FIXED-TERM
CONTRACTS
Understanding the law

Guide
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Guide

Fixed-term contracts: understanding the law

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Introduction

This guide focuses on fixed-term employees. Fixed-term employees are employed under contracts that will:

- last for a set length of time (for example, one year)
- end when a specific task is completed (for example, when a project finishes)
- end when a specific event takes place (for example, funding runs out).

Fixed-term employees enjoy certain specific statutory protections.

This guide is designed to help employers ensure that they understand the relationship that they have with their fixed-term employees and the rights that are afforded to them. It also provides information on the broader employment law context in which these relationships operate.

Fixed-term contracts: an overview of the law

Fixed-term contracts can be used for employees to work for a specified length of time or to work on a set project. These arrangements can give employers both certainty and flexibility. A fixed-term contract will usually expire automatically, at the end of the term or project, without the need for notice (although some fixed-term contracts also provide for early termination on notice before the expiry of the fixed term). Fixed-term arrangements are particularly useful for absence cover, to meet increased short-term business demands or for the completion of a specific project.

Employees working under fixed-term contracts are protected by the Fixed-Term Employees (Prevention of Less Favourable Treatment) Regulations 2002 (‘the Regulations’), which require that such employees are treated no less favourably than comparable permanent employees. For example, employers should not refuse fixed-term employees the benefits that they provide to permanent employees, so should not exclude them from pension or other contractual benefits schemes, unless the employer can objectively justify the difference in treatment (see Objective justification in section 4).

The expiry of a fixed-term contract is treated as a dismissal (for unfair dismissal purposes, that is, it has the potential to be unfair and, subject to the below, an employer will need to show that there is a ‘fair’ reason for not renewing the contract). Fixed-term employees, like other employees, have the right to bring an unfair dismissal claim if they have been employed for two years or more when their employment ends. Although the reason for the dismissal will often be potentially fair (for example for redundancy or ‘some other substantial reason’), employers also need to follow a fair procedure before the contract expires.

Fixed-term employees who have been continuously employed for four years or more on a series of successive fixed-term contracts will automatically be treated as permanent employees (that is, employed under an indefinite contract), unless the continued use of a fixed-term contract can be objectively justified (see Change in status from fixed-term employee to permanent employee in section 5).
Key points for employers:

- Fixed-term contracts can be a useful way to resource projects or provide absence cover.
- Fixed-term employees are protected under legislation and must be treated the same as permanent employees unless the difference in treatment can be objectively justified.
- The expiry of a fixed-term contract is a dismissal and fixed-term employees will have unfair dismissal rights on being employed for two years.
- Fixed-term employees who have been continuously employed for four years or more on a series of contracts will be automatically treated as permanent employees unless it can be otherwise justified.

Key points for employees:

- If you are employed on a fixed-term contract, you have the right to be treated as favourably as comparable permanent employees, unless your employer can objectively justify the difference in treatment.
- Expiry of your contract will be a dismissal in law. You will have unfair dismissal rights on being employed for two years.
- If you have been continuously employed for four years or more on a series of fixed-term contracts, you will be automatically treated as a permanent employee unless your employer can otherwise justify the use of successive fixed-term contracts.

3 Types of fixed-term contract

There are four main types of fixed-term contract:

1 Pure fixed-term contracts – these expire automatically, at the end of the term (or on the occurrence of the event), without the need for notice. These are quite inflexible as there is no option to terminate the contract early and are therefore not very common.

2 Contracts which contain a notice clause providing for early termination on notice before the expiry of the term – if notice is not given, the contract will expire automatically at the end of the term.

3 Contracts which are stated to be for an initial term, during which notice may not be served – the contract becomes terminable on notice after the initial fixed term has expired.

4 Evergreen contracts – these are stated to renew automatically for another fixed term, unless one of the parties gives notice of termination by a set date.

Only the first two types fall within the definition of a fixed-term contract under the Fixed-Term Employees (Prevention of Less Favourable Treatment) Regulations 2002. This is because under the Regulations, a fixed-term contract means an employment contract that in the normal course will terminate:

- on expiry of a fixed term
- on the completion of a particular task
- on the occurrence or non-occurrence of any other specific event.
4 Summary of legal rights and protections

The Regulations
A fixed-term employee has the right not to be treated less favourably than a comparable permanent employee:

- in relation to the terms of their contract
- by being subjected to any other detriment by any act, or deliberate failure to act, of their employer.

Comparable permanent employee
A comparable permanent employee will be an employee who is not on a fixed-term contract, but who is employed by the same employer in the same establishment doing ‘the same or broadly similar work’, having regard to whether they have similar qualifications or skills, if relevant.

If there is no permanent employee comparator in the same establishment, the fixed-term employee will be able to look to employees in the employer’s other establishments to find a comparator. However, they cannot compare their treatment to former employees or hypothetical comparators or to employees of associated employers.

Less favourable treatment
Fixed-term employees have the right not to be treated less favourably. This could relate to the terms of their contract compared with those of a comparable permanent employee, or any other detriment. The Regulations specifically state that the right not to be treated less favourably applies in relation to receiving training and being given the opportunity to secure a permanent position in the establishment. For example, fixed-term employees have the right to be informed about permanent employment positions and to be treated fairly if they want to apply for these roles.

‘Any other detriment’ is construed widely and would include dismissal, bullying or harassment.

Less favourable treatment can occur where a fixed-term employee is given different contractual terms from a comparable permanent employee or where a particular benefit, whether contractual or not, is provided to a permanent employee but not to a fixed-term employee.

Examples of less favourable treatment include exclusion from a pension, bonus or private medical insurance scheme. If comparable permanent employees are eligible for pay rises connected to their length of service, but fixed-term employees are excluded from this because of their fixed-term status, this would also be an example of less favourable treatment.

Fixed-term employees should not be subjected to disadvantages which are not applied to permanent employees. This could include not being given access to promotion opportunities or being selected for redundancy because of their fixed-term status.

A fixed-term employee may also be deemed to have suffered from less favourable treatment if their employer fails to carry out a particular action. This will be the case if the action is normally carried out for permanent employees – for example, if an employer fails to carry out appraisals for fixed-term employees but does so for its permanent staff. There could also be instances of less favourable treatment if an employer imposes additional conditions on fixed-term employees which it does not impose on its permanent staff. This could be where a fixed-term employee has to meet additional targets in order to be eligible for the same bonus as a permanent employee doing the same role.
The right not to be treated less favourably will only apply if the treatment is because the employee is fixed-term and if that treatment cannot be justified on objective grounds. The burden of proof is on the employer to prove the reason for any less favourable treatment.

**Pro rata principle**

The pro rata principle sets out that a fixed-term employee is entitled to receive such proportion of the pay or benefits to which a permanent employee is entitled as is reasonable in the circumstances. This will take into account the length of the contract and the terms on which the pay or benefit is offered, that is, they are entitled to pro rata treatment. If they do not receive this, there is a presumption that they have been treated less favourably, unless the employer can show that doing so would be inappropriate or unreasonable in the circumstances.

An example would be an employer who offers permanent staff an annual bonus. In order to comply with the pro rata principle, the employer should pay an employee on a six-month contract 50% of the bonus, unless there is a particular reason why it is not appropriate to do so. If employees are provided with or offered benefits over a specified period of time, for example an annual gym membership, employers should consider whether it is possible or appropriate for them to offer the benefit to fixed-term employees on a pro rata basis in proportion to the duration of their contract.

It may be possible for an employer to establish that it is not reasonable in all the circumstances or it is inappropriate to use the pro rata principle. One example would be a comparable permanent employee who has a company car. The employer would probably be able to argue that it would not be reasonable to offer a fixed-term employee on a three-month contract a car, as the cost would be too high in light of the length of employment.

**Written statement of reasons**

Fixed-term employees have the right to request from their employer a written statement of the reasons for any less favourable treatment. The request must be made in writing and the employer must respond within 21 days.

In response to the request, employers should ensure that they provide the reasons for any actual difference in treatment, or a denial of less favourable treatment with an explanation. If a fixed-term employee’s overall employment package has been designed so as to compensate them for any additional benefits that permanent staff receive, this should be explained to them. In order to be able to do so, it is helpful for employers to undertake an audit of fixed-term employees’ terms of employment so that they can identify any potential discrepancies.

The right to request reasons for less favourable treatment does not apply where the treatment in question is dismissal, and the employee is entitled to a written statement of reasons for dismissal (which they will be if they have two years’ continuous service, or are dismissed when pregnant or after childbirth in circumstances in which maternity leave ends by reason of the dismissal).

If an employer deliberately fails to reply to a request for a written statement of reasons without a reasonable excuse, or if they do not respond with a sufficient reply, a tribunal will be entitled to draw adverse inferences against them, including a finding that the employer has acted unlawfully in breach of the Regulations.

**Written statement of variation**

If a fixed-term employee believes that their status has changed to that of a permanent employee (see section 5), they are entitled to request a written statement of variation from their employer in order to reflect this change.
As with the right to request a written statement of reasons, an employer must respond within 21 days and, if they do not accept that the employee has become permanent, give their reasons. If an employer does not respond within the timeframe or does not give an adequate response, a tribunal will be entitled to draw inferences from this and can make a declaration that the employee has permanent employment status.

**Objective justification**

If an employee is able to establish less favourable treatment or detriment, the burden of proof shifts to the employer to identify any justification for this.

An employer may be able to objectively justify why it is treating fixed-term employees less favourably than permanent employees. When looking at whether treatment could be justified, employers should consider whether the less favourable treatment:

- has a legitimate aim
- is necessary to achieve that aim
- is appropriate to achieve that aim.

In determining whether less favourable treatment is justified on objective grounds, it is possible to consider the fixed-term employee’s terms of employment as a whole and whether in total they are at least as favourable as the terms of a comparable permanent employee. If they are, the less favourable treatment will be objectively justified.

It is also possible for an employer to rely on any differences between a fixed-term employee’s role and that of their permanent comparator. The employer may be able to argue that these differences provide objective justification for the less favourable treatment. Although the jobs must only be ‘broadly similar’ for a claim to be brought, the tribunal is able to take into account any differences that exist when analysing whether the threshold for objective justification has been met.

**Contracts for less than three months**

Employees who are engaged on fixed-term contracts which are expected to last three months or less have a right to receive a minimum notice period of one week. This is the case if their contracts are terminated before the expected expiry date and if they have completed at least one month’s continuous service. Such employees are also required to provide their employer with at least one week’s notice of early termination.

In addition to this, employees on contracts of up to three months have the right to receive statutory sick pay, guarantee payments (if they have worked at least one month and are laid off) and payments if on medical suspension.

**Employment tribunal claims**

Fixed-term employees are entitled to additional protection against unfair dismissal under the Regulations. There are a number of circumstances which will result in a fixed-term employee being deemed to be ‘automatically’ unfairly dismissed. There is no requirement to have two years’ service in order to bring an automatically unfair dismissal claim.

The circumstances that will result in a finding of automatic unfair dismissal are if the reason or principal reason for the dismissal is that the employee has done (or the employer believes or suspects that they have done or intend to do) any of the following:

- brought proceedings against the employer under the Regulations
- requested a written statement of reasons for less favourable treatment or of variation
• given evidence or information in connection with proceedings brought by any employee under the Regulations
• otherwise done anything under the Regulations in relation to the employer or any other person
• alleged that the employer infringed the Regulations (unless the allegation is false and made in bad faith)
• refused (or proposed to refuse) to forgo a right conferred on them by the Regulations
• declined to sign a workforce agreement for the purposes of the Regulations.

Additionally, all employees have the right not to be subjected to any detriment by any act, or any deliberate failure to act, by the employer on any of the above grounds.

A detriment will be made out if a reasonable worker would or might take the view that they had been disadvantaged in the circumstances in which they had to work.

Compensation
In theory, there is no limit on the compensation available to a fixed-term employee who has made a successful claim for less favourable treatment. However, any sum awarded should be just and equitable and have a connection to the financial loss that the employee has suffered as a result of the less favourable treatment.

If a claim relates to an ongoing difference in contractual terms, tribunals can take into account past losses when determining the amount of compensation that should be awarded. However, compensation should only be calculated as far back as 1 October 2002, which is when the Regulations came into force.

An additional remedy that fixed-term employees can seek from the tribunal is a declaration of permanent employment status. This is provided that they have previously requested a written statement of permanent terms of contract from their employer. Assuming the employee is still employed, the tribunal is also able to order the employer to take whatever action is necessary in order to remove or reduce the adverse effect on the employee caused by the employer’s unlawful treatment. If an employer fails to comply with such a recommendation, an employee may be awarded additional compensation.

5 Difficult issues

Change in status from fixed-term employee to permanent employee
Employees who have been continuously employed for four years or more on a series of successive fixed-term contracts are automatically deemed to be permanent employees, unless the continued use of a fixed-term contract can be objectively justified. This is relevant where the original contract has been renewed or extended, or where a different contract has been entered into after the expiry of the original contract.

Allowing a gap in time between one fixed-term contract ending and another starting will not necessarily break continuity or prevent there being a deemed renewal.

If intending to engage an employee on another fixed-term contract after four years, employers should think carefully about whether this is a proportionate way of achieving a legitimate aim, that is, is it objectively justified? An example of when this might be objectively justified is if the employee has been employed for four years to work on a specific project which is nearing completion, but not quite complete yet. In these circumstances a short extension to the contract would likely be justified. However, the employer would still be obliged to inform the employee of any permanent vacancies.
Fixed-term contracts: understanding the law

**Difficult issues**

**Expiry of a fixed-term contract**

**Non-renewal**
Not renewing an employee’s fixed-term contract will amount to a dismissal and an employee with sufficient service will be able to bring an unfair dismissal claim. For a dismissal to be fair, it must be for one of the potentially fair reasons set out in legislation:

- capability
- conduct
- redundancy
- contravention of a statutory obligation
- some other substantial reason of a kind such as to justify the dismissal of an employee holding the position which that employee held (SOSR).

The fact that the contract provided for expiry on a certain date will not be a fair reason for dismissal.

Employers will need to establish which reason they seek to rely on, and follow a fair procedure. In many cases, the non-renewal of a fixed-term contract will be potentially fair by reason of redundancy, but this will of course depend on the circumstances.

**Redundancy**
Generally speaking there will be a redundancy situation if the employee is not being replaced because the business needs fewer employees to do work of a particular kind. There may also be a redundancy situation if the business, or part of it, is closing down.

If redundancy is relied on, employers should look for suitable alternative employment for the employee, and will have to make a statutory redundancy payment if the employee has two years’ service or more. The employer will also have to ensure that it consults with the individual about their selection for redundancy and ways of trying to avoid it or mitigate its effects in order to ensure that the redundancy process is fair.

If an employer is proposing to make 20 or more employees redundant within a 90-day period, it must undertake a collective consultation process which involves consulting with employee representatives. However, the expiry of a fixed-term contract will not count towards dismissals for collective redundancy consultation purposes, unless the contract is being terminated early by reason of redundancy.

**Some other substantial reason**
An employer will be able to rely on ‘some other substantial reason’ as a potentially fair reason where the fixed-term employee was replacing an employee who is absent on family leave or due to suspension on medical or maternity grounds, the fixed-term employee is dismissed to allow that person to return to work, and the fixed-term employee was informed at the outset that their employment would terminate on that employee’s return to work.

**Acas Code**
The Acas Code of Practice on disciplinary and grievance procedures gives practical guidance to employers on handling disciplinary and grievance issues and whether an employer has followed the Code will be taken into account by tribunals in relevant cases. Although the Acas Code does not apply to dismissals due to the non-renewal of a fixed-term contract, it may still be relevant for employers to follow it if dismissing for conduct or capability reasons, in order to ensure that the dismissal is fair.
Wrongful dismissal

Wrongful dismissal is a dismissal that is in breach of contract. It differs from unfair dismissal in that fairness is not relevant; the only consideration is whether or not a term of the contract has been breached.

An employee who is dismissed before the end of a fixed-term contract may have a claim for wrongful dismissal. This is unless the contract contains a provision for earlier termination on notice and the employer has complied with that provision, or if the employee has committed a very serious breach of contract (such as an act of gross misconduct) which entitled the employer to dismiss without notice. The employer may have to pay damages up to the amount the employee would have been entitled to had they worked until the end of the term.

6 Summary

Key points for employers:
• Fixed-term contracts can be a useful way to resource projects or provide absence cover.
• Fixed-term employees are protected under legislation and must be treated in the same way as permanent employees unless the difference in treatment can be objectively justified.
• The expiry of a fixed-term contract is a dismissal and fixed-term employees will have unfair dismissal rights after being employed for two years. In some circumstances, a fixed-term employee can bring a claim for automatically unfair dismissal, which does not require two years’ service.
• Fixed-term employees are entitled to be informed of any permanent vacancies in the establishment in which they work. This could be done through a central information point, such as a notice board or staff intranet.
• Fixed-term employees who have been continuously employed for four years or more on a series of contracts will be automatically deemed to be permanent employees unless it can be otherwise justified.
• Employers should review the contractual terms and benefits they offer to fixed-term employees and look for any differences from those offered to permanent staff.
• If any differences are identified, employers should ensure that the fixed-term employees are offered:
  – the same terms as permanent staff
  – compensatory benefits, so that their treatment is no less favourable taken as a whole to that of comparable permanent staff
  – benefits that comply with the pro rata principle.
• Employers should consider how they will monitor the operation of fixed-term contracts so they have enough time in advance to determine whether they will be renewed. If contracts are not renewed, a fair reason for dismissal will be needed and a fair procedure should be followed.

Key points for employees:
• If you are employed on a fixed-term contract, you have the right to be treated as if you were on a permanent contract, unless your employer can objectively justify any differences.
• You will have unfair dismissal rights after being employed for two years and the ending of your contract will be a dismissal in law. There are circumstances when you can bring a claim for automatically unfair dismissal which do not require two years’ service.
• If you have been continuously employed for four years or more on a series of fixed-term contracts, you will be automatically deemed to be a permanent employee unless your employer can otherwise justify the use of successive fixed-term contracts.
• You have the right to request a written statement of the reasons for any less favourable treatment from your employer.
• You should be informed of any permanent vacancies.

Appendix: Case law

Royal Surrey County NHS Foundation Trust v Drzymala [2018] UKEAT/0063/2017
A locum doctor, Ms Drzymala, was employed by the Royal Surrey County NHS Foundation Trust on a series of fixed-term contracts. In June 2014 Ms Drzymala was told that her fixed-term contract was not going to be renewed. The trust did not give her a right of appeal at this time or discuss the possibility of alternative employment with her. She brought a claim for unfair dismissal and the tribunal found that the reason for dismissal was a potentially fair reason, being that the fixed-term contract had come to an end. However, the tribunal did find that the trust had been unfair in not providing her with a timely right of appeal and also rejected the trust’s argument that there had been no other relevant roles available at the time.

The trust appealed to the Employment Appeal Tribunal, which dismissed the appeal. It agreed that she had been unfairly dismissed. Although an employer does not have to take any positive steps to dismiss an employee on a fixed-term contract, it might still need to exercise judgement where the employee is competing for a permanent role and it has to decide which candidate to choose. That exercise of judgement is subject to the band of reasonable responses test and the tribunal could not substitute its own view.

Compliance with the Regulations does not of itself provide a defence to an unfair dismissal claim where the dismissal was effected by non-renewal of a fixed-term contract. The principles of fairness (reasonableness, a fair procedure and a fair reason for dismissal) set out in the Employment Rights Act 1996 will still apply.

DJ Hall v Xerox UK Ltd [2014] 7 WLUK 475
The employer, Xerox, took out an insurance policy which gave employees income protection if they had been out of work for over 26 weeks due to a qualifying injury. The policy provided that a fixed-term employee’s membership of the scheme would expire on the conclusion of their contract.

An employee, Mr Hall, suffered a qualifying injury 12 weeks before the end of his fixed-term contract (which was later extended). The insurer considered that the policy did not apply to Mr Hall and made no payment to Xerox, meaning that the company did not make any payment to Mr Hall.

Mr Hall brought a claim under the Regulations arguing that he had suffered from less favourable treatment.

The employment judge, with whom the Employment Appeal Tribunal agreed, concluded that the act that disadvantaged Mr Hall was that of the insurer, not Xerox. For there to be less favourable treatment under the Regulations, there must be an act or omission by the employer.

Duncombe and others v Secretary of State for Children, Schools and Families [2011] UKSC 14
Under the Regulations, employees who have been continuously employed for four years or more on a series of fixed-term contracts are automatically deemed to be permanent employees.
employees unless the continuing use of fixed-term contracts can be objectively justified by the employer.

Article 29 of the Regulations for Members of the Seconded Staff of the European Schools 1996 (‘the Staff Regulations’) limits the period of possible employment at a European school to nine years.

Mr Fletcher and Mr Duncombe were teachers employed by the Department for Children, Schools and Families (‘DCSF’) to work in European schools. They worked under successive fixed-term contracts. Their employment was said to end because of the nine-year rule in the Staff Regulations.

Both teachers applied to the tribunal to argue that their fixed-term contracts had become permanent under the Regulations. The claims eventually went all the way to the Supreme Court.

The Supreme Court held that the use of successive fixed-term contracts had been objectively justified, meaning that neither teacher’s employment had become permanent.

The Supreme Court Judge, Lady Hale, said that the teachers’ complaint was not actually about the use of successive fixed-term contracts under the nine-year rule. Rather, it was about the fixed-term nature of their employment. However, employing people on fixed-term contracts was not against the Regulations. The legislation is concerned with discrimination against workers on fixed-term contracts and the abuse of successive fixed-term contracts where the employment is, in reality, permanent.

The use of the final fixed-term contract could be justified by the existence of the nine-year rule. The teachers were employed to do a job which could only last for nine years, and the DCSF ‘could not foist those teachers on the schools for a longer period, no matter how unjustifiable either he or the employment tribunals of this country thought that rule to be’.

**Küçük v Land Nordrhein-Westfalen [2012] C-586/10**

This was a case decided by the European Court of Justice (ECJ). Post-Brexit, the decision remains good law in the UK, unless the Court of Appeal or the Supreme Court determines otherwise.

The Regulations give effect in the UK to the European Framework Agreement on Fixed Term Work (the ‘Framework Agreement’), which is designed to prevent abuse arising from the use of successive fixed-term employment contracts.

In Germany, the legislation implementing the Framework Agreement provides that a fixed-term employment contract may be concluded if there are objective grounds for it. Legislation concerning family leave clarifies that these will exist where one employee is taken on to replace another as maternity or parental leave cover.

Ms Küçük was a court clerk employed by the Land Nordrhein-Westfalen under 13 consecutive fixed-term contracts. Under each contract, she worked as a replacement for a permanent court clerk who was on parental or ‘special’ leave.

Ms Küçük applied to the Cologne Labour Court in Germany to argue that her last fixed-term contract had been unlawful. She claimed that 13 successive fixed-term employment contracts could not, under the relevant German legislation, be justified as a response to a temporary need for replacement staff. She sought a finding that her employment had therefore been permanent.

The Cologne Labour Court dismissed her claim, and its decision was upheld on appeal. On further appeal, the Federal Labour Court referred the case to the ECJ for it to rule on the Framework Agreement’s requirements.
The ECJ held that in an administration with a large workforce, it is inevitable that replacements will frequently be necessary due to the unavailability of employees on sick, maternity, parental or other leave. The temporary replacement of these employees may constitute an objective reason for entering into (or renewing) fixed-term contracts with other staff.

However, the renewal of a fixed-term contract to cover permanent rather than temporary needs could not be justified. It is for the national court to ascertain whether the renewal of successive fixed-term contracts is intended to cover temporary needs. In deciding this, the court should take into account the number of fixed-term contracts the employee has worked under for the same employer and the cumulative duration of these.