

Briefing: Employment Rights Bill – House of Lords Second Reading

Introduction

The High Pay Centre (HPC) is an independent think tank focused on fair pay, worker voice in corporate governance, and responsible business practices. We produce regular research on the pay and governance structures of the UK's largest companies, and the regulatory regime that shapes their business models and employment practices.

Topics covered recently include reports into [CEO pay levels](#) and [CEO-to-worker pay gaps across corporate Britain](#); a '[Charter for Fair Pay](#)' identifying policies that could reduce pre-tax inequality; and the '[Fair Reward Framework](#)' an assessment tool comparing responsible business practices including compliance with the spirit of tax laws, dialogue with trade unions and pay practices across the FTSE 100. We have also responded to a series of government consultations on the [Employment Rights Bill](#), as well as consultations on the [corporate governance code](#) and [stewardship code](#) overseeing boards and investors in the UK.

Context

Extreme income inequality is a defining characteristic of the UK economy. The OECD currently ranks Britain as [the 8th most unequal of 40 major economies](#) in terms of income inequality; of EU member states, only Bulgaria and Lithuania are more unequal. The European Participation Index ranks the degree of worker participation in business decision making in different European countries - [the UK is rated 26th out of 28](#), with lower participation than all countries except Latvia and Estonia

Inequality is not just a moral issue, but also a practical one. How an economy distributes the wealth it generates is a critical determinant of living standards. The Resolution Foundation's 2030 inquiry found that median household incomes in the UK were lower than in most North West European countries, while incomes at the 10th per centile (the poorest 10% of households) were significantly lower than at the comparable point of the income distribution in the comparator countries – over [20% lower in the UK than in Germany and France](#), for example. But at the 90th per centile (the qualifying point for the richest 10% of the population) incomes in the UK were higher than in many countries where median incomes were higher than the UK including France, Belgium, Sweden, Finland and Ireland.

Put simply, if our economy generated the same level of income but distributed it more evenly, in line with other European countries, most people would be significantly better off. Stronger employment rights are key to achieving this objective.

Employment Rights Bill - our view

We strongly welcome the Employment Rights Bill as a means of directly strengthening voice in the workplace for UK workers, as well as measures boosting job security that should empower workers indirectly. This will put workers in a much stronger position when negotiating their pay, leading to fairer pay outcomes, reduced inequality and enhanced pay for low- and middle-earners.

In particular, the requirement for employers to inform workers of their right to join a trade union and the rights guaranteeing trade unions reasonable access to relevant workplaces are vital mechanisms for ensuring workers are able to make a free and informed decision over trade union membership. The positive relationship between trade union/collective bargaining coverage and higher wages is well documented by extensive research. Research has shown that diminished union strength in the UK was reducing wages by between 15% and 25% as of 2022, [resulting in a wage loss of £100 a week for the average worker](#). An analysis by the US Treasury looking at studies of pay differences between union and non-union workers in similar occupations found evidence of a [union pay premium of between 10 and 15%](#).

Measures such as expanding collective bargaining coverage or improving worker awareness of their fundamental employment rights will also put workers in a better bargaining position by enhancing job security, [giving them greater confidence to request pay increases](#). Civil servants' assessment of the Bill's impact recognise that the main economic consequence of the reforms will be to secure for workers a larger share of the wealth created by their labour, and that most of the 'cost' it imposes on business will represent higher pay for workers.

"costs are expected to represent no more than a modest increase (less than 0.4%) on total employment costs, most of which will represent a transfer from businesses to their workers." ([UK Government Employment Rights Bill Economic Analysis](#), October 2024)

Amendments

There are some small amendments that HPC is recommending based on our analysis of the Bill, that we think would help fulfil the Government's aims to strengthen worker voice and make work pay. These are as follows:

1. **Monitoring Executive Pay and Profits in Social Care** – The Bill introduces 'Fair Pay Agreements' in the social care sector, overseen by a negotiating body, with a remit covering pay and working conditions of social care workers.

The negotiating body's remit should also include a duty to monitor pay for senior managers and financial gains accumulating to investors at companies operating in the social care sector. Ensuring that rewards accruing to different stakeholders are fair and proportionate is a key component of 'fair pay'. The distribution of wealth accumulated by employers is vital context for the negotiating body to consider when establishing whether or not pay is 'fair'.

2. **Mandatory Information on Employment Rights** – The Bill requires employers to provide workers with a statement of their trade union rights.

This statement could include other key employment rights, such as rights introduced in the bill and pre-existing rights such as the right to protection from unfair dismissal, rights to sick pay, holiday pay and consultation rights. Many workers are unaware of their existing employment rights. For example, recent migrants to the UK, younger workers unfamiliar with standard employment practices or gig economy workers who work in isolation from their colleagues. The very welcome proposal to require employers to promote awareness of trade union rights could also be used to spread awareness of other pre-defined vital rights at work.

3. **Trade Union Consultation Rights** – The Bill makes changes to the process of trade union recognition, preventing employers from manipulating votes to recognise a union. Currently a vote to establish collective bargaining establishes a right to collectively negotiate pay, hours and holidays.

A vote in favour of trade union recognition should also give unions the right to consultation on major business practice decisions that will affect the workplace and the working lives of their members. The UK currently ranks 26th out of 28 European countries for worker participation in business decision making. Voice in the workplace is a key determinant of wellbeing at work. Better dialogue between management and the frontline of the business will also lead to better decisions and better outcomes for business and the UK economy.

Contact

We would welcome the opportunity to discuss our work further and explore ways to support the Bill's passage. Please contact andrew.speke@highpaycentre.org if this would be of interest.

Further reading:

- [Charter for Fair Pay](#) - HPC's Charter for Fair Pay sets out ideas for reducing pre-tax income inequality through stronger employment rights, as well as reforms to corporate governance, investment stewardship practices and pay transparency
- [The Fair Reward Framework](#) - An online tool designed and managed by the HPC assessing the performance of FTSE 100 companies against a series of indicators of responsible pay practice.
- [Rethinking reward: HPC analysis of FTSE 350 pay ratio disclosures](#) - An review of trends in CEO to worker gaps across Britain's leading companies
- [HPC response to the Department for Business and Trade Select Committee 'Call for Evidence' on the Employment Rights Bill](#) - Our submission to the Select Committee review of the proposed bill.
- [HPC response to the consultation on creating a modern framework for industrial relations](#) - Our submission to the recent consultation, co-signed by twelve leading academic experts on industrial relations