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Zero-hours contracts

Understand the advantages and disadvantages of zero-hours contracts, recent UK legislative changes, and good practices to follow

Introduction

Unlike a traditional contract of employment, a zero-hours contract offers no guarantee of work. Many employers use such contracts to cover situations where work fluctuates, and many individuals also find this to be a suitable working arrangement. However, there has been criticism of their widespread use in the UK. Although there is currently no legal definition for a zero-hours contract, employers need to ensure that written contracts contain provisions setting out the employment status, rights and obligations of their zero-hours staff.

This factsheet examines the business rationale for considering zero-hours contracts in the workplace, and the issues to consider when using zero-hours contracts. It also examines legal changes surrounding zero-hours contracts and puts forward good practice recommendations for areas where some employers need to improve their working practices.

Explore [our viewpoint on employment status, rights and regulation](#) in more detail, along with actions for government and recommendations for employers.

What are zero-hours contracts?

Zero-hours contract is not a legal term but one of a number of types of 'atypical' working. In the absence of a legal definition, the CIPD defines a zero-hours contract as 'an agreement between two parties that one may be asked to perform work for another but there is no minimum set contracted hours'. The contract will state what pay the individual will get if they do work, and what will happen when they turn down work offered.

The exact nature of zero-hours contracts may differ from organisation to organisation. For example:

- Individuals on zero-hours contracts may be engaged as employees or workers – see more on employment status below).
- In some zero-hours contracts the individual will be obliged to accept work if offered, but in others they will not.
- The pay arrangements and benefits provided may differ from those provided to people doing the same job with a contract offering guaranteed hours.

Because 'zero-hours contract' does not have a specific meaning in law, organisations should ensure that their zero-hours contracts set out the employment status, rights and obligations of their zero-hours staff.

Find out about more traditional employment contracts in our [Contracts of employment factsheet](#).

Why use zero-hour contracts?

Organisations considering using zero-hours contracts should think carefully about the business rationale for doing this, including whether there are other types of flexible working or employment practices that would deliver the same benefits.

These types of working arrangements are most suited to situations where work fluctuates unexpectedly and where consequently the employer cannot always guarantee work.

According to our research [Zero-hours and short-hours contracts in the UK: employer and employee perspectives](#), the most common reason employers use zero-hours contracts is to provide them with the flexibility to manage fluctuations in demand, with two-thirds of organisations citing this. However, employers also regard zero-hours contracts as a means of providing flexibility for individuals, with the same research reporting that just over half of respondents say they use them for this reason.

Other key reasons for using zero-hours contracts include reducing costs and avoiding the specific costs associated with using agency workers.

In his article in CIPD Voice, Ian Brinkley [challenges some of the myths](#) surrounding the use of zero hours contracts in the UK.

Employment status

[Employment status](#) is a key issue that employers need to consider when using zero-hours contracts and undoubtedly one of the many challenging aspects of managing such

contracts. The three main types are employee, worker and self-employed. The correct status category depends to an extent on the content of the actual or implied employment contract, but ultimately a legal decision would be based on how working arrangements operate in practice.

Individuals engaged on zero-hours contracts may be employees or workers in terms of their legal rights. Which they are depends on what their contract says and how the relationship between them and their employer works in practice (in other words, whether the legal tests for employment are met). In most cases, those on zero-hours contracts will be workers because there is no mutuality of obligation.

Employers need to be clear about which category zero-hour workers belong to and consider the rights and conditions they are entitled to.

The employment relationship can change so employers should carry out a regular review to ensure that individuals are being managed in line with the status specified in their contract. Ideally, line managers should also receive training so they understand fully the different types, their advantages and disadvantages.

Recent UK law changes on zero-hours contracts

Banning exclusivity clauses

In May 2015, following a consultation exercise and as part of the Small Business, Enterprise and Employment Act 2015, the government banned exclusivity clauses for zero-hours contracts. It's now against the law for an employer to prevent an individual who is employed under a zero-hours contract from working elsewhere. Further regulations came into force in January 2016 giving zero hours workers the right not to be unfairly dismissed or subjected to a detriment for failing to comply with an exclusivity clause, and to claim compensation.

One-sided flexibility

As part of the [Good Work plan](#) following the Taylor Review, the government has passed legislation that gives workers the right to a written record of their core terms of employment from day one of employment.

Later in 2021, the government is expected to publish its long-awaited Employment Bill to implement many of the other proposals in the Good Work Plan. These include:

- Compensating workers for shifts cancelled without 'reasonable notice', irrespective of whether the hours can be replaced. . It also explores how workers who are penalised for refusing shifts offered at the last minute can be better protected.
- Giving all workers a right to reasonable notice of working hours.
- Giving all workers the right to switch to a more predictable and stable contract that reflects the normal hours worked after 26 weeks' continuous service. This will be subject to any conditions to be set out in the Employment Bill.

What does good practice look like?

Our research reports [Zero-hours contracts: myth and reality](#) and [Zero-hours and short-hours contracts in the UK: employer and employee perspectives](#) identified areas where some employers need to improve their working practices.

Recommendations include:

- Employers should only use zero-hours contracts where the flexibility inherent in these types of arrangement suits both the organisation and the individual.
- Employers should consider whether zero-hours working is appropriate for their business and whether there are alternative means of providing flexibility for the organisation, for example, through the use of annualised hours or other flexible working options. Zero-hours working lends itself to situations where the workload is irregular, there is not a constant need for staff or staff needs are driven by external factors outside the employer's control.
- All zero-hours contract workers should receive a written copy of their terms and conditions. (Both workers and employees became entitled to this as a day one right on 6 April 2020). Employers should also set out in atypical workers' contracts the notice required by either organisations or individuals if they're unable to meet their contracted commitments.
- Employers should set out in the contract the employment status of those engaged on zero-hours contracts and conduct regular reviews (at least once a year) of how these contracts are operating in practice. Reviews should include conversations with line managers and staff on zero-hours contracts. If the reality of the employment relationship no longer matches the contract of employment, one or the other should be adjusted to bring them into line.
- Employers need to provide training and guidance for line managers to ensure they are managing zero-hours workers in line with their employment status. Training

must ensure that line managers are aware that zero-hours workers have a legal right to work for other employers when there is no work available from their primary employer.

- Comparing different contract types, standard permanent employees fare better in both skills development and career development than those on temporary or zero-hour contracts. To address this, employers and line managers need to ensure that atypical workers are eligible for their organisation's training and development activities. Performance management processes should also be setup to give atypical workers regular feedback.
- Employers should provide zero-hours workers with reasonable compensation if pre-arranged work is cancelled with little or no notice. We believe a reasonable minimum would be to reimburse any travel expenses incurred and provide at least an hour's pay as compensation. Some employers appear to go further than this, for example by paying employees in full for shifts cancelled at short notice. This seems a reasonable position if organisations also prevent or penalise employees from cancelling pre-arranged work at short notice.
- Employers should ensure there are comparable rates of pay for people doing the same job regardless of differences in their employment status. This could be written into employment policies and terms and conditions with practice reviewed periodically.
- Employers should ensure that all atypical workers, including zero-hour contract workers, are offered comparable pay and employment conditions with those of other workers.

Useful contacts and further reading

Contacts

[Acas – zero hours contracts](#)

[GOV.UK - zero hour contracts](#)

Books and reports

DEPARTMENT FOR BUSINESS INNOVATION AND SKILLS (2015) [*Zero hours contracts: guidance for employers*](#). London: BIS.

OFFICE FOR NATIONAL STATISTICS (2018) *Contracts that do not guarantee a minimum number of hours: April 2018*. London: ONS.

Journal articles

FELSTEAD, A. at al. (2020) Unpredictable times: the extent, characteristics and correlates of insecure hours of work in Britain. *Industrial Relations Journal*. Vol 51, No 1-2, pp34-57. Reviewed in *In a Nutshell*, issue 95.

KIRTON, H. (2017) Popularity of zero-hours contracts 'beginning to unwind'. *People Management* (online). 19 September.

MAKOFF, A. (2017) One-fifth of zero-hours employees don't know when they can work. *People Management* (online). 19 January.

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This factsheet was last updated by Gerwyn Davies.