

# Low Pay Britain 2024

Examining the Government's proposed  
employment reforms

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September 2024



## Acknowledgements

We would like to thank Amanda Walters and Laura Bannister at the Centre for Progressive Change for helpful conversations about Statutory Sick Pay, as well as their colleagues in business who talked to us about their experiences of offering low-paid workers improved sick pay entitlements. We would also like to thank Victoria Speed from the Employment Legal Advice Network for her helpful input.

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## Executive Summary

The new Government has plans for a major package of employment reform, but there is lots of detail still to be decided

The Government is planning the largest set of workplace reforms in a generation, with plans to overhaul multiple areas of employment policy. These have the potential to make real inroads in the problem of insecurity at work, and would particularly benefit low-paid workers, who bear the brunt of labour market insecurity. The Government is yet to set out the details of some of these reforms – understandably given it has only been in power a matter of weeks and some of the issues are complicated – and these details will determine how effectively workplace insecurity is tackled.

In this Low Pay Britain report – the 14th in an annual series taking stock of low-paid work in the UK – we examine four measures which together could have a major impact on low-paid workers' security in the workplace:

- unfair dismissal (making protection against unfair dismissal a 'day one' right),
- zero-hours contracts (giving workers a right to a contract with minimum hours reflecting their regular hours),
- Statutory Sick Pay (scrapping 'waiting days' and extending coverage to the lowest earners),
- and the minimum wage.

Other areas of the Government's planned reforms are also important, and we will cover these in future reports.

## Employment policy in the UK leaves many workers facing high levels of insecurity, especially low-paid workers

There is a strong case for reforming employment law, on the basis that UK employment policy does less to mitigate insecurity than most other rich countries. The UK places fewer restrictions on employers making dismissals than all but five other OECD countries, and unemployment benefits are set at a low level (offering earnings replacement of 17 per cent for a private sector worker on average earnings, compared to the OECD average of 57 per cent). There is also only limited minimum earnings protection for sick workers, and no policies to mitigate abuses of workers whose contracts mean they lack security over their hours of work (including workers on zero- or short-hours contracts).

The fact that the UK is an international outlier is important context – strengthening employment protection or making unemployment benefits more generous would make the UK more normal by the standards of other rich countries. Doing so would not immediately turn the UK's labour market into a French-style or Dutch-style labour market (both have significantly higher levels of worker and job protection than the UK, but France has higher unemployment, and the Netherlands has a lower hiring rate). There are plenty of middle-ground countries which provide useful examples to UK policy makers. One is Denmark, a country with much higher unemployment benefits than the UK (helping to cushion the impact of job loss), but where labour market outcomes (unemployment, and labour mobility) are otherwise similar to the UK.

It is the UK's low-paid workers who bear the brunt of workplace insecurity. 8 per cent of low-paid workers (defined as workers with hourly pay in the bottom fifth of the earnings distribution) are on zero-hours contracts, versus 0.6 per cent of the highest-paid. And when job exits have spiked during recent downturns (during the Covid-19 pandemic and the financial crisis), the lowest-paid workers have been twice as likely as the highest-paid workers to lose their job. Meanwhile, 42 per cent of workers in

the lowest hourly-pay quintile would expect to receive either no pay or Statutory Sick Pay (SSP) only if off sick for a week, compared to just 13 per cent of the highest-paid workers.

## Employment reform comes with risks and trade-offs

There are very good reasons to pursue employment reform, but it's also important to be mindful of potential risks.

First of all, interventions to improve employment terms and conditions have the potential to bring about negative employment effects. The reason low-paid workers enjoy worse terms and conditions than high-paid workers could be because their employers wouldn't hire them on better conditions – in which case policies to raise conditions might risk putting workers out of a job. Alternatively, it could be because those workers lack bargaining power, in which case there should be room for policy to act without immediately confronting hard trade-offs. The history of the minimum wage has taught us that employers had more bargaining power than was once thought – there continue to be no large employment effects, despite major increases. This could provide policy makers with some reassurance, suggesting they can afford to be bold with these new reforms.

But it's not a given that the same trick can be repeated with employment standards. Moreover, the impacts of the proposed reforms will be larger on some parts of the economy (for example, the hospitality sector) and on some groups of workers (for example, young workers), and the impact of making multiple reforms at once is hard to judge. Reforms should therefore be undertaken carefully, and ideally incrementally. Policy makers should also bear in mind that there may be interdependencies and trade-offs – raising standards in one place might make it harder to do so in another.

There are also two specific risks associated with changing the rules around employment protection - though neither is clear-cut and they suggest reasons to act carefully rather than not to proceed with reform. One is that stronger employment protection across countries appears to be associated with lower worker mobility, with employers making fewer hires. For example, in the UK, the annual hiring rate (total hires – from other jobs and from non-employment – as a proportion of total

as a proportion of total employment) was 22 per cent in 2022, compared to 14 per cent in the Netherlands, a high-employment-protection country. (Of course, this evidence is only suggestive – many factors besides employment protection will also affect hiring).

Even if lower hiring were to result, the implications for key objectives such as productivity growth are not clear cut. On the one hand, if it leads to a lower rate of worker reallocation from lower to higher productivity parts of the economy this could dent productivity. On the other hand, there are also reasons why greater employment protection might boost productivity – it could induce employers to invest more in their workforce, or limit the loss of good job matches during downturns.

A second specific risk relates to temporary workers. In countries where permanent jobs enjoy strong protections, employers often make greater use of temporary contracts (returning to our previous comparison: temporary contracts account for 5 per cent of UK employment, but 27 per cent of employment in the Netherlands). For this reason, it is common for countries with strong employment protection for permanent jobs to limit the use of temporary contracts. This may be something to consider if stronger employment protection does push more workers onto temporary contracts in the UK.

### The qualifying period for protection against unfair dismissal in the UK is too long

There is a strong case for reforming unfair dismissal protection, with the UK's approach to unfair dismissal glaringly out of step with other rich countries. Currently workers in the UK have no protection against unfair dismissal until they have been in their job for two years, meaning that employers are able to make dismissals in those first two years without giving a reason (although there are still rules in those years against making dismissals which are discriminatory, or in certain other circumstances, such as if the worker was whistleblowing). This is very different to the situation in most other rich countries, where this entitlement kicks in earlier. Out of 38 OECD countries, 37 have a right to protection against unfair dismissal, and in 36 the qualifying period is shorter than the UK's two years. In 25 countries, the qualifying period is five months or lower.

## The Government plans to make unfair dismissal protection a 'day one' right, but it's not clear how it will maintain 'probation periods'

The reason most countries set a 'qualifying period' for this protection (i.e. why it is not offered as a day one right) is because greater protection for workers needs to be balanced against the risk that making dismissals harder would discourage hiring. The apparent negative relationship across countries between hiring rates and the strength of employment protection is stronger with respect to the rules governing unfair dismissal. It's therefore important to design this policy carefully.

This appears to be why the Government's position is that, while making unfair dismissal protection a 'day one' right, it will also "ensure employers can continue to operate probation periods". It is not yet clear how this will be operationalised, but one option is for legislation to make dismissals during a probation period a 'potentially fair' reason for dismissal (currently probation periods don't have status in UK employment law). To make this meaningful the Government would have to decide what processes employers would have to follow to demonstrate such dismissals were fair; and place a clear limit on the duration of probation periods, perhaps at six months.

An alternative would be to keep qualifying periods for unfair dismissal but radically reduce them in length. A qualifying period of six months would bring the UK in line with around nine other OECD countries where qualifying periods are between 5 and 9 months, including Denmark, Germany, Norway, and Sweden. However, this is less likely given the Government's 'day one' commitment.

## The UK's Statutory Sick Pay system offers little income protection to sick workers

level. It means a worker facing four weeks off work and relying on SSP on average private sector earnings would receive an earnings replacement of just 11 per cent, compared to an average of 68 per cent across the OECD (not including the US and Korea, where there is no country-wide system of mandatory sick pay). Additionally, there are 1.1 million workers earning below £123 per week (the 'Lower Earnings Limit') who are not eligible for SSP at all.



The majority of UK workers (57 per cent) aren't reliant on SSP, because their employer chooses to operate a sick pay policy which is more generous than SSP. However, the lowest-paid workers are least likely to have access to such an 'occupational sick pay scheme', and most likely to rely on SSP. 42 per cent of private sector workers in the bottom hourly pay quintile said they would expect to receive no pay, or SSP only, if taking a week off work – compared to 13 per cent of those in the top hourly pay quintile. Similarly, in 2014, 36 per cent of workers in 'elementary occupations' said their sick pay arrangement would be 'SSP only' (rising to 49 per cent if 'don't know' responses are excluded). These workers face a steep income fall if taking time off work through sickness.

### The Government's plans would extend sick pay coverage to millions of workers, but earnings protection would still be very low

The Government plans to remove waiting days and extend SSP eligibility to all employees, regardless of earnings. These are real improvements, and would benefit a lot of workers. Many of the 1.1 million workers currently ineligible for SSP by virtue of their low earnings won't have an occupational sick pay scheme through their employer, because these aren't offered to the majority of part-time workers (anyone earning below the £123 SSP eligibility threshold is certain to be working part-time). And offering SSP from day one will mean that, for the majority of sickness absences, which are only one or two days in duration, the system will now offer some support, as opposed to none currently.

However, because the Government has no plans to change the level of SSP, the system will still offer little in the way of earnings protection to workers who face a sickness absence. To meaningfully improve security in this area, the Government would have to raise the level of SSP. We have previously suggested linking the level of SSP to workers' earnings, and setting the replacement rate at 65 per cent, which would bring the earnings replacement offered by SSP in line with the OECD average of 68 per cent. Under this system, with no waiting days, someone working full-time on the NLW would receive £297.44 in SSP if off sick for a week, more than six times the £46.70 they

would receive at the moment, and more than twice the £116.75 they would receive with waiting days removed but with no changes to the level of SSP (as under the Government's plan).

However, a more generous sick pay system would impose greater costs on employers, both because those not offering their own occupation sick pay system would have to pay more for each sickness absence, but also because it seems likely that workers would take more sick days. At the extreme end of the scale, in Germany, where sick pay is paid at 100 per cent of earnings from the first day, workers took an average of 25 days of sickness absence in 2022, compared to just 6.4 days in the UK in 2021. Of course, workers taking more sick days would likely bring important health benefits to individuals and society, but this sort of approach would also bring some costs. First, they might raise employment risks for low-paid workers. Second, employers might try to reduce wages. Third, Government might face pressure to reinstate some form of support scheme for employers facing high sick pay costs – perhaps by offering a partial rebate for small employers facing sick pay costs over a certain threshold (this was part of SSP policy until 2014).

### Action to tackle hours insecurity is long overdue, but there are questions about implementing the right to a regular contract

Zero-hours contracts (ZHCs), and other forms of work without guaranteed hours, are probably the most notorious example of insecurity in the UK's labour market. Although they do work for some workers (and certainly for many employers), for too many workers, they impose severe costs: a third of low-paid workers (who are most likely to be on a zero-hours contract or to face uncertain hours) report anxiety about unexpected changes to hours of work. This will be linked to the fact that some employers make changes to shifts with little notice: 17 per cent of employers using low-paid flexible work give only a day's notice of shift changes (an additional 25 per cent give less than a week).

Despite being the subject of much public debate for the past decade, there has been no action to address the fundamental problem of these contracts, which is that they offer workers no certainty about their hours and earnings from one week to the

next, which makes it much harder for workers to plan their lives, balance work and family, and make financial commitments. More fundamentally, a zero-hours contract gives the employer considerable power, as they can in effect dismiss an employee with no notice and with no constraints imposed by unfair dismissal rules.

The Government's two main proposals here are to give workers a right to a contract with minimum hours reflecting regular hours worked (assessed over a 12-week period), and a right to compensation for late-notice shift changes. The right to the regular contract is the most contentious of these policies, but at the moment, the Government has not given enough detail for us to be clear on the scope or likely impact of its reforms.

The ambiguity matters for whether the reforms will act to reduce the actual volatility in people's working patterns, or whether it just reduces workers' uncertainty about this volatility. One important question relates to what form the right to these hours would take. A similar set of reforms in Ireland gives workers a right to a contract which guarantees that future hours will, over a 12-month period, fall into the same band of hours that their past hours have. This approach offers workers some benefit in the shape of greater confidence about future annual earnings, but it doesn't address the problem of fluctuating hours and earnings on a week-to-week basis, or employers' ability to effectively dismiss workers without constraint.

A second question relates to eligibility. Again, this remains unclear at the moment. But at least some of the Government's language has appeared to imply that not all workers on zero-hours contracts would gain this right, but only those workers whose hours are already 'regular'. If this is the case, then it would be in effect telling employers that they can use ZHCs, but only where the working patterns are genuinely irregular and unpredictable. This is an important issue on which clarity is needed.

### The Government's minimum wage policy is not yet ambitious, with action reserved for young workers

The Government's language around the minimum wage in the election sounded very ambitious, with promises to make the

minimum wage a 'genuine living wage'. But to date this has not yet translated into ambitious policy. So far, the Government's policy is a one-year holding position, setting policy for 2025-26. As part of this, the 'genuine living wage' commitment has been implemented by asking the Low Pay Commission (LPC) to take the annual rate of inflation into account, which, on current forecasts, is unlikely to make a difference to the rate. In practice, the Government's policy for the National Living Wage (NLW - the adult-rate minimum wage) in 2025 is much the same as the previous Government's: the NLW will most likely rise in line with average earnings next year, with the 'bite' (the level of the NLW compared to median hourly pay) maintained at two-thirds of median hourly pay.

This marks a break with the past; the 'bite' of the minimum wage has risen over time, delivering large pay boosts to low earners, and narrowing hourly pay inequality between middle and the lowest earners to its lowest level on record. If this holding policy became the Government's long-term minimum policy, this would not live up to the ambitious spirit of the Government's manifesto.

And it would be a missed opportunity: there is no evidence that minimum wage increases have reached their limit. The latest LPC report fails to pick up strong evidence of employment effects, while the share of workers paid at the minimum wage is lower than pre-pandemic (i.e. there has not been growing clustering on the wage floor). The Government should build on the approach of recent years – by setting a bite-increasing target, but also acknowledging that starting from a higher minimum wage means potential risks to employment are greater, which in turn means empowering the LPC to monitor and follow the evidence, guided by a clearer understanding of how the benefits of a higher minimum wage should be balanced against any potential costs.

There is greater action on the youth minimum wage rates, which the Government plans to phase out by bringing them in line with the adult rate. The Government have not set a timeframe for achieving this, but faster minimum wage rises will of course mean stronger wage growth for many young workers. In 2023, 74 per cent of 16-17-year-olds and 38 per cent of 18-20-year-olds

were paid at or below the adult rate minimum wage – a policy of convergence will see stronger wage growth for those young workers. However, raising the minimum wage for young workers raises the risk of negative employment effects, particularly given the Government's other reforms will also have a greater impact on the young than on older workers. The LPC must be empowered to watch for and respond to any warning signs.

The less well appreciated effect of (over time) getting rid of the youth rates is that it may constrain increases in the minimum wage level for 'older' workers (meaning – workers above the age threshold for the adult rate minimum wage). Those workers earn more than younger workers, and can therefore sustain a higher minimum wage. Removing the option of having a higher minimum wage for older workers means that the eventual single minimum wage rate would be constrained by the need to avoid employment effects among younger workers. Therefore, although removing the youth rates is 'fair', it will lead to less ambition on wages for the great majority of workers than would have otherwise been the case.

### In undertaking its reforms, the Government should worry about the impact on people and places, not on sectors

The impact of the Government's employment reforms won't be evenly felt across the economy. By their nature, the main beneficiaries of the reforms will be low-paid, often young workers, and these workers are disproportionately found in a relatively small number of sectors. For example, all of the reforms we have examined in this report (to unfair dismissal, zero-hours contracts, sick pay, and the minimum wage) will have a bigger effect on the hospitality sector than on any other part of the economy. This is because hospitality is the sector with the highest concentration of workers on zero-hours contracts (19 per cent, far higher than the 3 per cent average across the rest of the economy), the highest share of new starters (which is relevant if stronger dismissal rules influence hiring), and a higher share of workers without an occupational sick pay system.

Those sectors will likely push back against some of the changes, pointing to the potential impact on their costs, or ability to

take risks on new workers. The Government will need to be clear that ultimately what matters are effects on people, and on places. Pressure on hospitality and other sectors does matter if it reduces employment opportunities for people that work in the sector, or depresses employment opportunities in certain parts of the country, so policy makers will have to be watchful of the employment outcomes of, for example, young workers, and of workers in coastal towns, where hospitality jobs make up a larger share of employment. But hospitality – or any other sector – becoming more expensive, or seeing slower growth rates, should not be sufficient reason in itself to abandon or water down efforts to raise employment standards.

### An important moment for labour market policy

The Government's commitment to workplace reform presents a major opportunity to give low-paid workers a security upgrade. But with any ambitious reform that establishes higher minimum terms and conditions at work, there are risks. The Government must learn from the most successful policy of the past 25 years – the minimum wage. This has married real ambition when it comes to improving working lives, with a steady, consultative approach to making change, and an openness to deploying data and evidence to refine policy over time. The same sort of approach will pay dividends when it comes to wider employment rights.

## Section 1

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### Insecurity in the UK labour market

The UK labour market leaves many workers facing insecurity, with fewer restrictions on dismissals than in most other countries, less generous unemployment benefits, and worse earnings protection for sick workers. Internationally, the UK is an outlier, and strengthening employment protection would make the UK more normal. Moderate reform wouldn't turn the UK's very unregulated labour market into a French or Dutch-style labour market – countries where employment protection is very strong.

The burden of this insecurity falls greatest on low-paid workers, who are more likely to lose their job in downturns, are more likely to rely on Statutory Sick Pay (or not be paid) if sick, and more likely to experience the earnings volatility and uncertainty associated with zero-hours contracts.

Reform is therefore needed. But the Government will also have to be mindful of risks. Raising employment terms and conditions may affect employment – in particular of low-paid workers – if employers aren't willing to hire under better terms and conditions. There are also specific risks associated with stronger employment protection: of lower worker mobility (because employers make fewer hires), and greater use of temporary contracts. This means that, while there is a strong case for action, reform must be undertaken carefully if worker security is to be improved without also bringing about adverse effects.

### The new Government is planning a big package of employment reform, but questions remain on the detail

The Government intends to make a large number of changes to employment law which could deliver the biggest shake up of the workplace in several decades. Areas earmarked for overhaul include the minimum wage, protection against unfair dismissal, Statutory Sick Pay, zero-hours contracts, worker status, collective bargaining, flexible work, and the rules governing unions. Many of these areas have seen relatively little change in recent decades, with the introduction of the minimum wage 25 years ago standing out as the one major change in the UK's employment landscape.

In this Low Pay Britain report – our 14th annual report surveying low-paid work in the UK – we examine the Government's plans for reform. We focus on four key areas that together

could have a major impact on low-paid workers' security in the work-place: unfair dismissal, sick pay, zero-hours contracts, and the minimum wage (we have written about other parts of the Government's reforms in the past and will again in future reports).<sup>1</sup> Now is a timely moment to do so because the Government has indicated that employment reform is an early priority – pledging an Employment Bill in its first 100 days.<sup>2</sup> But also because, understandably, much of the detail of the Government's plans is yet to be decided, and in many cases this detail will determine how significant the reforms are, and therefore the impact on workers and businesses.

Before looking at each of those four areas, in this section we first set out the big picture on UK employment policy.

## Employment policy in the UK leaves some workers facing insecurity, and the UK's approach is markedly different to other countries'

'Security' when it comes to the labour market traditionally refers to workers' risk of losing their job, and the income consequences of this. Countries can affect the risk of job loss through rules governing dismissals, and affect the consequences of job loss through social security systems. In both respects, UK policy does less to protect workers than that in many other countries: employers face relatively few constraints on making dismissals, and the social security system does not offer much in the way of income replacement after job loss.<sup>3</sup> This is set out in Figure 1, which plots the UK alongside other OECD countries on two measures: the OECD's measure of the strictness of employment protection relating to making individual dismissals, and the rate of earnings replacement available through unemployment benefits.<sup>4</sup> The UK is towards the bottom-left of this chart, which means it scores poorly on both counts. Dismissals are relatively easy (in 2019 the UK scored 1.7 on the OECD's index, compared to the OECD average of 2.2), and unemployment benefits offer a very low rate of income replacement (in 2022, in the UK, at six months unemployed, unemployment benefits

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<sup>1</sup> We have previously discussed Fair Pay Agreements and reform of union legislation in: H Slaughter & C McCurdy, [Putting good work on the table: Reforming labour market institutions to improve pay and conditions](#), Resolution Foundation, September 2023.

<sup>2</sup> Taking the Friday following the election – 5 July 2024 – as its first day in power, the Government's hundredth day would be the 13 October 2024.

<sup>3</sup> A more relaxed policy towards dismissals doesn't automatically translate into more dismissals – just because employers can make dismissals doesn't mean they will. Unfortunately, cross-country evidence on dismissals or involuntary job exits isn't readily available, but an OECD paper from 2013 presents data for a measure of job 'displacement' for a handful of countries, and finds that displacement rates were higher in the UK in years 2000-2008 than in the other six countries for which they present data (United States, Finland, Portugal, Denmark, Sweden and Germany). OECD, [2013 Employment Outlook](#), July 2013.

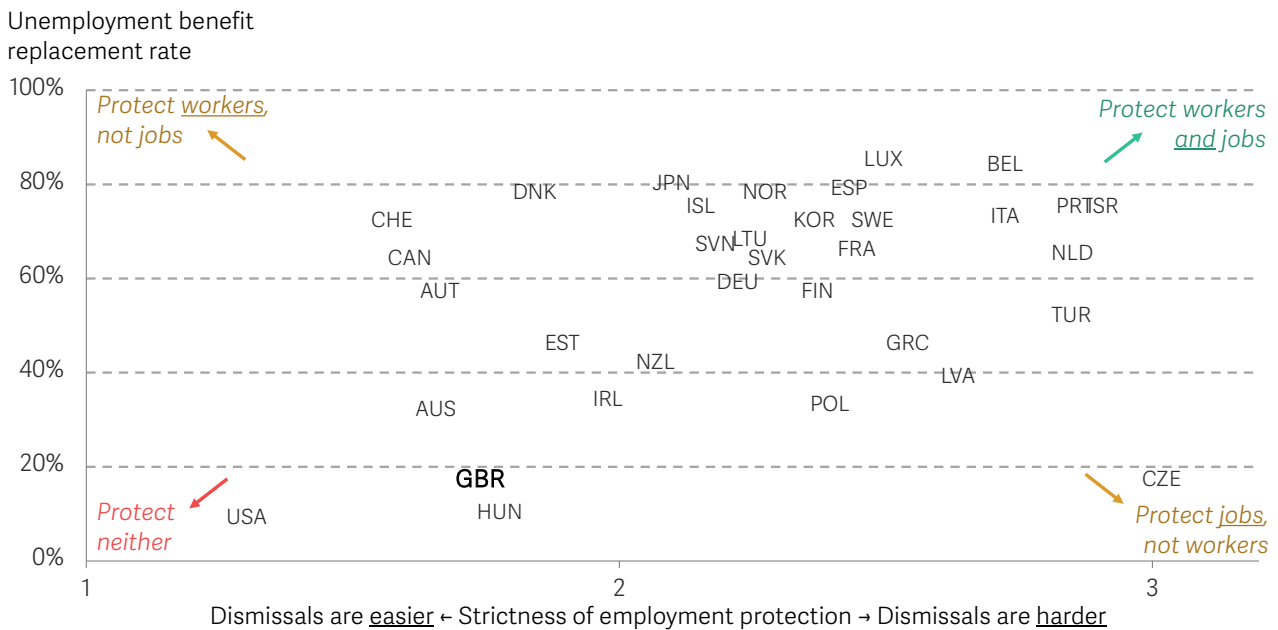
<sup>4</sup> The OECD's employment protection index tries to measure how easy it is for employers to make dismissals. There is an index relating to making individual as well as collective dismissals – in this section we are referring to the score relating to individual dismissals. This score is a weighted average of several components of employment law, including: the processes employers are required to undertake when making dismissals (including whether third parties need to be notified), notice periods and severance pay, the definition of unfair dismissal and the length of the 'qualifying' period before workers are entitled to protection against unfair dismissal, workers' entitlements to reinstatement or compensation following unfair dismissal, and the enforcement framework around unfair dismissal, which includes how long workers have to bring a claim after being dismissed. These are available in: OECD, [2020 Employment Outlook](#), July 2020.



replaced only 17 per cent of previous earnings for a private sector worker on average pay, compared to an OECD average of 57 per cent).<sup>5</sup>

**FIGURE 1: UK policy offers to less protection to jobs and workers than other countries**

Ease of dismissing individual workers (2019), and unemployment benefits replacement rate (2022): OECD countries



SOURCE: RF analysis of OECD, Employment protection index (version 4) – ease of dismissing individual workers, 2019; OECD, unemployment benefits replacement rate after six months unemployed (refers to a single person earning two-thirds of median pay when in work), 2022.

The UK’s employment policy framework isn’t the most ‘insecure’ – in the United States dismissals are easier, and federal unemployment benefits are half as generous as the UK’s. And there are four other OECD countries (Switzerland, Canada, Austria, and Australia) whose employment protection score (for making individual dismissals) is lower than the UK’s – although unemployment insurance in those countries does a better job of protecting incomes after job loss.<sup>6</sup> But overall it is the case that the UK’s employment policies are (in these two important aspects) markedly different to most other rich countries: there are 26 OECD countries both with more generous unemployment insurance than the UK, and where making dismissals is more difficult.

<sup>5</sup> Another dimension which matters in terms of what implications the benefits system has for the consequences of job loss is how easy it is to claim benefits, and what conditions are attached. According the OECD, the UK imposes stricter conditions on unemployment benefit recipients than average across OECD countries (in 2020 the UK’s strictness score ranked sixth among OECD all countries). Within the sub-domains, the strictness of the UK’s system was above average in terms of job search requirements, and average for availability requirements and sanctions rules. OECD, [Activity-related eligibility conditions for receiving unemployment benefits](#), 2020.

<sup>6</sup> By contrast, the UK spends more on housing and family benefits than most other OECD countries. See Figure 8 in: M Brewer et al, [Social insecurity: Assessing trends in social security to prepare for the decade of change ahead](#), Resolution Foundation, January 2022.

These two dimensions of labour market insecurity are important, but they aren't the whole picture. Insecurity also exists within jobs – for example, when earnings are volatile, or if temporary absences from work (for example due to sickness) lead to a loss of earnings. The UK scores poorly here too. Employers can individually opt to be more generous, but mandatory sick pay and maternity pay in the UK are such that UK workers face a lower earnings replacement when off sick or when taking maternity leave than in most other OECD countries (sick pay is discussed in more detail in Section 3).<sup>7</sup> There is also evidence that earnings volatility is higher in the UK than other OECD countries, possibly linked to use of zero-hours contracts, although it is challenging to get comparable data here.<sup>8</sup> Finally, the UK also has a higher share of workers who are 'solo self-employed' than most other rich countries.<sup>9</sup> These workers don't enjoy the protections that go along with 'employee' status, including rights to holiday pay and the minimum wage.

The fact that the UK is an international outlier is important context for the Government's reforms. Strengthening employment protection or making unemployment benefits more generous would make the UK more normal by the standards of other rich countries. Doing so would not immediately turn the UK's labour market into a French-style or Dutch-style labour market. Both have higher levels of worker and job protection than the UK – see Figure 1 – but France has higher unemployment (its 15+ unemployment rate was 7.3 per cent in 2023, compared to 4.0 per cent in the UK), and the Netherlands has a lower hiring rate (14 per cent in 2019, compared to 22 per cent in the UK). There are plenty of middle-ground countries which provide useful examples to UK policy makers. One is Denmark, a country with much higher unemployment benefits than the UK, and slightly stronger job protection (qualifying periods for unfair dismissal are generally 9 months, as opposed to two years in the UK), meaning insecurity is lower.<sup>10</sup> But high-level labour market outcomes (unemployment and labour mobility) are similar to the UK. However, the Government has not expressed any intention to raise the level of unemployment benefits, so Denmark does not currently appear to be the model the UK is pursuing.

## Low-paid workers bear the brunt of the UK's labour market insecurity

Labour market risks aren't evenly spread across workers. Concerningly, job loss, low (or no) income replacement when off sick, and the earnings volatility associated with zero-hours contracts, are all more commonly experienced by the lowest-paid workers.

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<sup>7</sup> N Cominetti et al, *Low Pay Britain 2023: Improving low-paid work through higher minimum standards*, Resolution Foundation, April 2023.

<sup>8</sup> OECD, *On Shaky Ground? Income Instability and Economic Insecurity in Europe*, December 2023.

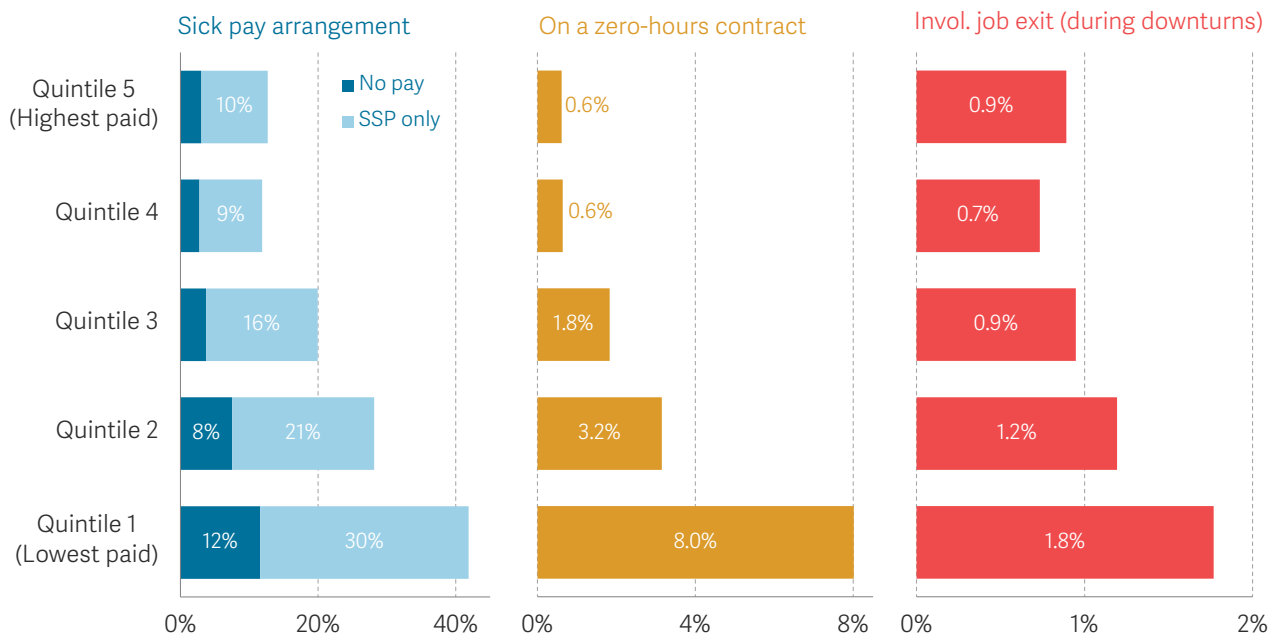
<sup>9</sup> G Giupponi & X Xu, *What does the rise of self-employment tell us about the UK labour market?*, Institute for Fiscal Studies, November 2020.

<sup>10</sup> OECD, *Detailed description of employment protection legislation, 2019, OECD Countries*, 2020.

Figure 2 details these three forms of insecurity, broken down by hourly pay quintiles. In 2023, 42 per cent of workers in the lowest quintile would expect to receive either no pay or Statutory Sick Pay (SSP) only if off sick for a week, compared to just 13 per cent of the highest-paid workers. Across 2021-2023, 8.0 per cent of the lowest-paid workers are on zero-hours contracts, versus 0.6 per cent of the highest-paid. And when job exits have spiked during recent downturns (the Covid-19 pandemic and the financial crisis), the lowest-paid workers had a quarterly involuntary dismissal rate of 1.8 per cent, double that (0.9 per cent) seen among the highest-paid workers. The problem is not just that the UK workers face more risk than those in other countries, but that the risk is borne by those least able to bear it.

**FIGURE 2: Low-paid workers bear the brunt of the risk**

Proportion of workers: receiving SSP or no pay if off sick for a week (2023), zero-hours contracts (2021-2023), and rate of involuntary job exits (during Covid and Financial Crisis), by hourly pay quintile: UK



NOTES: Sick pay arrangement: sample is private sector workers only, hourly pay imputed from occupation; overall sick pay arrangement derived from questions to what pay would expect during a week's sickness absence. Involuntary job exit: measure is share of those employed in last quarter who have left a paid job within last three months where reason given was redundancy or dismissal. 'Downturn' periods covered include Financial Crisis (Q1 2008-Q1 2009) and Covid (Q1 2020-Q4 2020).

SOURCE: RF analysis of YouGov survey commissioned by RF, 2023; Zero-hours contracts ONS, Labour Force Survey; Involuntary job exits, ONS, Two-quarter Longitudinal Labour Force Survey

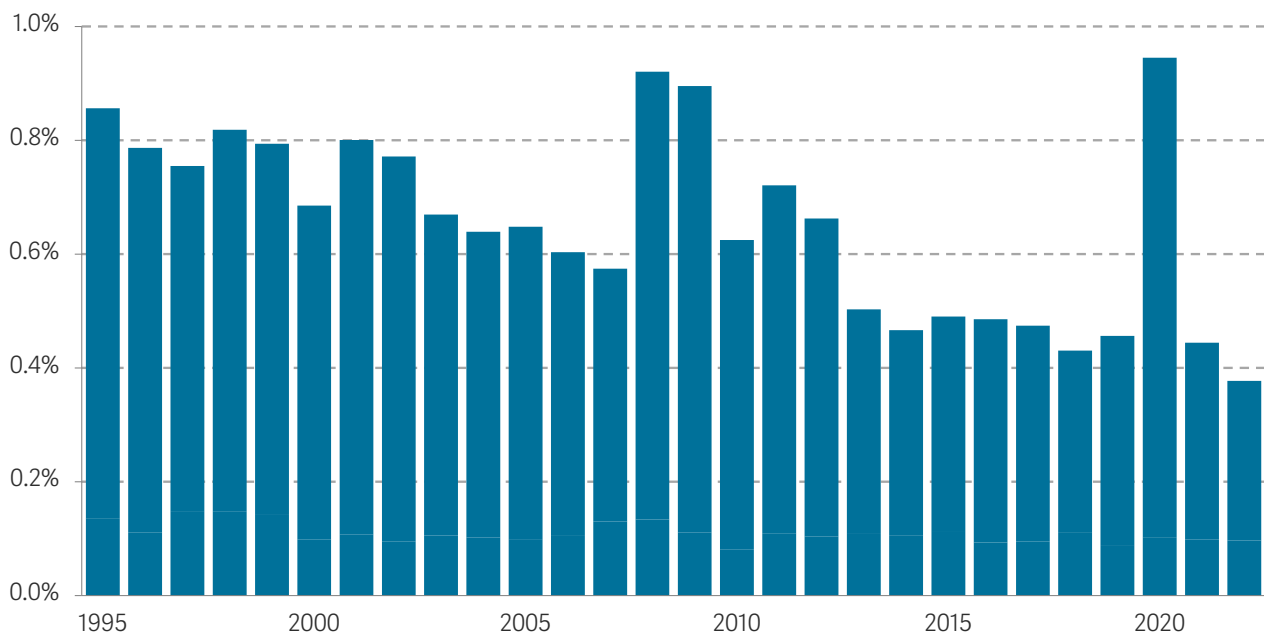
Job insecurity has negative effects on workers. Most obviously, it causes stress. For example, over a third of low-paid workers report anxiety about unexpected changes to hours of work.<sup>11</sup> This isn't surprising given the impact of unexpected changes in hours worked (on incomes, and on other aspects of workers' lives such as arranging childcare), and the fact they can

<sup>11</sup> In the 2017 Skills and Employment Survey, 37 per cent of workers on low hourly pay reported feeling fairly or very anxious about unexpected changes to their hours of work. Calculation first used in: N Cominetti et al, *Low Pay Britain 2021*, June 2021, Resolution Foundation.

happen with little notice. Past surveys have found that 17 per cent of employers using low-paid flexible work give only a day's notice of shift changes (42 per cent, in total, give less than a week),<sup>12</sup> while 14 per cent of workers on variable hours report receiving less than a day's notice of their shift schedules (55 per cent, in total, said they get less than a week).<sup>13</sup> Job insecurity can lead to income insecurity, and this has in turn been linked to a range of negative outcomes, including poor physical and mental health, and on children's development.<sup>14</sup> In this context it is important to remember that while the majority of low-paid workers aren't primary earners in the family – meaning their job insecurity or pay volatility is mitigated by the presence of a second, larger income – a third of workers on the minimum wage are the main earner in their household.<sup>15</sup>

**FIGURE 3: The rate of involuntary job separations has been trending down**

Average involuntary job exits per quarter (by year), as share of employment: UK



NOTES: Involuntary job exits defined as those who have left a job within last three months (including those currently working), where the reason given (self-reported by worker) was dismissal or redundancy.  
SOURCE: RF analysis of ONS, Labour Force Survey.

More positively, in any discussion of job insecurity, it's important to acknowledge that in some respects the UK labour market has become less insecure. The rate of involuntary job separations has been trending downwards over the past 20 years (see Figure 3), and unemployment is close to record lows. This affects how workers feel: in the 2017 edition of the Skills and Employment survey, both the proportion of workers who thought they faced a high risk of losing their job, and the proportion who thought it would be very

<sup>12</sup> Low Pay Commission, *A Response to Government on 'One-sided Flexibility'*, December 2018.

<sup>13</sup> Living Wage Foundation, *Almost one-third of working adults given less than a week's notice of working hours*, March 2022.

<sup>14</sup> OECD, *On Shaky Ground? Income Instability and Economic Insecurity in Europe*, December 2023.

<sup>15</sup> Low Pay Commission, *The National Minimum Wage Beyond 2024*, March 2024.

difficult to get another job if they did, were at the lowest levels on record (the survey dates back to 1986).<sup>16</sup> That is of course good news, but shouldn't make us sanguine about the levels of insecurity that remain. And moreover, in other respects insecurity may have deteriorated. Because unemployment benefits are uprated with prices rather than earnings, the level of earnings replacement offered by unemployment benefits is on a downward trend (as it has been more or less consistently since the 1970s),<sup>17</sup> while the last 20 years have seen a sustained increase in the share of workers who are solo self-employed.<sup>18</sup>

## There are risks to strengthening employment protection

The Government's reforms aim to tackle several of the forms of insecurity mentioned above: the risk of job loss (by changing unfair dismissal law), the income risk associated with sickness (by changing SSP), and earnings volatility (by giving workers a right to a contract that reflects the hours they regularly work).<sup>19</sup> As later sections discuss, the fine detail of its plans will determine whether these goals are actually achieved, but it's also important to be mindful of the risks associated with changing employment law, as well as the benefits.

First of all, any intervention to raise employment terms and conditions has the potential to bring about negative employment effects. The reason that low-paid workers enjoy worse terms and conditions than high-paid workers could be because their employers wouldn't hire them on better conditions – in which case policies to raise conditions may put workers out of a job – or it could be because those workers lack bargaining power, in which case there is room for policy to act. The history of the minimum wage has taught us that employers had more bargaining power than was thought – there continue to be no large employment effects, despite significant increases in pay. This could provide policy makers with some reassurance, suggesting they can afford to be bold with new reforms. But it's not a given that the same trick can be repeated with employment standards. Reforms should therefore be undertaken carefully, and ideally incrementally. Policy makers should also bear in mind that there may be trade-offs – raising standards in one place might make it harder to do so in another.

On top of this general risk, there are two risks associated with changing the rules

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<sup>16</sup> A Felstead et al, *Insecurity at Work in Britain: First Findings from the Skills and Employment Survey*, Wales Institute of Social and Economic Research and Data, October 2018.

<sup>17</sup> M Brewer et al, *Social insecurity: Assessing trends in social security to prepare for the decade of change ahead*, Resolution Foundation, January 2022.

<sup>18</sup> X Xu, *Going solo: self-employment in today's labour market*, Institute for Fiscal Studies, November 2020.

<sup>19</sup> Labour Party, *Labour's Plan to Make Work Pay: Delivering a New Deal for Working People*, May 2024. The most obvious form of insecurity that the Government has not spoken about is the consequence of job loss: there are no plans to raise the level of unemployment benefits.

around employment protection specifically which should be considered:

- greater levels of employment protection might lead to lower labour mobility; and,
- employers might respond by making greater use of temporary contracts.

Figure 4 provides indicative evidence of these risks by showing that, across countries, stronger employment protection is associated with lower hiring rates (the sum of job-to-job moves and hires from non-employment) and greater use of temporary contracts. According to OECD data, in 2019 the UK's overall employment protection score regarding dismissing individual workers was 1.7 (lower scores indicate less protection), its annual hiring rate in 2019 was 22 per cent, and in 2022, 5 per cent of workers were on temporary contracts. At the other end of the scale, the Netherlands' employment protection score was 2.8 in 2019, its 2019 hiring rate was 14 per cent, and in 2022, 28 per cent of workers were on temporary contracts.

Of course, it's important to offer the caveat that cross-country associations between two variables are only suggestive – there will be other country-specific factors influencing both rates of hiring and use of temporary contracts (for example, differences in sectoral and firm composition will play a role). Moreover, as is clear in Figure 4, the relationships depicted are far from deterministic – there are countries (including Sweden, Lithuania and Finland) where employment protection is stronger than in the UK, but where hiring rates are similar, and similarly, countries where employment protection is stronger, but where temporary contracts are similarly common or less common than in the UK (including Lithuania, Latvia, and the Czech Republic). Overall, across countries, employment protection levels 'explain' just 25 per cent of the variation in hiring rates, and 10 per cent of the variation in the use of temporary contracts.<sup>20</sup> But with those caveats established, it is nonetheless likely that there is some relationship between employment protection and these outcomes. This is also what the literature suggests.<sup>21</sup> So even if lower hiring or greater use of temporary contracts following stronger employment protection is not inevitable, they are risks worth considering.

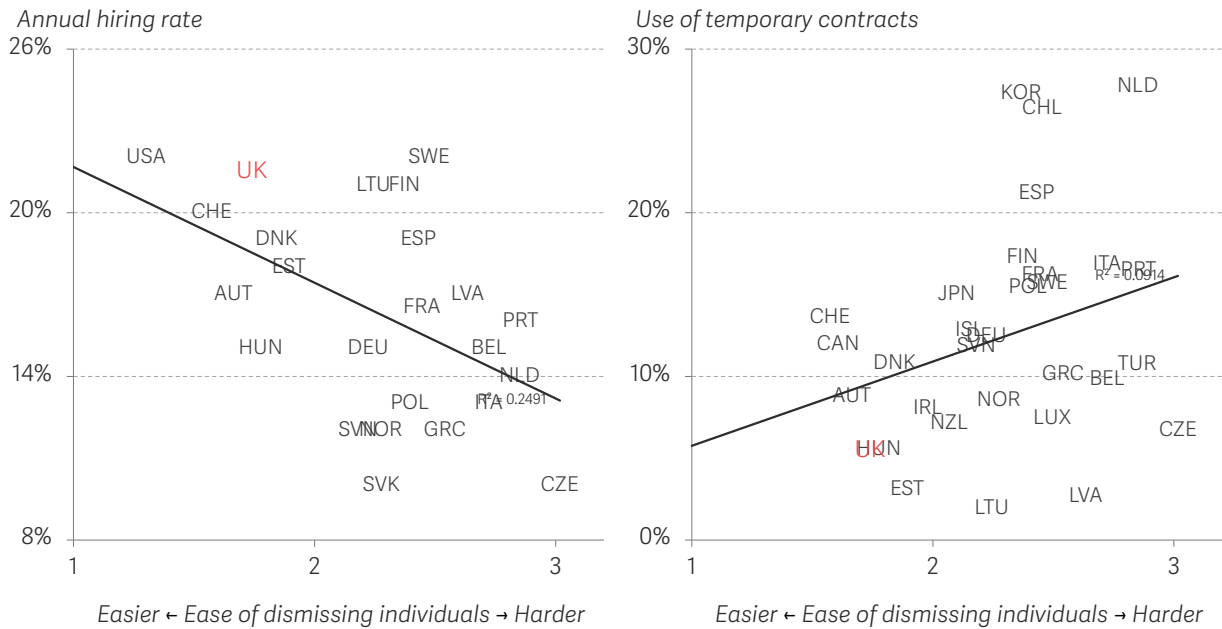
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<sup>20</sup> These values are the r-squared values associated with the lines of best fit depicted in the figure.

<sup>21</sup> OECD, *2018 Jobs Strategy*, December 2018.

**FIGURE 4: Countries with stronger employment protection have lower hiring rates, and make more use of temporary contracts**

Strictness of employment regulation relating to dismissing individual workers on regular contracts (2019), versus annual hiring rate (2019), and versus the share of workers on temporary contracts (2022): OECD countries



SOURCE: RF analysis of OECD, Employment Protection Legislation Database, 2020 edition; OECD, Labour Market Statistics; OECD, Labour market transitions across OECD countries: Stylised facts, December 2021.

A negative relationship between employment protection and hiring is to be expected.—stronger employment protection raises the cost of dismissals, which raises the cost to a firm of making a bad hire, and so makes them a little more reluctant to take on new people – and has been confirmed in many studies.<sup>22</sup> This is a potential concern because lower rates of dismissal and hiring can slow down the ‘reallocation’ of workers from less to more productive parts of the economy. The OECD’s review of the empirical literature suggests that the relationship between employment protection and productivity growth is ‘mainly negative’.<sup>23</sup>

However, this is not a reason not to undertake reform in the UK. The balance of benefits and risks may be different if starting from a position of low protection, as the UK is, than if starting with already-strong protection. The OECD advises that employment protection should be ‘moderate’ and ‘balanced’, not that it should be as limited as possible.<sup>24</sup> It points to potential positive effects: employment protection set at the right level could reduce the loss of good worker-employer matches in downturns, give workers more incentive to innovate, and give employers more incentive to invest in their workers.

Overall then, the labour mobility and productivity risk is worth taking seriously, especially

<sup>22</sup> OECD, 2020 Employment Outlook, July 2020.

<sup>23</sup> OECD, 2018 Jobs Strategy, December 2018.

<sup>24</sup> OECD, 2018 Jobs Strategy, December 2018.

because the main aspect of employment protection the Government plan to change (unfair dismissal qualifying periods) is where the strongest relationship with productivity is found.<sup>25</sup> But it's a reason to proceed cautiously, and take seriously the design of policy around probation periods (more on which in the following section), rather than to not reform at all.

A second risk is that strengthening employment protection – specifically, making it harder to dismiss regular workers – would lead to employers making greater use of 'temporary' or 'fixed-term' contracts. That's at least what the cross-country evidence suggests – as shown in Figure 4 above: countries with stronger employment protection tend to see greater use of temporary workers.

This may be why many countries with stronger employment protection for 'regular' workers also place limitations on the use of temporary contracts – either in terms of only allowing their use in some circumstances, or limiting the number of successive temporary contracts an employer can offer the same worker.<sup>26</sup> In the UK, there are limited restrictions on the use of temporary contracts.<sup>27</sup> Luxembourg has stronger employment protection for regular workers than the UK (a score of 2.5 compared to the UK's 1.7) but has similar use of temporary workers to the UK, likely because it heavily restricts the circumstances in which employers can use temporary contracts.<sup>28</sup> By contrast, the Netherlands has very strong employment protection for regular workers but places few limitations on the use of temporary contracts and, unsurprisingly, they are widespread (see Figure 4).

This suggests that if the UK is to significantly strengthen employment protection for regular workers, it might either have to accept greater use of temporary contracts, or to consider limiting their use. The former scenario might end up looking much like today's labour market in terms of overall hiring and security, but it would arguably be less desirable, as there is evidence that in 'two-tier' labour markets workers struggle to bridge the gap between insecure temporary jobs and secure permanent jobs, posing a threat to progression and social mobility.<sup>29</sup>

That being said, it's not clear how exposed the UK is to a rise in temporary contracts. Although there aren't currently limitations on the circumstances in which employers can use them, not renewing a temporary contract in UK law counts as a 'dismissal', and workers have the same entitlement to unfair dismissal protection as workers on

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<sup>25</sup> OECD, *2018 Jobs Strategy*, December 2018.

<sup>26</sup> See Figure 3.12 in: OECD, *2020 Employment Outlook*, July 2020.

<sup>27</sup> OECD, *Detailed description of employment protection legislation, 2019, OECD Countries*, 2020.

<sup>28</sup> In Luxembourg, temporary contracts may only be used as cover for temporarily absent employees, where the work itself is of a temporary nature, or to hire some specific groups of unemployed workers; additionally, for most workers, fixed-term contracts can only be renewed twice. In 2022, 7 per cent of workers in Luxembourg were on temporary contracts, similar to the 5 per cent in the UK. OECD, *Detailed description of employment protection legislation, 2019, OECD Countries*, 2020.

<sup>29</sup> OECD, *2018 Jobs Strategy*, December 2018.



permanent contracts (depending on how long they have been in the job).<sup>30</sup> This might mean employers' wouldn't face as much incentive to switch to temporary contracts under lower qualifying periods for unfair dismissal than they would in some other countries.

Overall, therefore, there are undoubtedly significant benefits to reforming UK employment policy to improve security – in particular to low-paid workers. But there are risks too, meaning policy makers will have to be watchful for adverse effects.

In this spirit, in the next section we focus on the Government's plans to make unfair dismissal a 'day one' right, and how in practice their commitment to maintain probation periods could work. Subsequent sections examine planned reforms to sick pay, zero hours contracts, and the minimum wage, before concluding with a section looking at the workers and sectors most affected by the potential reforms.

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<sup>30</sup> Gov.uk, [Fixed-term employment contracts: Renewing or ending a fixed-term contract](#), accessed 3 September 2024.

## Section 2

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### Protection against unfair dismissal

The UK Government plans to make protection from unfair dismissal a 'day one' right, a significant change from the current two-year qualifying period. This reform alone would move the UK from one end of the international spectrum on qualifying periods for unfair dismissal to the other. However, some of the implementation details remain unclear, particularly employers' ability to use probation periods. If employers can make dismissals in probation periods as easily as they can today during qualifying period for unfair dismissal, and if these were limited to six months, then the UK would end up in line with a large number of other OECD countries.

The Government's plan to make protection from unfair dismissal a 'day one' right is possibly the most significant of its planned employment reforms. If implemented exactly in this way, then it would affect all workers, and would be a major change to the current long waiting period for this entitlement. But it is also among the most uncertain, with big unanswered questions about how this reform would work, and in particular about what the commitment to maintain employers' ability to use probation periods means in practice. This section considers how the Government might go about implementing this flagship commitment.

#### The qualifying period for protection against unfair dismissal in the UK is too long

As the last section set out, reforming employment law brings up difficult questions about how to balance worker security against employers' willingness to hire. It is hard to be definitive about the optimal point on this trade-off. But we can probably be confident that the UK is not getting this balance right at the moment. In several respects, the UK's approach to employment protection is so far out of step with other rich countries that there is a clear case to be made for changing the UK's approach. The last section showed this was the case for the overall level of employment protection, the level of earnings replacement offered by unemployment benefits, and the earnings replacement available through SSP. It is also the case for protection against unfair dismissal.

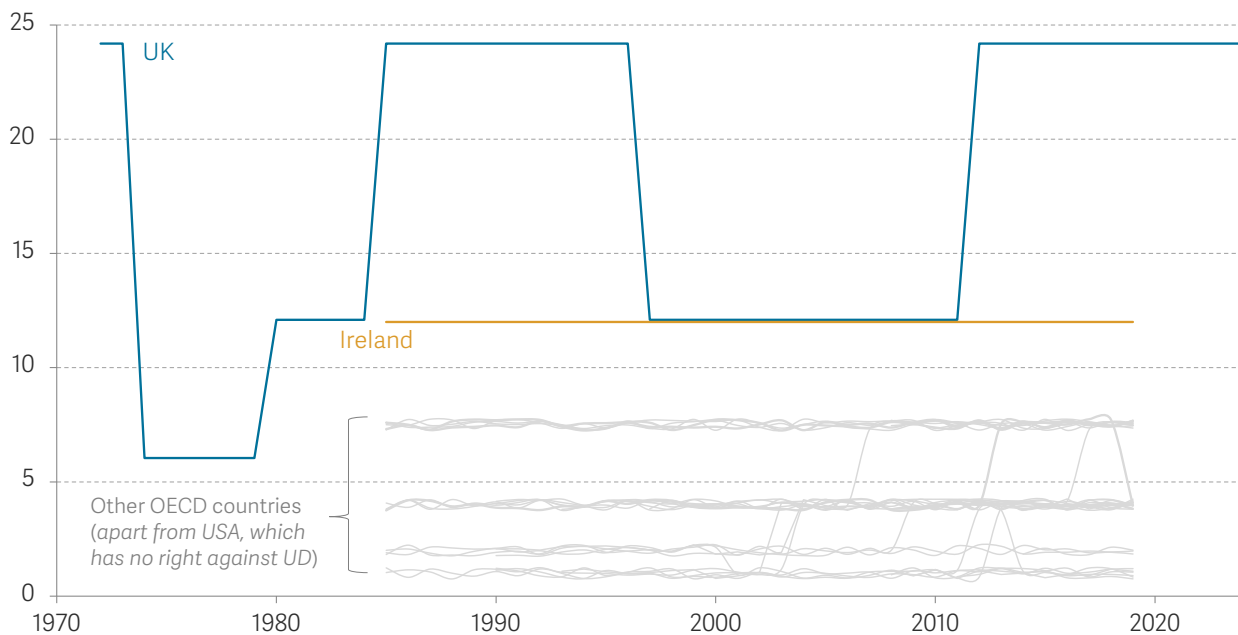
Currently in the UK, workers do not have any protection against unfair dismissal until they have been in their job for two years. This means that an employer is able to dismiss someone at any point in those two years without giving a reason; by contrast, after this two-year waiting period, the employer must have a 'fair' reason for making a dismissal,

and it must act 'reasonably'.<sup>31</sup> This is very different to the situation in other rich countries, where this entitlement for workers kicks in earlier. Out of 38 OECD countries, 37 have a right to protection against unfair dismissal (the other is the United States, where there is no protection against unfair dismissal in federal law), and in 36 the qualifying period is shorter than the UK's two years. In 25 countries the qualifying period is at most five months or lower, and in 10 the qualifying period is at most 2.5 months.

Figure 5 plots the length of countries' qualifying periods for protection against unfair dismissal. As well as the difference between UK and other countries, it's also striking how the qualifying period in the UK has bounced around over time. It has been shorter in the past (it was set at a year under New Labour) but it was only a brief period in the late 1970s (when it was set at six months) where the qualifying period in the UK was in line with the majority of other rich countries.

**FIGURE 5: Qualifying periods for protection against unfair dismissal have always been longer in the UK than in most other countries**

Length of qualifying period (months) until workers are entitled to protection against unfair dismissal: OECD countries



NOTES: Length of qualifying period in months estimated based on the relevant domain score in the OECD's Employment Protection indices, and the correspondence table with length of qualifying periods. Countries other than the UK and Ireland shown with a 'jitter' so that it is possible to see that there are a number of countries with qualifying periods at those levels  
 SOURCE: RF analysis of OECD, Employment protection database. UK series is based on the history set out in: Darren Newman, Qualifying for Unfair Dismissal, September 2023.

<sup>31</sup> It's important to clarify, that even under current UK law there are still some circumstances in which dismissals can be 'unfair' within the first two years in a job – this includes dismissals which are discriminatory, made in response to whistleblowing or industrial action. Furthermore, it is possible for employers to make dismissals once a worker has gained entitlement to protection against unfair dismissal – they just need to have a 'fair' reason for doing so, and to show they have acted 'reasonably'. 'Fair' reasons include capability, conduct, and redundancy. GOV.UK, [Dismissing staff: Fair Dismissals](#), accessed 3 September 2024.

## It's not clear how the Government will incorporate 'probation periods' alongside making unfair dismissal protection a day one right

The Government is therefore right to want to make a change. But there is uncertainty about exactly what they plan to do, especially around what role 'probation periods' will play. Initially, these were not part of Labour's plans: the policy in its 2022 green paper was for a straightforward ending of qualification periods.<sup>32</sup> By the 2024 election campaign, though, the policy had softened. While still committing to making protection from unfair dismissal a 'day one' right, Labour's 'Plan to Make Work Pay' in May 2024 said:

"We will ensure employers can operate probationary periods to assess new hires. However, the changes will help to ensure that newly hired workers are not fired without reason or cause...".<sup>33</sup>

But what does "operating probation periods" mean in the context of the worker having a day one right not to be unfairly dismissed? At the moment 'probation periods' don't have status in UK employment law.<sup>34</sup> Employers can of course write a contract that mentions a probation period, and alter what entitlements they offer on the basis of passing a probation period. But workers have the same legal entitlements during a probation period as they do after it.<sup>35</sup> Employment lawyers have therefore pointed out that, if employers are to be able to make dismissal more easily during probations more easily than at other points, legislation would have to make dismissals during a probation period a 'potentially fair' reason for dismissal, as well as setting out what processes employers need to follow when dismissing workers for failing probation periods.<sup>36</sup>

The Government would also have to set maximum lengths for probation periods, given the risk some employers might want to use very long probation periods. If these were capped at six months (and if the procedural requirements for making dismissals during probations were low), the UK's approach to unfair dismissal would move into line with many other countries where qualifying periods for unfair dismissal are set at around six months (including Denmark, Germany, Norway, and Sweden).

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<sup>32</sup> Labour Party, [Employment Rights Green Paper: A new deal for working people](#), 2022.

<sup>33</sup> Labour Party, [Labour's Plan to Make Work Pay: Delivering a New Deal for Working People](#), May 2024.

<sup>34</sup> There is no mention of probation periods in the [1996 Employment Rights Act](#), or in Acas's [Code of practice on disciplinary and grievance procedures](#) or the [accompanying guidance](#). This doesn't mean that probation periods are meaningless – they are widely used, because they help to manage workers' expectations, and provide a natural point to assess whether an employment relationship should continue.

<sup>35</sup> The right to a minimum notice period of a week kicks in after someone has been in their job for a month, but this isn't related to whether a worker is in a 'probation period' or not, just how long they have been in the job. Acas, [Notice periods: Dismissal or redundancy](#), accessed 27 August 2024.

<sup>36</sup> These are the main points set out in: J Davies, [New Deal talking points: What are Labour's plans for unfair dismissal?](#), Lewis Silkin, July 2024. Alternatively, establishing what constitutes 'reasonable' decisions on the part of employers could be developed through case law, but that would be a slower process, and might lead to an increase in Employment Tribunal cases, and leave employers and workers facing uncertainty: D Newman, [Abolishing the qualifying period for unfair dismissal](#), July 2024.

## Making unfair dismissal protection a 'day one' right (and setting a high bar to demonstrate 'fairness' when making dismissals based on probation periods) comes with risks

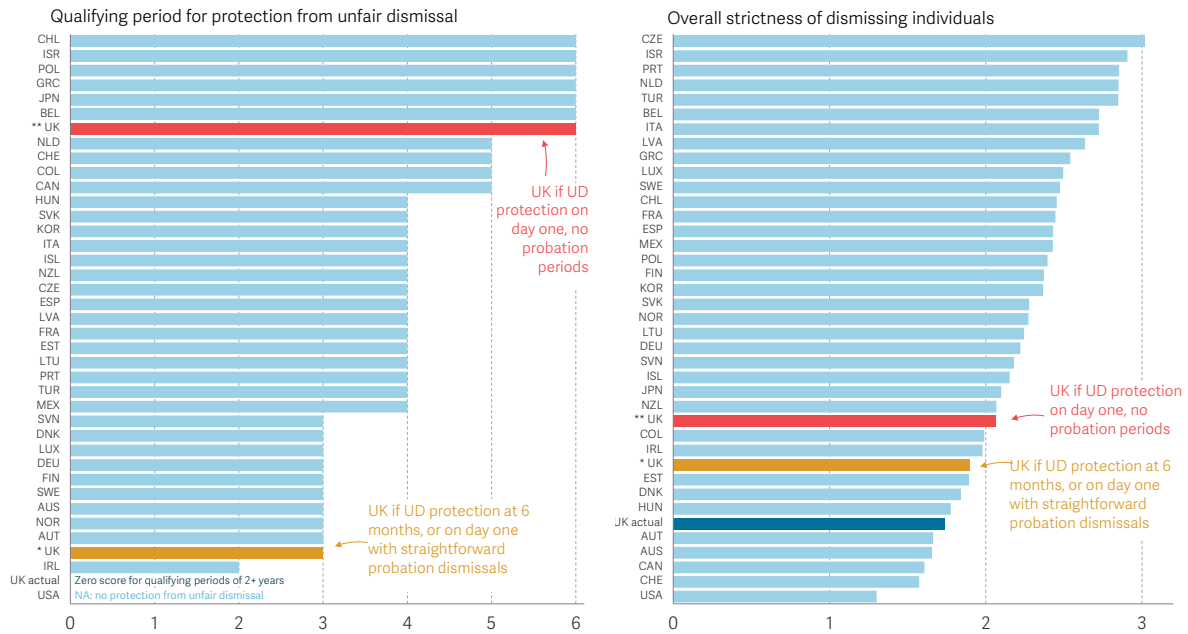
In terms of the impact of the policy change, a lot would depend on where the bar is set in terms of the processes employers need to follow to demonstrate they have acted 'reasonably'. If requirements are very low, employers' ability to dismiss workers would not be very different to dismissing newer workers today. But then this might not meet the Government's commitment that "newly hired workers are not fired without reason or cause". On the other hand, the higher the bar employers are asked to clear in order to demonstrate reasonableness when making dismissals in the probation period, then the more fully the Government will have honoured its commitment to offer some protection to new workers – but also the more the reform will have changed employers' incentives when it comes to hiring, and the greater the risk of bringing about the adverse consequences discussed in Section 1.

Section 1 already discussed the possible risks that come with strengthening employment protection – lower hiring, and employers turning to temporary contracts. These were presented in relation to the overall scope of employment protection. This includes not just the qualifying period for unfair dismissals but also: procedural steps employers have to make when making dismissals (for example, notifying state agencies), notice periods, severance payments, what counts as a 'fair' dismissal, compensation levels after unfair dismissals, whether workers have a right to be reinstated after unfair dismissals, how long workers have to make a claim after being unfairly dismissed, and where the burden of proof lies.

The UK scores fairly low on all these elements, not just on the qualifying period for unfair dismissal. And the Government is not proposing to strengthen any of these other elements of employment protection (making probation failure a 'fair' reason for dismissal would be weakening that element). This means that, even if the qualifying period for unfair dismissal was made a day one right, and no accommodation was made for probation periods, the UK's overall employment protection score would increase from its current 1.7 but only to 2.1, similar to New Zealand, and still below the OECD average of 2.2. If as is probably more likely, the qualifying period for unfair dismissal was reduced to six months, or if it was reduced to zero but dismissals on the basis of six-month probation periods were straightforward for employers, then the UK's overall employment protection score would only increase to 1.9, similar to Denmark. This is set out in Figure 6.

**FIGURE 6: Even with protection from unfair dismissal becoming a day one right, the UK's overall employment protection score would be below the OECD average**

OECD employment protection scores: score for qualifying period for protection from unfair dismissal, and overall score for dismissing individual workers: OECD countries



NOTES: Hypothetical employment protection scores calculated using the OECD’s published methodology, available in the OECD’s 2020 Employment Outlook.  
SOURCE: RF analysis of OECD, Employment Protection Index, 2019.

However, there is evidence to suggest that, within the overall scope of employment protection, the rules relating to unfair dismissals are the aspect with the greatest impact on employers’ hiring decisions and worker reallocation.<sup>37</sup> This was the conclusion of a study which looked at worker flows within and between industries in 24 OECD countries (including the UK) from 1995 to 2007; rules relating to notice periods, procedural requirements, and severance payments did not appear to have a significant effect on job mobility, but the strength of rules relating to unfair dismissals did.<sup>38</sup> This is consistent with the strength of the correlation between specific elements of employment protection and hiring rates across countries. The correlation with hiring rates across OECD countries is -0.62 for the unfair dismissal framework, -0.38 for rules relating to procedural requirements when making dismissals, and -0.18 for rules relating to minimum notice periods and severance pay.<sup>39</sup>

<sup>37</sup> OECD, 2020 Employment Outlook, July 2020.

<sup>38</sup> Specifically, statistically significant relationships were identified with rules relating to workers’ entitlement to be reinstated in jobs they have been found to have been unfairly dismissed from, and the length of qualifying periods. A Bassanini & A Garnero, IZA DP No. 6535: Dismissal Protection and Worker Flows in OECD Countries: Evidence from Cross-Country/Cross-Industry Data, IZA, April 2012.

<sup>39</sup> This is calculating the correlation between the relevant score within the OECD’s employment protection index (for 2019) and the hiring rate (for 2019) as published in OECD, Labour market transitions across OECD countries: Stylised facts, December 2021.

## The process for making 'fair' dismissals during probation periods should be made straightforward

The sensitivity of hiring rates to unfair dismissal rules suggests that, even though the UK's overall level of employment protection is not set to change significantly, there is reason to proceed cautiously with this reform. It would be sensible to make the process that employers have to follow in order to demonstrate reasonableness when making dismissals during 'probation periods' straightforward for employers. There would of course be a reasonable debate about whether this lives up to the spirit of the Government's commitment that 'newly hired workers are not fired without reason or cause'. But it would be a sensible first step given the potential risks of these changes to hiring. Just as the minimum wage has been raised steadily over time, there is no reason the requirements on employers could not be strengthened over time, if the evidence suggested there was scope to do so.

Finally, it is worth mentioning that concerns about adverse effects on hiring could also be addressed by imposing different requirements on some employers. Young, growing firms account for an outsized share of hiring and productivity growth, and might be particularly sensitive to changes in unfair dismissal rules.<sup>40</sup> If the Government was particularly concerned about the risks that these changes harmed growth, then it could consider maintaining qualifying periods for new firms, or making the threshold to demonstrate 'fairness' when making dismissals during probation periods lower for those firms.

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<sup>40</sup> A study using US data shows that it is young firms that are particularly important for overall employment growth, even controlling firm size. For example, firms that are one year old are about twice as likely to be a high-employment-growth firm as firms that are ten years old. J Haltiwanger et al, [High Growth Young Firms: Contribution to Job, Output and Productivity Growth](#), Center for Administrative Records Research and Applications, February 2017.

## Section 3

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### Sick pay

The UK's Statutory Sick Pay (SSP) system is among the least generous in the OECD, offering minimal income protection for sick workers. This comes both from the three-day waiting period before payments start, and the fact that SSP is set at a very low level. It means that a private sector worker on average pay facing four weeks off work and relying on SSP would receive an earnings replacement of just 11 per cent, compared to 68 per cent across the OECD. Additionally, workers earning below £123 per week (the 'Lower Earnings Limit' (LEL)) are ineligible for SSP.

The Government plans to remove waiting days and extend eligibility to all employees, regardless of earnings. These changes will improve support, but the low SSP rate is set to remain, leaving the financial insecurity caused by sickness absence largely unchanged. The Government should also consider raising the level of SSP, perhaps setting it as a proportion of past earnings, like the Covid-19 furlough scheme, and if necessary providing financial support to small employers facing high SSP costs.

This section reviews the Government's planned changes to Statutory Sick Pay (SSP). Unlike planned reforms to unfair dismissal, here the Government's plans are clear – remove waiting days (currently SSP is only paid from the fourth day off sick) and extend eligibility to workers earning below the LEL of £123 per week – and the question is instead whether their policy really tackles the insecurity that sickness absences currently present some workers.

#### The UK's Statutory Sick Pay system offers much less income protection to sick workers than equivalent systems in most other OECD countries

As with other areas of UK employment policy, there is a strong case for reform to SSP given the very low level of protection offered to UK workers who need to take time off work through sickness.

All OECD countries besides the United States and Korea have systems to support workers who are too sick to work.<sup>41</sup> These vary along many dimensions, including whether administered through employer-provided paid sick leave or the benefits system (usually a combination, starting with the former), the duration of support, eligibility and coverage, and employment rights while off sick. The UK's system is not ungenerous in every respect: for example, the maximum duration of employer-provided sick days in the UK (28 weeks) is

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<sup>41</sup> The US has no federally mandated paid sick leave, but 15 states do: Paycor, [Paid Sick Leave Laws by State for 2024](#), accessed 28 August 2024. Korea is moving towards introducing paid sick leave: OECD, [Disability, Work and Inclusion in Korea](#), May 2023.

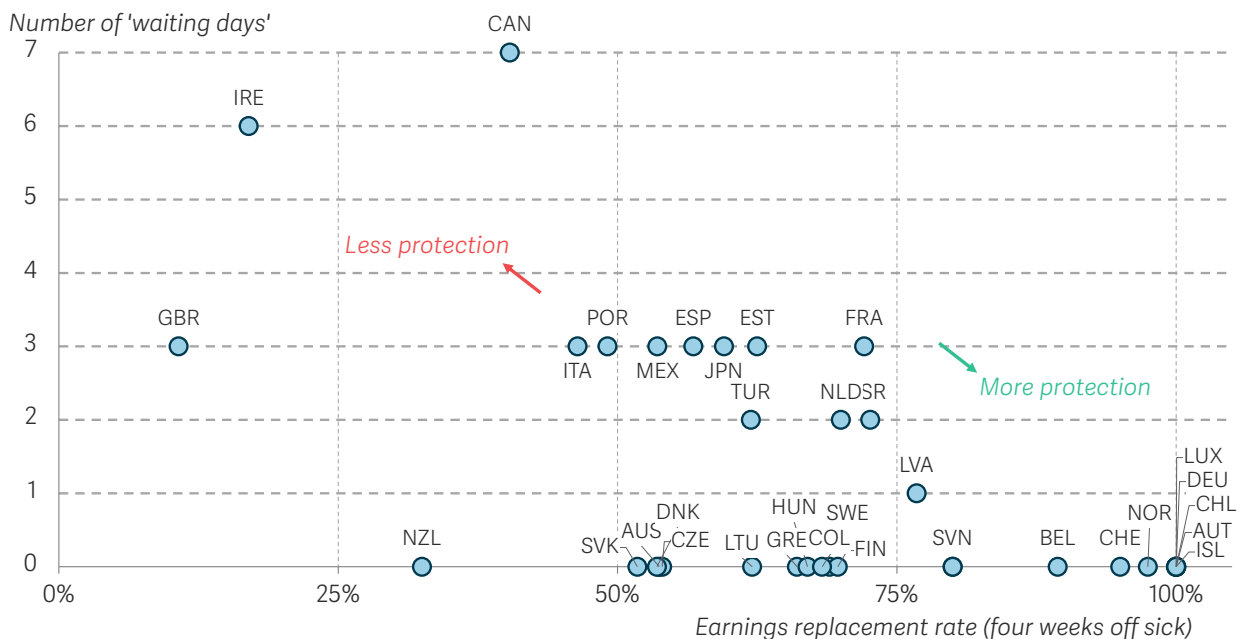


longer than in all OECD countries apart from the Netherlands. But in terms of the most important dimension – how well workers’ earnings are protected when off sick – the UK’s is the least generous system other than the two countries that have no protection at all.

Figure 7 provides an illustration. Countries are plotted according to the number of ‘waiting days’, and the rate of earnings replacement during a four-week absence in their sick pay system (‘waiting days’ are the number of days a worker has to wait during a sickness absence before becoming eligible for payments).<sup>42</sup> There are three waiting days in the UK’s sick pay system. This isn’t the highest (there are six in Ireland and seven in Canada), and seven other OECD countries also have three waiting days (including Italy, France, Spain, and Japan). But three waiting days is above the OECD average (of 1.3 days), because 21 OECD countries do not have any waiting days in their sick pay system (this includes New Zealand, Australia, and many European countries). Three waiting days in the UK means there is no statutory earnings protection at all for sickness absences up to that length.

**FIGURE 7: The UK’s Statutory Sick Pay system is one of the least generous in the OECD (besides the US and Korea which have no system)**

Earnings replacement rate and number of ‘waiting days’ before payments start, in countries’ sick pay systems: OECD countries



NOTES: Earnings replacement relates to four weeks’ absence for a worker on average private sector pay. Includes mandatory payments. ‘Waiting days’ are the initial number of days of a sickness absence during which the worker is not entitled to statutory sick pay. Data refers to 2019. SOURCE: OECD, Disability, Work and Inclusion in Korea, May 2023.

<sup>42</sup> Hereafter ‘sick pay system’ will be used as a shorthand for a country’s mandatory employer-provided paid sick leave, or its sickness benefits system if that is what applies during the period of absence discussed.

The other way the UK's sick pay system offers little protection is in its low level of mandatory payments. SSP in the UK is currently (financial year 2024-25) set at £116.75 per week. Putting waiting days aside, this is 95 per cent of earnings of someone who just earns enough to be eligible (£123), but amounts to just 26 per cent of the £457.60 someone working 40 hours per week on the National Living Wage would earn, and 16 per cent of median weekly earnings among full-time workers (£722.60).<sup>43</sup> The combination of a low payment level and a high number of waiting days is what makes the UK's sick pay system especially pernicious. For a full-time worker facing a week's sickness absence, the UK's sick pay system offers an earnings replacement rate of 10 per cent if working 40 hours on the NLW, and 6 per cent if on median weekly full-time earnings. This is why the UK sits in the far left-hand side of Figure 7. The OECD's sick pay replacement rate calculation is based on someone on average pay in the private sector being off work for four weeks. They calculate an earnings replacement rate for the UK of 11 per cent. This compares to the OECD average of 68 per cent among countries with sick pay systems, and 63 per cent if including the United States and Korea (where there are no sick pay systems, in effect giving a replacement rate of zero).

Of course, it is important to note that these replacement rates only apply to those workers who rely on SSP when off sick. Such workers are in the minority overall because most workers in the UK have access to an 'occupational sick pay' scheme, where their employers opt to pay more than the statutory minimum to workers who are off sick. In the DWP's 2014 survey, 57 per cent of employees said their sick pay arrangement is 'above SSP' (this rises to 68 per cent if 'don't know' responses are excluded)<sup>44</sup>, while in a 2021 CIPD survey, 62 per cent of employers said they offered an occupational sick pay scheme to all their staff, and a further 12 per cent said it was offered to some staff.<sup>45</sup>

The problem is that not all employers do so. As already set out in Section 1, it is the lowest-paid workers who are least likely to have access to an occupational sick pay scheme, and who are most likely to rely on SSP. In our survey of private sector employees last year, 42 per cent of those in the bottom hourly pay quintile (estimated based on their occupation) said they would expect to receive no pay, or SSP only, if taking a week off work.<sup>46</sup> Similarly, in the DWP's 2014 survey, 36 per cent of workers in 'elementary occupations' said their sick pay arrangement would be 'SSP only' (rising to 49 per cent if 'don't know' responses are excluded).<sup>47</sup> These are the workers who the UK's sick pay system leaves facing a steep income fall if taking time off work through sickness.

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<sup>43</sup> This is based on median weekly pay among full-time workers in the ONS's Annual Survey of Hours and Earnings in April 2023 (£681.70), uprated by the growth of the ONS's Average Weekly Earnings (6.0 per cent) in the 12 months to April 2024.

<sup>44</sup> DWP, *Health at work: a survey of employees*, June 2015.

<sup>45</sup> CIPD, *Labour Market Outlook: Spring 2021*, May 2021.

<sup>46</sup> N Cominetti et al, *Low Pay Britain 2023: Improving low-paid work through higher minimum standards*, Resolution Foundation, April 2023.

<sup>47</sup> DWP, *Health and wellbeing at work: Survey of employees*, July 2015.

A final way in which the UK's sick pay system creates insecurity is through eligibility. Workers are only entitled to SSP if their weekly earnings are above the LEL within the National Insurance system, which is currently £123 per week. At the end of 2023, 1.1 million workers earned less than this, and were therefore not eligible for any SSP at all.<sup>48</sup> Ineligibility for SSP is twice as common for women as men, and much more common among older than younger workers.<sup>49</sup> Some of these workers will have access to occupational sick pay schemes, but many won't – in the DWP's 2014 survey, the share of part-time workers (anyone earning less than £123 per week is certain to be working part-time) with reported access to sick pay 'above SSP' (42 per cent) was lower than for full-time workers (61 per cent).<sup>50</sup>

## Removing 'waiting days' and the Lower Earnings Limit eligibility rule will extend support to many workers, but the Government also needs to raise the level of SSP

The Government plans to make two changes to SSP: to remove waiting days, so that workers can claim SSP from their first day off sick, and to remove the LEL eligibility test – i.e. extending eligibility to all employees, regardless of earnings.

Both changes will extend SSP support to new groups of workers. Removing waiting days extends support to any workers who take a sickness absence of 1-3 days in length, whose employer doesn't offer occupational sick pay. Lots of workers will benefit from this: among the 42 per cent of employees who reported taking any sickness absence in 2014, for 43 per cent (18 per cent of all employees) the longest absence was one or two days in length.<sup>51</sup> Removing the LEL eligibility limit extends support to those part-time workers on low weekly earnings (if their employer does not offer occupational sick pay).

This is of course an improvement on the current situation on both counts. But because the Government is not making any changes to the level of SSP, for most workers, the new system will still offer very little earnings protection during a sickness absence.<sup>52</sup> To illustrate, under the new system, a worker taking a three-day sickness absence would receive £70.05 in SSP, compared to nothing currently; while a worker taking a week off sick would receive £116.75 in SSP, compared to £46.70 currently. These are improvements,

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<sup>48</sup> N Cominetti & H Slaughter, *Job Done? Assessing the labour market since 2010 and the challenges for the next government*, Resolution Foundation, June 2024.

<sup>49</sup> M Brewer & M Gustafsson, *Time Out: Reforming Statutory Sick Pay to support the Covid-19 recovery phase*, Resolution Foundation, December 2020.

<sup>50</sup> DWP, *Health and wellbeing at work: Survey of employees*, July 2015.

<sup>51</sup> DWP, *Health and wellbeing at work: Survey of employees*, July 2015.

<sup>52</sup> The exception will be workers on very low weekly earnings who are newly eligible for SSP. For workers with earnings below the LEL, who are newly eligible for SSP, SSP will offer a very high rate of earnings replacement. For someone working 10 hours per week on the NLW, SSP at £116.75 would be higher than their weekly earnings of £114.40. The Government will presumably place a limit on SSP for the lowest earners to ensure workers aren't given a financial incentive to not work, although there was no mention of this in the King's Speech background notes. One option would be to implement a proposal in the 2019 Taylor Review, which suggested those earning below the LEL should be entitled to SSP at 80 per cent of their earnings. M Taylor, *Good work: the Taylor review of modern working practices*, Department for Business and Trade, July 2017.

but they still represent very low amounts when set against what someone earns working full-time on the National Living Wage, let alone if earning a median wage. The UK's sick pay system will continue to be one of the least generous in the OECD.

The Government has therefore only partially addressed the insecurity within the current sick pay system. To fully do so, it would need to raise the level of SSP. In a report last year, we suggested linking the level of SSP to workers' earnings, and setting it at 65 per cent.<sup>53</sup> This is less generous than the pandemic-era Job Retention Scheme, but would bring the earnings replacement offered by SSP in line with the OECD average (of 68 per cent, excluding the US and Korea). Under this system, with no waiting days, someone working full-time on the NLW would receive £297.44 in SSP if off sick for a week, more than six-times the £46.70 they would receive at the moment, and more than twice the amount they would receive with waiting days removed but with no changes to the level of SSP (£116.75).

## A more generous sick pay system would impose higher costs on employers...

Of course, there is a reasonable debate to be had about exactly what the right level of SSP would be, and whether payments should be flat-rate or linked to earnings. The Fabian Society has suggested moving to a scheme with an 80 per cent earnings replacement (and no waiting days),<sup>54</sup> while the Work and Pensions Select Committee earlier this year recommended a much more modest increase in SSP to the level of SMP (currently £184.03 per week) and that the three waiting days should be retained, despite its conclusion that "SSP does not provide adequate support for those who most need protecting from financial hardship".<sup>55</sup>

Whatever the level, raising SSP from its current low level would involve imposing greater costs on employers. Employer spending on SSP in 2024 (based on a Fabian Society estimate for 2019-20) was roughly £3.2 billion, which amounts to approximately £112 per employee per year.<sup>56</sup> Setting SSP at a higher level would raise these costs for two reasons. First, employers who pay SSP would be paying out more SSP per sick day taken. Absent any other changes, SSP set at the level of SMP would, for example, raise employers' SSP spending by 58 per cent. But second, employers' SSP spending would probably also increase due to a behavioural response to a more generous sick pay system, with workers taking more sick days.

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<sup>53</sup> N Cominetti et al, *Low Pay Britain 2023: Improving low-paid work through higher minimum standards*, Resolution Foundation, April 2023.

<sup>54</sup> A Harrop et al, *In time of need: Building employment insurance for all*, Fabian Society, March 2023.

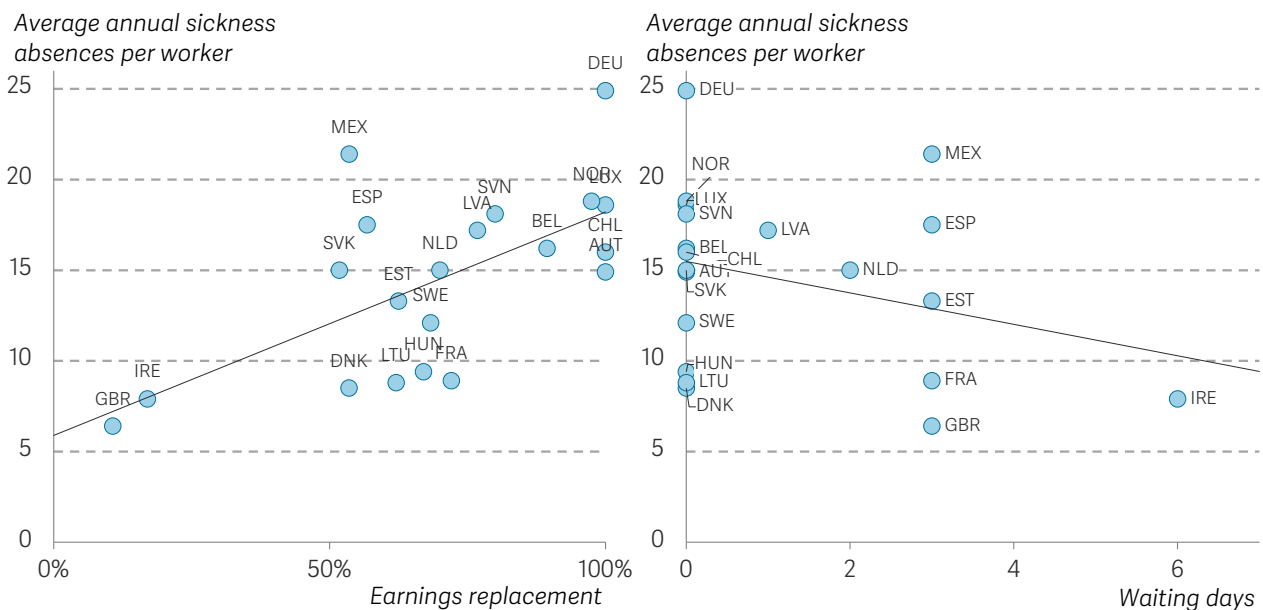
<sup>55</sup> Work and Pensions Committee, *Statutory Sick Pay – Report Summary*, March 2024.

<sup>56</sup> A Harrop et al, *In time of need: Building employment insurance for all*, Fabian Society, March 2023. Costs for 2019 updated for 2024 based on change in SSP level since 2019.

To see this, we can compare the rate of sickness absences across countries. This is set out in Figure 8 which plots the average annual days of sickness absence per worker against the level of earnings replacement (the left panel), and against the number of waiting days (in the right panel). It's clear that in countries with more generous sick pay systems, workers take more sick days. For example, at the extreme end of the scale, in Germany, where sick pay is paid at 100 per cent of earnings from the first day, workers took an average of 25 days of sickness absence in 2022. This compares to just 6.4 days in the UK in 2021. Of course, this is not a causal relationship and it's hard to know by how much UK workers would respond. Based on the relationship across countries in the left panel, we might expect that moving to a system with 65 per cent earnings replacement would lead to the number of sick days taken in the UK rising to between 10-15 days per year – closer to countries like France (9 days), Sweden (12 days), and the Netherlands (15 days).

**FIGURE 8: In countries with more generous sick pay systems workers take more sick days**

Average annual days' sickness absence per year (2022 or latest available), compared to SSP earnings replacement (left panel) and SSP waiting days (right panel): OECD countries



NOTES: Number of sickness absences is based on estimates of 'compensated' absences (as opposed to self-reported absences). Data is not available for all OECD countries.  
 SOURCE: OECD, Disability, work and inclusion in Korea: Towards equitable and adequate social protection for sick workers, May 2023

Of course, a higher number of sick days would be a good thing if it allowed individuals to seek treatment sooner, perhaps leading to quicker recoveries, and reduce the spread

of contagious diseases. But it would be less good if more generous sick pay led to more fraudulent days off. Workers in well-paid occupations currently take fewer sick days than average, despite being more likely to have an occupational sick pay scheme to fall back on – suggesting little link between the level of sick pay and the number of fake sick days. However, it's not necessarily true that the same would hold for the predominantly lower-paid workers, who currently face a strong financial penalty for taking sick days, and who nevertheless take more sick days on average.<sup>57</sup> Indeed, these 'moral hazard' risks might be why many employers of low-paid workers have not opted to offer occupational sick pay schemes. On the other hand, it could also be linked to low-paid workers' bargaining power: just as workers in labour markets where job opportunities are limited, or who face barriers to changing jobs, find it harder to push for pay rises, they might also be less able to push for better terms and conditions.

### ... which might require the state to help some employers cope with those costs

Some employers might find these additional costs difficult to bear – especially if needing to pay workers (and potentially also pay for replacement staff) during lengthy sickness absences. The UK's SSP system does not currently attempt to mitigate these risks for employers. This isn't such an issue while SSP is set at such a low rate, but could be under a more generous system. If the Government was minded to make SSP substantially more generous, then it might want to consider supporting smaller employers facing large SSP costs. This is what it did during the pandemic – employers with fewer than 250 employees were able to claim back SSP costs for employers off work for Covid-19-related reasons). It was also part of the UK's SSP policy until 2014 – employers were able to claim a reimbursement if SSP costs exceeded 13 per cent of their National Insurance contributions. The Campaign for Safe Sick Pay have estimated that reimbursing SMEs (businesses with 1-249 staff) 80 per cent of their SSP costs for sickness absences of longer than four weeks would cost £2 billion per year in a system based on a 65 per cent earnings replacement and no waiting days (this should be seen as a lower bound estimate given it does not assume any increase in the number of sick days taken under a more generous system).<sup>58</sup>

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<sup>57</sup> In 2022, workers in 'Elementary occupations' had a sickness absence rate of 3.6 per cent, compared to 1.6 per cent among 'Managers and Senior Officials'. Source: ONS, [Sickness absence in the UK labour market: 2022](#), April 2023. This is the opposite of what you might expect based on workers' sick pay arrangements: according to the Department for Work and Pensions' 2014 survey, only 37 per cent of workers in 'Elementary' occupations would expect to receive 'Above SSP' if off sick, compared to 75 per cent of 'Managers and Senior Officials': DWP, [Health in the workplace: patterns of sickness absence, employer support and employment retention](#), July 2019.

<sup>58</sup> These calculations were undertaken by the Centre for Progressive Change's [Campaign for Safe Sick Pay](#) and have not yet been published.

## Section 4

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### Hours insecurity

The Government plans to offer workers a right to a contract reflecting the hours they regularly work, based on a 12-week reference period. This is the Government's answer to the problems of hours insecurity, such as employers cancelling shifts at the last minute. These problems are most obviously faced by workers on zero-hours contracts, but they also apply to workers on 'short-hours' contracts and other types of shift work.

However, key details of how this policy will work in practice are not yet clear, and these will determine how effectively the policy addresses insecurity for zero-hours contract workers. The most important of these relates to what form the hours guarantee takes – in Ireland a similar law only ensures that workers' future average hours are similar to their past average hours, which doesn't address the risk of short-term earnings volatility. Another question relates to eligibility, specifically, whether all workers will have this new right, or only those whose working pattern clears some 'regularity' threshold.

Another of the Government's flagship reforms is the plan to ban 'exploitative' zero-hours contracts. There is good reason to reform how zero-hours contracts work, but this is a policy where there remain questions about how it will work in practice. We explore these in this section.

#### Reform to tackle hours insecurity is overdue

It's important to note at the outset that problems relating to hours insecurity – unexpected changes in shifts, income volatility, and employers having significant power to 'zero down' or significantly reduce hours – aren't limited to zero-hours contracts. Any worker who often works significantly more than their contracted hours will arguably face these problems to some extent, particularly if they are paid by the hour (meaning issues of volatile hours feed into volatile incomes). Unfortunately, it is hard to measure the full extent of this problem – there is no variable in the Labour Force Survey which flags workers on short-hours contracts, for example. But we know it's broader than just the number of workers on zero-hours contracts. The ONS estimates there are currently 1.0 million workers in the UK on a zero-hours contract, amounting to 3.1 per cent of total employment.<sup>59</sup> But in the 2017 Skills and Employment Survey, 4.9 per cent of employees reported experiencing cuts at short notice to weekly working hours, and 7 per cent to feeling very anxious about unexpected changes to working hours – implying that the

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<sup>59</sup> Data refers to April to June 2024. Taken from: ONS, [EMP17: People in employment on zero hours contracts](#), August 2024.

total number of workers facing hours insecurity is at least double the number of workers on zero-hours contracts (i.e. at least 2 million).<sup>60</sup>

Nevertheless, because zero-hours contracts are most easily measured, and because the Government's right to a contract reflecting regular hours worked is explicitly intended as a means to tackling 'exploitative' zero-hours contracts, we will refer to zero-hours contracts in the rest of this section. But it should be clear that the problems we describe with these contracts – as well as the Government's solution, the right to a contract reflecting regular hours worked – apply to workers facing hours insecurity more broadly.

The positive and negative aspects of zero-hours contracts are well-rehearsed. The benefits to employers are clear: they offer full flexibility in scheduling and paying employees, making it easier and cheaper to respond to fluctuating demand or to scheduling challenges. Some workers also benefit by being able to flex their hours of work to fit around other parts of their life (it's notable, for example, that on average, workers on zero-hours contracts have comparable job satisfaction to other workers, and report better work-life balance).<sup>61</sup> Set against this is the risk that the flexibility they offer is one-sided, transferring the risk to workers, who are exposed to unpredictable hours and volatile earnings, and transferring the power to employers, who can implicitly or explicitly threaten to remove work from employees without having to provide a notice period or reason.<sup>62</sup> Zero-hours contracts can also raise additional problems – they can make it harder for workers to demonstrate continuous service (making access to mortgages harder, for example) and may also make it harder for workers to prove eligibility for other entitlements (such as to Statutory Sick Pay and paid holiday).<sup>63</sup> According to recent polling by the TUC, 84 per cent of workers on zero-hours contracts want regular hours.<sup>64</sup>

Despite zero-hours contracts having been widely discussed in UK politics for more than a decade, there remains nothing in UK policy to restrict or mitigate the worst risks facing workers on zero-hours contracts. There have only been small changes: in 2015, the Government banned exclusivity clauses in zero-hours contracts, and in 2023 the Government supported a private members' bill to give workers a right to request a contract with regular hours. This latter change will, of course, help when employers accede to any such requests. But they are not obliged to and therefore the basic risk of unexpected changes in hours and earnings facing a million UK workers remains largely unaddressed.

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<sup>60</sup> A Felstead et al, *Insecurity at Work in Britain: First Findings from the Skills and Employment Survey*, October 2018, Wales Institute of Social and Economic Research and Data.

<sup>61</sup> M Beatson, *Zero-hours contracts: evolution and current status*, CIPD, August 2022.

<sup>62</sup> A 2022 CIPD survey found that only 57 per cent of employers with workers on zero-hours contracts gave workers the right to turn down work in practice, implying the flexibility often lies on the side of the employer, not the worker. M Beatson, *Zero-hours contracts: evolution and current status*, CIPD, August 2022.

<sup>63</sup> M Taylor, *Good work: the Taylor review of modern working practices*, Department for Business and Trade, July 2017.

<sup>64</sup> TUC, *Over 8 in 10 zero-hours contract workers want regular hours – TUC poll reveals*, August 2024.



## The Government's proposed policy sounds simple, but it is not yet clear how it would be implemented in practice

When describing its approach, the Government says that it will ban “exploitative” zero-hours contracts, which they clarify means giving workers “a right to a contract that reflects the number of hours they regularly work”. It was also said that it will “[ensure] ... that all workers get reasonable notice of any changes in shift with proportionate compensation for any shifts cancelled or curtailed”.<sup>65</sup>

A version of the commitment to give workers a right to a regular contract has been longstanding Labour Party policy, but there are nonetheless questions about its implementation which the Government is no doubt working on as it prepares its Employment Bill.<sup>66</sup> Important questions include:

How the new hours are guaranteed: Would the new contract give the worker the right to be offered the specified hours of work every week, or every fortnight, say, or would it be to be given those hours of work on average over some longer period of time?

Eligibility: Would the right apply to all workers, or only those whose hours of work are sufficiently ‘regular’?

The common-sense interpretation of the Government's plans – and in all likelihood what the Government is indeed planning – are that the new right will apply to all workers, and that the new hours it would guarantee would apply every week (or perhaps every fortnight). This is the only way this new right would solve the central problem of volatile earnings and hours. Some of the language the Government has used implies they may offer this right only to workers who are already on regular hours, so that the new contract just formalises the status quo.<sup>67</sup> This would still be of benefit to those workers. It would remove the threat of earnings volatility, and would limit the use of ZHCs to genuine cases where an employer's need for work is uncertain or highly variable. It would prevent employers who are clearly using a worker on a regular, reliable schedule from retaining the right to allocate that worker less, or no, work in the future, in ways that would not be legal were the employee on a contract for a fixed number of hours. But it wouldn't help workers facing actual hours volatility, and therefore would only partially address problems of hours insecurity.

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<sup>65</sup> Prime Minister's Office, [King's Speech 2024: background briefing notes](#), July 2024.

<sup>66</sup> In Labour's [2015 manifesto](#) the commitment was, as now, to ban “exploitative” zero-hours contracts, with the manifesto fairly clear that this meant giving “those who work regular hours for more than 12 weeks ... a right to a regular contract”. In the [2019 manifesto](#) the commitment sounded stronger, committing to “banning zero-hours contracts [note: not just banning ‘exploitative’ zero-hours contracts] and strengthening the law so that those who work regular hours for more than 12 weeks will have a right to a regular contract, reflecting those hours”. This formulation implied that the right to a contract with regular hours might happen *in addition to the ban on zero-hours contracts*. In the [2024 manifesto](#), the language reverted to committing to banning “exploitative” zero-hours contracts, with the [background notes to the King's Speech](#) implying this means giving workers “a right to a contract that reflects the number of hours they regularly work”.

<sup>67</sup> This has been pointed out by (among others) Richard Dunstan, who quotes from an interview Angela Rayner gave to the Today Programme in March 2024: “If people are working a flexible contract, their contract will be able to specify that, but what we won't have ... is people working regular hours who are given a zero-hours contract and no security”. R Dunstan, [Zero-hours contracts: Labour's zero-sum game](#), Labour Pains, 1 April 2024.

To give an indication, around a third of zero-hours contract workers (approximately 320,000 workers) say their hours don't tend to vary week to week. These workers would presumably pass an eligibility test based on regularity. But, of course, taking this as an eligibility rule would mean that no entitlement was offered to the majority (68 per cent) of zero-hours contract workers (approximately 680,000 workers) whose hours do vary from week to week, and who would presumably most benefit from greater security.<sup>68</sup> Worryingly, and depending exactly on how these are defined, it might also give employers an incentive to deliberately schedule irregular hours so as to prevent their workers from becoming eligible for a regular contract.

### BOX 1: Zero-hours contracts in Ireland

In 2019, the Irish Government implemented a 'ban' on zero-hours contract. In practice, this took the form of a right to a contract which guarantees that average hours over the coming 12 months would fall into the same band that average hours had fallen into over the previous 12 months. This will give workers more confidence about the level of their future earnings, but it does not address the risk of short-term earnings volatility. Employers can still offer these workers no work in a given week, as long as over the full 12 months they offer sufficient hours that the workers' hours fall into the correct band.

Given this, it is perhaps not surprising that the reform appears to have had little or no impact on the number of

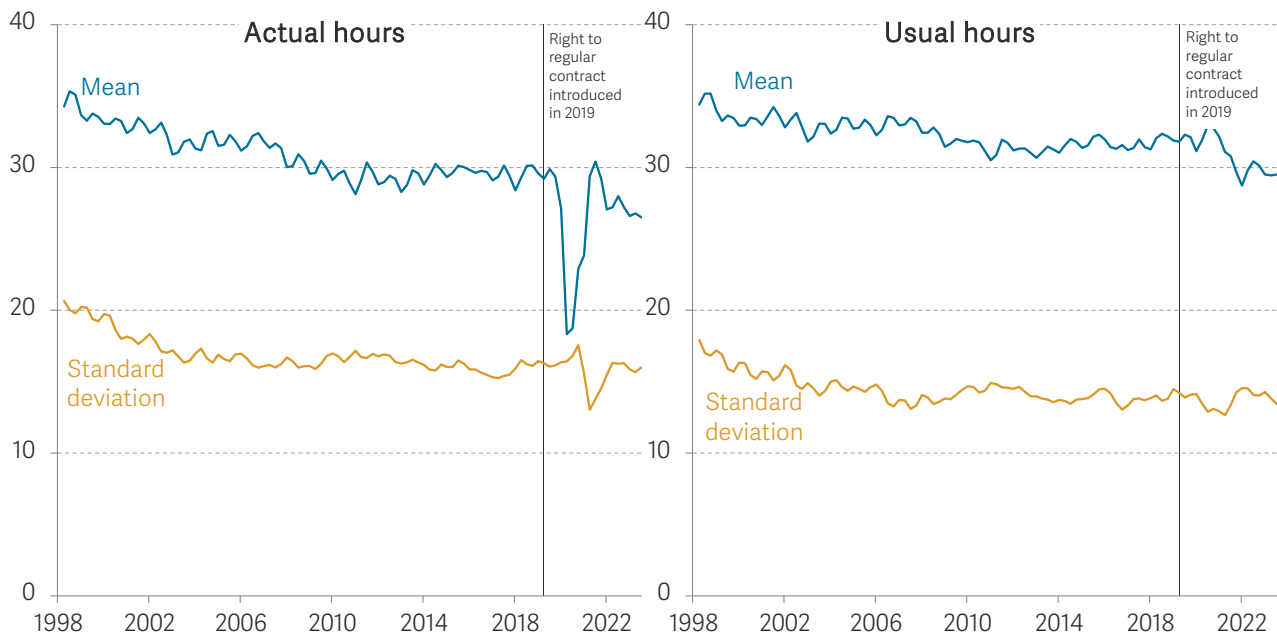
hours worked in the hospitality sector. Unfortunately, there is no flag for whether a worker is on a zero-hours contract in the Irish Labour Force Survey, but in the UK, 1 in 5 people working in hospitality are on a zero-hours contract (compared to 3 per cent of workers in other sectors), so any impact on hours worked would be most likely to show up in hospitality.<sup>69</sup> Figure 9 plots the mean and standard deviation of hours worked in hospitality in Ireland – actual hours in the left panel, and usual hours on the right. Looking through the pandemic period, there is no sign that the policy changed either the level or variation in hours worked (as measured by the standard deviation) in the sector.

<sup>68</sup> A 'regularity' eligibility threshold could allow hours variation within certain bounds, in which case some of the zero-hours contracts workers whose hours vary would be eligible, depending on where the threshold was drawn. To give an indication of the extent to which workers on zero-hours contracts vary, between 2021-2024, 1-in-7 (15 per cent of) workers on zero-hours contracts reported actual working hours in the reference week at least 10 hours greater than or lower than their usual working hours, while only 1 in 30 (3 per cent) of workers not on zero-hours contracts reported this degree of variability. These figures exclude workers who worked fewer hours in the reference week due to having taken leave (holiday, parental), been off sick, or worked different hours than usual due to other personal reasons. Source: RF analysis of ONS, Labour Force Survey, Q1 2021 to Q1 2024.

<sup>69</sup> These figures are presented in Figure 13 in Section 6.

**FIGURE 9: ZHC workers in Ireland gained right to 'banded hours' in 2019, but it didn't affect hours worked in the hospitality sector**

Mean and standard deviation of hours worked per week in hospitality: Ireland



NOTES: Chart shows two-quarter trailing average.  
SOURCE: RF analysis of ISSDA, Irish Labour Force Survey.

### The more significant the hours guarantee offered to workers, the bigger the restriction on employers' flexibility, and the impact on certain businesses

As ever, however, there is a trade-off to consider. Decisions about eligibility for this new right, and on whether a worker's hours are guaranteed every week, affect not just how much additional security workers would gain, but also how much flexibility employers would lose. If all zero-hour contracts workers were eligible for this right (regardless of the 'regularity' of their hours), and if the right was to be offered at least the specified hours every week, it could have a large impact on employers who face genuinely intermittent demand, in particular some parts of the hospitality sector.

Undertaking major reform of something as complicated as the labour market is always going to throw up challenging boundary issues. But this is nevertheless not an easy problem to solve.

There are a few potential responses. One is to bite the bullet and accept that such a change would force employers to adapt, and to find ways to run their business with staff on regular hours. A knock-on effect of this might be that firms make greater use

of agency workers, in turn raising other questions about the nature of the agency sector and its appropriate use.<sup>70</sup>

A second would be to offer a carve-out to businesses facing genuine intermittency of demand. The benefit of drawing eligibility criteria based on business requirements rather than the worker's actual hours would be that workers facing unpredictable hours that aren't required by the business context would be eligible for protection. However, enforcing these kinds of rules would be challenging, and even with a bar set high some employers would no doubt fight hard to prove their ineligibility.

Ultimately, the Government will have to take a difficult decision on this question. The spirit of the Government's reforms is to help workers at the sharp end of the labour market – this points to not offering a carve-out based on intermittency of demand. Of course, this would inevitably be challenging for those businesses – and the usual warnings apply about increases in labour costs and potential employment effects. As an alternative to a carve-out, the Government could consider ensuring that the businesses most affected are offered sufficient advance notice of these changes to allow time to adapt their business models.

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<sup>70</sup> We discussed these issues in: L Judge, [The good, the bad and the ugly: the experience of agency workers and the policy response](#), Resolution Foundation, November 2018. The research found that although many workers enjoy the flexibility that agency work brings, we also identified widespread experiences of poor and sometimes unlawful practice. This included, for example, agency workers reporting that they had no access to paid holiday, despite being entitled to this.

## Section 5

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### The minimum wage

The Government's minimum wage policy is less ambitious than implied by the Labour party manifesto, maintaining the National Living Wage (NLW) at two-thirds of median hourly pay rather than raising it to the real Living Wage as implied during the election campaign. Although the Low Pay Commission (LPC) has been asked to consider the rate of inflation, which could – in principle – create room for the LPC to discuss a higher rate, ultimately the policy is much the same as the previous Government's policy.

Electing not to raise the 'bite' of the NLW in 2025 will be a break from the 25-year history of the minimum wage, in which it has risen faster than average wages. It will also mean less progress on reducing pay inequality. Fast minimum-wage increases has been a notable policy success, especially since 2015, having reduced the gap between bottom and middle earners to its lowest level across the 50-year period for which we have comparable data.

There is, however, the prospect of greater action on the youth minimum wage, which the Government plans to phase out and bring into line with the adult rate. This change will benefit many young workers but may constrain future increases for older workers.

The Government went into the election with ambitious-sounding promises to make the minimum wage a "genuine living wage", and this is still their policy.<sup>71</sup> But plans published since the election for the adult minimum wage next year are less ambitious than suggested, albeit with bigger changes planned for the rates for younger workers. This section sets out what we know so far about the new Government's plans in this area and discusses the reasons for thinking they may have not gone far enough in terms of driving up pay for low earners.

#### Ambitious increases in the minimum wage have brought down pay inequality since the turn of the century

Much of the Government's reform agenda is taking on policy areas which have seen little or no change in a long time. The exception is the minimum wage, which has been the main area of labour-market policy activity in recent years. Introduced in 1999 at a relatively low rate of £3.60 (worth 45 per cent of the median wage of workers aged 25+), the minimum wage rose steadily under the New Labour and Coalition Governments. From 2015, successive Conservative Governments have set ambitious targets for the 'bite'

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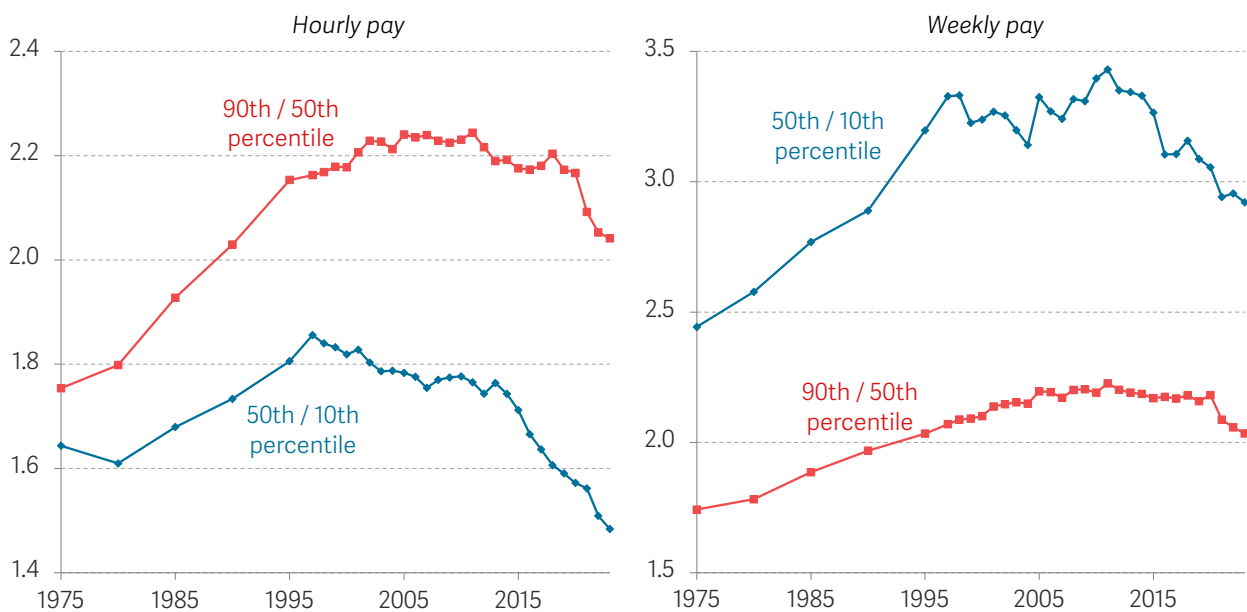
<sup>71</sup> Prime Minister's Office, [King's Speech 2024: background briefing notes](#), July 2024.

of the minimum wage – its value relative to median earnings – leading to rapid upratings. Between 2015 and 2023, median hourly pay increased by just 3 per cent in real terms, while the National Living Wage (the minimum wage for workers aged 21 plus) increased by 23 per cent.<sup>72</sup> As a result, the NLW has now reached £11.44 and is worth two-thirds of median hourly pay. So while the UK's minimum wage started life as a cautious policy 25 years ago, it is now one of the highest wage floors in the world.<sup>73</sup>

Pushing up the minimum wage faster than median pay has the effect of shrinking the gap between bottom and middle earners. Indeed, there has been a dramatic fall in the gap between hourly pay at the 10th percentile and the median: falling from a ratio of 1.9 in 1997 on the eve of the introduction of the minimum wage, to 1.7 in 2015, to 1.5 in 2023 (see Figure 10). This is the lowest this ratio has been since comparable data began in 1975. The impact of the minimum wage is also evident in the pattern of pay growth across historically low-paying occupations. Between 2011 and 2023, median hourly wages in real terms rose 26 per cent for bar staff, 24 per cent for waiters, 20 per cent for cleaners, 20 per cent for shop assistants, and 15 per cent for hairdressers, compares to growth of 1.9 per cent at the median.<sup>74</sup>

**FIGURE 10: Bottom-half hourly pay inequality is at its lowest level on record, and other forms of pay inequality are also currently falling**

Ratio of hourly and weekly pay at the 10th, 50th and 90th percentiles: UK



NOTES: Latest data point is 2023. This chart was originally published in: N Cominetti & H Slaughter, *Job Done? Assessing the labour market since 2010 and the challenges for the next government*, Resolution Foundation, June 2024.  
SOURCE: RF analysis of ONS, New Earnings Survey Panel Dataset & Annual Survey of Hours and Earnings.

<sup>72</sup> The age coverage of the National Living Wage was also extended during this period, from workers aged 25 and above in 2015, to workers aged 23 and above in 2022. It was extended again to workers aged 21 and above this year (2024).  
<sup>73</sup> N Cominetti & H Slaughter, *Labour Market Outlook Q2 2024: Happy 25th birthday to the minimum wage*, Resolution Foundation, March 2024.  
<sup>74</sup> N Cominetti & H Slaughter, *Job Done? Assessing the labour market since 2010 and the challenges for the next government*, Resolution Foundation, June 2024.

Other measures of pay inequality have also been falling in recent years. Top-half hourly-pay inequality has been falling since 2019: the ratio between hourly wages at the 90th percentile and the median is back to levels not seen since the 1990s.

Figure 10 also shows measures of bottom- and top-half weekly-pay inequality. Weekly-pay inequality is driven by differences in hours worked as well as hourly rates of pay, and not all workers on low weekly pay are on low hourly pay. But there have also been recent falls in weekly-pay inequality recently. Bottom-half weekly-pay inequality (the ratio of the median to the 10th percentile) has been falling since 2011 (after rising in the four decades beforehand) and is now back to pre-minimum-wage levels, while top-half weekly-pay inequality has been falling since 2019, and is now back at 1995 levels.

## Despite saying it would make the NLW a “genuine living wage”, the new Government’s policy is, so far, similar to the last’s

Labour’s language around the minimum wage during the election campaign sounded very ambitious. The manifesto committed to making sure “the minimum wage is a genuine living wage”, as well as removing the “discriminatory age bands”. Making the minimum wage a “genuine living wage” sounds like it implies raising it to the level of the real Living Wage.

The new Government has now published their actual policy for the minimum wage, in the form of the remit given to the Low Pay Commission (LPC), the independent body tasked with recommending actual minimum rates, so we can now see what these commitments mean in practice.<sup>75</sup>

On the adult rate – the National Living Wage (NLW) – the plan for the rate in 2025 turns out to be much less radical than their language suggested. The way Labour’s “genuine living wage” commitment has been implemented is to ask the LPC to “take into account” expected trends in inflation up until March 2026 when recommending the NLW for April 2025. It’s not stated explicitly, but “take into account” implies the Government wants the NLW to rise at least in line with expected inflation. This is much less radical than one interpretation of the manifesto commitment, which would be to raise the minimum wage to the level of the real Living Wage, as calculated by the Living Wage Foundation, based on the cost of living.<sup>76</sup>

But the LPC’s new remit is unlikely to have any material impact on the NLW, because

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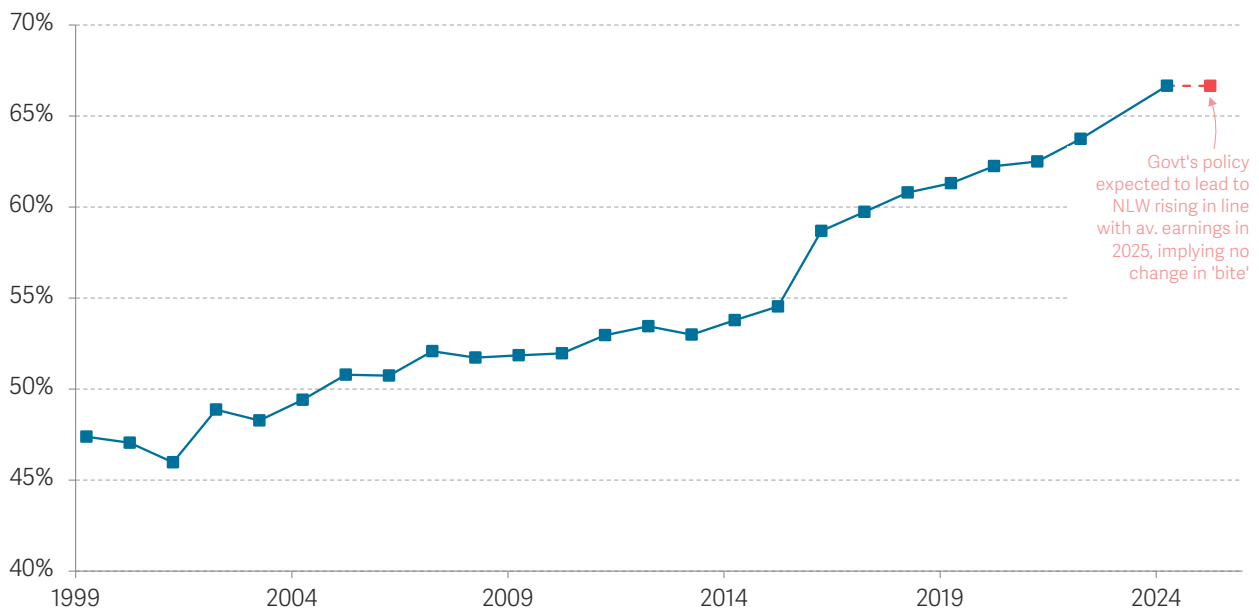
<sup>75</sup> Department for Business and Trade, [National Minimum Wage and National Living Wage: updated Low Pay Commission remit 2024](#), July 2024.

<sup>76</sup> The real Living Wage is currently £12.00 outside London, and £13.15 inside London – compared to the current NLW of £11.44 – a difference of 5 per cent. The Living Wage Foundation is responsible for the calculation. The methodology paper for the 2023/24 rates calculation is available at: N Cominetti & L Murphy, [Calculating the Real Living Wage for London and the rest of the UK: 2023](#), Resolution Foundation, October 2023.

the remit also asks the LPC to ensure that the NLW does not drop below two-thirds of median hourly pay in 2025. Wage growth will – unless there is a major surprise – be faster than inflation next year, meaning it is this latter requirement that will actually bind, and not the requirement to at least match the rate of inflation.

**FIGURE 11: The Government's new minimum-wage remit is likely to see the NLW rise in line with average earnings in 2025**

'Bite' of the adult rate minimum wage, level compared to median hourly wages among workers aged 21 and above: UK



Note: Estimated value for 2025 is our interpretation of how the Low Pay Commission is likely to implement its remit, not explicitly Government policy.  
 SOURCE: RF analysis of LPC data on minimum wage bite.

Ultimately, then, the new Government's policy on the NLW is much the same as the previous Government's, who also had asked the LPC to hold the bite of the NLW at two-thirds of median earnings.<sup>77</sup> That is also what the LPC will surely do under the new Government's policy next year (this is indicated in Figure 11, which shows the path of the 'bite' of the minimum wage in its 25-year history).<sup>78</sup>

### It's too early to call time on a higher minimum wage

It's also notable that the Government's minimum-wage remit for the LPC only sets policy for the NLW for one year. Recent governments have set LPC remits spanning

<sup>77</sup> Department for Business and Trade, *National Minimum Wage and National Living Wage: Low Pay Commission remit 2024*, March 2024.

<sup>78</sup> In April, the LPC estimated a 2025 NLW rate of £11.89 (a 3.9 per cent uprating) based on this policy – the actual uprating will depend on the outlook for wage growth when the LPC makes its recommendations to Government in the autumn. Low Pay Commission, *Low Pay Commission consultation 2024*, August 2024.



multiple years (the 2015 remit set a target path out to 2020, and the 2019 remit set a renewed target out to 2024). This means the new Government's policy is really only a one-year holding policy – the implication being they may decide to pursue a different policy after 2025, perhaps with a more ambitious implementation of their commitment to make the minimum wage a “genuine living wage”.

Until they do, however, we can only go on the policy that has been announced. This represents a break from the past 25 years, in which the minimum wage has tended to rise faster than median hourly wages – and especially a break with the period since 2015 during which time this has been the explicit policy (see Figure 11).

Whether the Government adopts a different approach in future years remains to be seen, but it would be ironic if the Government with the most ambitious rhetoric surrounding the minimum wage was the one to preside over a slowing in the rate of upward progress for the first time in recent years. And it would be a shame for the millions of low-paid workers for whose pay packets a rising minimum wage has done so much.

Of course, minimum wage increases above the rate of average wage growth would not have continued indefinitely. At some point the limits of pay compression, or employment effects, would have been reached. But there is no clear evidence they have been reached yet. The latest LPC report finds that “despite the ambitious increases, we still have not found strong evidence that the NLW has reduced employment or hours of work”.<sup>79</sup> And it's striking that, as the LPC note, a lower share of workers were paid at or below the minimum wage in 2023 than before the pandemic, and that the share of minimum-wage workers ‘escaping’ the minimum wage has been rising (there had been worries that increasing pay compression would lead to lower incentives to progress in work). Both of these facts, along with the overall weight of evidence regarding employment effects, suggest the minimum wage has room to rise further.

Again, that doesn't imply indefinite increases, or indeed, how much further it might be possible to raise the minimum wage before running into significant adverse effects. But the LPC has a long-established process for managing these risks, which is to carefully assess the evidence of such effects every year, and consider the economic climate when making its recommendation. There is no reason for the Government to abandon this approach. A policy of setting a new bite target (we have previously suggested a target of 73 per cent by 2029) and continuing to delegate the monitoring of risks to the LPC, would have been a better approach than the Government's policy of adding the rate of inflation to the list of the LPC's considerations.

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<sup>79</sup> Low Pay Commission, *The National Minimum Wage Beyond 2024*, March 2024.

## The real policy ambition is on youth rates – removing the youth rate will raise wages for many young workers, but will constrain increases for older age groups

There is, however, genuine change planned when it comes to the youth rates. The Government has said it will abolish these “discriminatory” rates.<sup>80</sup> And here, the new LPC remit is consistent with this happening in a phased way. The specific policy in the remit is to raise the minimum wage rate for 18-20-year-olds so that it converges on the adult rate (no timeframe has been given for achieving this, so there is no way of knowing what size of increase the LPC might consider for the 18-20 rate in 2025). For the rate for 16-17-year-olds and apprentices, the remit doesn't give the LPC any explicit convergence instruction. Instead it has been asked to raise this rate as high as possible subject to employment effects. This is in keeping with the approach to the youth rates throughout the minimum wage's history (and in keeping with the approach to the adult rate until 2015). This will bring a change from recent years, in which the adult rate has risen faster than the youth rates, increasing the gap between the two.

As usual with minimum wage policy, the key question is: how much room is there to raise the wage floor for young workers without causing employment effects? Here, the answer is far from clear. On one hand, the gap between the adult and youth rates is larger than in many other countries, and only a small share of young workers are actually paid the youth-specific rate (see the right-hand panel of Figure 12), suggesting employers are happy to pay above these rates.<sup>81</sup> On the other hand, a sizeable minority of young workers are paid below the full adult rate (in 2023, 64 per cent of 16-17-year-olds and 30 per cent of 18-20-year-olds were paid somewhere between the age-specific rate and the NLW). Convergence of the youth and adult rates would push up wages for all those workers. Additionally, youth-minimum-wage rates are already somewhat higher, relative to median hourly wages in the age group, than the adult rate (see the left panel in Figure 12).

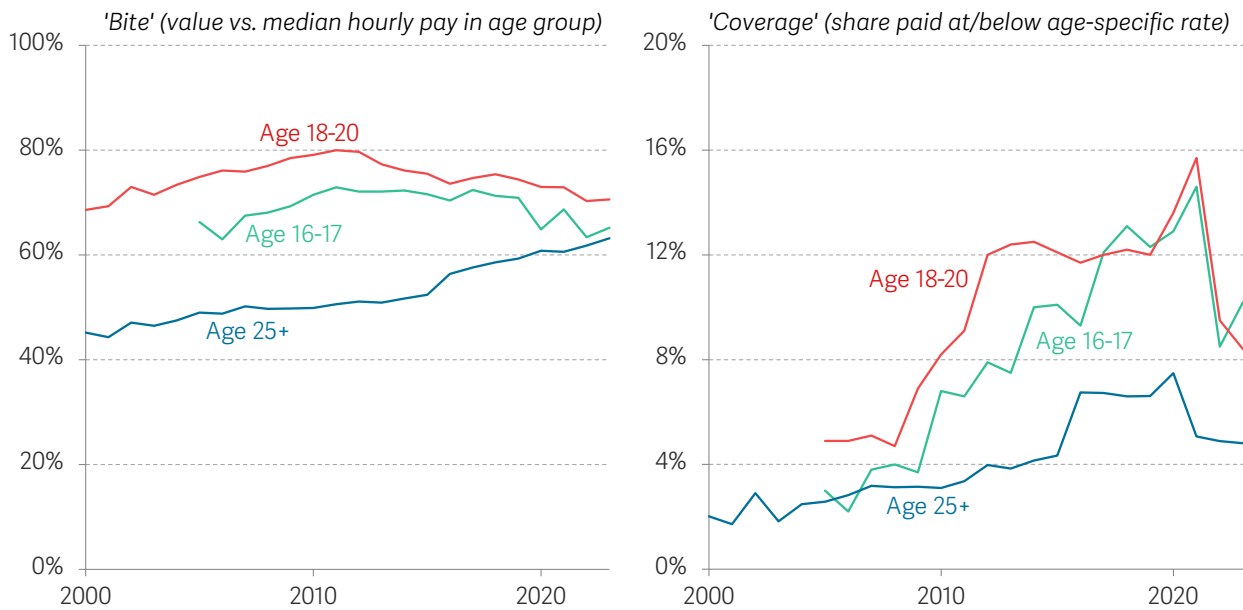
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<sup>80</sup> Prime Minister's Office, [King's Speech 2024: background briefing notes](#), July 2024.

<sup>81</sup> For example, in the UK, the rate for 18-20-year-olds (£8.60) is worth 75 per cent of the adult rate (£11.44). In Germany, France, Spain and New Zealand there is no difference in the minimum wage rate for 18-20-year-olds. In several other countries there is a difference, but it is smaller than in the UK: the average rate for 18-20-year-olds is worth 90 per cent of the adult rate in Ireland, 85 per cent in Belgium, and 83 per cent in Australia. Low Pay Commission, [The National Minimum Wage Beyond 2024](#), March 2024.

**FIGURE 12: The youth minimum wage rates are at a similar level, relative to median earnings of the group covered, as the adult rate**

The 'bite' and 'coverage' of the youth and adult minimum wage rates: UK



SOURCE: Low Pay Commission, *The National Minimum Wage Beyond 2024*, March 2024

In the face of uncertain risks, the correct approach to raising the youth rates is (as with wider minimum wage policy) to marry ambitious objectives with a cautious and evidence-driven approach to achieving those objectives. It's sensible, then, that the Government have not set a strict timetable for the convergence of the 18-20-year-old rate, and that the LPC have been given free reign with respect to the 16-17-year-old rate. This should give the LPC plenty of flexibility to evaluate the evidence and recommend youth rates accordingly.

The less well appreciated effect of (over time) getting rid of the youth rates is that it may constrain increases in the minimum wage level for older workers. Older workers earn more than younger workers, and can, therefore, sustain a higher minimum wage. Removing the option of having a higher minimum wage for older workers means that the eventual single minimum wage rate would be constrained by the need to avoid employment effects among younger workers. Therefore, although removing the youth rates is 'fair', it may lead to less ambition on wages for older workers than would have otherwise been the case.

## Section 6

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### Managing change

The impact of the Government's employment reforms won't be felt evenly across the economy. Each of the reforms we have discussed in this report will have a bigger effect on the hospitality sector than any other part of the economy. This is likely to bring about lobbying from the sector, pointing out that the Government's employment reforms will push up costs for hospitality businesses. The Government will have to be clear that ultimately what matters are the impacts on people. Pressure on the hospitality sector will matter if it reduces employment opportunities overall for the type of people that would work in the sector, but hospitality – or any other sector – becoming more expensive, or shrinking in size, would not be sufficient reason itself to abandon plans to raise employment standards.

In this final section, we step back from looking at the detail of specific reforms, and consider again the package of reforms in its entirety, thinking about how its effects will vary across different parts of the economy, and what this means for managing change.

#### The impact of the Government's reforms will not be felt evenly across the economy

The impact of the Government's employment reforms won't be felt evenly across the economy. By their nature, the main beneficiaries of the reforms will be low-paid, often young, workers, and these workers are disproportionately found in a relatively small number of sectors. For example, all of the reforms we have examined in this report (to unfair dismissal, zero-hours contracts, sick pay, and the minimum wage) will have a bigger effect on the hospitality sector than on any other part of the economy.

For example:

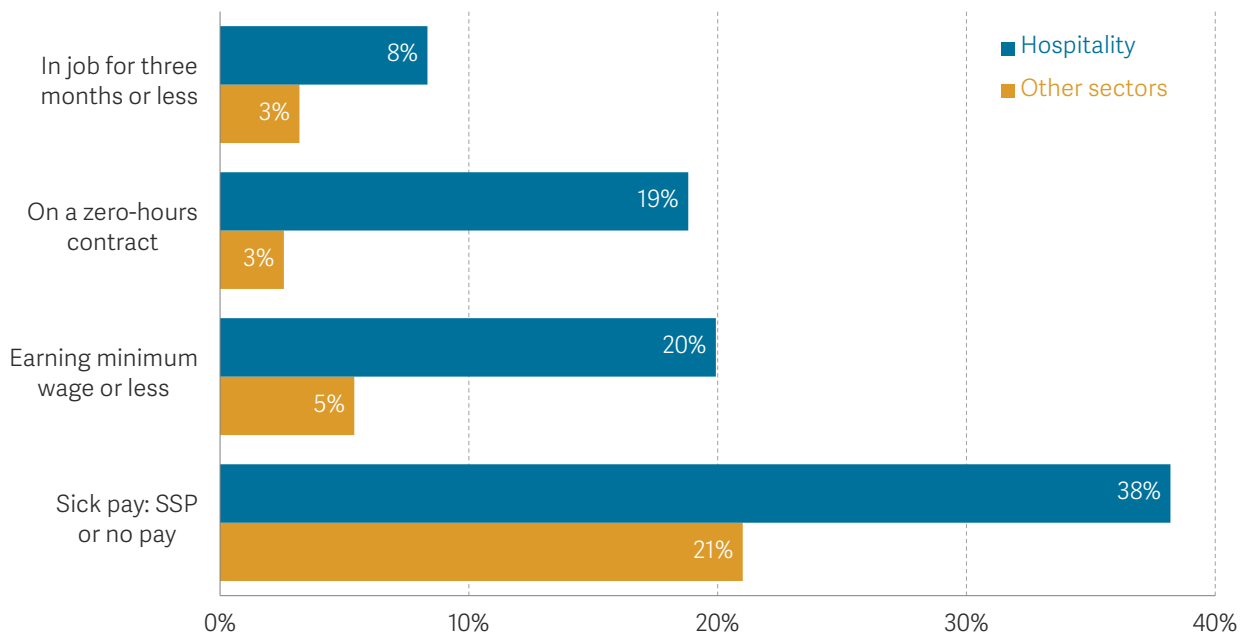
- 8 per cent of workers in hospitality in 2021-2023 were new starters (i.e. in their job for three months or less), compared to 3 per cent across the rest of the economy. A larger share of hospitality workers than elsewhere will therefore be affected by changes to unfair dismissal law, to the extent that this changes employers' hiring decisions.
- 19 per cent of workers in hospitality are on zero-hours contracts, compared to 3 per cent across the rest of the economy.

- 20 per cent of workers in hospitality are paid the minimum wage, compared to 5 per cent as a whole.
- 38 per cent of workers in hospitality either receive no pay when off sick, or are reliant on Statutory Sick Pay. This compares to 21 per cent across the rest of the economy.

These numbers are plotted in Figure 13. Hospitality, of course, isn't the only sector facing a larger-than-average impact from these reforms. Other low-paid sectors, such as retail and social care (and, in the case of social care, the Government's plans for a Fair Pay Agreement will very directly affect that sector) will be affected more than most. But even among low-paying sectors, hospitality is relatively highly affected. The 19 per cent of hospitality workers on zero-hours contracts, for example, is substantially higher than the sectors with the next-biggest rates of zero-hours contracts: 13 per cent in recreation, 12 per cent in security, 7 per cent in social care, and 3 per cent in retail.

**FIGURE 13: Hospitality is the sector most affected by every part of the Government's employment reform package**

Share of workers by characteristic, hospitality versus other sectors: GB/UK



NOTES: Sample for sick pay arrangement is private sector employees only.  
 SOURCE: ZHCs and job tenure: RF analysis of ONS, Labour Force Survey (UK), 2021-2024; Sick pay arrangement: RF analysis of YouGov, 2023 (UK); Earning minimum wage or less: RF analysis of ONS, Annual Survey of Hours and Earnings, 2023 (GB).

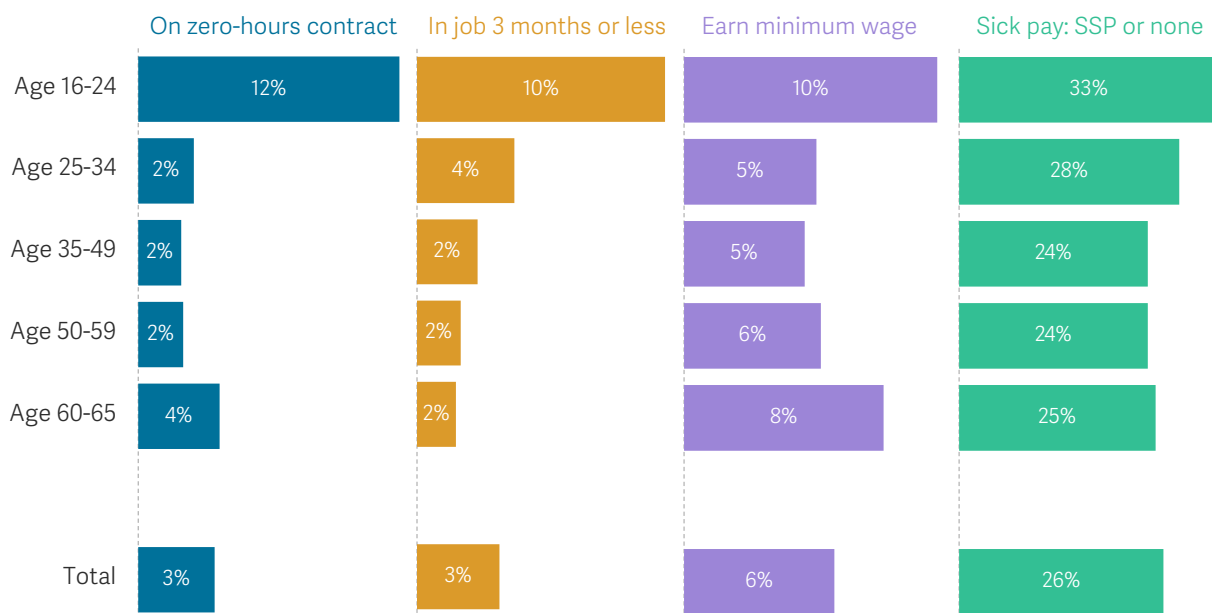
## But we should worry about adverse effects on people and places, not sectors

Hospitality and other highly-affected sectors will likely push back against some of the changes, pointing to the potential impact on their costs, or their ability to take risks on

new workers. But the Government will need to be clear that what matters are the impacts on people, and on places. It may be that raising employment standards pushes up costs in hospitality, and thereby raises prices in the sector, potentially with knock-on impacts on demand. If meals out become more expensive because hospitality staff are paid more, have stronger job protection, and better pay when off sick, it might be that we eat out a bit less. This could be an acceptable trade-off – particularly as the UK starts from a position of having a larger and cheaper hospitality sector than most other countries in Europe (of course, reasonable people can disagree: some would no doubt prefer a world of cheap meals and lower employment standards).<sup>82</sup>

**FIGURE 14: The employment reform package will have a bigger impact on younger workers than other age groups**

Share of workers on a zero-hours contract (2021-2023), share of workers in their job for three months or less (2021-2023), share of workers earning at or below the age-specific minimum wage (2023), and share of workers who would expect to receive SSP or no pay if off sick for a week, by age group: UK/GB



NOTES: Sample for sick pay arrangement is private sector employees only.  
 SOURCE: ZHCs and job tenure: RF analysis of ONS, Labour Force Survey, 2021-2024 (UK); Sick pay arrangement: RF analysis of YouGov, 2023 (UK); Earning minimum wage or less: RF analysis of ONS, Annual Survey of Hours and Earnings, 2023 (GB).

Of course, pressure on hospitality and other sectors does matter if it reduces employment opportunities for the sort people that typically work in the sector, or depresses employment opportunities in certain parts of the country. In practice, this points to two groups where policy makers will have to be watchful. First, young people: Figure 14 plots the share of workers by age group who are on zero-hours contracts, new in the job, on

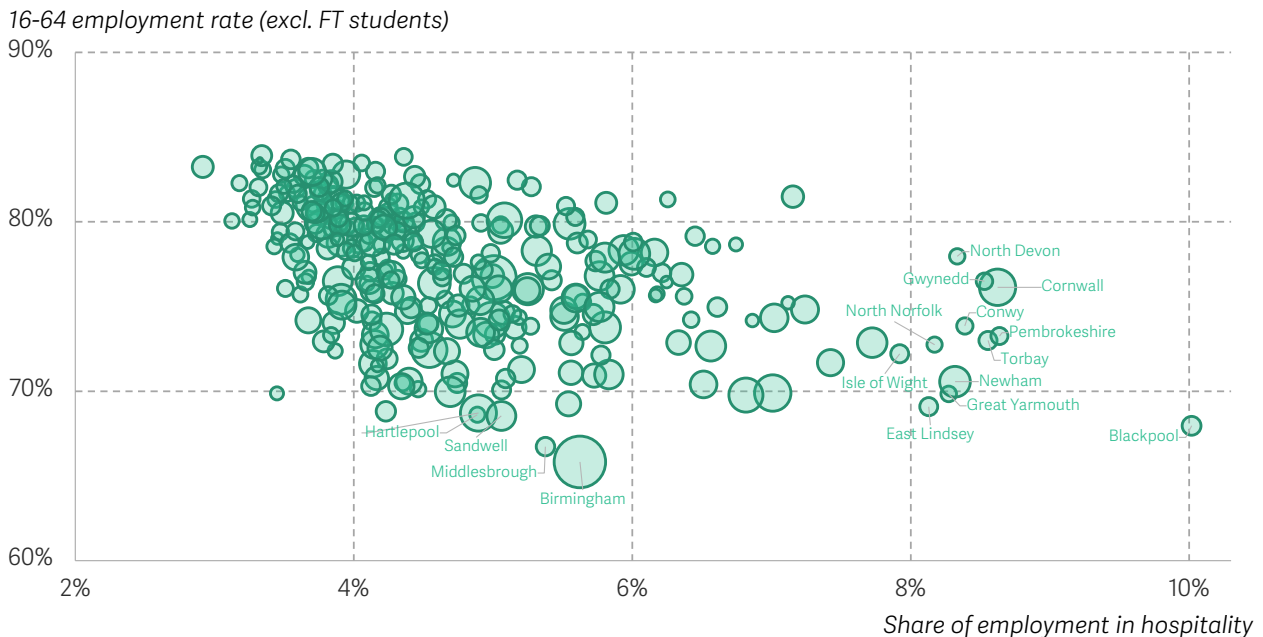
<sup>82</sup> N Cominetti et al, *Low Pay Britain 2023: Improving low-paid work through higher minimum standards*, Resolution Foundation, April 2023.

the (age-specific) minimum wage, and reliant on Statutory Sick Pay (SSP) when off sick. The youngest workers have the highest exposure to each of these changes. 12 per cent of 16-24-year-olds are on a zero-hours contract (compared to 3 per cent overall), 10 per cent are new starters (compared to 3 per cent overall), and 33 per cent are reliant on SSP when facing a sickness absence (compared to 26 per cent overall).

Clearly, a broad-based employment-standards upgrade for young people is good news. But it does raise the risk of adverse consequences for their employment, especially given, as discussed in Section 5, it is only the youngest workers whose wage floor is currently earmarked for substantial (i.e. faster than growth in average wages) increases.

**FIGURE 15: Some areas with large local hospitality employment already have relatively low employment rates**

Share of employment in hospitality, and employment rate among 16-64-year-olds (excluding full-time students): England and Wales, 2021



NOTES: Bubble size represents total population.  
SOURCE: RF analysis of ONS, 2021 Census.

A second group to be concerned about are workers in coastal towns, where hospitality jobs represent a larger share of employment. Across England and Wales as a whole, hospitality made up 5 per cent of employment in the 2021 census, but this proportion was 18 per cent in the Isles of Scilly, 10 per cent in Blackpool, and 9 per cent in Pembrokeshire. Furthermore, in some of those areas, overall employment levels are comparatively low: the working-age employment rate in Blackpool in the 2021 census was 68 per cent (excluding full-time students), compared to 74 per cent across England and Wales as a whole, for example. This suggests that people in Blackpool, Torbay and other high-hospitality low-employment areas might be vulnerable to any loss of any employment opportunities.

Again, though, what this boils down to is a need to watch carefully for adverse impacts on the people that live in those areas – as distinct from whether the share or number of jobs in hospitality falls in those areas. We shouldn't see the concentration of poorly paid jobs in Blackpool as a reason to continue the status quo. Instead, we should recognise that these reforms will improve the working conditions of some of Blackpool's residents, and that solving the broader issues in tourist-dependent regions will require investment or other reforms to help those areas diversify.



The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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