

UK executive compensation roundup

December 18, 2025 | Client Update | 17-minute read

Recent and upcoming changes affecting UK executive compensation include the Employment Rights Act 2025; possible reform of post termination non-compete clauses; the UK government's budget; and general corporate governance guidance. Our client update discusses key provisions of each.

The Employment Rights Act 2025

The UK's Employment Rights Act 2025 (ERA) represents one of the most consequential reforms in UK employment law for many years. Royal Assent is expected to take place on December 18, 2025 and key measures will be rolled out from April 2026 through 2027.

Many provisions will require detailed secondary legislation and guidance before they take effect. The government has committed to extensive consultations throughout 2026 on key areas such as "fire and rehire" restrictions, collective redundancy thresholds, zero-hours reforms, flexible working rules, family leave protections, and trade union access rights. These consultations will shape the practical application of the ERA, including definitions, procedural requirements and enforcement mechanisms.

The most significant change that will be introduced by the ERA will be reducing the period before an employee can bring a claim for statutory unfair dismissal from two years to six months after commencement of employment. This period represents a change by the government which originally proposed that unfair dismissal should be a "day-one" right. This reform, which is expected to come into effect in January 2027, coupled with the proposed removal of the compensation cap for unfair dismissal (currently limited to the lower of 52 weeks' gross pay and £118,223) marks a substantial change in the balance of employment protections and will greatly increase potential employer exposure to claims. Dismissals after the first six months will require careful handling, robust documentation and adherence to fair procedures.

The tables at the end of this update provide an overview of the main provisions of the ERA, their impact on employers and when they are intended to become effective, in addition to other notable developments in employment law.

Government consultation paper: Non-compete clauses

Government consultation on statutory limits for non-compete clauses

The UK government has published a [working paper](#) seeking views on reforming post-termination non-compete clauses in employment contracts. This follows the previous government's 2023 response (to a 2020 consultation) which indicated its support for a three-month statutory cap on duration. The consultation closes on February 18, 2026 and there is currently no indication of timing with regard to any resulting legislation.

Key proposals under consideration

As acknowledged in the working paper, non-competes are only enforceable to the extent that they protect legitimate business interests and this principle would not change if the government decides to implement any of its proposals. Those proposals are listed below:

- Introducing a cap on the maximum duration of non-competes, potentially shorter or longer than the previous government’s suggestion of a three-month period.
- A tiered approach based on employer size:
 - employers with 250+ employees: a three-month cap;
 - smaller employers: up to six months.
- A salary threshold, so that non-competes could only apply to employees earning above a specified level.
- A hybrid approach combining duration limits with salary thresholds to target restrictions more proportionately.
- A ban on all non-competes.

Policy rationale

The government cites evidence that non-competes are widely used, including for lower-paid roles, and may restrict labour mobility, innovation and productivity. Any changes made as a result of the consultation will aim to balance legitimate business interests with freedom of movement for employees.

Implications for employers

If any restrictions on non-competes are likely to be introduced, then employers should consider strengthening alternative protections such as non-solicitation, non-dealing and confidentiality provisions.

UK government’s budget

The UK government’s budget on November 26, 2025 introduced several measures that directly impact executive compensation and employee benefits. The key changes will take effect in 2026 and in future years.

Tax and incentive arrangements

Enterprise Management Incentives

An Enterprise Management Incentive (EMI) scheme is a share option plan that allows qualifying companies to grant tax-advantaged share options to employees. From April 6, 2026, the limits on EMI eligibility will increase considerably. For companies, the limits on both the maximum number of employees and the aggregate value of share options will double, increasing to 500 employees and £6 million in options respectively. In addition, the gross assets limit for qualifying companies will increase fourfold to £120 million. Separately, the permitted exercise period for EMI options will extend from 10 years to 15 years for both existing and new EMI options. These changes will potentially broaden access to EMI options for senior hires.

Currently, companies operating an EMI scheme are required to notify HMRC of any share option grants within a certain time limit in order for the options to qualify for tax-advantaged treatment. However, from April 6, 2027, this notification requirement will be removed, simplifying EMI compliance requirements.

PISCES for EMI and CSOPs

The Private Intermittent Securities and Capital Exchange System (PISCES) is a new intermittent trading venue developed by HM Treasury, the Financial Conduct Authority, the London Stock Exchange, and other market participants. Introduced in June 2025, PISCES functions as a regulated marketplace that enables existing

shareholders of private companies to exchange their equity holdings periodically within a structured framework.

Both EMI and CSOP (Company Share Option Plan) options are UK tax-advantaged share options and substantial changes to their terms, such as introducing additional exercise triggers, usually results in a loss of those tax advantages. However, the government will allow existing EMI and CSOP options to include a PISCES trading event as an exercisable event without the loss of the tax advantages. This will be applicable to options granted before April 6, 2028, with retrospective effect from May 15, 2025, thereby potentially improving liquidity planning for option holders.

Pensions and salary sacrifice

From April 6, 2029, employee pension contributions made through salary sacrifice that exceed £2,000 annually will become subject to both employee and employer National Insurance contributions (NICs), whilst employer contributions will remain free of NICs. This measure limits the NICs advantage of substantial salary sacrifice arrangements, often used in pension planning.

Corporate governance

Proxy advisor updates

The proxy advisors, Institutional Shareholder Services (ISS) and Glass Lewis, two of the most influential proxy advisors for UK corporate governance voting recommendations, have recently announced that they are adapting their strategies towards UK remuneration and incentive plans. Having long relied on prescriptive year-end policy guides, which have been heavily criticised as “box-ticking” in the past, both firms are shifting to a more bespoke, case-by-case approach.

— **ISS 2026 policies** - ISS plans to expand its pay-for-performance analysis from a three-year to a five-year window and has indicated greater flexibility towards longer-horizon, time-based equity awards, such as five-year restricted stock units.

The updated UK guidelines for 2026 also require companies to provide more transparent explanations for the treatment of departing directors who are classified as good leavers in line with best practice, including: disclosure of the nature and value of exit arrangements; how the individual meets the “good leaver” criteria; and any ongoing vesting or post-termination benefits. This is to enable investors to assess whether such packages align with performance outcomes and shareholder value.

— **Glass Lewis** - Glass Lewis will cease issuing its “benchmark” or “house” voting policies in 2027, moving instead towards multiple bespoke policy perspectives aligned with client stewardship goals, enabled by AI and analytics. Glass Lewis’ revised proprietary pay-for-performance model will extend evaluation to five years, introduce more quantitative testing and refine alignment assessments through a holistic review of the company’s remuneration structure, disclosure and practices. Roll-out is anticipated for the 2026 proxy season.

Additional updates to its proxy voting policies for 2026 include that Glass Lewis will typically recommend against the re-election of the audit or remuneration committee chair where the committee is deemed insufficient in size, rather than advising shareholders to abstain. It will also recommend against the re-election of the nomination committee chair where the board does not comprise of at least 40% gender diverse directors.

These changes indicate a departure from uniform policies towards more flexible, company-specific assessments, with a particular focus on incentives and remuneration plans.

Investment Association guidance

Reflecting a broader theme of tailored governance, the Investment Association (IA), which represents members of the UK investment management community, has opted not to issue its customary annual Principles of Remuneration guidance this year. This is because feedback from investors and companies indicates that the existing guidance remains effective, reducing the need for significant updates or a full set of revised Principles. However, it has continued its tradition of

issuing a short letter to FTSE 350 remuneration committee chairs outlining investor expectations for the upcoming 2026 AGM season. This year's messaging emphasised:

- the need for company-specific rationale for proposed changes to pay structures or quantum, avoiding boilerplate explanations such as “competitiveness” or “retention”. Investors want to know why the approach fits the company's strategy, circumstances and how it supports future success;
- robust use of benchmarking, with clear justification on peer selection, relevance, and structure;
- companies should be cautious introducing hybrid long-term incentive plans (i.e., structures combining performance shares and restricted shares) due to the potential weakening of the link between pay and performance. The IA expects companies to provide clear, company-specific rationale explaining why a hybrid model suits the business strategy and for early shareholder consultation before implementation;
- maintenance of bonus deferral and shareholding requirements to support malus and clawback. While proportionate reductions in deferral may be acceptable once shareholding guidelines are met, complete removal of deferral is not considered appropriate;
- changes to in-flight awards should only occur in exceptional circumstances and need to be clearly justified, subject to consultation and supported by shareholders; and
- improving the shareholder consultation process:
 - the IA will create a directory of IA member contacts for remuneration consultations; and
 - the IA will seek to re-establish collective meetings on remuneration proposals.

Upcoming employment law changes

The following tables provide an overview of the main provisions of the ERA, their impact on employers and when they are intended to become effective, in addition to other notable developments in employment law.

Employment Rights Act 2025

Area of law	Current law	What the act says	Impact on employers	What's next
Employment rights				
Unfair dismissal	Generally, employees must have 2 years' service to claim ordinary unfair dismissal (day-one protection already exists for automatically unfair reasons and discrimination).	<p>Reform of the two-year qualifying period, being reduced to 6 months (not a day one right as the government had previously committed to).</p> <p>Removal of the current compensation cap for claims of unfair dismissal (currently limited to the lower of 52 weeks' gross pay or £118,223).</p> <p>Changes to these provisions in the ERA can be amended via primary legislation only.</p>	<p>Increased dismissal risk; more claims earlier in employment; tighter management of probation / performance; greater settlement leverage for employees.</p> <p>Employers should consider reviewing probation policies and termination processes / providing more documentation and manager training.</p>	<p>Changes to the unfair dismissal qualifying period are expected in January 2027.</p> <p>An impact assessment has been promised regarding the removal of the compensation cap but it's currently unclear whether there will be any further consultation on this aspect.</p>
Fire & rehire	<p>Lawful but high-risk (i.e., claims relating to unfair dismissal, collective consultation etc.,).</p> <p>A statutory Code of Practice on Dismissal and Re-engagement applies.</p>	Significant statutory restrictions on dismissal and re-engagement ("fire & rehire") which extends to "fire & replace" scenarios; dismissals in breach of the regime will be automatically unfair unless statutory conditions / exceptions are met.	Less flexibility to impose contractual changes; more front-loaded consultation; high litigation risk if process / justification for change is weak; potential cost / time in restructurings.	Measures targeted for October 2026, with consultation / secondary legislation in the lead-up.

Area of law	Current law	What the act says	Impact on employers	What's next
Collective redundancy trigger	Collective consultation duty when proposing 20+ redundancies within 90 days at a single establishment	<p>The Employment Rights Bill introduced a new threshold test across “all sites” but this has since been dropped. The “single establishment” rule still applies for now, however a second threshold test will be introduced (which will be defined in regulations).</p> <p>The maximum protective award doubled from 90 days' pay to 180 days' pay.</p>	Increased financial exposure to protective awards; ensure consultation is commenced promptly and conducted properly; increased litigation and settlement risk; potential cost / time in restructurings or site closures.	<p>Protective award uplift expected April 2026.</p> <p>The threshold test for collective redundancy is expected to be introduced in 2027.</p>
TUPE & outsourcing	TUPE preserves transferring employees' existing terms on a transfer or outsourcing but does not require parity with other staff, meaning “two-tier workforces” are lawful.	<p>It does not change TUPE but provides statutory powers to require minimum employment standards or parity of treatment in certain outsourcing / public procurement contexts with detail to be set out in Codes of Practice / regulations.</p> <p>Because the reform is delivered through public procurement powers rather than changes to TUPE, it is targeted at public and publicly funded outsourcing rather than private-sector transfers.</p>	<p>Outsourcing and procurement exercises may be subject to additional workforce requirements alongside TUPE; impact to bid strategy, pricing and post transfer work structures.</p> <p>Outsourcing / procurement contracts may need new compliance clauses; increased due diligence and audit requirements.</p>	<p>Expected October 2026 with consultation before this point.</p> <p>TUPE remains unchanged but there will be a Call for Evidence to examine TUPE and how it is implemented in practice, expected in early 2026.</p>
Work patterns & flexibility				

Area of law	Current law	What the act says	Impact on employers	What's next
Zero-hours & predictability	Zero-hours allowed; no general statutory right to guaranteed / predictable hours.	Creates a duty to offer guaranteed hours after a reference period (and extends to agency workers). Detail to be set out in regulations.	Increased admin burden (tracking hours / reference periods); increased risk of claims; may require redesign of casual labour models; potential knock-on staffing costs.	Expected commencement 2027, with consultation in early 2026.
Notice of work schedules	No general statutory right to minimum notice of shifts or cancellation compensation (outside of contractual terms / sector norms).	Provides a right to reasonable notice of shifts and proportionate compensation for cancellations (and applies to agency workers) with detail to be set out in regulations.	Requires new scheduling systems; likely increase in payroll complexity; higher risk of claims and grievances if notice / compensation rules not followed.	Expected 2027 following consultation, with consultation in early 2026.
Flexible working	<p>Statutory right to request flexible working from day one of employment (since April 6, 2024); refusal allowed for 8 statutory business reasons.</p> <p>Employers do not have to show that the refusal is reasonable and no obligation to explain why the reason applies in detail.</p>	Requires refusals to be "reasonable" and explained in writing which one of the 8 statutory business reasons apply and why it applies to the employee's role / request.	Stricter compliance; higher scrutiny of refusal rationale; more manager training; increased disputes if inconsistent decision-making.	Roadmap: consultation likely in early 2026 with commencement in 2027.
Equality & workplace conduct				
Gender pay action plans	Gender pay gap reporting applies to employers with at least 250 employees, but currently there are no mandatory action plans.	Introduces publication obligation of mandatory equality action plans for employers employing at least 250 employees (detail to be provided via regulations).	Additional compliance / reporting obligations; increased board visibility; reputational risk management; may need HR analytics and focus groups.	Voluntary from April 2026; mandatory in 2027.

Area of law	Current law	What the act says	Impact on employers	What's next
Preventing sexual harassment	Since October 26, 2024, employers must take "reasonable steps" to prevent sexual harassment (proactive duty under Equality Act 2010 as amended).	Raises the threshold to "all reasonable steps" and introduces third-party harassment liability (which is broader than just based on sex).	Increased compliance burden; review policies and training. Heavier compliance burden i.e., risk assessments, training, reporting channels, supplier / customer management; increased claims exposure if evidence is weak.	Expected October 2026.
Whistleblowing - sexual harassment	Covered indirectly under health & safety/legal breach. Sexual harassment complaints are not automatically a "qualifying disclosure"; whistleblowing protection depends on existing public interest / how the complaint is framed (e.g., a breach of a legal obligation).	Expressly treats sexual harassment disclosures as qualifying disclosures for whistleblowing protection.	Greater protection for complainants; but may result in more protected disclosures; greater retaliation risk; need robust speak-up processes and investigation / whistleblowing policies.	Expected April 2027.
Non-disclosure agreements (NDAs)	There is no blanket statutory NDA ban; confidentiality clauses are policed via general principles and specific statutory carve outs in limited contexts.	Makes confidentiality clauses unenforceable to the extent they restrict workers (including contractors) from making disclosures relating to harassment, discrimination or specified workplace abuse (with scope and application to be supplemented by regulations and guidance).	May require a review of settlement agreement templates; careful drafting of confidentiality clauses and around permitted disclosures.	Timeline to be confirmed.

Area of law	Current law	What the act says	Impact on employers	What's next
Trade union & collective bargaining				
Trade union access rights	No general statutory "right of access" for unions to workplaces; access largely by agreement.	Statutory right for unions to access workplaces (including digitally); with Central Arbitration Committee enforcement and details to be set out in a Code of Practice.	Operational impact on workplace access, review of communications policies; possible enforcement exposure if mishandled.	Expected October 2026.
Union recognition reforms	Current framework has complex thresholds, including 40% voting support requirement in some cases.	Removes the requirement that at least 40% of workers in a bargaining unit vote in favour of recognition; lowers membership requirement; unfair practice rules apply earlier (to be detailed further in regulations).	Easier union recognition; more collective engagement; need refreshed engagement and industrial relations strategy.	Reforms in April 2026.
Fair Pay Agreement - Adult social care	Pay and terms in adult social care are set by individual employers (subject to National Living Wage / National Minimum Wage and general employment law).	Establishes a statutory framework for Fair Pay Agreements in the adult social care sector, enabling sector-wide minimum pay and conditions to be negotiated and made binding.	Sector-wide compliance obligations; wage structure impact; contracting / pricing impacts in care sector.	Expected October 2026.
Family & leave rights				
Family rights - maternity & dismissal protections	Enhanced redundancy protection rules exist, but there is no general prohibition on dismissal in pregnancy / maternity / return scenarios except via unfair dismissal and/or discrimination protections.	Makes it unlawful to dismiss pregnant workers / those on maternity leave / and for 6 months after their return, except in specified circumstances (to be defined).	Review dismissal policies; train managers; more careful business case documentation; increased litigation exposure if exceptions unclear.	Consultation closes January 15, 2026. Expected 2027.

Area of law	Current law	What the act says	Impact on employers	What's next
Bereavement leave (including pregnancy loss)	Statutory bereavement leave is currently limited (e.g., parental bereavement leave); miscarriage less than 24 weeks not covered as a universal right.	Introduces a day one right to bereavement leave, including pregnancy loss before 24 weeks. Whether bereavement leave will be a statutory paid leave (and on what terms) will be set out in the regulations.	New leave category; payroll / HR processes; policy communications; manager sensitivity training.	Consultation closes January 15, 2026. Expected 2027.
Day-one parental & paternity leave	Paternity leave currently requires 26 weeks' service by the end of the qualifying week; unpaid parental leave generally requires one years' service.	Removes service requirements so that there is a day one entitlement to paternity leave and unpaid parental leave. Allows paternity leave to be taken even where shared parental leave has been taken.	Eligibility checks simplified; more leave taken earlier; cover planning for new hires.	Expected April 2026.
Pay & benefits				
Statutory Sick Pay reforms	Statutory Sick Pay (SSP) generally payable from day 4 and eligibility requires earnings at / above the SSP threshold (linked to Lower Earnings Limit).	SSP becomes payable from day 1; removes lower earnings limit; introduces 80% weekly earnings for low earners (with a cap).	Cost increase (especially for low paid workers); higher absence management load; payroll system change.	Expected April 2026.
Holiday pay record-keeping	No general standalone statutory holiday pay record-keeping obligation (though employers must keep adequate pay / working time records for compliance).	Introduces a statutory 6 year record retention duty and a criminal offence punishable with potentially unlimited fines for non-compliance.	Need robust record systems; audit readiness; potential enforcement risk.	Timeline to be confirmed pending regulations / commencement order.

Area of law	Current law	What the act says	Impact on employers	What's next
Tips policy consultation	Tips law exists (including a statutory Code of Practice).	Requires mandatory consultation before implementation / reviewing tips policies and related process obligations. An anonymized feedback summary is intended (detail to be set out in regulations).	Engage with staff / representatives; review processes and policies; risk of increased disputes if processes are skipped.	Consultation early 2026, expected October 2026.
Regulation & enforcement				
Umbrella companies	Regulation exists in parts (tax / agency) but no comprehensive statutory umbrella regulation regime.	Introduces statutory regulation / oversight for umbrella companies (detail via secondary legislation). Umbrella companies to fall within the Fair Work Agency.	Compliance with new regulatory framework; increased due diligence on supply chains; contractual protections; potential cost increases.	Expected 2027.
Extension of tribunal time limits	Most Employment Tribunal (ET) claims must be brought within 3 months of the relevant act, subject to limited exceptions.	Extends the standard ET limitation period to 6 months for most claims (subject to detailed drafting / commencement).	Greater exposure to claims; higher volume of older disputes; longer evidence preservation; more time for pre-claim negotiation but also more uncertainty.	Expected October 2026.
Fair Work Agency	No single "Fair Work Agency" with the consolidated enforcement role described.	Establishes the Fair Work Agency with enhanced enforcement powers, especially with regard to holiday pay and Statutory Sick Pay (SSP) (detail to be provided in regulations).	Exposure to more proactive enforcement; increased compliance burden (wage, holiday, SSP, record-keeping).	Agency to be established April 2026.

Other developments

Area of law	Current law	Developments	Impact on employers	What's next
Right to disconnect	There is no statutory right to disconnect and no specific legal restriction on out of hours contact beyond existing working time, health & safety and discrimination protections.	The ERA does not create a statutory right to disconnect. The government has separately committed to consulting on a statutory Code of Practice dealing with out of hours working and employee wellbeing.	If introduced, a Code of Practice would set expectations around managing out of hours contact and workload and could be taken into account by tribunals when assessing reasonableness, but would not create a standalone right or cause of action.	Consultation on a proposed right to disconnect Code of Practice is expected, but timing and scope remain to be confirmed; any Code would sit alongside, rather than form part of the ERA 2025.
Equal pay rights	The current equal pay regime is primarily sex equality under the Equality Act 2010; outsourced equal pay comparisons are currently constrained and legally complex due to technical comparator requirements.	This is outside ERA 2025 and expected under a separate Equality (Race & Disability) Bill.	If / when introduced: broader pay audits, job evaluation, pay governance, potential litigation exposure.	Draft Equality Bill expected 2026.
Menopause action plans	No general legal duty to have a menopause action plan (though discrimination / health & safety duties may apply).	Equality Action Plan framework expected to include menopause planning for employers with at least 250 employees (details to be set out via regulations). Intended to be captured within the broader Equality Action Plan framework.	More structured workplace health initiatives; policy updates; manager training; additional compliance and reporting obligations.	Voluntary April 2026. Mandatory 2027.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Will Pearce

+44 20 7418 1448
will.pearce@davispolk.com

Neil Sharpe

+44 20 7418 1055
neil.sharpe@davispolk.com

Harriet Jupp

+44 20 7418 1043
harriet.jupp@davispolk.com

Sophie Vacikar Bessisso

+44 20 7418 1093
sophie.vacikarbessisso@davispolk.com

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.