

The Resolution Foundation Labour Market Outlook

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The Employment Rights Act marks the biggest overhaul of workers' rights in a generation. But even the most ambitious employment rights will benefit workers only if they are enforced effectively. And compliance with existing labour market rights is already patchy: an estimated 445,000 jobs were paid below the minimum wage in 2025, 1.4 million workers in 2023-24 reported not receiving a payslip, and 2.2 million jobs in 2025 did not come with any paid annual leave.

The new Fair Work Agency (FWA), which came into existence on 7 April, brings together much of the existing enforcement system into a single body. This is an important and welcome step. The Agency will be a clear point of contact for workers and employers, enable better coordination across different parts of the enforcement system, and bring the UK more into line with international practice.

But creating the FWA must be the starting point for enforcement reform, not the end. The combined real-terms budget of the agencies that will become part of the FWA has been flat or falling in recent years, and the UK falls well short of international benchmarks for inspector numbers; financial penalties for non-compliance remain too low to act as an effective deterrent; and migrant workers remain at risk of having their details shared with immigration enforcement if they report non-compliance. Over the longer term, the challenges facing the FWA and the new responsibilities it will take on mean it is more important than ever that it has the funding and powers it needs to succeed.

Spotlight | A new era for labour market enforcement

Labour market reform has been a [top priority](#) for this Government, and the [Employment Rights Act \(ERA\)](#), which passed at the end of last year, marks the biggest overhaul of workers' rights in a generation. But even the most ambitious employment rights can benefit workers only if they are effectively enforced. So, in this Labour Market Outlook, we consider the challenges facing the Fair Work Agency – a new body, set up on 7 April 2026, to police workers' rights – and what it needs to succeed.¹

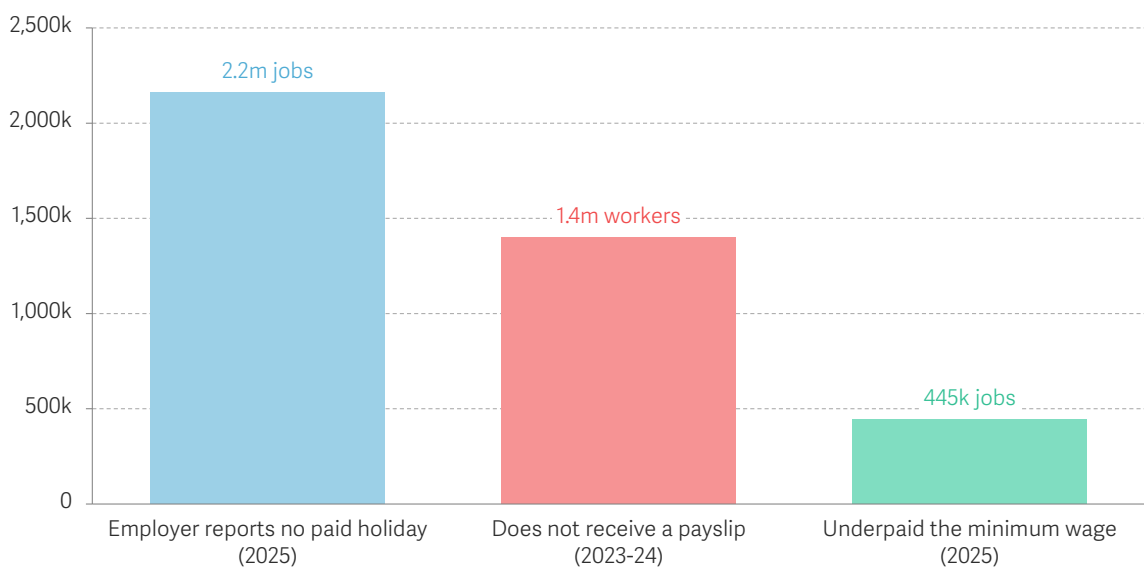
Even as employment rights are becoming stronger, non-compliance with existing rights remains a concern

Non-compliance with labour market rules is, unfortunately, not a niche issue. Figure 1 shows estimates of three types of labour market violation that we can assess using survey data,

which suggest that hundreds of thousands of workers are not benefiting from the rights that they are owed.² An estimated 445,000 jobs were [paid less than the minimum wage](#) in 2025 (22 per cent of those covered by it), up from 382,000 a year earlier. In addition, new analysis based on the Annual Survey of Hours and Earnings (ASHE) suggests that as many as 2.2 million jobs do not come with any annual leave.³ And 2023-24, 1.4 million workers reported not receiving a payslip, and so were unable to check they were getting what they were owed.⁴

FIGURE 1: Hundreds of thousands of workers do not benefit from the basic rights they are owed

Estimated scale of selected labour market violations: GB/UK, various dates



NOTES: The figures relating to minimum wage underpayment and no paid holiday relate to GB, and the figure for not receiving a payslip relates to the UK.

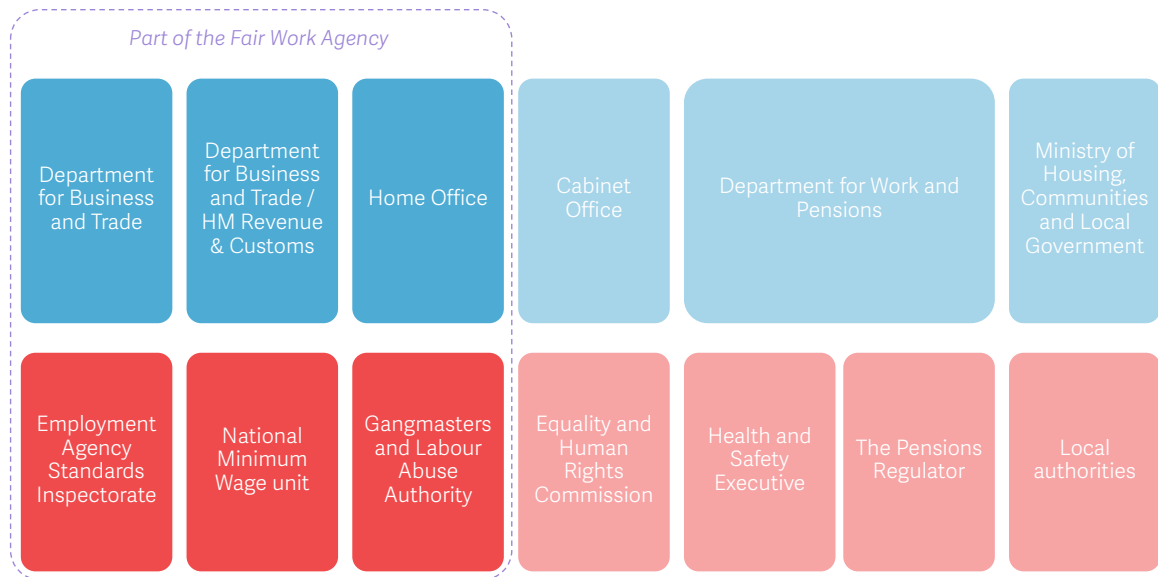
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings; DWP, Family Resources Survey; LPC, Low Pay Commission Report 2025.

The launch of the Fair Work Agency represents a major overhaul of the labour market enforcement system

The good news is that enforcement is a core part of the Government’s labour market reform plans, and a new enforcement body, the Fair Work Agency (FWA), was established on 7 April. As Figure 2 shows, the UK’s labour market enforcement system was previously highly fragmented, spread across six different agencies as well as local authorities.⁵ The FWA brings together the three enforcement agencies on the left-hand side of the diagram – the Gangmasters and Labour Abuse Authority (GLAA), the Employment Agency Standards Inspectorate (EAS), and HM Revenue & Customs’ National Minimum Wage enforcement unit (HMRC NMW) – along with the Office of the Director of Labour Market Enforcement (ODLME), into a single organisation.

FIGURE 2: The FWA will reduce fragmentation in the UK’s labour market enforcement system

Government departments responsible for enforcing labour market law:
England and Wales/GB/UK, March 2026



NOTES: Blue boxes are Government departments; red boxes are enforcement agencies. Each enforcement agency is part of, funded by, or has its strategic framework set by ministers from the department(s) above it. EHRC, HSE and EAS are GB only, but have direct counterparts in Northern Ireland; GLAA covers England and Wales only with respect to modern slavery and the UK for Gangmaster licensing; all other bodies cover the UK.
SOURCE: RF analysis of GOV.UK.

This is a major reform that will bring the UK more into line with international practice, joining countries including Norway, Ireland and Australia in having a single body enforcing a large swathe of employment rights. The Government [has said that its aim](#) is for the FWA to be “a strong, recognisable single brand” for workers and employers, providing clear guidance to employers on their legal obligations, as well as taking action where workers are subject to non-compliance. This is much needed. A 2023 Resolution Foundation survey [found](#) that three-fifths (61 per cent) of private sector employees would not know where to go with a concern, and employer groups such as the [Recruitment and Employment Confederation](#) and the [CIPD](#) have highlighted the need for a clear point of contact and welcomed the idea of a “one-stop shop”. A single body [will make it easier](#) for the enforcement system to share information, understand strategic risks across the labour market as a whole, and coordinate its approach. And the FWA will have a [tripartite advisory board](#), ensuring that the voices of workers, employers and independent experts are built in from the outset.

Moreover, the creation of the FWA lays the groundwork for further reform. From 2027 the FWA will enforce holiday pay and sick pay, which so far have been enforceable only through the employment tribunal (ET) system, and it will be able to take on additional rights in future.

But other enforcement challenges remain

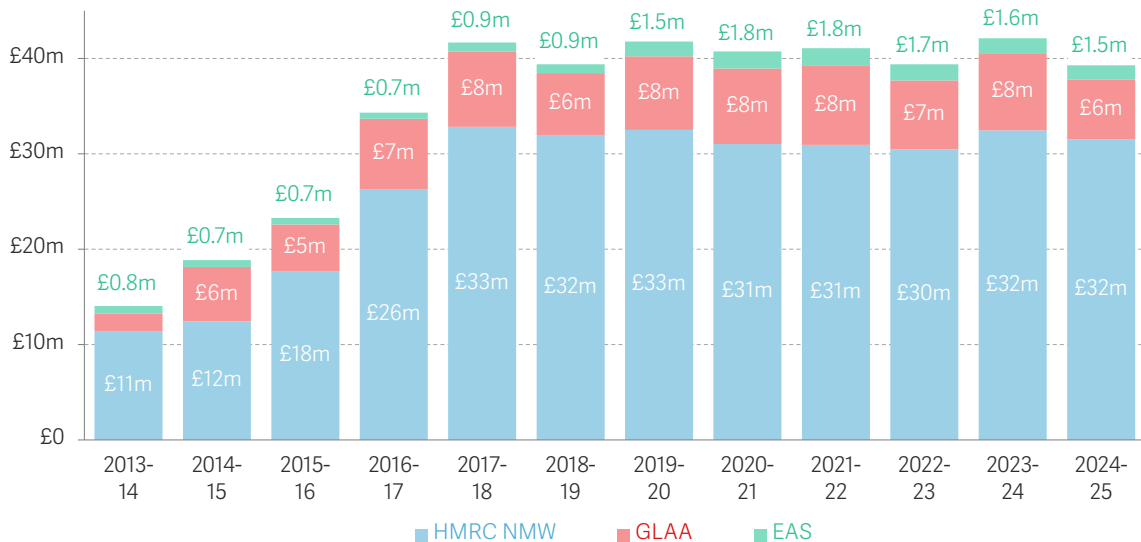
Creating the FWA is an important – and very welcome – milestone in reforming the enforcement system. But the Government should not stop here.

First, any effective labour market enforcement system needs to be properly resourced. Figure 3 shows that the combined real-terms budget of the agencies that have become part of the FWA rose substantially during the mid-2010s, driven largely by additional funding for HM Revenue & Customs in the run-up to the introduction of the National Living Wage, but has been flat in recent years.⁶ The FWA’s budget has not yet been announced, but the Government has given no indication that it intends to increase resources, instead [saying](#) that it expects the FWA to deliver efficiency gains and economies of scale.⁷

There is obviously no ‘right’ answer to how large the enforcement budget should be, and all public bodies should of course seek to improve efficiency, including through the effective use of data and intelligence. However, resourcing across the enforcement system as a whole [falls well short](#) of international benchmarks: the International Labour Organization (ILO) recommends one inspector for every 10,000 workers, but in 2024, the UK had [only one for every 24,000](#). The enforcement system also identifies only a small proportion of non-compliance – in 2024-25, HMRC enforcement [identified](#) only 25,200 workers who had been underpaid, or 6 per cent of the 445,000 shown in Figure 1 – and more capacity could help to improve this. So there are arguments that resourcing should be rising rather than flatlining. At a minimum, the Government should commit to keeping the FWA’s budget under review to ensure that it reflects what the agency needs to do its job effectively.

FIGURE 3: The budgets of the FWA’s component bodies have been flat or falling in recent years

Real-terms budget of the labour market enforcement agencies that have become part of the Fair Work Agency: GB/UK



NOTES: Adjusted to 2024-25 prices using the GDP deflator. EAS is GB only; GLAA covers England and Wales only with respect to modern slavery and the UK for Gangmaster licensing; HMRC NMW covers the UK.

SOURCE: RF analysis of DLME, Labour Market Enforcement: annual report 2019 to 2020; GLAA, Annual report and accounts, various; HSE, Annual report and accounts, various; EHRC, Annual report and accounts, various; Freedom of Information request to HMRC, FOI2021/07125, April 2021; Freedom of Information request to BEIS, FOI2021/10823, April 2021; Freedom of Information request to HMRC, FOI2023/07301, February 2023; Freedom of Information request to BEIS, FOI2023/03731, February 2023; DLME, Labour Market Enforcement: annual report 2023 to 2025.

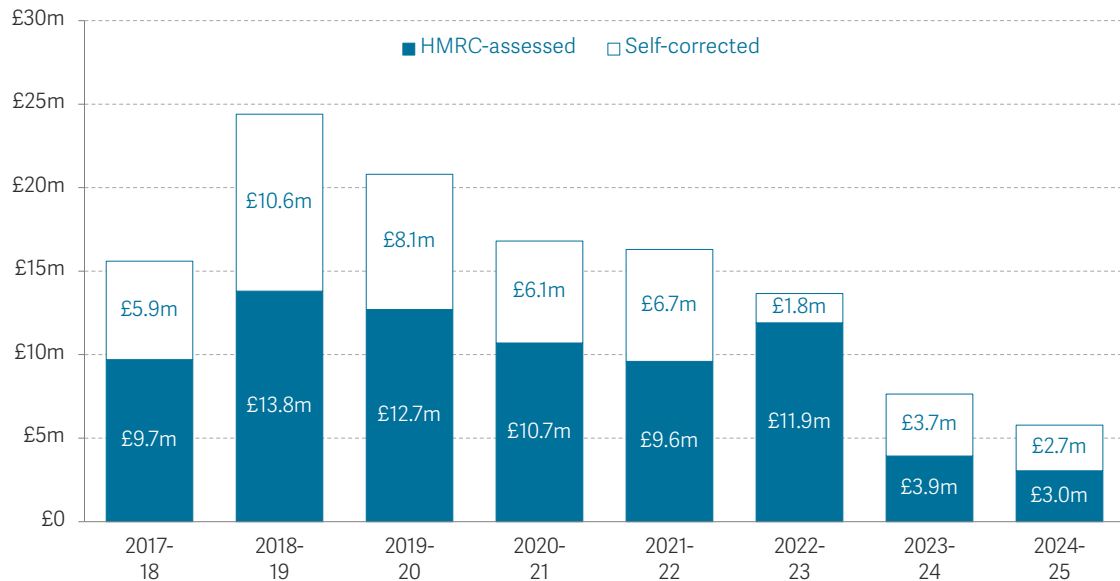
Second, the effectiveness of the enforcement system depends on what powers the FWA has. The UK's enforcement approach [tends to focus on compliance](#): helping businesses to abide by the rules, including by providing guidance on what they need to do. But this approach [needs to be backed up](#) by meaningful penalties for those businesses that flout the rules. Indeed, the clearer the guidance, the more likely it is that non-compliance is deliberate, and the stronger the case for enforcement bodies to use tougher penalties against firms that still break the rules.

Initially, the FWA's powers [will largely be based on](#) those of the existing enforcement bodies. These include financial penalties of up to twice the arrears owed, as is currently the case for minimum wage underpayment; publicly naming employers found to have broken the rules; and issuing labour market enforcement orders (LMEOs) and undertakings (LMEUs) to compel employers to comply with the law, with breaches constituting a criminal offence.

There will, though, be some welcome additions: the FWA will be able to bring proceedings to an ET on behalf of workers, and the Government has committed to making the naming scheme more timely to avoid long lags between non-compliance and publication. But there will be no change to the scale of financial penalties, which are currently [too low to be an effective deterrent](#). For a firm making a purely economic decision about whether to comply with the minimum wage, a penalty of twice the arrears owed [would tip the balance in favour of compliance](#) only if the firm believed it had a 33 per cent chance of being caught. We have [estimated](#) that the true chance of detection is far lower, with an upper bound of 13 per cent and the actual figure almost certainly lower still. Moreover, employers in practice often face a much smaller penalty: prompt payment reduces the penalty to the value of the arrears owed, and, as Figure 4 shows, almost half (47 per cent) of arrears identified in 2024-25 were 'self-corrected' and so attracted no financial penalty at all.⁸ Labour market enforcement orders and undertakings are also used very rarely: [in 2024-25](#), there were only 25 open LMEUs, and no LMEOs had been used since 2022-23. To ensure that penalties remain an effective deterrent, the Government should couple its compliance support for businesses with higher financial penalties for firms that still do not comply – we have [previously recommended](#) penalties of up to four times the arrears owed. And receipts from higher penalties [could also help to offset](#) the cost to the public purse of any increase in enforcement funding (although the revenue would go to the Treasury rather than the FWA itself).

FIGURE 4: Almost half of minimum wage cases are self-corrected and so incur no penalty

Value of National Minimum Wage arrears identified, by whether HMRC-assessed or self-corrected: UK



NOTES: £6m of self-corrected arrears in 2018-19 and £0.25m in 2019-20 were the result of the Social Care Compliance Scheme, which opened in November 2017, and closed to new applications in December 2018. Figures are in nominal terms.

SOURCE: Director of Labour Market Enforcement, Labour Market Enforcement: annual report 2019 to 2020, June 2022; Director of Labour Market Enforcement, Labour Market Enforcement Strategy 2022 to 2023, March 2023; DBT, National Living Wage and National Minimum Wage: government evidence on enforcement and compliance, various.

Third, important questions remain about the protection of migrant workers. This group can face a [heightened risk of exploitation](#), either because migrant workers are less likely to understand their rights, or their visa is tied to their employer (something that is becoming more common as the migration regime tightens). Under the current system, migrant workers who approach a labour market enforcement body [risk having their details shared](#) with the Home Office. Indeed, this relationship looks set to become [even closer](#), with the Government [saying](#) that the FWA will explicitly address ‘illegal working’ alongside workers’ rights. The FWA should therefore have a data firewall with immigration enforcement to make it easier for migrant workers to come forward if they experience non-compliance, both to protect migrant workers themselves and to give the FWA a more accurate picture of labour market violations.

The FWA will have to adapt to a changing labour market

The FWA is only the first step in a broader process of reforming the enforcement system. Its first year will focus on managing the transition to a single body. But over the longer term, the FWA will need to grow and adapt as it takes on new responsibilities and faces new challenges.

The Government intends for the FWA to take on new responsibilities over time, so its enforcement capacity will need to grow in line with its expanding remit. Most immediately, it will take on enforcement of sick pay and holiday pay from April 2027. This is a welcome step change in the remit of state enforcement: no body currently enforces these rights (workers

have to do so themselves by taking their employer to a tribunal), and, as Figure 1 showed, lack of paid holiday affects almost five times as many jobs as minimum wage underpayment. Moreover, lack of paid holiday affects [many of the same parts of the workforce](#) as minimum wage underpayment – such as younger workers and those working for very small employers – and so it makes sense for both rights to fall within the remit of the same body.

Over the longer term, the FWA will be able to take on enforcement of additional labour market rights. The [recent consultation](#) on the Adult Social Care Negotiating Body suggests that the eventual Fair Pay Agreement in social care will be enforced by the FWA – which would be a [welcome development](#) in a sector where [non-compliance is already widespread](#), but would require significant additional capacity. We recommend that the FWA should also enforce new rights introduced elsewhere in the ERA, such as rights to [guaranteed hours](#) and reasonable notice of shifts, where there is a clear-cut distinction between whether an employer has complied or not.

The FWA will also have to contend with ever-evolving labour market challenges. Unemployment is rising and payrolled jobs are falling, particularly in lower-paying sectors such as hospitality and retail, and the OBR expects unemployment to [remain elevated](#) until the first half of next year. This labour market loosening could put more workers at risk of non-compliance, as [research](#) shows that workers find it harder to escape underpayment by moving jobs when unemployment rises. And the [large minimum wage increases](#) for younger workers and the [new rights coming into force](#), welcome though they are for those who will benefit, could place additional pressure on the enforcement system [by increasing the temptation](#) for unscrupulous firms to cut corners.

Finally, the FWA should be alert to the risk that some businesses will change their practices to avoid complying with the rules, by (for example) misclassifying their workforce as self-employed. This is a [particular risk](#) given that the Government does not plan to resolve the complexities around worker status until the end of the Parliament. This is ultimately for the Government, not the FWA, to resolve: having taken action on rights and enforcement, it must now close the remaining loophole of worker status. But as we have [recommended](#) in the past, one way for the FWA to play a role in addressing this and similar risks would be to enable worker and employer representatives to bring a ‘super-complaint’ to the FWA, following the model used by the [Competition and Markets Authority](#), to draw its attention to systemic labour market issues that could undermine workers’ rights.

[The creation of the FWA is a landmark moment for labour market enforcement – but it should also be a starting point for further change](#)

The creation of the FWA is an important – and very welcome – milestone for labour market enforcement in the UK. It will provide a clear point of contact for both workers and employers, enable better coordination across what are currently different parts of the enforcement system, and bring the UK more into line with international practice. Looking further ahead, it will mean rights such as holiday pay and sick pay will finally be enforced by the state, and that the Government has a mechanism to ensure that any new rights can be incorporated easily into the enforcement system.

But this should be a starting point, rather than the end of the process of reforming enforcement. The challenges facing the FWA – from expansions to its remit to a weaker labour market that may raise the risk of non-compliance – make it more important than ever for the Government to equip it with the funding and powers it needs to succeed. If ministers are serious about their ambition to “[make work pay](#)”, they will need not only the new rights they are introducing, but also a stronger enforcement system to back them up.

¹ Thanks to Lindsay Judge, Mike Brewer and Ruth Curtice for advice and guidance. Any errors remain the author’s own. Data citations: Office for National Statistics. (2025). Annual Survey of Hours and Earnings, 1997-2025: Secure Access. [data collection]. 27th Edition. UK Data Service. SN: 6689, DOI: <http://doi.org/10.5255/UKDA-SN-6689-27>. Department for Work and Pensions, NatCen Social Research. (2021). Family Resources Survey. [data series]. 4th Release. UK Data Service. SN: 200017, DOI: <http://doi.org/10.5255/UKDA-Series-200017>. Parts of this work were undertaken in the Office for National Statistics (ONS) Secure Research Service using data from ONS and other owners. This does not imply the endorsement of the ONS or other data owners.

² For more on the challenges of estimating the scale of labour market violations, see: N Cominetti & L Judge, [From rights to reality: Enforcing labour market laws in the UK](#), Resolution Foundation, September 2019.

³ Workers are [entitled to 5.6 weeks’ paid holiday](#) a year. This figure is calculated using a different data source from [previous Resolution Foundation estimates](#) of workers with no paid holiday entitlement. The figures in this spotlight use the Annual Survey of Hours and Earnings (ASHE) – a survey of employers, and the same data source used for the minimum wage underpayment figures – rather than the Labour Force Survey. Because ASHE is a [survey of employers](#), who are asked to consult their records, it is likely to have lower recall error than worker surveys (although, of course, employers may misreport, knowingly or unknowingly, in other ways). In earlier years, ASHE did not include usable data on lack of paid holiday because missing values were coded as 0 alongside ‘true’ zeroes, but the latest round of data codes missing values separately. This is also conceptually different from the LFS estimates because it counts the number of jobs, rather than the number of workers. We find that 7.5 per cent of jobs are reported to have zero paid holiday entitlement and gross this up using published ASHE totals.

⁴ [Workers must receive a payslip](#) that includes their earnings (before and after deductions) and their hours worked if this affects their pay.

⁵ The Equality and Human Rights Commission, Health and Safety Executive and Employment Agency Standards Inspectorate cover Great Britain only, but have direct counterparts in Northern Ireland. The Gangmasters and Labour Abuse Authority covers England and Wales only with respect to modern slavery and the UK for gangmaster licensing. All other bodies cover the UK. A version of Figure 2 first appeared in L Judge & H Slaughter, [Enforce for good: Effectively enforcing labour market rights in the 2020s and beyond](#), Resolution Foundation, April 2023.

⁶ The overall trend does not change if we scale HMRC NMW’s budget by the number of covered jobs, or the EAS budget by the number of employment agencies. A version of Figure 3 first appeared in L Judge & H Slaughter, [Enforce for good: Effectively enforcing labour market rights in the 2020s and beyond](#), Resolution Foundation, April 2023.

⁷ The Government has, however, [said](#) it will increase resource when the FWA takes on the additional responsibility of enforcing holiday pay and sick pay.

⁸ A version of Figure 4 first appeared in L Judge & H Slaughter, [Enforce for good: Effectively enforcing labour market rights in the 2020s and beyond](#), Resolution Foundation, April 2023.