

Analysis of Employee Contracts that do not Guarantee a Minimum Number of Hours

Coverage: UK

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Geographical Area: UK

Theme: Labour Market

1. Summary

On 30 April 2014, ONS published the first estimates of contracts that do not guarantee a minimum number of hours, based on a survey of businesses. This measure complements the figures from the Labour Force Survey (LFS) which show the number of people who report that they are on a “zero-hours contract” in their main employment. This report publishes the latest figures from the LFS as well as new data from a second survey of businesses.

The latest estimate of the number of people who are employed on “zero-hours contracts” in their main employment, from the LFS, which is a survey of individuals in households, is 697,000 for October to December 2014, representing 2.3% of people in employment. It should be noted that responses to the LFS can be affected by whether or not respondents recognise the term “zero-hours contract”. This figure is higher than that for October to December 2013 (586,000 or 1.9% of people in employment), but it is not possible to say how much of this increase is due to greater recognition of the term “zero-hours contracts” rather than new contracts.

People on “zero-hours contracts” are more likely to be women, in full-time education or in young or older age groups when compared with other people in employment. On average, someone on a “zero-hours contract” usually works 25 hours a week. Around a third of people on a “zero-hours contract” want more hours, with most wanting them in their current job.

The estimate from the second ONS survey of businesses indicates that there are around 1.8 million contracts that do not guarantee a minimum number of hours, where work was carried out in the fortnight beginning 11 August 2014. This figure should not be directly compared with the previously published estimate (1.4 million for the fortnight beginning 20 January 2014) to imply an increase in the number. It covers a different time of year and so differences in the number of such contracts reported may reflect seasonal factors. The difference between the business survey and LFS will

partly be accounted for by people who have more than one “zero-hours contract” with different employers or who have a “zero-hours contract” to supplement their main employment.

2. Introduction

This paper updates [previous analysis on “zero-hours contracts”](#) published by ONS on 30 April 2014. The report includes the latest figures from the LFS for the period October to December 2014 and the results from a second survey of businesses relating to August 2014.

What are “zero-hours contracts”?

One of the problems with producing estimates of “zero-hours contracts” is the lack of a single agreed definition of what such a contract is. While some contracts are explicitly called zero-hours contracts, there are other definitions available and used in published statistics. The common element to the definitions is the lack of a guaranteed minimum number of hours.

When developing the survey of businesses, ONS consulted on the definition to be used and decided on the lack of any guaranteed hours. To provide clarity and prevent confusion with the other estimates of “zero-hours contracts” the remainder of this article refers to estimates from the ONS business survey as no guaranteed hours contracts (NGHCs).

When comparing figures from the ONS business survey with the LFS estimates a number of issues need to be considered:

- the LFS counts people who report that their main employment is a “zero-hours contract”;
- the estimate from businesses is counting contracts. This will be greater than the number of people as people can have more than one contract;
- estimates from businesses will include contracts that cover a variety of working arrangements. This will include instances where people in their main employment are working a regular number of hours a week (although these hours are not guaranteed by their contract) as well those who work on an irregular basis due to personal choice, availability of work or to fit in around their main employment.

3. How many no guaranteed hours contracts are there?

This section looks at the latest estimates from the LFS and the second ONS survey of businesses. Both sources are from sample surveys so will be subject to a degree of uncertainty. Where available, an indication of the level of uncertainty is provided in Annex 1.

Labour Force Survey

The LFS samples around 40,000 households a quarter and collects information about people’s employment status. One of the questions on the LFS, asked of people in employment, relates to special working arrangements that vary daily or weekly. Respondents can choose up to three different arrangements from a list of eight options, one of which is “zero hours contracts” defined as “where a person is not contracted to work a set number of hours, and is only paid for the number of hours that they actually work”.

As the LFS is based on respondents' views about their working arrangements, and counts people rather than contracts, it is likely that any estimate of "zero-hours contracts" from the LFS will be less than an estimate obtained from businesses. The number of people the LFS classifies as being on a "zero-hours contract" will be those who:

- (a) are employed (have done at least one hour of paid work in the week before they were interviewed or reported that they were temporarily away from their job);
- (b) report that their working arrangements in their main employment include some form of flexibility; and
- (c) recognise that the flexibility of their working arrangements is a result of being on a "zero-hours contract".

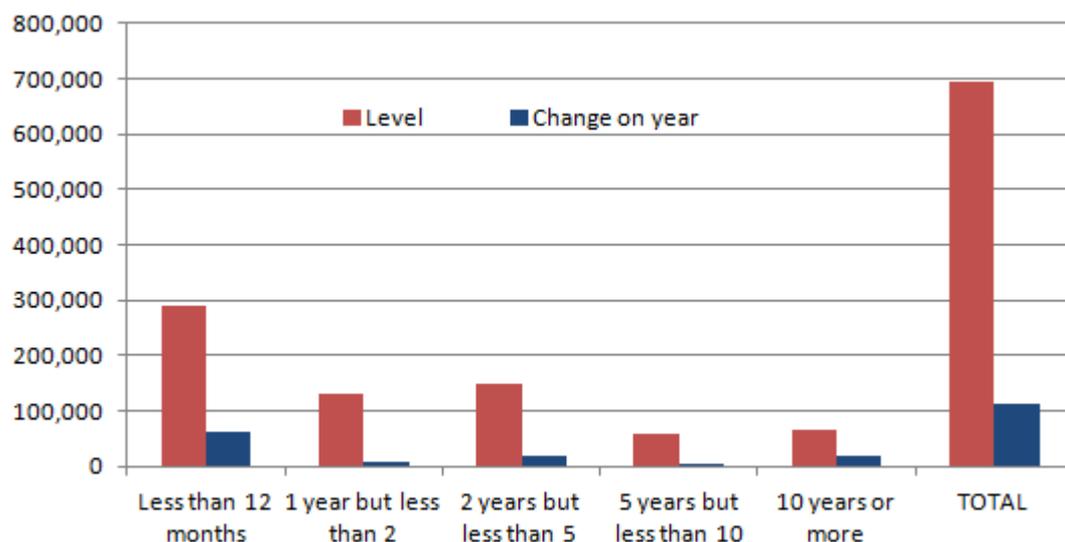
Therefore, the people identified by the LFS as being on a "zero-hours contract" will be those in employment who are aware that their contract allows for them to be offered no hours. This might exclude some people who select another option, such as on-call working, unless they report a "zero-hours contract" as well.

The latest estimate from the LFS shows that 697,000 people reported that they were on a "zero-hours contract" in the period October to December 2014, representing 2.3% of people in employment. This is 19% higher than the reported figure from the same period in 2013 (586,000 or 1.9% of people in employment), but it is not possible to say how much of this increase is due to greater recognition of the term "zero-hours contracts" rather than new contracts.

When looking at the length of time in current job, just under half (45%) of the increase in "zero-hours contracts" is from people in their job for more than a year (i.e. were already in this job in October to December 2013) so were not "new" contracts. This could have been due to either increased recognition or people moving to a "zero-hours contract" in the same job. People working less than a year also increased. This could have been due to either increased awareness of the terms of the contract when people start work or a rise in the prevalence of "zero-hours contracts" (Chart 1).

Comparisons with 2012 and earlier years are complicated by a large increase between 2012 and 2013 that appeared to be mainly due to increased recognition of "zero-hours contracts". This change was covered in the [previous ONS report published on 30 April 2014](#).

Figure 1: Number of “zero-hours contracts” by length of time in job, October to December 2014 and change since October to December 2013



Source: Labour Force Survey - Office for National Statistics

Notes:

1. LFS zero hours length of time in job

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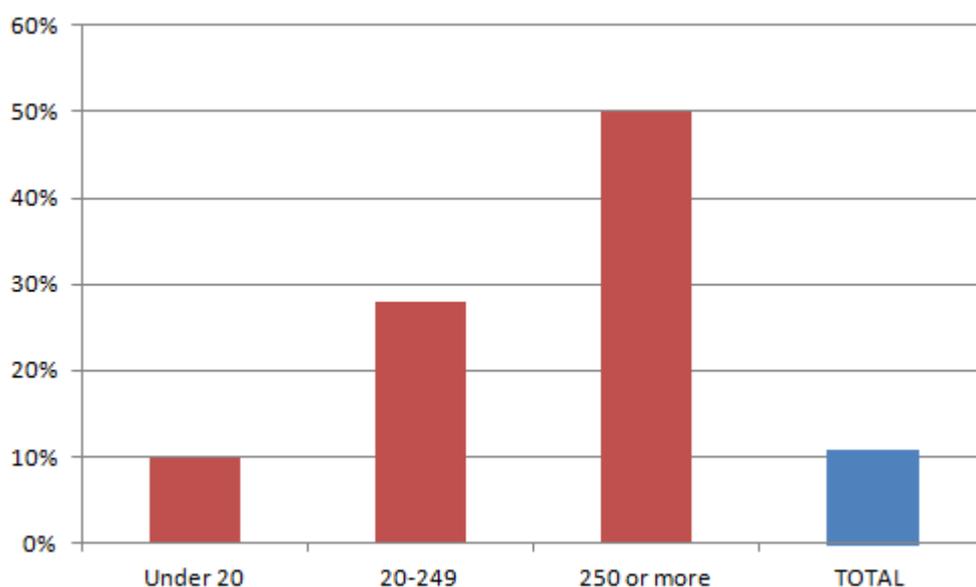
(25 Kb)

ONS business survey

The ONS business survey asked a sample of 5,000 businesses how many people were employed on contracts that do not guarantee a minimum number of hours (NGHCs) and received around 2,500 responses. The latest estimates from the employer survey indicate that there were 1.8 million contracts that did not guarantee a minimum number of hours where work was carried out in the fortnight beginning 11 August 2014 (around 6% of all contracts). This total excludes contracts that do not guarantee a minimum number of hours where work was not carried out in the reference period.

The latest results from the business survey should not be directly compared with those from the previous survey (1.4 million for the fortnight beginning 20 January 2014). The two surveys are from different times of the year and as such may be affected by seasonal factors which ONS does not have the information available to estimate.

As well as the number of contracts, the ONS business survey also estimated that 11% of businesses make some use of NGHCs. However, the proportion of businesses using NGHCs differs when industry or size of business are considered. Chart 2 shows the proportion of businesses using NGHCs by size of business. It shows that half of businesses with employment of 250 or more make some use of NGHCs compared with 10% of businesses with employment less than 20.

Figure 2: Proportion of businesses using NGHCs by size of business

Source: Office for National Statistics

Notes:

1. Business survey size of business

Download chart

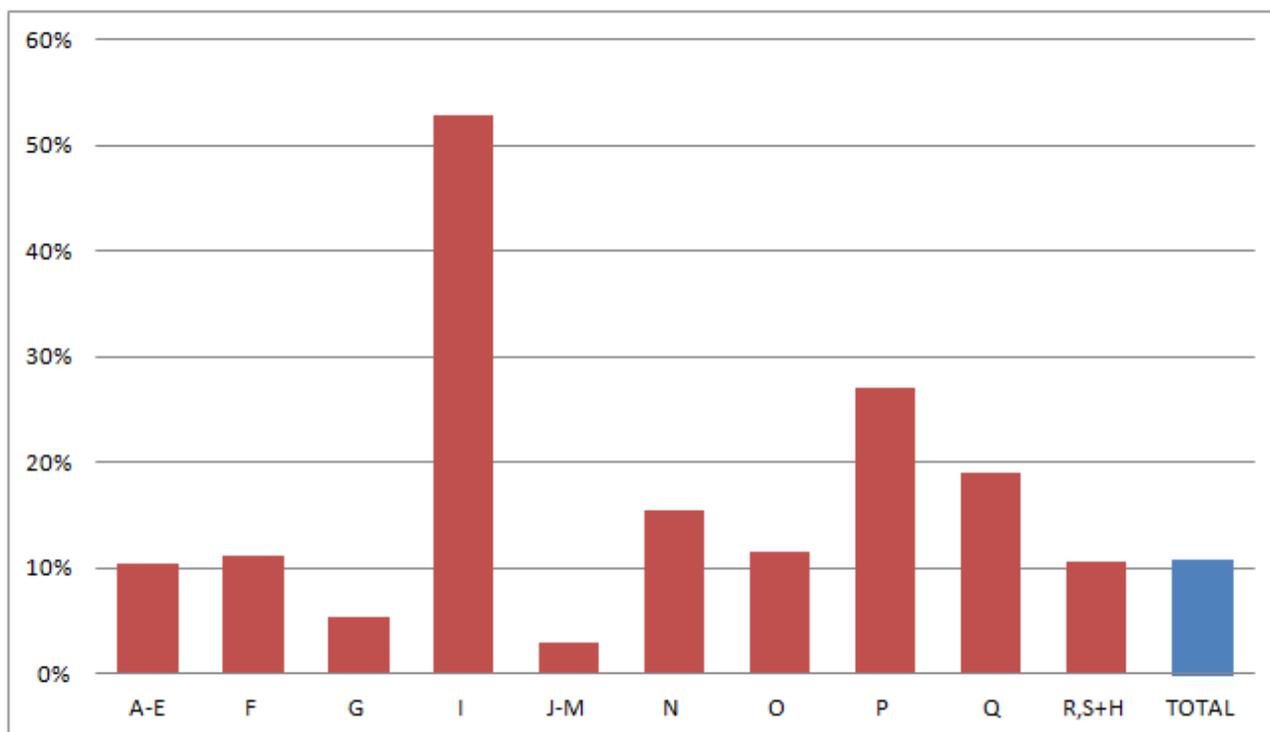
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Looking at industry, the proportion of businesses using NGHCs varies considerably (Chart 3). In Accommodation and Food Services, 53% of companies make some use of NGHCs with Education having more than one in four businesses using them.

Figure 3: Proportion of businesses using NGHCs by industry

Business survey by industry



A-E Production including Agriculture	N Admin and support services
F Construction	O Public admin
G Wholesale and Retail	P Education
I Accommodation and Food	Q Health and Social work
J-M Information, Finance, Professional	R,S+H Transport, Arts, Other services

Source: Office for National Statistics

Notes:

1. Business Survey
2. Please click on image to view a larger version

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(12 Kb)

In addition to the 1.8 million contracts where work was carried out, there were also 1.4 million contracts where no work was carried out. Following the previous business survey in January 2014, ONS carried out some follow-up work with businesses to gather some more information about these contracts. The follow-up work did not highlight any single reason why these contracts did not provide any work. A number of reasons were given including:

- employees not accepting work offered to them for personal reasons. Employers may not know the exact reasons but it could include people not currently in a position to work (e.g. due to sickness, holiday etc.) or those not available to the employer in the reference period because they had a permanent or no guaranteed hours job with a different employer;
- openings for work that employers had not been able to fill because the flexibility, or other aspects of the contract, meant that no-one had accepted the work;
- openings for work the employer might have at other times but, due to fluctuating demand, were not available in the reference period. It is not possible to say whether employers would have been able to fill these positions had they been available; and
- some employers having some out-of-date contracts on their list, although businesses said they generally kept their lists up to date.

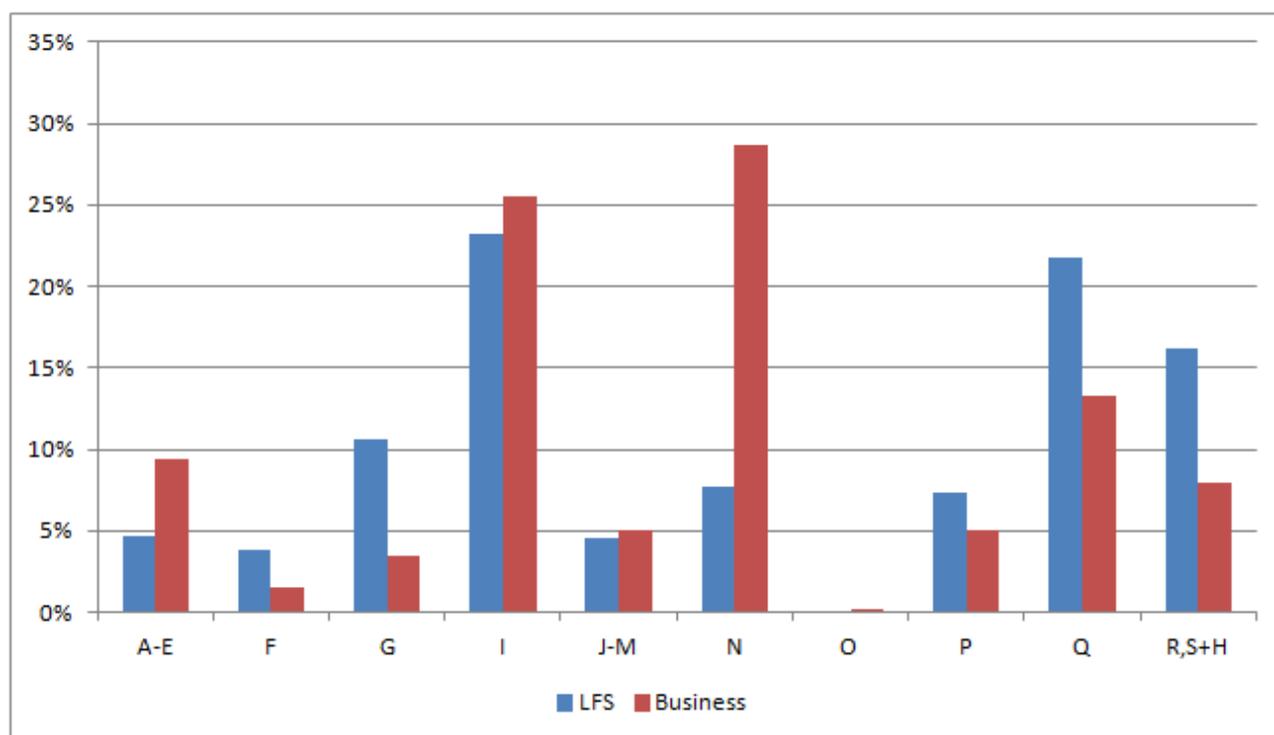
None of the businesses contacted in the follow-up used exclusivity clauses. While the work has proved inconclusive, it indicates that for most of these contracts the reason that work was not offered was due to the employees not accepting work or employers not having suitable work available.

Comparison of LFS and ONS business survey

The number of NGHC contracts from the business survey is higher than the number of workers reporting “zero-hours contracts” in the LFS. The results of the business survey will differ from the LFS for a number of reasons:

- (i) the employer survey will count contracts not people and will provide higher estimates (as one person can have more than one contract);
- (ii) employers are likely to be more aware of their employees’ formal contractual arrangements. This may differ from the perception of employees if their normal working hours are relatively stable or if changes in hours are mainly as a result of personal choice;
- (iii) there may be multiple contracts for each job in the business survey.

Chart 4 shows the distribution by industry of NGHCs from the ONS business survey and “zero-hours contracts” from the LFS. Where there are differences in the distributions, this will be partly due to how people are classified in the two surveys. On the LFS, people are self-classified to an industry. Businesses are allocated to the industry where most of their employees work. For example, many local authorities are classified to Education (section P), while their employees will cover other areas such as social work (section Q), public administration (section O) and recreation (section R). Similarly, employment agencies are classified to Administration & Support Services (Section N) on the business survey, while people employed by them but placed at another employer may give a different answer on the LFS. The distribution may also be affected by the business survey including second and subsequent jobs whereas the LFS covers main employment.

Figure 4: Distribution of workers on “zero-hour contracts” by industry

A-E Production including Agriculture	N Admin and support services
F Construction	O Public admin
G Wholesale and Retail	P Education
I Accommodation and Food	Q Health and Social work
J-M Information, Finance, Professional	R,S+H Transport, Arts, Other services

Source: Labour Force Survey - Office for National Statistics

Notes:

1. Business survey by industry proportion
2. Please click on image to view a larger version

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4. What are the characteristics of people employed on “zero-hours contracts”?

While the business survey provides a measure of the number of contracts that do not guarantee hours, the LFS can provide additional information about the type of people who report that their main employment is on a “zero-hours contract”.

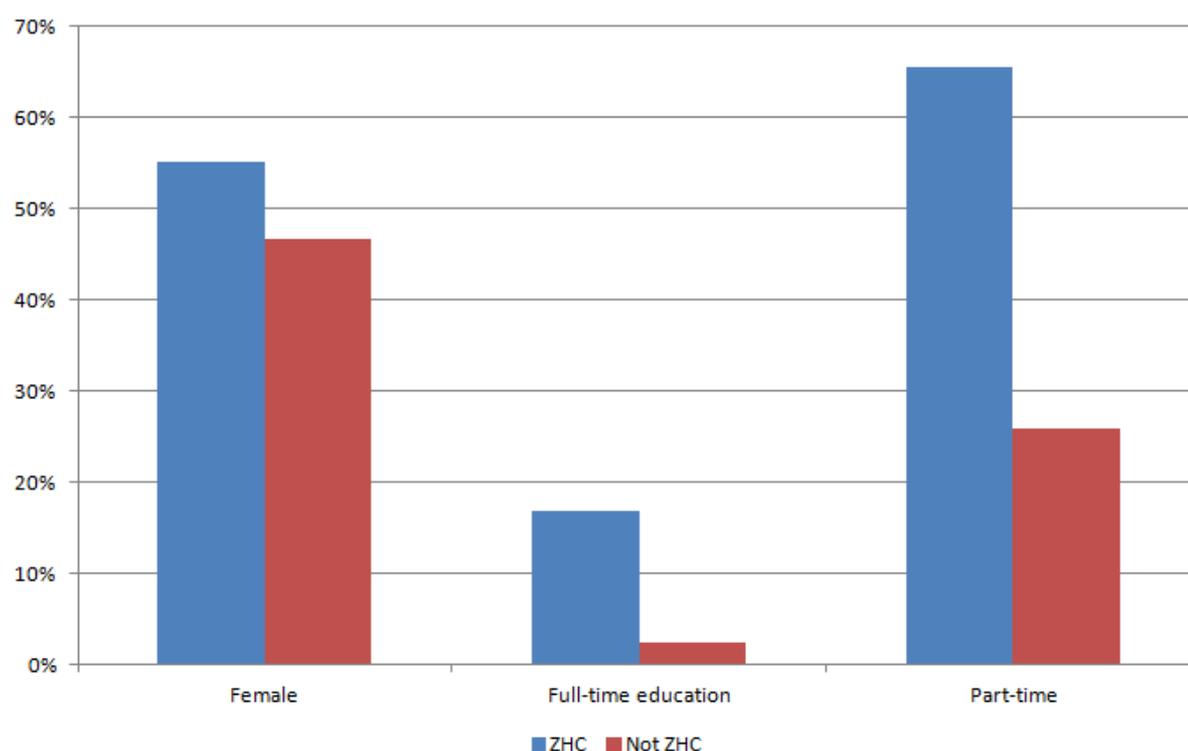
Who are they?

Looking at the type of people who report that they are employed on a “zero-hours contract” compared with other people in employment shows that there are differences in the type of people on “zero-hours contracts” (Charts 5 and 6). For October to December 2014:

- women make up a bigger proportion of those reporting working on “zero-hours contracts” (55%) compared with other people in employment (47%).
- people who report being on a “zero-hours contract” are more likely to be at the youngest or oldest ends of the age range. 34% of people on “zero-hours contracts” are aged 16 to 24 and 6% are aged 65 and over (compared with 12% and 4% respectively for other employed people).
- 17% of people on “zero-hours contracts” are in full-time education compared with 2% of other people in employment.

These patterns may partly reflect the groups most likely to find the flexibility of “zero-hours contracts” an advantage, for example, young people who combine flexible working with their studies or people working beyond state pension age.

Figure 5: Proportion of people in employment by gender, full-time education and part-time employment

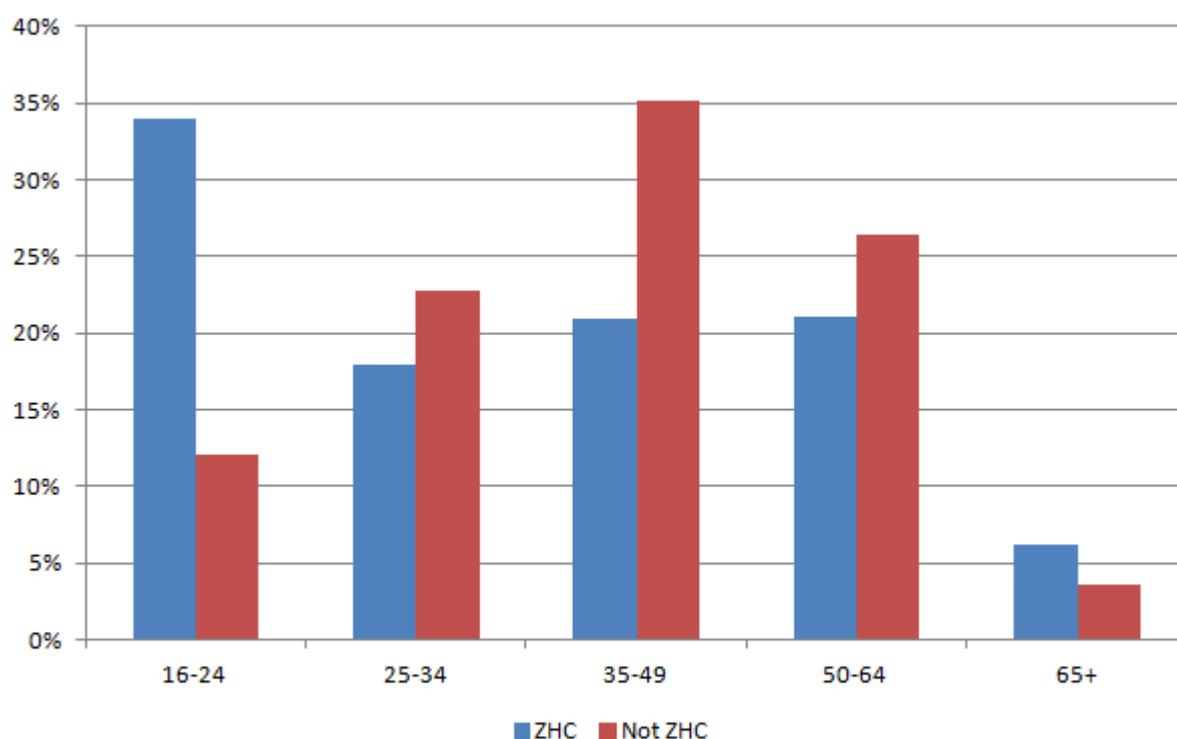


Source: Labour Force Survey - Office for National Statistics

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Figure 6: Distribution of people in employment by age

Source: Labour Force Survey - Office for National Statistics

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Hours worked and flexibility

The majority of people on “zero-hours contracts” (66%) reported that they worked part time, compared with just over a quarter (26%) of other workers. This means that the average actual weekly hours worked in their main job by someone on a “zero-hours contract” is lower at 22.6 per week compared with 32.4 for other people. This shows a similar pattern to usual hours worked which were 25.1 and 36.7 respectively.

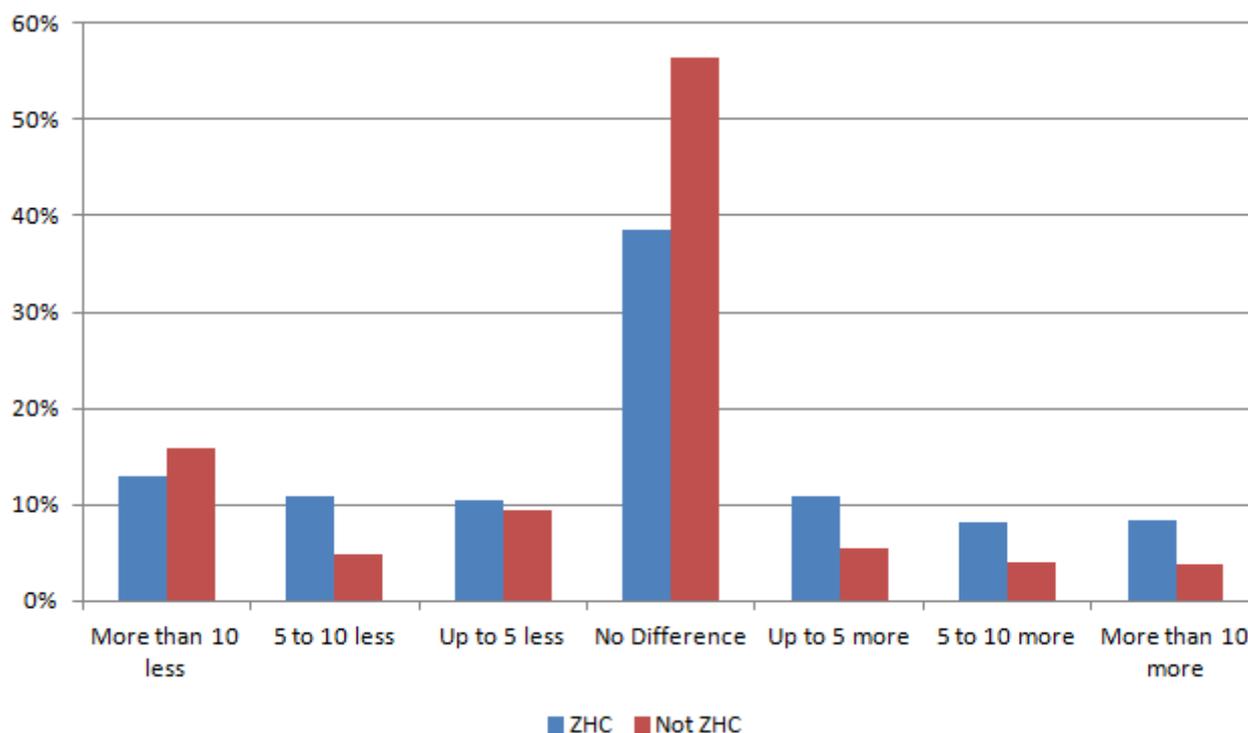
In October to December 2014, 14% of people on “zero-hours contracts” worked no hours in the week before their LFS interview compared with 10% of other workers.

Comparing usual and actual hours, Chart 7 shows the differences between actual and usual hours worked for people on “zero-hours contracts” and other workers. For October to December 2014:

- 38% of people on “zero-hours contracts” worked their usual hours compared with 56% of other workers;
- 34% of people on “zero-hours contracts” worked less than their usual hours compared with 30% of other workers;

- 27% of people on “zero-hours contracts” worked more than their usual hours compared with 13% of other workers.

Figure 7: Actual hours minus usual hours, October to December 2014



Source: Labour Force Survey - Office for National Statistics

Notes:

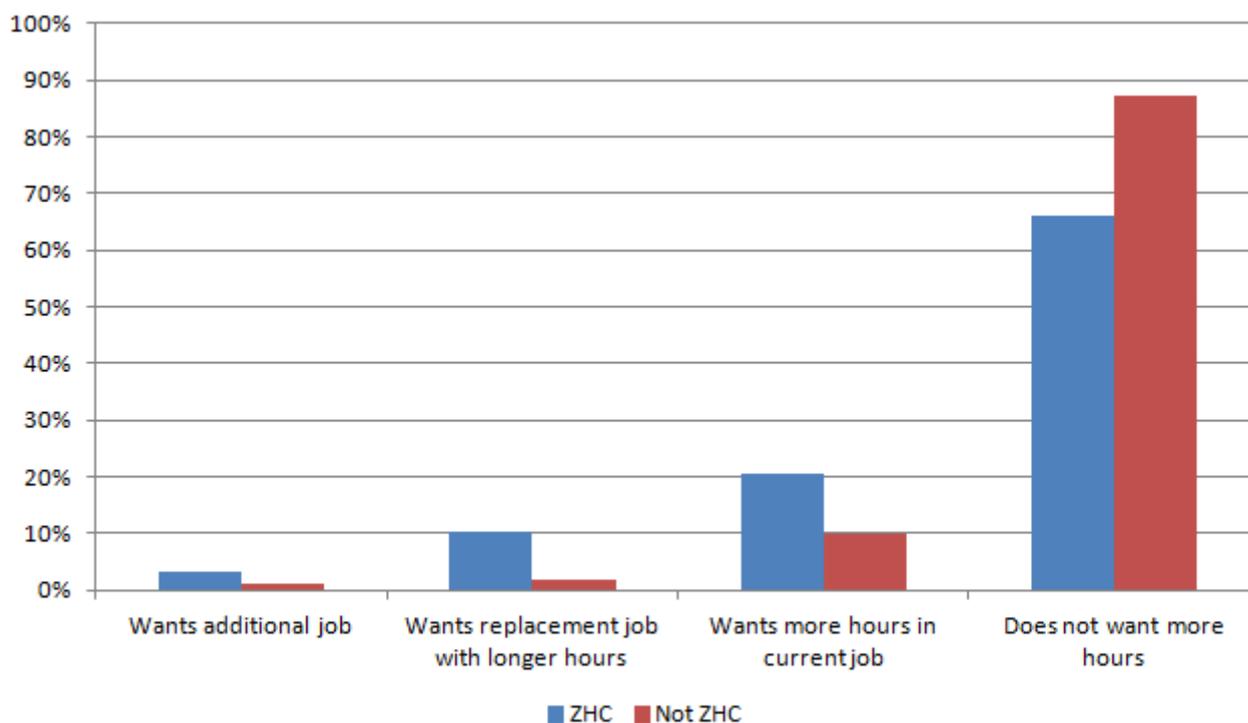
1. Labour Force Survey by hours

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Around a third (34%) of people on “zero-hours contracts” want more hours compared with 13% of other people though this could be linked to a higher proportion of “zero-hours contract” jobs being part-time. Looking in more detail, 10% of people on “zero-hours contracts” would like a different job with more hours compared with 2% for other people in employment (the remainder would like more hours in their current job or an additional job) (Chart 8).

Figure 8: Looking for more hours, October to December 2014

Source: Labour Force Survey - Office for National Statistics

Notes:

1. Labour Force Survey more hours

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Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

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This document is also available on our website at www.ons.gov.uk.

Appendices

Annex 1- Measures of uncertainty

Labour Force Survey

The estimate of 697,000 people employed on “zero-hour contracts” has a 95% confidence interval of $\pm 68,000$, which means the true figure is likely to lie between 630,000 and 765,000.

ONS business survey

The estimate of 1.8 million contracts that do not guarantee hours and where work was carried out has a 95% confidence interval of $\pm 384,000$, which means the true figure is likely to lie between 1.4 million and 2.2 million.