 hours per week. See: M Beatson, Zero-hours and short-hours contracts in the UK: employer and employee perspectives, CIPD, December 2015.

FIGURE 11: **A 'low' hours threshold should be set at 25 hours**

Estimated distribution of contracted hours among variable-hour contracts and other workers: UK, 2022-2025



NOTES: Variable-hour contracts include zero-hours contracts, agency workers and those whose hours vary and are paid hourly. The chart assumes that those on zero-hours contracts have usual hours of zero. Excludes any paid or unpaid overtime.
SOURCE: RF analysis of ONS, Labour Force Survey.

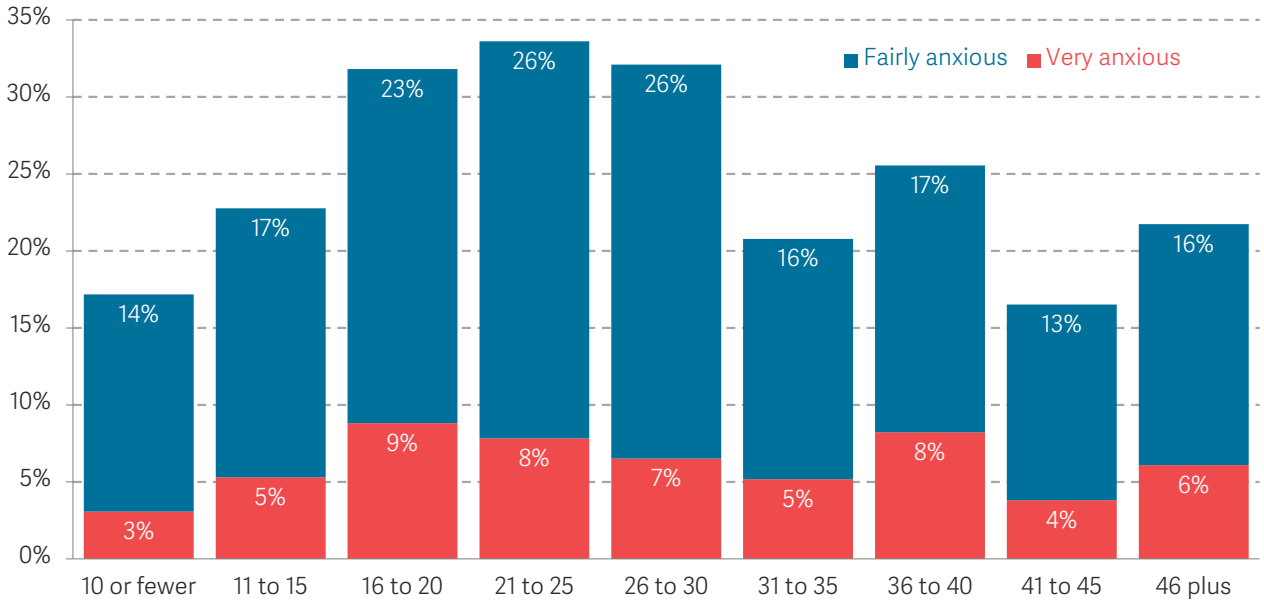
With that in mind, we recommend a 'low' hours threshold at 25 hours per week, for two key reasons.[30] First, many workers facing hours insecurity don't work especially low hours. For example, the average usual weekly hours of a worker on a variable hours contract is 27, compared to 33 for other employees.[31] Setting the threshold at 25 hours per week would capture around half (47 per cent) of workers that we estimate to be on variable hours contracts; given that some will have contractual hours below their 'usual' hours, then giving the new right to those whose contractual hours are 25 or below should capture more than half of variable hours workers.[32]

A second reason for defining 'low' hours broadly is that anxiety about unpredictable hours isn't just limited to those on the very lowest hours. Those usually working up to 25 hours a week are just as likely to report hours-related anxiety as those working fewer hours. Indeed, as 11Figure 12 shows, around a quarter of workers usually working 16-20 or 21-25 hours a week report being either 'very' or 'fairly' anxious about unexpected changes to hours worked.

30 This means that anyone working above 25 hours per week wouldn't be eligible for a new contract that reflects their regular weekly hours.
31 This figure, which refers to the mean, is a 2022-2025 average. Source: RF analysis of ONS, Labour Force Survey.
32 For example, a third of those on zero-hours contracts report 'usual' weekly hours above 25, despite contractual hours of zero, Source: RF analysis of ONS, Labour Force Survey.

FIGURE 12: **Anxiety about unexpected change to hours worked extends beyond the lowest-hour workers**

Anxiety about unexpected changes to hours worked, by usual number of hours worked per week: UK, 2017



NOTES: Includes any paid or unpaid overtime.
SOURCE: RF analysis of 2017 Skills and Employment Survey.

Of course, a relatively high 'low' hours threshold would bring with it some costs. The Government's impact assessment estimates the administrative costs of setting up the right to a guaranteed hours contract of £160 million a year, with an additional £200 million for payment of short notice shift cancellation and £110 million for extra workforce planning.[33]

Setting the threshold at 25 hours is our recommended starting point, but the Government may want to adjust this as costs to employers or unintended consequences for workers become clearer. For example, it is not currently clear whether the new right will discourage employers from offering extra shifts or overtime; employers may be concerned that these could trigger contractual agreements, for example. And if the new right discourages employers from offering 'low' hour roles altogether, then this could reduce opportunities for workers who are only able to work a small number of hours each week, including those with caring responsibilities or disabilities.

In what follows, we consider how the Government could mitigate these risks – starting with how to design a test for 'regular' work.

33 These include the ongoing costs to business of having to track all employees' hours so as to calculate which are entitled to a contract reflecting their regular hours. These costs also include the "value of unavoidable cancellations for businesses that face unpredictable demand" and "costs to employers of extra workforce planning to avoid shift cancellations". See: Department for Business & Trade, Final stage impact assessment: ZHCs – Right to Guaranteed Hours, October 2024; Department for Business & Trade, Final stage impact assessment: ZHC – Right to Reasonable Notice of Shift Patterns and Payment for Shifts Cancelled, Moved or Curtailed at Short Notice, October 2024; UK Government, Employment Rights Bill: Economic Analysis, October 2024.

How should the 'regularity' of hours worked be defined?

The ERB proposes that workers will have the right to a new contract if they 'regularly work' more than their contracted hours over a 12-week reference period. This implies that, in addition to being on a zero-hours, 'low' hours or agency contract, a worker must also meet some form of 'regularity test' to trigger a commitment to a new contract.

Our interpretation of this particularly fuzzy part of the policy is that the test for regularity will be defined as the number of weeks (out of the 12) a worker exceeds their contracted hours. Clearly, one or two very busy weeks of work over the 12 weeks is unlikely to constitute 'regular'. But meeting a threshold of, say, eight out of the 12 weeks would more clearly capture a 'regular' pattern of work. (Box 1 details our approach to estimating how many workers regularly work more than their contracted hours.)

BOX 1: **Estimating how many workers regularly work more than their contracted hours**

There is very limited data that allows us to estimate how many workers would be covered by the right to a regular contract under different tests for 'regularity'. To help fill this gap, we use a novel approach that combines administrative and survey data to estimate how many workers regularly work more than their contracted hours. Specifically, we link HMRC Real Time Information (RTI) payslip data for workers paid weekly across each week in 2019 with Annual Survey of Hours and Earnings (ASHE) data on hourly pay rates and weekly hours, and combine this with Labour Force Survey (LFS) data on the prevalence of zero-hours contracts.

We start by linking HMRC RTI data for 2019-20 (which has weekly pay information from tax weeks 1-52) to ASHE (which has hourly pay and basic usual hours).[34] We can then derive weekly hours for each week in 2019-20 using the payslip data on weekly earnings and the ASHE measure of hourly pay (which we assume is constant throughout 2019-20), and from this we can define a 'low' hours contract using basic usual hours in ASHE as a proxy for contracted hours. Following the recommendation set out earlier in this report, we set the 'low' hours threshold at 25 hours per week.

To estimate the prevalence of zero-hours contracts, we calculate ZHC rates from the LFS across detailed demographic and industry cells, randomly allocate ZHC status in the HMRC-ASHE linked dataset according to these probabilities. (This captures, for example, that the proportion of workers on a ZHC is 22 per cent among 16-24-year-old men working part time in hospitality, but only 2 per cent of among 45-54-year-old women in full-time admin roles.) As such, our ZHC

34 This is a newly available linked dataset, made possible by the Wage and Employment Dynamics project.

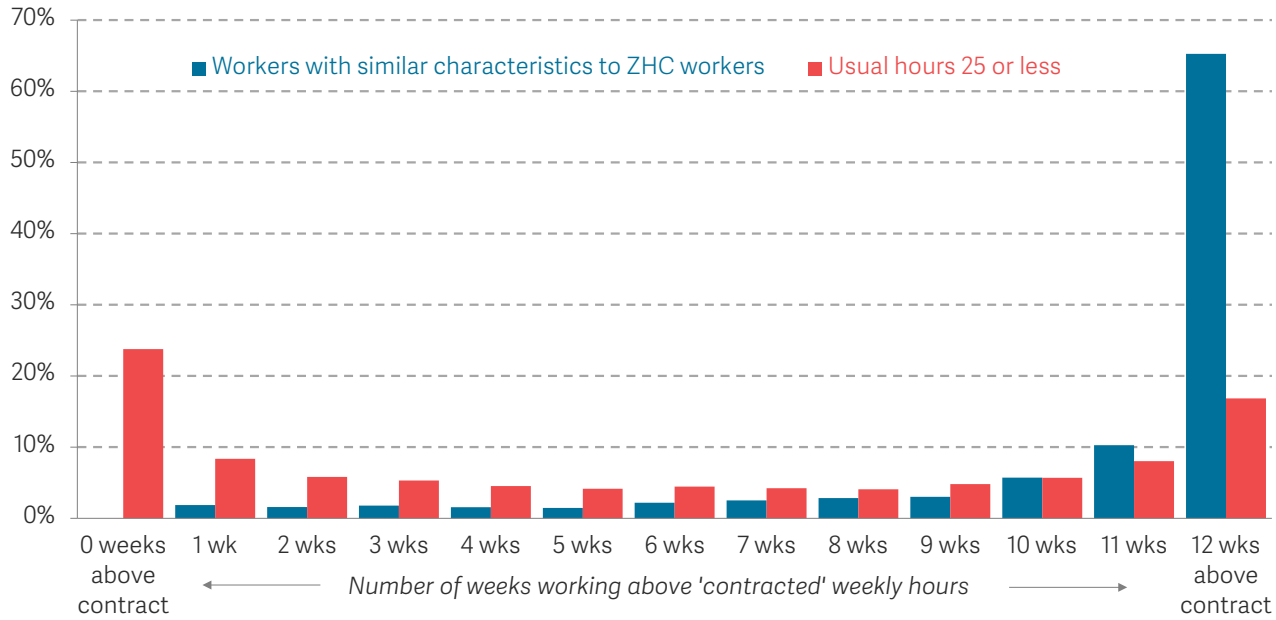
grouping should be interpreted as 'workers with characteristics similar to those on a ZHC' rather than a direct measure of ZHC workers.

Before estimating the proportion of employees that worked more than their contracted hours over a 12-week period, we exclude those who did not work in any of those 12 weeks. We do this to remove workers with inactive payslip records but recognise that this may also exclude individuals on a lapsed ZHC who don't work for much of the year.

Figure 13 shows our estimates of the proportion of employees who worked more than their contracted hours over a 12-week period, ranging from whether this happened in zero weeks to all 12. Taking the caveats discussed above into account, we observe that 17 per cent of workers whose usual hours were 25 or fewer worked more than this in all 12 weeks, while 24 per cent worked at or below their usual hours in all 12 weeks. Our estimates suggest that 65 per cent of workers with similar characteristics to ZHC workers (among those who worked in at least one week over the reference period) – exceeded their contracted hours, i.e. zero, in every week of a 12-week period. [35]

FIGURE 13: **17 per cent of workers whose usual hours were 25 or fewer worked more than this in all 12 weeks**

Estimated distribution of workers by number of weeks worked above contracted hours over a 12-week period: GB, 2019



NOTES: We estimate how many weeks someone worked above their contracted hours using weekly payslip data, with regular weekly hours from ASHE used as a proxy for contractual hours and zero-hours contracts information from the Labour Force Survey to estimate 'workers with similar characteristics to ZHC' in the HMRC-ASHE linked dataset. We exclude workers who haven't worked at all over the 12 weeks. See Box 2 for details.
SOURCE: RF analysis of ONS, Labour Force Survey; ONS, Annual Survey of Hours and Earnings; HMRC PAYE dataset.

35 This would suggest that the reform may formalise a pattern of work that already exists: offering greater job security around hours that are already being worked, while reducing the risk of a sudden drop in hours.

Mitigating risks and unintended consequences

Even with a clear test for regularity, employers may still worry about their ability to respond to changing demand if they think offering additional shifts could trigger a commitment to a new contract. And, as we have already discussed, there are risks for workers if employers become reluctant to offer low-hour roles altogether. We propose three mitigation strategies to manage these risks.

First, we recommend setting the test for 'regularity' – i.e. the number of weeks out of the 12-week reference period that a worker must exceed their contracted hours so as to trigger a new contract – at eight. Employers would need to be offering additional shifts very regularly for a new commitment to arise. We think this should reduce the risk that employers pull the plug on genuinely low- or irregular-hours jobs.

Setting a higher regularity threshold would also provide employers with the flexibility to respond to uncertain demand or trial new working arrangements. Take the example of a restaurant or catering business testing the viability of opening an extra day of the week, leading them to ask their existing staff to work extra hours. A worker would need to take on those extra hours in eight out of 12 consecutive weeks (assuming their other hours remained constant) before triggering the right to a new contract. This would give employers the space to experiment without immediately being committed to offering new contracts.

Second, the Government may want to consider excluding high seasons – such as summer and December – so that businesses with highly seasonal patterns of demand can more freely scale up during those periods. For example, a retail worker might work intensively over December, or there could be summer peaks in hospitality in tourist hotspots. As others have noted, the sectoral nature of these seasonal peaks may require sector-specific exemptions.[36]

Third, the Government might want to explore some amount of 'buffer' when deciding what working 'more' than someone's contracted hours looks like in practice. It might be unreasonable to expect employers to offer a new contract to their employees every three months if their hours increase by only a small margin, say one or two hours. The Government could introduce a minimum increase requirement – that would need to be meaningfully above a worker's existing contracted hours to trigger the new right.

Another related question is the rules that determine how many hours should be specified in the 'new' contract. For example, should this be equal to the mean or median of their weekly hours worked over the 12-week period? Given that the mean would be sensitive to exceptional weeks of overtime, our view is that the median hours over the reference period should be considered as the new contract offer.

36 D Newman, Guaranteed hours under the Employment Rights Bill – dealing with seasonal work, A Range of Reasonable Responses.

Finally, the Government will need to determine how often employers are expected to reassess hours after each worker's first 12-week reference period. One option would be for continuous monitoring of hours – i.e. over a rolling 12-week window – but the DBT's impact assessment assumes that reassessments will happen on an annual basis.[37] But reviews as infrequent as annual risk substantially undermining the right: a worker with steadily increasing hours might have to wait a whole year for a new contract that reflects these extra hours.[38] Either way, there needs to be a robust and workable system for reassessments that means that the new right has some bite.

What is a 'reasonable' notice period for shifts?

A lack of guaranteed hours is one big part of the hours insecurity problem, but this can be exacerbated by short-notice schedule changes. Indeed, survey data shows that in 2023, 73 per cent of variable-hours workers received less than two weeks' advance notice of shifts, with 54 per cent receiving less than a week, and 15 per cent receiving less than 24 hours.[39] There may be some who can cope with this, but this uncertainty leaves many workers unable to arrange childcare, manage household budgets and effectively plan their lives.

The Government is, therefore, right to focus on the issue of notice periods for shifts, but it has not yet defined what giving workers 'reasonable' notice will mean in practice. Four weeks' shift notice is one option on the table, which is the standard promoted by the Living Wage Foundation's voluntary Living Hours accreditation.[40] However, experience with voluntary standards suggest that implementation challenges do arise, especially in sectors like hospitality and social care.

> *"The experience of Living Hours suggests barriers to accreditation vary. There are some recurring themes with particular sectors tending to find some measures more difficult than others. For example, four weeks' notice of shifts can be more of an issue in hospitality and social care – the latter being particularly affected by short-notice shift changes due to sickness or changing care user needs."*[41]

Employers may be concerned about a longer notice period because this might prevent them from handling demand spikes, sickness, restaurant cancellations or varying footfall. But minimum notice periods would not prevent employers from offering workers shifts at

37 Department for Business & Trade, Final stage impact assessment: ZHCs – Right to Guaranteed Hours, October 2024.
38 For example, an employer could hire ZHC workers, have them do (say) five hours a week for the first 12 weeks, before asking them to work full-time. These workers would then not get the right to a full-time contract for another 12 months, and the employer would have almost all the power over their employees that currently exists.
39 J Richardson, Precarious pay and uncertain hours: insecure work in the UK Labour Market, Living Wage Foundation, August 2023.
40 There are nearly 250 Living Hours accredited employers in the UK. When a four-week notice period was initially consulted on there was a "strong consensus that four weeks was the minimum necessary to plan and budget for life. For many families, rent and other large outgoings are due monthly". See: S Lyall & G Irvine, Policy Briefing: Sufficient and Predictable Hours, Living Wage Foundation, October 2024.
41 This unpublished quote comes from a conversation with the author and the Living Wage Foundation.

short notice – they just wouldn't be able to force employees to do them. What changes is that workers will have more security in knowing their core hours in advance.

A two-week notice period for shifts is another 'reasonable' option, something which is fast becoming standard practice across the US. Workers are entitled to two weeks' notice in Oregon (originally one week), Chicago (originally 10 days) and San Francisco, mainly across retail and hospitality. And evidence suggests that 'predictive scheduling' laws have not only improved predictability and well-being for workers, but have also benefitted employers through better workforce planning, reduced staff turnover and fewer last-minute absences.[42]

Here in the UK, a proposal for a right to two weeks' advance notice of shifts was first recommended in 2018 by the Low Pay Commission's submission to the Taylor Review.[43] Since then, we have made the case for these reforms ourselves on several occasions.[44] On balance, we recommend a right to at least two weeks' advance notice of shifts. This would represent a huge improvement on current practice – giving workers the predictability they need to plan their lives effectively.

How much compensation should workers get when shifts are cancelled at short notice?

The final major gap in the Government's plan to tackle hours insecurity is: how much compensation should workers get when shifts are cancelled at short notice?

As it stands, workers are often left out of pocket when shifts are cancelled, even if cancelled at the last minute. Survey data from the CIPD shows that nearly half of employers who hire people on zero-hours contracts provide no compensation for workers when a shift is cancelled with less than 24 hours' notice.[45] Separate evidence from the Living Wage Foundation finds that one-in-four shift workers experienced unexpected shift cancellations, with nine-in-ten not compensated at their full rate of pay.[46] This effectively imposes an 'insecurity premium' on these workers, who may have already incurred costs such as childcare or travel and organised other parts of their lives around the shift – before it becomes clear the shift is no longer going ahead.

As Table 1 shows, many countries wrestling with this issue have taken steps to shift the dial. In the US state of Oregon, workers are entitled to compensation of 50 per cent of

42 K Harknett, D Scheider & V Irwin, Improving health and economic security by reducing work schedule uncertainty, Proc Natl Acad Sci USA 118(42), October 2019; Q Yu, How to design predictive scheduling laws that not only benefit workers but also firms' bottom line? Brookings Institute, August 2023.
43 Low Pay Commission, Low Pay Commission Response to the Government on 'one-sided flexibility', December 2018.
44 See, for example: N Cominetti et al, Low Pay Britain 2022: Low pay and insecurity in the UK labour market, May 2022.
45 CIPD, Zero-hours contracts: evolution and current stats, August 2022.
46 J Richardson, Precarious pay and uncertain hours: insecure work in the UK Labour Market, Living Wage Foundation, August 2023.

their expected wages if a scheduled shift is cancelled with less than 24 hours' notice.[47] In the Netherlands, if a shift is cancelled with less than 4 days' notice, the worker is entitled to payment for the work originally scheduled (though this notice period of four days can fall to 24 hours if the employer and worker both agree).[48]

TABLE 1: **Other countries provide compensation when shifts are cancelled at late notice**

International examples of compensation for short notice shift cancellation

Country/ US regions	Short notice shift cancellation policy
Ireland	Workers on zero-hours contracts are entitled to 25% of expected hours if a shift is cancelled.
Oregon (US state)	Workers are entitled to 50% of wages for cancelled shifts with less than 24 hours' notice.
Seattle (US city)	Workers are entitled to 50% of wages for cancelled shifts with less than 24 hours' notice.
Chicago (US city)	Workers are entitled to 50% of wages for cancelled shifts with less than 24 hours' notice.
New Zealand	Employers must pay full wages if a worker turns up to a cancelled shift.
Netherlands	Workers are entitled to full pay for scheduled work if cancelled with less than 4 days' notice. This notice period can drop to 24 hours if agreed in advance.

SOURCE: Workplace Relations Commission, Employment Law Explained, September 2019; A Eleveld, Flexi-insecurity and the regulation of zero-hours work in the Netherlands, European Labour Law Journal 13 (3), June 2022; OregonLaws, ORS 653.455: Compensation for work schedule changes, accessed 24 June 2025; National Women's Law Center, State and Local Laws Advancing Fair Work Schedules, September 2023.

Employers in the UK can cancel shifts at short notice but bear none of the associated costs that fall on workers. We recommend that employers should pay 100 per cent of the scheduled shift if it is cancelled with less than 24 hours' notice. Beyond that point, a sliding scale of compensation should apply as notice increases. This ensures that, if employers value the flexibility of being able to drop shift workers at short notice, the costs of that unpredictability don't fall unfairly on workers.

Collectively, the reforms set out in the ERB will reduce workers' anxiety, improve predictability and enable them to plan their lives more effectively. Of course, there will be some costs to employers: for example, as the DBT notes, if employers can't respond flexibly to changing demand.[49] But nothing in this new legislation will prevent employers from offering workers additional shifts at short notice or temporary work. Moreover, international evidence shows that employers can adapt quickly to 'predictive scheduling' – which can lead to better workforce planning and even falling costs.[50]

47 OregonLaws, ORS 653.455: Compensation for work schedule changes, accessed 24 June 2025.
48 A Eleveld, Flexi-insecurity and the regulation of zero-hours work in the Netherlands, European Labour Law Journal 13(3), June 2022.
49 Department for Business & Trade, Final stage impact assessment: ZHCs – Right to Guaranteed Hours, October 2024.
50 Q Yu, How to design predictive scheduling laws that not only benefit workers but also firms' bottom line?, Brookings Institute, August 2023.

Section 4

Employment status

The Employment Rights Bill (ERB) will strengthen the rights associated with being a 'worker' (as opposed to being self-employed). One risk associated with doing this is that it gives employers a stronger incentive to organise their business around the use of self-employed contractors, as opposed to hiring employees. This incentive is already strong thanks to the tax system, which taxes self-employed labour at a lower rate than employee labour. The increase in employer National Insurance contributions in April pushed this 'tax gap' to a new high.

To counter this risk, the Government must strengthen the enforcement of the boundary between genuine self-employment and 'worker' status. The Government plans to consult on getting rid of the UK's middle tier employment status, where 'limb (b)' workers have some but not all of the employment rights that employees have. This might help insofar as a two-tier system is less confusing, meaning workers have a better understanding of their rights. But unless the clarity of the legal boundaries is improved (so that workers are less reliant on the courts to prove their status) enforcement will remain challenging. Alongside clarifying the law, the Government should move ahead with creating its single enforcement body and expand its resources so that it can take a more proactive approach to enforcement.

So far, this report has discussed the new rights for workers in the ERB. In this section, we discuss another part of the Government's proposed Make Work Pay agenda – reforming employment status. The Government has said that it will consult on "moving towards a single status of worker" and sees this, in part, as a response to the problem of 'bogus' self-employment.[51] As we discuss below, the measures in the ERB, as well as recent tax changes, make it more important than ever that the boundary between employees and the genuinely self-employed is clear, and effectively policed.

51 This occurs when workers are told they are self-employed, but their working arrangement looks much like an employee. This leaves them with neither the autonomy that often comes with self-employment nor the employment rights provided to employees. Citizens Advice, Neither one thing nor the other: How reducing bogus self-employment could benefit workers, business and the Exchequer, August 2015.

Boosting employees' entitlements raises the risk of bogus self-employment

The UK has three types of employment status: self-employment, employees, and a middle-tier category called 'limb (b)' work (these are explained in Box 2). The Government's Employment Rights Bill will raise the level of workplace rights that come with being an employee or, in some cases, a limb (b) worker. Many of these changes will raise costs for employers. For example, the Department for Work and Pensions estimate that extending statutory sick pay to low-paid employees and making it payable from day one of a sickness absence will cost businesses an additional £420 million per year, while introducing compensation for late-notice shift cancellations will make employing workers on zero-hour contract workers (who are generally in the 'limb (b)' category) more expensive.[52] As a result, some businesses may seek to avoid these additional costs by switching to business models which use self-employed contractors instead of hiring employees or limb (b) workers.

BOX 2: **Employment status**

The UK has a three-tier system of employment status, each with varying levels of entitlement in employment law.

- Self-employment. Entitled to protection from discrimination (under the 2010 Equality Act) if personally providing work, and covered by health and safety law if working on client premises.
- 'Limb (b) workers.' An intermediate category created in the 1996 Employment Rights Act (which formalised the idea of dependent contractor status, which had developed in earlier UK case law). Includes entitlement to minimum wage, holiday pay, pension auto-enrolment and a written contract and payslips.
- Employees. In addition to those rights or entitlements attached to limb (b) workers, employees are entitled to protection from unfair dismissal, redundancy pay and notice periods, statutory sick pay and parental pay and leave.

These different categories and their associated entitlements are intended to reflect the fact that employment relationships can involve different levels of dependence (on the part of workers) and control (on the part of employers).

52 Department for Work and Pensions, Final stage impact assessment: Improve access to Statutory Sick Pay by removing the Lower Earnings Limit and removing the waiting period, October 2024. The £420 million per year is a static costing and does not include any behavioural responses (such as workers taking more sick days).

The main tests of 'employee' status are that an individual agrees to work personally for pay, mutuality of obligation (the employer is obliged to provide work and the employee to accept), and control over the work by the employer. The tests for 'limb (b)' are less demanding. Its main component is that an individual works under a contract personally to do work (meaning, they cannot send a replacement).[53]

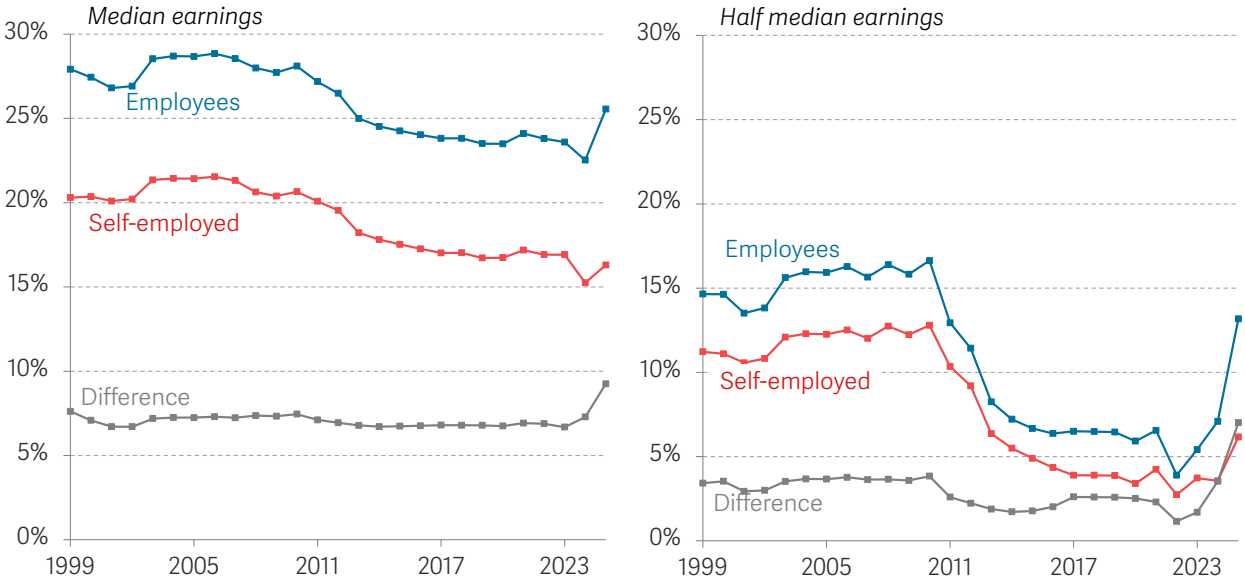
The UK is relatively unusual in having a formal three-tier system (although that is also the system in the US, Spain, and Italy). Binary systems are more common. The main benefit of a binary system is that it is more easily understood by workers and employers, and easier to enforce. It also better aligns with tax policy, which tends to operate on a binary basis (including in the UK, where, roughly speaking, 'workers' are taxed the same as 'employees'). A benefit of a three-tier system is that it may better reflect the actual diversity of employment relationships, and be a way of extending more protections to 'dependent contractors' who may otherwise be excluded in binary systems.

The UK's tax system already gives businesses and individuals a strong incentive to do this – it is heavily biased in favour of self-employment (the tax and employment law definitions of 'worker' aren't identical, but both create incentives favouring self-employment). The self-employed pay the same income tax as employees, but they pay a lower rate of National Insurance (NI), and businesses hiring the self-employed aren't liable for employers' NI contributions. Figure 14 plots the total direct tax rate for employees and the self-employed. The gap is considerable; over the past 20 years it has tended to be around 7 per cent of labour value for median earnings, and 3 to 4 per cent for half-median earnings (the gap is smaller at low earnings because employer NI is lower). The Government increased employer NI in April 2025, and this took the employment status tax gap to its highest level this century: 9 percent at median earnings, and 7 per cent at half median earnings. Ideally, the Government should move the tax system in the opposite direction, and work towards taxing employee and self-employed labour equally, so that businesses and workers organise themselves in the way that is most productive (or most reflects the true nature of the employer-worker relationship) rather than to pay less tax.[54]

53 P Brione & K Zaidi, Employment status, House of Commons Library, July 2024; DBT & BEIS, Employment status and employment rights: guidance for HR professionals, legal professional and other groups, August 2024.
54 A Corlett, Tax planning, Resolution Foundation, June 2023.

FIGURE 14: **Raising employer National Insurance has pushed the employment status tax gap to a new high**

Total direct taxes as share of market value of labour: UK



NOTES: Market value of labour is calculated as employee wages plus employer National Insurance contributions on employee wages – this is the assumed income for the equivalent tax calculations for the self-employed. Class 2 NICs included until 2023; from April 2024 self-employed no longer required to pay Class 2 NICs to prove pension entitlement.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

The strengthening of employee rights, added to the existing and growing incentive in the tax system, means the risk of 'bogus' self-employment is set to grow. Bogus self-employment describes a situation where a worker is falsely classified as self-employed by their employer to avoid tax and legal obligations. The most prominent example in recent years has been Uber drivers, who were treated as self-employed by Uber until a Supreme Court ruling in 2021 found that they were, in reality, 'limb (b)' workers (and therefore entitled to minimum wage and holiday pay). More recently, several high-street retailers were found to have been using apps to hire 'freelancers' to work in their shops (someone working in a shop would almost certainly clear the legal threshold for 'worker' status – see Box 2).[55] This shows the growing risk of bogus self-employment is far from theoretical.

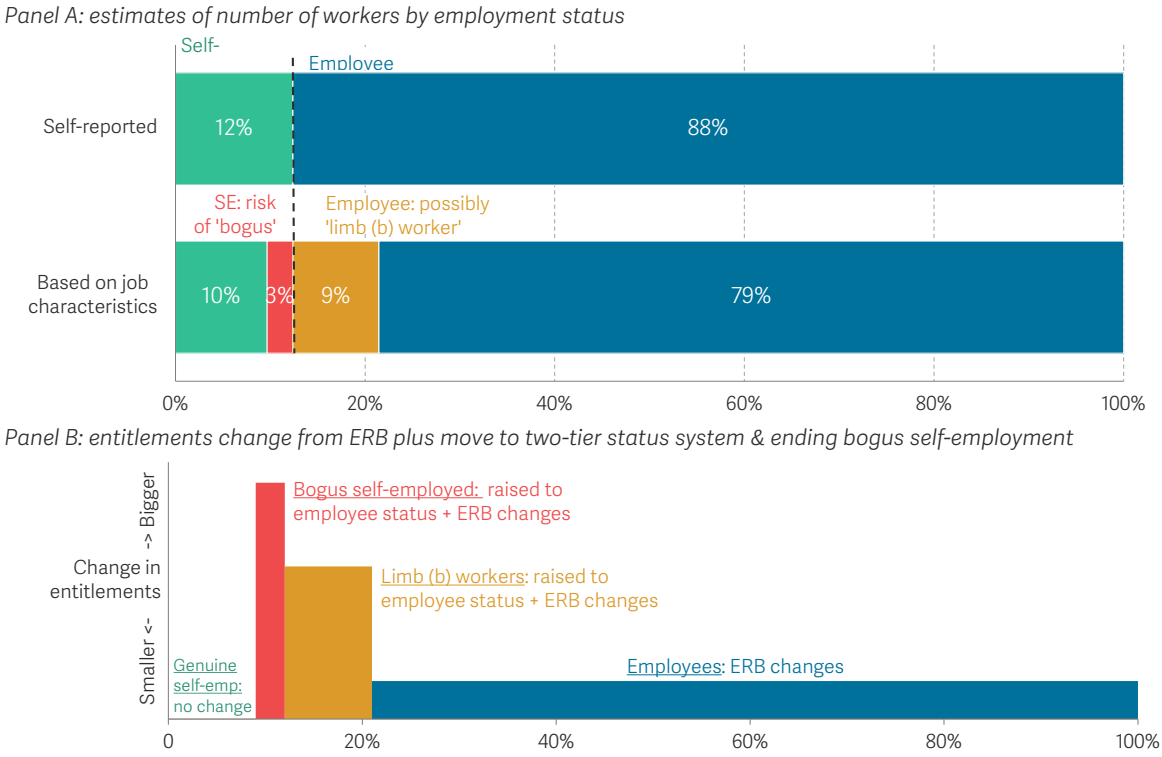
Unfortunately, it's hard to know how big the problem is. Employment status is tested in the courts, which means we only know for sure about an instance of bogus self-employment when workers bring and win a case where their status is tested. The best we can do is to use information about workers' jobs to make educated guesses about how many workers are falsely classified as self-employed. Such an exercise is set out in Figure 15, which uses Understanding Society data. The bottom bar shows that 12 per

55 S Butler, Uniqlo, Gymshark and Lush stop hiring UK workers via gig economy apps, The Guardian, 5 January 2025.

cent of workers self-classify as self-employed (so, 4.2 million people).[56] Of those, a quarter (amounting to 2.7 per cent of all people in work) report having low levels of autonomy over their work (indicating high levels of employer control – a key legal test of 'worker' status) or report abnormal tax affairs for someone genuinely self-employed (see Annex 2 for more information). This suggests up to 900,000 workers may be at risk of bogus self-employment.[57]

FIGURE 15: **Reforming employment status would be economically significant, although estimating the number of workers in each employment status is inherently uncertain**

Estimates of number of workers by employment status (UK, 2023), and indicative quantification of size of change in employment entitlements from Employment Rights Bill and employment status reform



NOTES: Self-employed workers are considered at risk of bogus self-employment if they are solo-self-employed and have low autonomy in their job or if their tax affairs resemble those of employees. Employees are labelled as possibly limb (b) workers if they are on a zero-hours contract, are an agency worker, or have a temporary job without a contract. The size of the employment rights upgrade is based on a rough quantification of the value of different entitlements pre- and post-Employment Rights Bill. This also assumes that the Government removes limb (b) status, and that both bogus self-employed and limb (b) workers are raised to employee status level. See Annex 2 for more details.
SOURCE: RF analysis of Understanding Society.

56 This estimate is based on taking the self-reported self-employment share of overall employment in Understanding Society (from 2023) and applying it to total employment in the Labour Force Survey.

57 Similar analysis undertaken in 2017 estimated that 15 per cent of solo-self-employed workers had an 'unclear' status due to low levels of autonomy. Centre for Research on Self-employment, The true diversity of self-employment: Uncovering the different segments of the UK's self-employed workforce, 2017.

The Government wants to move to a two-tier employment status system

Some of the blame for bogus self-employment may lie with the UK's approach to employment status. There are two issues. One is the fact that the boundaries between the three statuses are not defined clearly in legislation. The 1996 Employment Act offers a definition of 'limb (b)' worker status but in practice the courts rely on tests developed through case law. This can be a slow process, and can involve appeals to higher courts. It took five years for the Uber case to reach resolution. Another issue is the fact that the UK has a three-tier system (described in Box 2), rather than a simpler two-tier system as is more common in other countries. Together, these two issues mean many workers won't know their own employment status or the rights they should be entitled to. In a system where enforcement of employment rights relies largely on individuals taking action, this lack of clarity makes enforcement less likely, and bogus self-employment more likely.

The Government wants to move a two-tier system of employment status, and the Labour party in opposition has previously said that this may help reduce bogus self-employment.[58] A simplified system would be inherently easier for workers and businesses to understand than a three-tier one. But we know less about whether the Government will seek to address the first issue: that of legal clarity. It could still be difficult for workers to know their rights under a two-tier system if the boundary remains fuzzy, and dependent on interpretation of case law. In the words of the Taylor Review, "the legislation must do more and the courts less if we are to improve clarity".[59]

Removing limb (b) status would also carry risks. Assuming the new boundary between self-employment and worker status was drawn at the current boundary between limb (b) workers and employees (doing otherwise would mean 'downgrading' some or all limb (b) workers to self-employment status), making this change would mean a big upgrade in rights for limb (b) workers. They would be newly eligible for unfair dismissal protection and Statutory Sick Pay, for example. This would be good news for those workers, but would raise costs for employers, further strengthening incentives favouring bogus self-employment. Figure 15 offers a rough sense of scale – the economic significance of raising limb (b) workers to employee status would be in the same order of magnitude as changes being made to employee entitlements in the Employment Rights Bill itself.

This means the Government will need to tread carefully. But this raises its own risk – that slow progress on status reform means inaction on clarifying and improving the

58 This argument is most explicitly made in the Labour Party's 'Make Work Pay' white paper, published before the election, which says: "Labour believes our three-tier system of employment status has contributed to the rise of bogus self-employment, with some employers exploiting the complexity of the UK's framework to deny people their legal rights". Labour Party, Make work pay, June 2024. Government documents do not make reference to 'bogus self-employment' but do reaffirm the intention to consult on moving to a two-tier system. See: Department for Business and Trade, Next Steps to Make Work Pay, October 2024.

59 Department for Business, Energy and Industrial Strategy, Good work: the Taylor review of modern working practices, July 2017.

enforcement of existing status boundaries. Previous governments have faced similar challenges: Theresa May's Good Work Plan promised to legislate to clarify employment status but failed to.[60]

Status reform must be accompanied by stronger enforcement (and this could start now)

Given this, we suggest that the Government not conflate 'tackling bogus self-employment' with 'moving to two employment statuses'; they can be thought about separately.

First, making the legal boundaries clearer would be an improvement on the status quo even if the UK retained the current three statuses. A clarification would improve workers' understanding of their own status and entitlements, and make enforcement easier – both at the level of individual workers bringing tribunal cases, but also within state enforcement agencies.[61] The Government could also consider introducing a rebuttable presumption in favour of worker status (as opposed to self-employed), thereby shifting the burden of proof onto employers.[62]

Second, it's possible to make progress on tackling bogus self-employment even without legal reform. One issue is the backlogs in the courts: some people bringing cases to employment tribunals are facing two-year long waiting times, which hugely reduces workers' incentive to bring claims.[63] Indeed, pressure on the system would grow as a result of the ERB reducing the qualifying period for unfair dismissal protection (the Government estimate an additional 3,300 employment tribunal cases per year).[64]

Reforms to the enforcement system would make it easier to police issues around worker status, but also unlawful behaviour across the board. The Government has said that it wants to create a single enforcement body: the 'Fair Work Agency' (FWA).[65] This in itself should improve enforcement through better information sharing between what are currently separate agencies, and because workers should have a clearer sense of where to turn to raise complaints (currently three-in-five workers say they wouldn't know where

60 Department for Business, Energy & Industrial Strategy, Good work plan, December 2018.
61 In theory, to enforce minimum wage law (and in future, holiday pay law), state enforcement agencies already need to be able to assess workers' employment status to know if they fall within the scope of those laws, but this is currently difficult in practice given the lack of legal clarity. Clarifying the law would, therefore, strengthen the hand of enforcement bodies to tackle other labour market abuses or infringements. For the process HMRC investigators follow in enforcing minimum wage law, see: HMRC, National Minimum Wage Manual: NMWM04090 - Status: issues to consider when investigating self-employment, April 2025.
62 This was one of the policy options set out in the Fabians' 2024 report on employment status, and has also been introduced in Spain and as part of the EU's Platform Workers Directive. L Raikes, Employment status: Options for reform, Fabian Society, August 2024. This has also been recommended by the TUC: M Creagh, Insecure work in 2023: The impact on workers and an action plan to deliver decent work for everyone, TUC, August 2023.
63 Courts and Tribunals Judiciary, Minutes of the National User Group meeting held via Microsoft Teams on 14 January 2025, January 2025.
64 Department for Business and Trade, Impact assessment: Day 1 unfair dismissal rights, October 2024.
65 Department for Business and Trade, Next Steps to Make Work Pay, October 2024.

to go to raise a problem about non-compliance with employment law).[66] In addition, a future FWA could be strengthened through additional resources, which would allow it to undertake more proactive investigations (enforcement teams are smaller in the UK than in many other countries, and well below the International Labour Organisation's benchmark); by giving workers, business representatives and civil society groups the ability to make a 'super complaint' about systemic abuses; and raising the penalties associated with non-compliance.

The more that a future FWA is able to do, the less that would be left up to individuals, leading to stronger enforcement overall. Such a move would particularly benefit low-paid workers, who are not well served in the current system. Low-paid workers are the most likely to experience non-compliance with employment rights, and yet are currently less likely to bring employment tribunal cases.[67]

66 L Judge & H Slaughter, Enforce for good: Effectively enforcing labour market rights in the 2020s and beyond, Resolution Foundation, April 2023.
67 L Judge & H Slaughter, Enforce for good: Effectively enforcing labour market rights in the 2020s and beyond, Resolution Foundation, April 2023.

Section 5

Conclusion: more to do to tackle insecurity

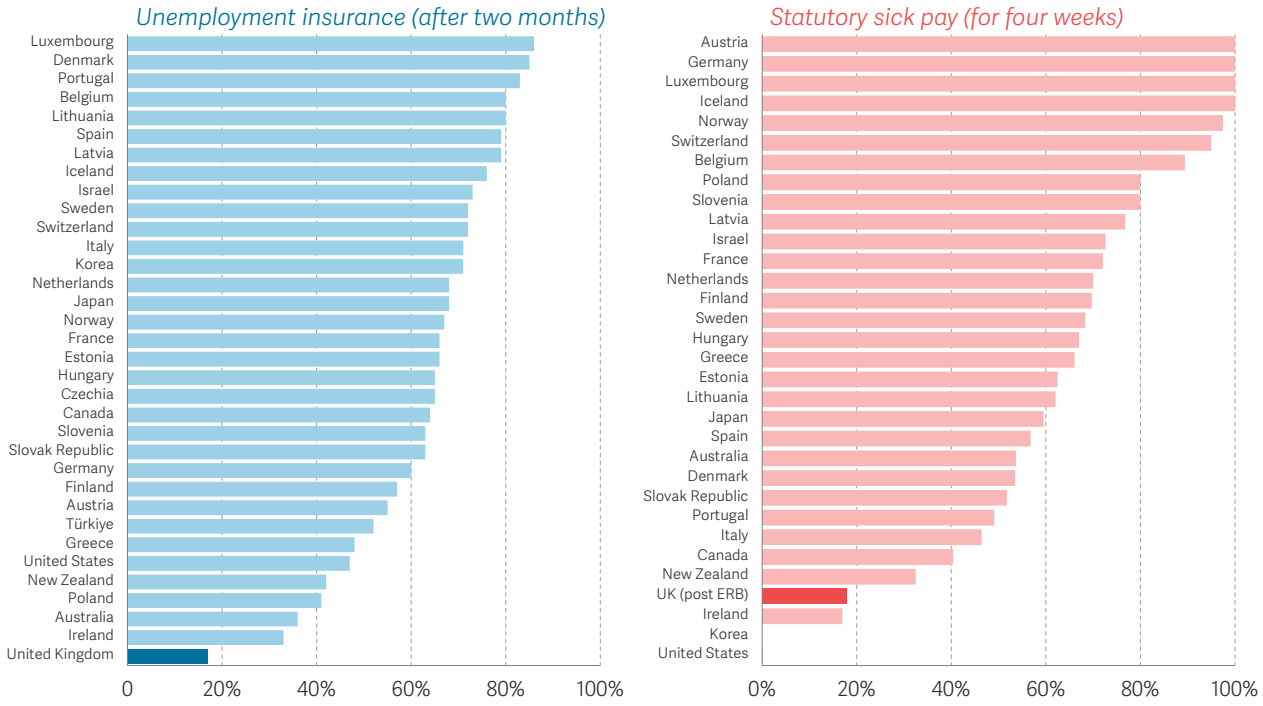
The Government's Employment Rights Bill is an ambitious undertaking. The Bill itself was 168 pages long at first reading, with at least 27 important policy changes across multiple areas of employment law. It will make life better for millions of low-paid workers. But it mustn't be the end of the story for employment reform, because in many respects the UK's labour market will still feel like an insecure place even once the Bill is implemented.

In the previous section, we discussed employment status and the broader question of enforcing the rights workers already have, which the Government plans to act on but which are not part of the Bill itself. But there are two other important areas where the UK continues to fall short.

One is sick pay. The ERB's reforms to Statutory Sick Pay (SSP) are very welcome: they extend coverage to more than a million low-paid employees (who earn below the £123 'lower earnings limit' and are currently ineligible), and workers will now be eligible for SSP payments from their first day of sickness, a big improvement on the current situation where employers are only obliged to start paying from the fourth day of a sickness absence. But the level of SSP simply remains too low. SSP is currently worth £118.75 per week, or £23.75 per day, which is just 24 per cent of what someone would make working an 8-hour day on the adult minimum wage (£97.70), and just 16 per cent of what someone on average earnings in the private sector makes. This means, for workers reliant on SSP, getting sick means facing a big income hit. That's not the situation in most rich countries, where statutory sick pay or related schemes offer stronger protection.

FIGURE 16: **Despite the Government's ambitious reforms, the UK's labour market will continue to be 'insecure' in important respects**

Earnings replacement from unemployment benefits (2024), and statutory sick pay (2018), among OECD countries



NOTES: The United States and Korea do not have statutory sick pay systems, although Korea is in the process of introducing one.
SOURCE: RF analysis of OECD.

Relatedly, a second area ripe for reform is the level of unemployment benefit. According to the OECD, the basic level of unemployment benefit in the UK offers the lowest rate of earnings replacement in a two-month period of unemployment among all OECD countries. This means losing work represents a much bigger economic risk for UK workers than it does for workers in other countries. Denmark's 'flexicurity' system, for example, includes unemployment benefits which offer an earnings replacement for someone on average private sector earnings of more than 85 per cent after two months' unemployment. This compares to a replacement rate of just 17 per cent in the UK. Because the UK's benefit levels are uprated (at best) in line with price inflation and are not linked to wages, this problem has gotten worse over time.[68]

68 M Brewer & L Murphy, From safety net to springboard: Designing an unemployment insurance scheme to protect living standards and boost economic dynamism, Resolution Foundation, September 2023.

The good news is that the Government appears to be moving in the right direction. The basic award in Universal Credit is set, unusually, to rise faster than inflation next year (though only slightly – the 'boost' will be £3 per week in real terms).[69] More encouragingly, the Government have also discussed introducing a new earnings-linked (and time-limited) unemployment insurance scheme.[70] This would better protect workers' living standards in the event of losing work, and may give workers more confidence to take on risky job moves.[71]

Taking the Employment Rights Bill from legislation to implementation will feel like an all-consuming task given the amount of policy detail still to be worked through. The Government mustn't lose sight, however, of the other important parts of its employment reform agenda. Strengthening enforcement and raising the basic level of unemployment insurance are important complements to the improvements being delivered by the ERB.

69 M Brewer, A Clegg & L Murphy, A dangerous road? Examining the 'Pathways to Work' Green paper, Resolution Foundation, March 2025.
70 Department for Work and Pensions, Pathways to Work: Reforming Benefits and Support to Get Britain Working Green Paper, March 2025.
71 L Murphy, The good, the bad and the messy: Responding to the Pathways to Work Green Paper consultation, Resolution Foundation, June 2025.

Annex 1: Measuring employment regulation

Examining the relationship between employment regulation and economic outcomes relies on a quantification of the extent and restrictiveness of employment regulation. This section makes use of two 'indices' that do this, one developed by the OECD,[72] and one by the Centre for Business Research (CBR) at the University of Cambridge.[73]

The OECD's index is probably the better known, and has been through multiple iterations since first being published in the early 1990s. The latest iteration was published in 2020, and offers data on OECD countries with measures dating from 1985 to 2019. The index is fairly narrow. It includes measures relating to making individual and collective dismissals, and relating to the use of temporary contracts. But it doesn't include areas of employment law like industrial action and working time regulations. The OECD's overall country scores are based on weighted averages of the index's sub-components.[74]

The CBR's index is broader, and covers areas of employment law including working time, whether the law requires workers in non-standard forms of work to be treated equally, laws relating to worker voice, and collective bargaining. It is available for 117 countries and covers the period from 1970 to 2022, although in this report we have only used data for OECD countries. One feature of this index is that it is published without a weighting scheme – in theory, this means equal weight is given to all sub-components. For use in this report, an overall average is calculated by first calculating the average within each of five domains (working time, forms of employment, dismissal, employee representation, industrial action), and then averaging across those five domains. For the regression analysis, a robustness check was undertaken where we assigned weights to sub-components according to how relevant each is for employers' decisions about hiring and management, with an alternative 'weighted' overall score produced using these. [75] This did not have a material impact on results.

There is a reasonable level of consistency between these indices, especially on dismissals, which is included in both indices. This is shown in Figure 17.

72 OECD indicators of employment protection legislation, available at: https://www.oecd.org/en/data/datasets/oecd-indicators-of-employment-protection.html
73 Centre for Business Research (University of Cambridge) Labour Rights Index, available at: https://www.repository.cam.ac.uk/items/938d5a0d-3799-4c5a-8103-8a7355628ef3
74 The weights and approaching to scoring are available in section 3 in: OECD, Employment Outlook 2020, July 2020.
75 The weights were produced by ChatGPT.

FIGURE 17: **OECD and University of Cambridge employment regulation indices are fairly well aligned**

Employment regulation score relating to dismissals (standardised) given to OECD countries by two different indices: 2019

NOTES: 'CBR-index' refers to the Labour Rights Index produced by the Centre for Business Research at the University of Cambridge. Score shown is the average score across all items within the 'dismissals' category. Both indices have been standardised so that scales are comparable.
SOURCE: RF analysis of OECD, Employment Protection Index (version 4); Centre for Business Research, Labour Rights Index.

Annex 2: Quantifying changes in employment rights

This Annex provides notes for Figure 15 in Section 4.

Panel A – estimates of number of workers by employment status

Workers are labelled as 'self-employed: risk of bogus' if they self-report as solo-self-employed (self-employed with no employees) and either: report experiencing no autonomy on any of four domains (work hours, tasks, task order, manner or pace of work); or say they do not pay both their own national insurance or tax, have national insurance and tax deducted by the organisation(s) they work for, or said their job or business does not prepare annual business accounts for HMRC. Workers are labelled as 'Employee: possibly limb (b)' if they self-report as an employee and are on a zero-hours contract, are an agency worker, or have a temporary job without a contract.

Panel B – entitlements change from the Employment Rights Bill plus move to two-tier status system & ending bogus self-employment

Panel B offers a rough quantification of the size of the change in employment rights, in a scenario where the Employment Rights Bill has been enacted, but additionally where employment status reform has seen limb (b) workers upgraded to employee status, and where measures to tackle bogus self-employment have also raised those workers to employee status. These calculations rely on quantifying the value of the various employment entitlements pre- and post- the Employment Rights Bill. An adjustment is made for the fact that many statutory entitlements are not 'binding' on employees because their employer offers something more than the legal minimum (for example, they offer occupational sick pay, at a higher rate than Statutory Sick Pay); this is so that the figure represents the actual value to workers of the changes. Quantifying the value of different entitlements is intended to provide a rough sense of the order of magnitude of the changes involved with the Government's employment reforms; readers may have different views about the relative value of these entitlements to workers, and of how binding they are on employees. The following table shows the values used.

TABLE 2: **The employment rights bill will increase the value of employment rights for limb (b) workers and employees**

Values used to quantify economic significance of change in employment rights following the Employment Rights Bill and reforms to employment status

		Has entitlement?				
Entitlement	Value pre ERB	Employee	Limb (b) Worker	Self-Employed	Value post ERB	'Binding' score for employees
Unfair dismissal protection	2	1	0	0	6	0.9
Minimum wage	5	1	1	0	5	0.4
Union representation	3	1	0.5	0	4	1
Guaranteed hours contract	0	1	1	0	4	0.1
Paid holiday	4	1	1	0	4	0.8
Pension auto-enrolment	3	1	1	0	3	0.4
Redundancy pay	3	1	0	0	3	0.5
Shift cancellation compensation	0	1	1	0	3	0.1
Protection from discrimination	3	1	1	1	3	1
Rest breaks	3	1	1	0	3	0.2
Statutory Sick Pay	2	1	0	0	3	0.4
Redundancy notice periods	2	1	0	0	2	0.5
Maternity/paternity leave	1	1	0	0	2	0.3
Enhanced pregnancy protections	0	1	0	0	1	0.5
Written Terms	1	1	1	0	1	0.5
Bereavement leave	0	1	0	0	1	0.5
Flexible working request	0.5	1	0	0	1	0.8

Annex 3: Data citations

Labour Force Survey (series page here):

• Office for National Statistics. (2024). Labour Force Survey. [data series]. 11th

Release. UK Data Service. SN: 2000026, DOI: http://doi.org/10.5255/UKDASeries-2000026

Skills and Employment Survey (study page here)

• Felstead, A., Gallie, D., Green, F., Henseke, G. (2019). Skills and Employment

Survey, 2017. [data collection]. UK Data Service. SN: 8581, DOI: http://doi.org/10.5255/UKDA-SN-8581-1

Understanding Society (series page here):

• University of Essex, Institute for Social and Economic Research. (2024).

Understanding Society. [data series]. 12th Release. UK Data Service. SN: 2000053,

DOI: http://doi.org/10.5255/UKDA-Series-2000053

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