

# Zero hours contracts



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Zero hours contracts allow organisations to hire individuals without guaranteeing them any work. They have attracted controversy because of the perceived disadvantages for workers, but in reality, most people working under these types of contracts will have some employment law protection. In this Inbrief, we summarise the legal and practical issues associated with zero hours contracts.

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### What is a zero hours contract?

The term “zero hours contract” can have various meanings but is generally used to mean a contract where one party engages another to perform work but there is no minimum level of work or pay. In some such contracts the individual is obliged to accept work offered, but not in all.

For convenience, this Inbrief uses the term “employer” to mean the hiring party in a contract for work, whether or not it is an employment relationship in the legal sense.

Zero hours contracts are a type of casual work contract. Other casual work contracts include short-hours contracts (where there is a promise of a minimum number of hours per week), flex-up contracts (where the hours offered to an individual can be increased within a specified margin) and annualised hours contracts (where an individual is required to work for a certain number of hours per year with no fixed working pattern). There are as many types of casual work contract as there are organisations with specific business needs.

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### Why use zero hours contracts?

One of the main reasons for using these sorts of agreements is to enable organisations to manage fluctuating demand. Some of the sectors where zero hours contracts are most common are hospitality, catering, leisure, education and healthcare, where the need for staff is not constant (for example because work is seasonal or unpredictable).

Zero hours contracts are also used to meet demand from individuals themselves for flexible working arrangements. This is not only from groups which have historically looked for flexibility, such as parents of young children, carers and students, but also

from those who choose not to work the classic “9 to 5” - for example, professionals who want more free time to pursue other interests.

Some press coverage has suggested that zero hours contracts are being used by unscrupulous employers to deprive workers of their rights. But in practice, even if that is their motivation, individuals on zero hours contracts are likely to have some valuable statutory rights (see below).

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### Employment status

Individuals have different statutory rights depending upon their employment status. There are three categories of employment status – employee, worker and self-employed.

**An employee** works under a contract of employment. For a contract of employment to exist there must be mutuality of obligation (the employer provides work and the individual is required to do it), the individual must provide their services personally and the employer must exercise a degree of control over the way the work is performed. These three factors are known as the “irreducible minimum” because without them, there is no employment. However, even if these elements are present, other aspects of the relationship might point away from employment.

**A self-employed** individual carries on a business for which the other party is a client or customer. Typically, they are not obliged to provide personal service (they can provide a substitute) and/or there is no mutuality of obligation (neither party is obliged to offer/accept work). The individual is responsible for his or her own tax.

A worker is somewhere in-between the other two categories. They may look self-employed, but with some factors which point towards employment. As



for employment, worker status is dependent upon mutuality of obligation and a requirement for personal service.

See our [Inbrief on Employment Status](#) for more information on the different types of employment status.

Depending on the circumstances, individuals on zero hours contracts are most likely to be employees or workers, because there will normally be a requirement for the individual to provide their services personally and there will often be mutuality of obligation.

### Employee and worker rights

A table summarising the statutory rights of employees and workers can be found at the end of this Inbrief.

Employees enjoy the fullest range of rights. However, workers benefit from important rights too - for example, the right to the national minimum wage, the right to paid annual leave and rest breaks, protection from discrimination and whistleblowing protection. Workers may also qualify for statutory sick pay. These are statutory rights which cannot be removed by agreement. Zero hours staff that are employees or workers always have these rights, regardless of what is said in the contract.

### Continuing relationships

Zero hours contracts may be structured as overarching contracts (also known as “umbrella contracts”). This is where there is a continuing contractual relationship with ongoing obligations between the business and individual regardless of whether the individual is engaged in carrying out work at the time. The continuing relationship can make it easier for the business to administer holiday pay, and the individual can be provided with benefits, such as health cover, even

when they are not working on an engagement.

A zero hours contract may state that there is no continuing relationship between engagements. However, if in practice there is a well-founded expectation of further engagements (which there is in many zero hours situations), that could be sufficient to create an overarching contractual relationship covering periods between engagements. This could be as an employee or a worker.

The existence of a continuing employment relationship and, therefore, whether the individual has continuous service, is relevant to the accrual of certain statutory rights (see table below).

### Holiday entitlement and pay

All employees and workers are entitled to 5.6 weeks of paid annual leave (the equivalent to 28 days for a full-time worker working 5 days a week) in each leave year.

However, there are special rules for calculating holiday entitlement and pay for irregular hours and part-year workers, which apply from 1 April 2024. These rules will apply to most zero hours workers if they fall within the definition of irregular hours workers:

- ▶ Annual holiday entitlement is accrued on the last day of each pay period at the rate of 12.07% of hours worked during that period (up to a maximum of 28 days per year).
- ▶ Rolled-up holiday pay is permitted, at 12.07% of all pay for work done. It must be paid at the same time as pay for the work done and itemised separately on the payslip. If rolled-up holiday pay is used then zero hours workers must still have 5.6 weeks off work, but the time off will be unpaid.

Rolled-up holiday pay is optional, so other options are:

- ▶ if the engagements will be short and the relationship will end after each engagement, pay out holiday pay at the end of the engagement, identifying it as a separate payment in the final payslip; or
- ▶ if the engagement will be long or there will be a continuing contractual relationship between engagements, accrue holiday at 12.07% of hours worked and allow the individual to take paid holiday during the engagement.

### Exclusivity clauses

A provision in a zero hours contract prohibiting a worker from working elsewhere under another contract (or doing so without the employer’s consent) is unenforceable.

Individuals with contracts containing exclusivity clauses can bring an unfair dismissal claim (without qualifying service) or a detriment claim if they are subject to a detriment or dismissed by their employer for failing to comply with such a clause.

### Practical considerations

Using the “zero hours contract” label does not allow businesses to treat individuals as a form of zero-protection labour. As there is no uniformity in practice about zero hours contracts, organisations wishing to use them should not assume that the individual will know what “zero hours” means and should state clearly what the arrangement involves in the contractual documentation. Factors that should be recorded in the contract are:



- ▶ the rate of pay for work offered
- ▶ whether the individual is an employee or a worker
- ▶ the business need that is driving the zero hours arrangement
- ▶ how holiday and holiday pay will be dealt with
- ▶ the continuance (or not) of the relationship between engagements
- ▶ how the relationship will be brought to an end – for example automatically at the end of each engagement, or by notice given by either party
- ▶ how any work that is being offered will be notified to the individual and what obligation there is on the individual to accept work that is offered.

Bear in mind, however, that the courts may disregard the written terms of an agreement if they consider it does not accurately represent the true arrangement between the parties.

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### Alternatives to zero hours contracts

Employers should consider whether or not a zero hours contract is the best type of arrangement for them, depending on the nature of the work required. It lends itself to situations where the workload is irregular, there is not a constant need for staff, or staff needs are driven by an external factor outside the employer's control. It may be that casual workers are not the best option at all. For example, if a worker is needed temporarily at short notice, it may be quicker and easier to use an agency worker. Other options might include increasing the overtime of permanent employees or, if regular hours need to be filled, recruiting a part-time employee.

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### Future reforms

There have been various consultations and reviews relevant to zero hours contracts, but progress in relation to

any proposals for reform has so far been limited.

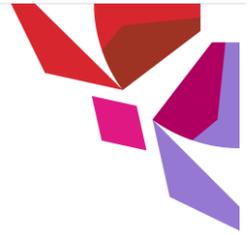
A new statutory right to request a predictable working pattern was due to come into force towards the end of 2024. However, the Labour government has said that it is not going to implement this right in its current form. Instead, the intention is to introduce a new right to a contract that reflects the number of hours regularly worked, along with a ban on "exploitative" zero hours contracts.

**For more information on this subject please contact:**



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| Right/Protection  | Employee | Worker   |
|---|----------|--|
| Right to not be unfairly dismissed (after 2 years' service)   | Yes      | Yes  |
| Right to receive written statement of terms & conditions  | Yes      | Yes  |
| Itemised payslip  | Yes      | Yes  |
| Statutory minimum notice  | Yes      | No   |
| Statutory redundancy pay (after 2 years' service)   | Yes      | No   |
| Protection from discrimination in the workplace (as long as individual is obliged to perform work personally) | Yes      | Yes  |
| Protection from unfavourable treatment on grounds of part time working  | Yes      | Yes  |
| Protection from unfavourable treatment on grounds of fixed-term employment                                    | Yes      | No   |
| National minimum wage   | Yes      | Yes  |
| Protection from unlawful deduction from wages   | Yes      | Yes  |
| Paid annual leave   | Yes      | Yes  |
| Right to daily & weekly rest breaks   | Yes      | Yes  |
| Pension auto-enrolment  | Yes      | Yes  |
| Right to be accompanied at a disciplinary or grievance hearing  | Yes      | Yes  |
| Whistleblowing protection   | Yes      | Yes  |
| To receive statutory sick pay   | Yes      | Possibly (a technical question which is outside the scope of this Inbrief) |
| Statutory maternity, paternity, adoption leave & pay  | Yes      | No   |
| Unpaid time off to care for dependents  | Yes      | No   |
| Right to request flexible working   | Yes      | No   |
| Time off for ante-natal care  | Yes      | No   |
| Time off for trade union activities   | Yes      | No   |
| Covered by the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE)?                   | Yes      | Possibly (the position is unclear and outside the scope of this Inbrief)   |
| Health & safety in the workplace  | Yes      | Yes  |