

Labour market policy under Labour

Client briefing

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Andy Harrop leads Public First's work on labour markets and household finance. From 2011 to 2024 he was general secretary of the Fabian Society, the Labour-affiliated think tank, and before the 2024 general election provided advice to the Labour frontbench on employment policy. With Yvette Cooper he was author of a 2020 report on workers and technology which informed Labour's 2021 employment rights green paper and 2023 industrial strategy. He conducted a review for the party on adult social care which developed plans for sectoral bargaining in social care. His work on employment protections helped shape the government's Make Work Pay legislative agenda and its recent proposals for a new unemployment insurance benefit. He was also a member of Labour's work, pensions and equality policy commission.

Introduction

This week's migration white paper brings significant changes to UK labour market policy:

- Employers in sectors with high levels of overseas recruitment will be expected to comply with sector workforce strategies covering skills, training and support for people out of work.
- Rules on new visas for skilled workers will be tightened (qualifications, salary levels) although exemptions will be available for 'temporary shortage' occupations in priority sectors that adopt workforce strategies.
- Overseas recruitment of social care workers will end.
- Foreign students graduating from UK universities will be permitted to work for 18 months (down from 24 months). Ministers are also planning a levy on international student fees to reinvest in post-19 education.

This is the latest in a series of labour market measures introduced by Labour since the 2024 election which are collectively transforming UK employment policy. [Follow this link for Public First's comprehensive tracker of government policy announcements on employment and skills since Labour came to power.](#) This Public First briefing outlines what has happened and why - and what you can expect next.

Three themes underpin Labour's agenda for the UK labour market:

(1) Prosperity. Under Labour's 'growth mission', ministers are aiming to increase GDP per capita and real household disposable incomes per person by the next election. This will require progress on labour productivity, earnings and employment, at national and regional level. Among other things, productivity

improvements depend on higher skills, better matched to employers' needs, which means that skills will play an important part in Labour's plans for industrial strategy, regional policy and economic growth. The government has also said that annual increases to the National Living Wage must take account of rising earnings and prices.

(2) Security. Ministers are introducing a very large package of new employment rights and protections. Most of these policies were adopted early in Keir Starmer's time as opposition leader, often at the behest of Labour's affiliated trade unions, and they are fiercely guarded by deputy prime minister Angela Rayner. They have survived intact in the face of stiff resistance from business and opposition parties because they are seen as popular and electorally important. Party strategists believe that economically insecure, working-class voters are key to retaining power (whether the local competition is Reform, the Conservatives or the SNP). These voters crave stability and safety in their economic lives: before the last election Rachel Reeves used to talk of 'securonomics'.

(3) Opportunity. The government includes young adults alongside children in its 'opportunity mission'. Goals announced under the mission include reducing the number of young people not in education or training, and increasing the share achieving higher-level qualifications. The 'opportunity mission' also includes the promise to reduce child poverty, which ministers say must include a boost to parents' employment and progression. Beyond this youth-focused mission, the government has set a long-term goal for the share of 16 to 64 year-olds in work to rise from 75% to 80%, mainly by reducing health-related economic inactivity.

Prosperity: growth and skills

Industrial strategy: Ministers aim to drive growth through Invest 2035, the government's 10-year industrial strategy due to launch this summer. This will focus on eight high-value sectors where the UK can be a global leader: advanced manufacturing, clean energy industries, creative industries, defence, digital and technologies, financial services, life sciences, and professional and business services. If these sectors expand, become more productive and contain more well-paid jobs the government hopes that the benefits will cascade across the economy. The plans for these sectors will include a significant focus on people and skills, creating opportunities for employers. Where public spending on these priority industries is rising (ie defence and green investments) ministers are keen to point to and amplify the benefits for jobs and communities. However, the narrow focus of the industrial strategy sidelines non-traded services in the 'everyday economy', which have large workforces and will be heavily affected by technology change and regulation over the next decade. Employers in these sectors need other ways to engage with government on shared priorities.

Regional policy: Ministers are determined to deliver regionally balanced growth (under the 'growth mission' the government is tracking changes in GDP per head in every region). To achieve this they are accelerating

English devolution. For the first time every part of England will have its own sub-regional 'strategic authority' with powers and money covering economic functions including adult skills, employment support and business support. As a result regions in every part of England will be responsible for skills spending allocations, as soon as new structures are in place. The most established mayoralities will receive three-year integrated funding settlements from the Treasury from 2026, though the extent and pace of devolution to big cities may not satisfy some Labour mayors seeking more power with respect to skills and employment. Tailoring programmes to local needs and priorities will benefit many employers and workers but variation in support also creates complexity for businesses and education providers operating nationwide.

Adult skills: The Labour manifesto promised to establish a new national body, Skills England, to bring a more strategic approach to adult skills policy. It will prioritise 10 sectoral labour markets: the eight industrial strategy growth sectors; and two workforces critical to the government's 'missions' - construction, and health and social care. Unlike with other areas of labour market policy, ministers have not announced any firm goals or outcomes they wish to achieve (except for young adults). Launching a new coordinating body (rather than new goals or policies) has led to low expectations, especially as Skills England will be located as an executive agency inside DfE with fairly junior executive leadership and with no hard levers for forcing action across Whitehall or within the English regions. The other main skills policy in the 2024 manifesto was the conversion of the apprenticeship levy into a 'growth and skills levy'. To make this a reality ministers have announced that the levy will fund more flexible apprenticeships and a range of non-apprenticeship qualifications. However the timelines and specifics remain unclear. The levy budget is also almost entirely committed: as a result the government is planning to remove levy funding from almost all level 7 apprenticeships, a move that many employers have criticised. The policies announced in the migration white paper add to this mix.

Holding back growth?: Several government labour market policies may be less supportive of economic growth. The increase in employer NICs is expected to moderately reduce job numbers and real incomes (although it will increase government consumption). Ministers are maintaining recent Conservative immigration reforms, which have delivered a significant fall in legal migration, and are now introducing further restrictions. Their impact may be partially offset by a future deal on youth mobility with the EU. Finally, it remains to be seen if policies designed to benefit workers are good or bad economically. The evidence on whether extending the National Living Wage and employment rights will boost or inhibit employment and productivity is contested and inconclusive.

Security: employment rights and protections

The government's Make Work Pay agenda is the largest package of labour market reforms since the Thatcher/Major era. The policy measures aim to do three things:

- **Stamp out poor labour market practices**: eg unpaid sick leave, one-sided flexibility in zero-hours or shift work, 'fire and rehire', dismissal during maternity leave, sexual harassment by customers.
- **Reinstate and modernise trade union rights**: with the aim of making it easier for trade unions to organise and bargain in the private sector. Sectoral bargaining in adult social care is also introduced.
- **Improve enforcement**: with a new Fair Work Agency, expanded regulatory powers and more time to bring employment tribunal claims.

Our policy tracker itemises each of the dozens of measures including provisions contained within the Employment Rights Bill and wider reviews of policy. Individually, many of the reforms will have a fairly small impact (and cost) and have not generated significant objections from employers. But business groups are concerned about the total effect of such a very large package of changes. The process of implementation will certainly be burdensome, even if the laws prove workable once they have bedded in (the UK will still have a liberal labour market compared to most European countries). On the other side, trade unions hope that the package will lead to a cultural shift that changes employment practice and results in a stronger role for organised labour in the private sector.

The measure that has been most strongly opposed is a reform to outlaw unfair dismissal from 'day one' of employment and introduce a statutory probation process. Firms worry this will lead to hiring becoming more bureaucratic and potentially litigious. Notably this is a reform that will affect all employers. Most other provisions in the bill bar practices many employers do not use, so while they are consequential for some businesses for others they 'level the playing field'.

There will be significant opportunities to shape the detail of the reforms in the Employment Rights Bill through forthcoming consultations on secondary legislation and guidance. Other reviews of policy are ongoing (eg parental leave) or forthcoming (eg workplace pensions, employment status). Defining and policing the boundary with self-employment is likely to return as a key issue, given increases in the regulation and costs associated with hiring employees.

Opportunity: labour supply

Youth Guarantee: The cross-government 'opportunity' mission targets access to education and qualifications for young adults. Most ministerial attention is focused on the rising number of 18 to 21 year-olds who are not in education, employment or training (NEET). In England the government's Youth Guarantee will provide every young adult access to further learning or help to get a job or apprenticeship. This will largely bring together existing programmes and is being tested through pilots in eight mayoral authorities. Their main focus is on improving leadership, accountability and coordination to ensure no young adult misses out on an offer of support.

Health-related benefits: The government's main strategy for working towards an 80% employment rate is to reduce the number of people who are out of work on health-related benefits. The Pathways to Work green paper combines painful benefit cuts with well-intentioned structural reforms to support more people into work. Under the reforms, the financial incentive for benefit recipients to prove incapacity for work will end; more people will need to attend interviews; the voluntary support available will expand; and there will be guarantees that people won't lose money if they try out work. At the same time, the level of some health benefits will be cut and tougher assessment criteria will lead to many people with health problems no longer qualifying for health-related payments. Unless the proposals are modified, up to half those who currently receive health-related benefits will be expected to survive on the very modest basic rate of universal credit, notwithstanding their limited ability to work and low odds of job entry. These proposals are broadly supported by the Conservatives but there are big risks. First, millions of current and future claimants will lose large amounts, with a single imperfect health assessment acting as a high-stakes dividing-line between a liveable income and penury. Second, ministers have not explained how work-related conditions will be determined case-by-case when there is no longer a test of incapacity for employment. There is significant political opposition to these reforms from within the Labour party and beyond which may grow stronger over time.

Health and work: The most effective way to reduce sickness-related economic inactivity is to support sick and disabled people to stay in work or get back as soon as they leave. Ministers have commissioned Sir Charlie Mayfield, former chairman of the John Lewis Partnership, to carry out a review of the role of employers in sustaining health and work. The review is focusing on incentives, interventions and case management but its remit excludes proposals for employer tax breaks for occupational health floated by the previous government. Separately sick pay is also being reformed so that it must be paid from the first day of absence and to employees with very low weekly earnings. To help people get back to work fast the government is also consulting on a new system of Unemployment Insurance that would pay a more generous non-means-tested amount to people who stop work for a time-limited period.

Inherited policies: Finally, significant measures to increase labour supply are inherited from the previous government: (1) the state pension age will rise to 67 in 2028 which will increase average retirement ages; (2) working parents will receive 30 hours a week of free childcare for children aged 9 months to 5 (further funding will be allocated in the summer spending review to pay for this policy); and (3) the transition to universal credit will conclude (Labour has adopted an accelerated timeline, with all recipients of legacy benefits expected to be on UC by March 2026). The OBR expects the rise in pension age and the expansion of childcare to increase employment and economic output. The introduction of UC has led to moderate improvements in work outcomes compared to its predecessors.

Public First's new specialism in labour market policy augments our established practice in education and skills. We are delighted to offer advice on navigating employment policy issues under Labour and we can support clients to develop fresh evidence and policy proposals that will grab the government's attention. Please get in touch to discuss options.

Public First's labour markets and skills team

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Andy leads a practice area focused on work, money and health. His clients include ADS, the UK defence trade body, who he is advising on the employment and skills implications of higher defence spending. From 2011 to 2024 he was general secretary of the Fabian Society, where he directed the Labour-affiliated think tank's economic, social and political research. Earlier in his career he was director of policy and public affairs at Age UK and held policy and research roles with Age Concern, the New Policy Institute and a Labour MP. With the Fabian Society Andy worked on policy projects in collaboration with numerous Labour frontbenchers. In 2020 he was co-author with Yvette Cooper of a major report on workers and technology. Prior to the 2024 election he led a review for the Labour party on the roadmap to a National Care Service. He was also a member of Labour's work, pensions and equality policy commission.

Mike Crowhurst - Director, Skills and Education



Mike leads Public First's work on skills, as well as other education projects. He joined Public First after four years working as a Special Adviser, leading on all aspects of education policy in the Number 10 Policy Unit, and working on policy in the Cabinet Office and the Department for Digital, Culture, Media and Sport. Since joining Public First in 2021, Mike has advised a range of clients on skills policy developments and led a range of relevant research projects, including for Multiverse on the future of the Growth and Skills Levy, for the King's Trust on young people and green jobs, for Phoenix Insights on reskilling older workers and for Yorkshire Building Society on the skills needs of the financial services industry.

George Ryan - Associate director, education and skills



George is a strategic communications and public policy professional. His ten years' experience helps him to advise clients on media relations, public affairs, and thought leadership. Recent projects include a report on creativity in the Curriculum and Assessment Review for Pearson and a policy note on building a resilient schools workforce for the National Institute of Teaching. George previously led media relations for the Association of Colleges, advised on skills policy at UCAS, and covered Brexit and Covid-19 from the House of Commons for the Press Association. He has also worked as a reporter for the Times Educational Supplement and local newspapers in East Anglia. He volunteers as a college governor and MAT trustee.