

MEASUREMENT OF ZERO-HOUR CONTRACTS

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Background

In the middle of 2013, there was increased UK media interest around the issue of “zero-hours contracts”. The coverage centred on the lack of any guarantee of hours for these contracts and the potential for exploitative practice by employers. As part of the coverage there was debate around the number of such contracts in use in the UK. At the time the only available figure from ONS was from the Labour Force Survey (LFS), which showed that for October to December 2012 there were 250,000 people in employment who reported that their main job was on a “zero-hours contract”. However, other bodies produced figures suggesting that the number was around one million (Chartered Institute for Personnel and Development) and government data that there were 300,000 in the domestic care sector alone.

Given the differences in the definitions, perceptions and estimates between the outside surveys of businesses and of individuals in the LFS, ONS decided to undertake its own survey of businesses, announced on 22 August 2013

<http://www.ons.gov.uk/ons/rel/mro/news-release/ons-announces-additional-estimate-of-zero-hours-contracts/zhc0813.html> . The aim was to produce an estimate of “zero-hour contracts” that would complement the existing LFS estimates and could also be compared to other employer estimates.

Defining “zero-hour contracts”

One of the challenges with producing estimates of “zero-hour contracts” is the lack of a single agreed definition of what such a contract is. There is no legal definition and while some contracts are explicitly called zero-hours contracts, there are other definitions available and used in published statistics. These include:

- LFS: “where a person is not contracted to work a set number of hours and is only paid for the number of hours they do”;
- Chartered Institute for Personnel and Development: “an agreement between two parties that one may be asked to perform work for the other, but there is no set minimum number of hours. The contract will provide what pay the individual will get if they do work and will deal with the circumstances in which work may be offered (and, possibly, turned down)”;
- Department for Business, Innovation & Skills (Section 2 of zero-hours consultation <https://www.gov.uk/government/consultations/zero-hours-employment-contracts>): “There is no legal definition of a zero-hours contract in domestic law. In general terms a zero-hours contract is an employment contract in which the employer does not guarantee the individual any work, and the individual is not obliged to accept any work offered. An example of a clause in a zero-hours contract which does not guarantee a fixed number of hours work per week is: ‘The Company is under no obligation to provide work to you at any time and you are under no obligation to accept any work offered by the Company at any time.’”;

- HM Revenue & Customs: “A zero-hours contract generally is a contract where the employer does not guarantee to provide the worker with work and will only pay the worker for those hours which are actually worked.”

The common element to these definitions is the lack of a guaranteed minimum number of hours.

Therefore, the focus for question development for the business survey was around describing what needed to be measured rather than naming the contract. Looking from the employer's perspective, the term zero-hours contract was not familiar to some employers until recently. The term used by employers may vary depending on the type of employer and/or industry. The following have all been used by employers when describing a zero-hours contract arrangement: casual worker, on-call relationship, hours to be notified and occasional professional assistance.

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 paper will refer to estimates from the ONS business survey as no guaranteed hours contracts (NGHCs). This includes, but is not exclusively, “zero-hours contracts” and will include some other contract types that do not guarantee a minimum number of hours.

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 primary employment is a “zero-hours contract”;
- The estimate from businesses is counting employee contracts that are NGHCs. 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. These will include instances of people in their primary employment who are working a regular number of hours a week (although these hours are not guaranteed by their contract), as well as those who work on an irregular basis due to personal choice, availability for work or to fit in around their primary means of employment.

Sampling for the business survey

ONS initially looked at introducing an additional question on “zero-hour contracts” to an existing postal survey of businesses. Potential options included the regular turnover, employment and wages and salaries surveys. However, to carry out the collection quickly would have led to increased risk to existing outputs as there would be very limited time for testing. To deliver results within six months, a telephone survey was developed to collect information specifically about contracts that do not guarantee a minimum number of hours. A copy of the questionnaire used is at Annex A.

An initial pilot to gather around 100 responses was carried out to test the questionnaire and processes. The pilot proved very successful with the target response reached early. Following the pilot, some amendments were made to the questions and a full survey was carried out.

For the main survey, a sample of 5,000 businesses was selected from the ONS register of businesses, stratified by industry and employment size. Where no telephone number was available from the business register, an exercise was carried out to obtain a telephone number (using telephone directories, internet searches etc.).

Survey results

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 to 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".

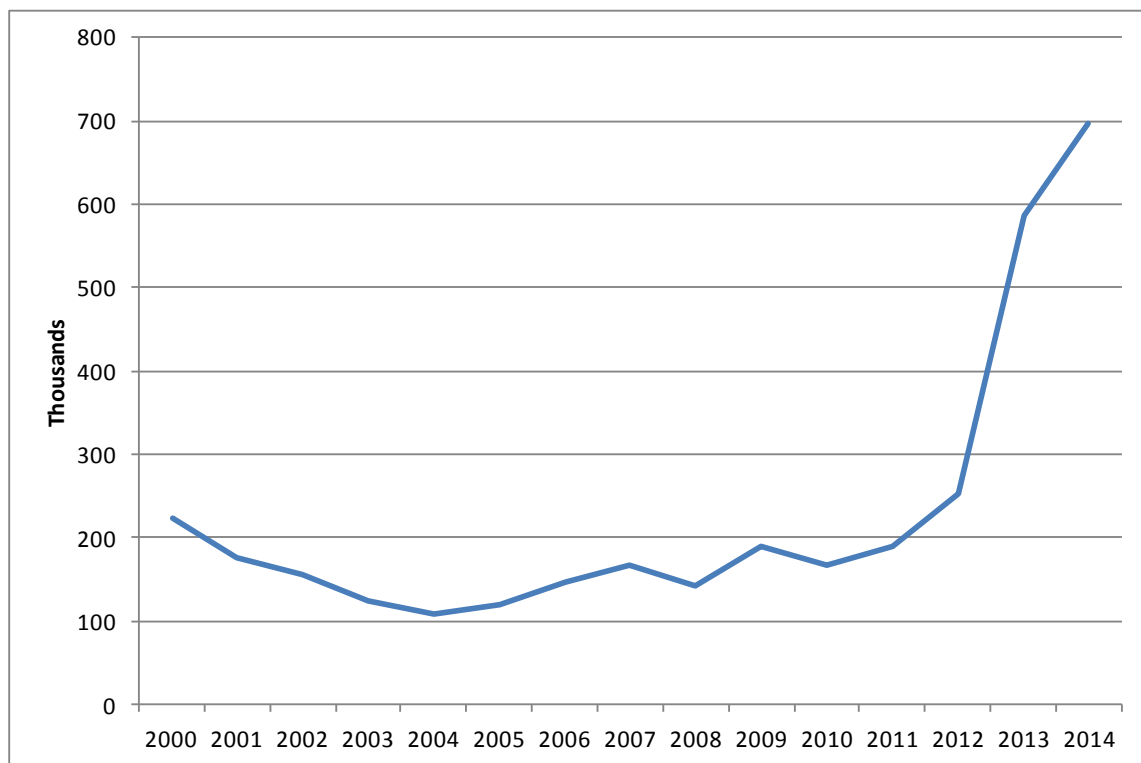
As the LFS is based on respondents' views about their working arrangements, and counts people rather than contracts, it is likely that any estimate of "zero-hours contracts" from the LFS will be less than an estimate obtained from businesses. The number of people the LFS classed as being on a "zero-hours 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 include some flexibility and that their hours can vary; 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.

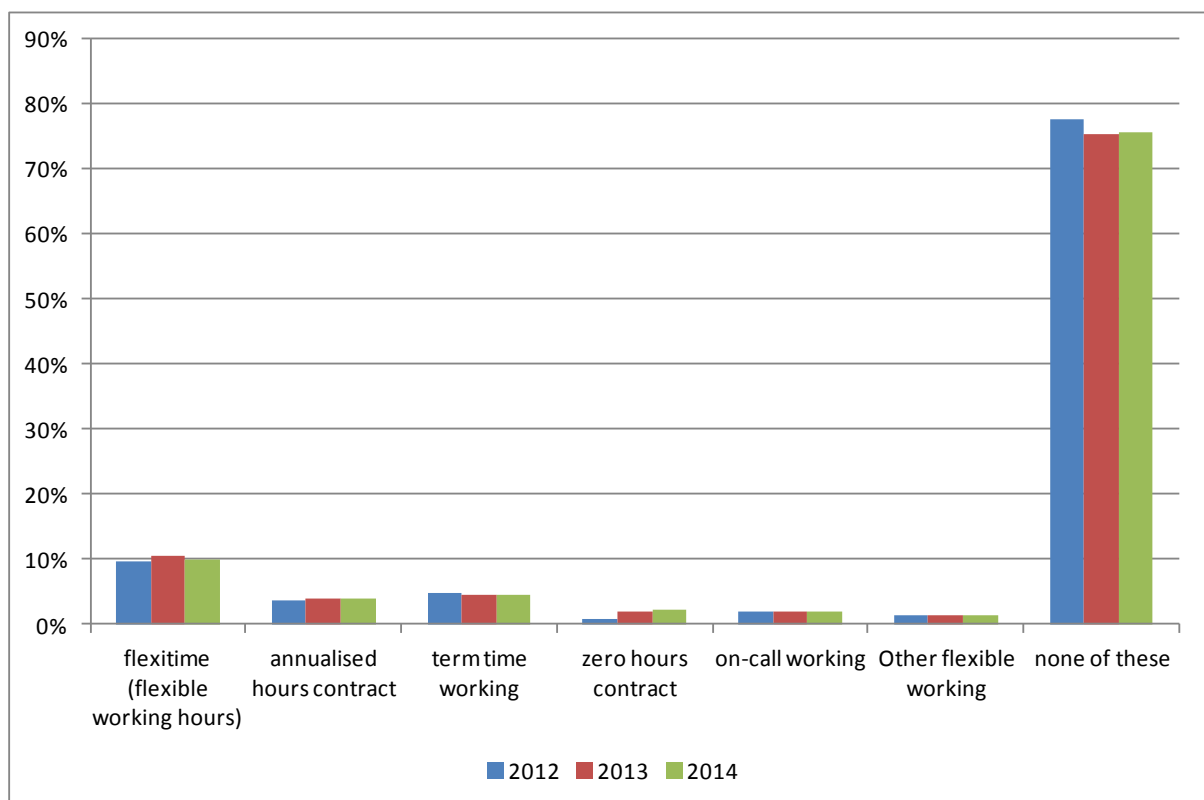
The most recent estimate of people on "zero-hours contracts" in their main job was 697,000 for October to April 2014 (with a 95% confidence interval of $\pm 68,000$). Looking since the series started in 2000, the number more than doubled between 2012 and 2013, (from 250,000 to 586,000) (Chart1). However, a large part of the increase would appear to be from people who previously reported no flexible working arrangements (Chart 2). Some of this increase is likely to be due to the increased awareness of "zero-hours contracts" following the coverage in the media.

Chart 1: People reporting their main employment as a “zero-hours contract”



Source: Labour Force Survey

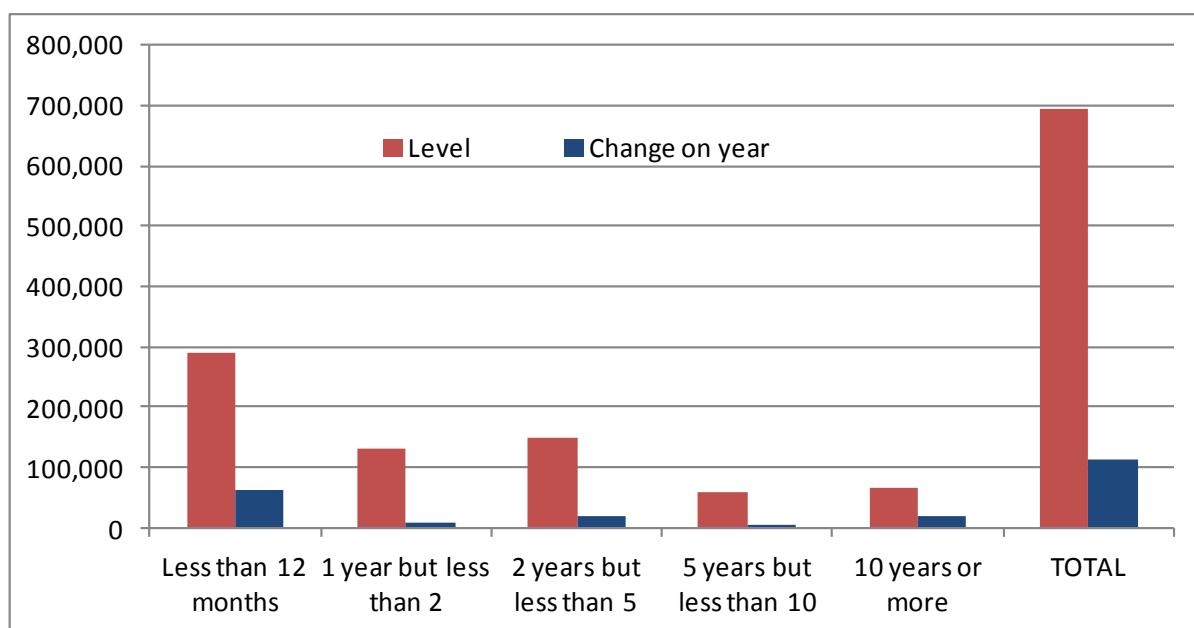
Chart 2: Proportion of employment by working arrangement, October to December



Source: Labour Force Survey

Looking at the increase between 2013 and 2014 (from 586,000 to 697,000), around half of the increase in the level of “zero-hours contracts” is for people who have been in their job for more than a year, so would not be “new” contracts. However, the number of people working less than a year also increased indicating that at least some of the rise between 2013 and 2014 may have been a genuine rise in the number of “zero-hours contracts”, although increased awareness is likely to be the main driver of change for this group as well (Chart 3).

Chart 3: Change in people on “zero-hours contracts” between 2013 and 2014 by time in job



Source: Labour Force Survey

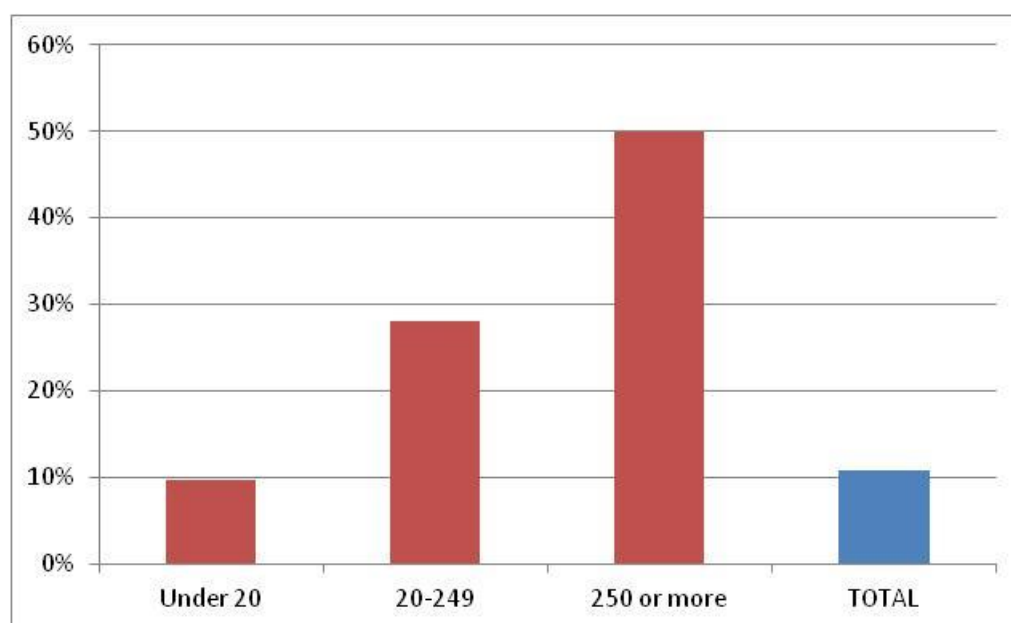
Business survey

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 (with a 95% confidence interval of $\pm 384,000$), 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 contracts 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 4 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.

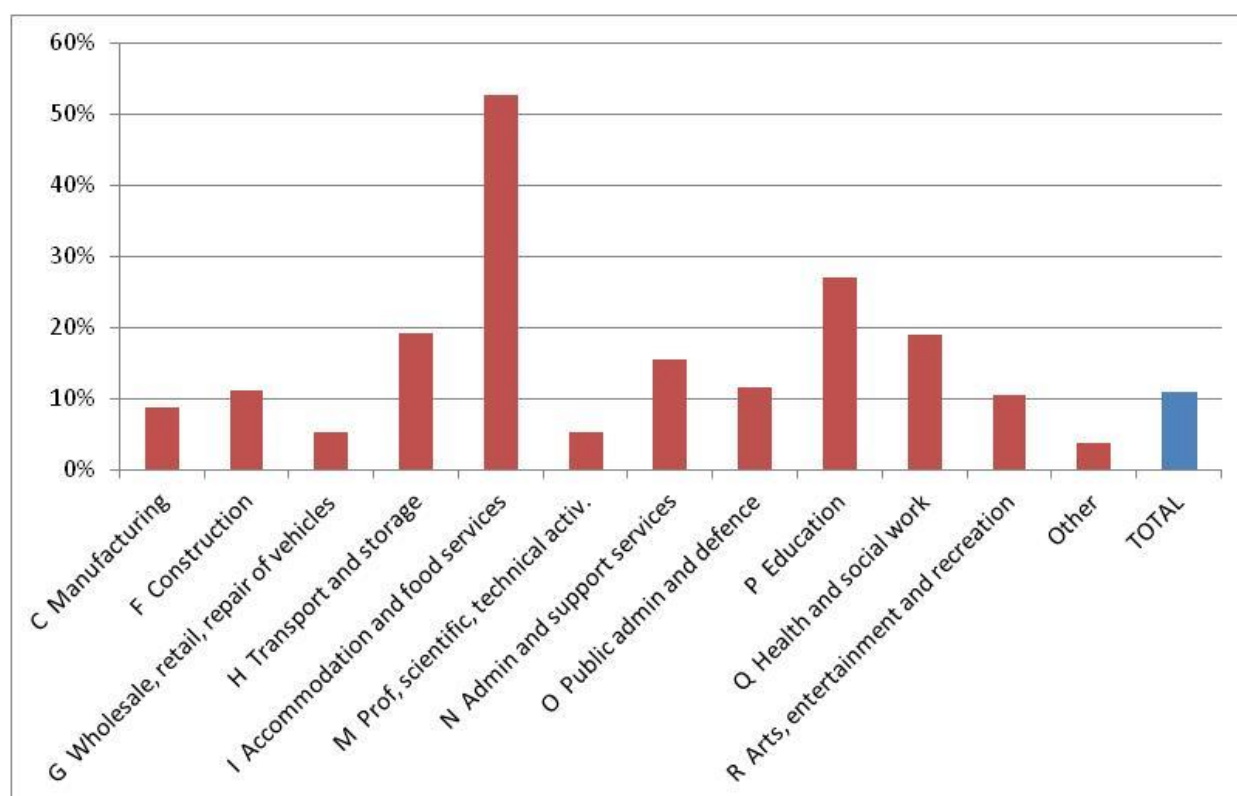
Chart 4: Proportion of businesses using NGHCs by size of business, August 2014



Source: ONS survey of businesses

Looking by industry, the proportion of businesses using NGHCs varies considerably (Chart 5). In Accommodation and Food Services, 53% of companies make some use of NGHCs with Education having more than one in four businesses using them.

Chart 5: Proportion of businesses using NGHCs by industry, August 2014



Source: ONS survey of businesses

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, where employees are not allowed to have a contract with another employer. 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

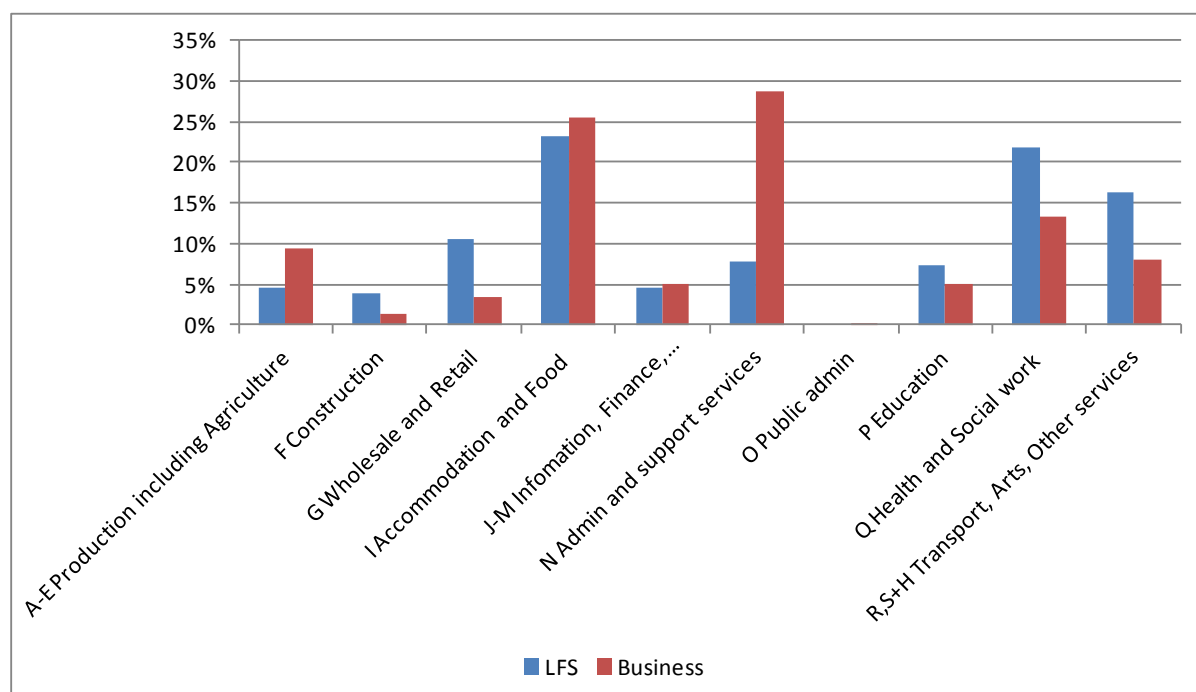
The number of NGHC contracts from the business survey is higher than the number of workers reporting “zero-hours contracts” in the LFS. The results of the business survey will differ from the LFS for a number of reasons:

- 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 6 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, whereas 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.

Chart 6: Distribution of workers on non-guaranteed hours contracts and “zero-hour contracts” by industry



Source: Labour Force Survey (October to December 2014) and ONS survey of businesses (August 2014)

Characteristics of people on “zero-hour 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”.

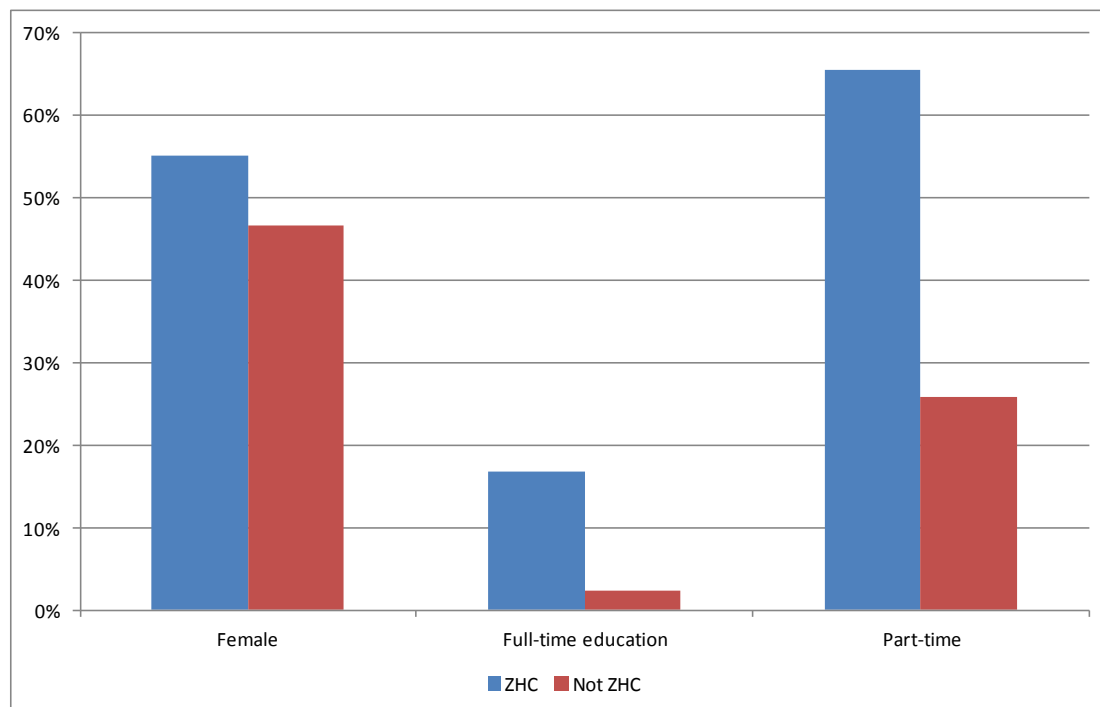
Who are they?

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 7 and 8). For October to December 2014:

- Women make up a bigger proportion of those reporting working on “zero-hours contracts” (55%) compared with people not on “zero-hours contracts” (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.

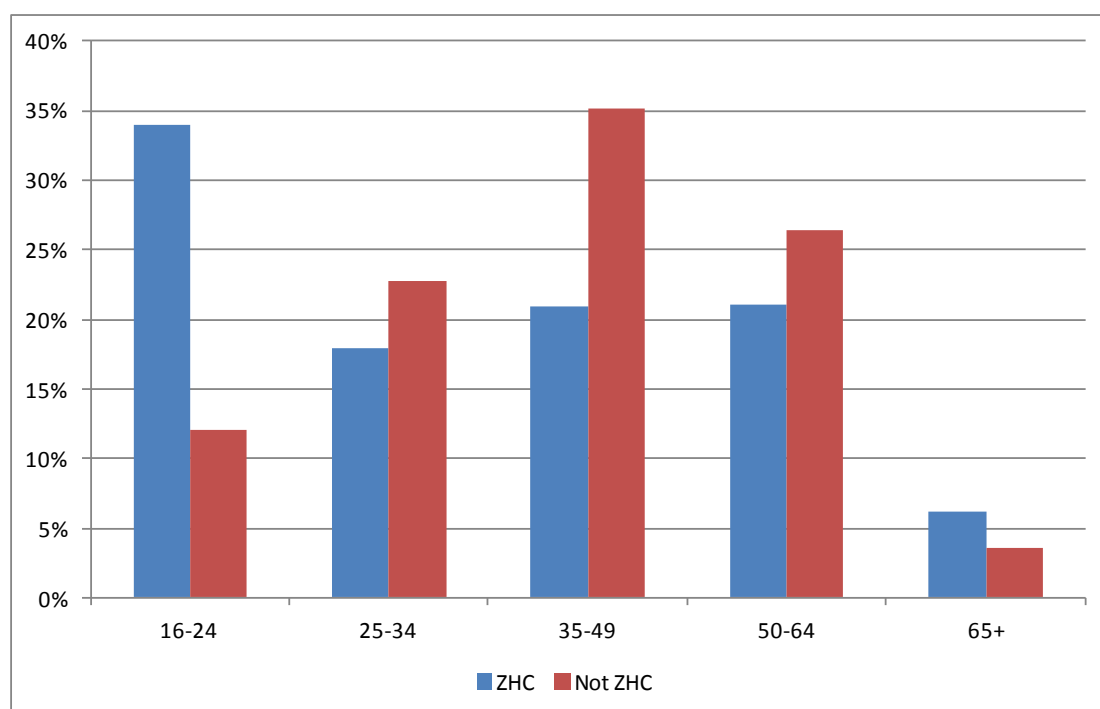
These patterns may partly reflect the groups most likely to find the flexibility of “zero-hours contracts” an advantage, for example, young people who combine flexible working with their studies or people working beyond state pension age.

Chart 7: Proportion of people in employment by gender, education and part-time



Source: Labour Force Survey

Chart 8: Distribution of people in employment by age



Source: Labour Force Survey

Hours worked and flexibility

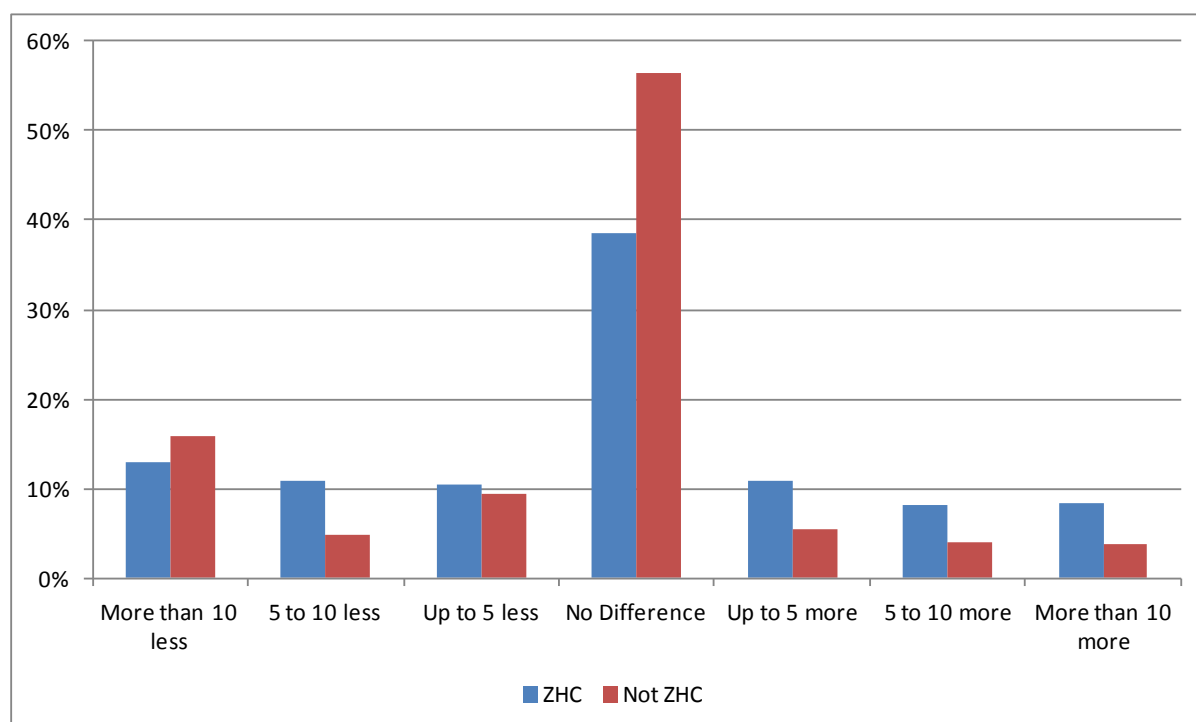
The majority of people on “zero-hours contracts” (66%) reported that they worked part time, compared with just over a quarter (26%) of other workers. This means that the average actual weekly hours worked in their main job by someone on a “zero-hours contract” is lower at 22.6 per week compared with 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 9 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.

Chart 9: Actual hours minus usual hours, October to December 2014

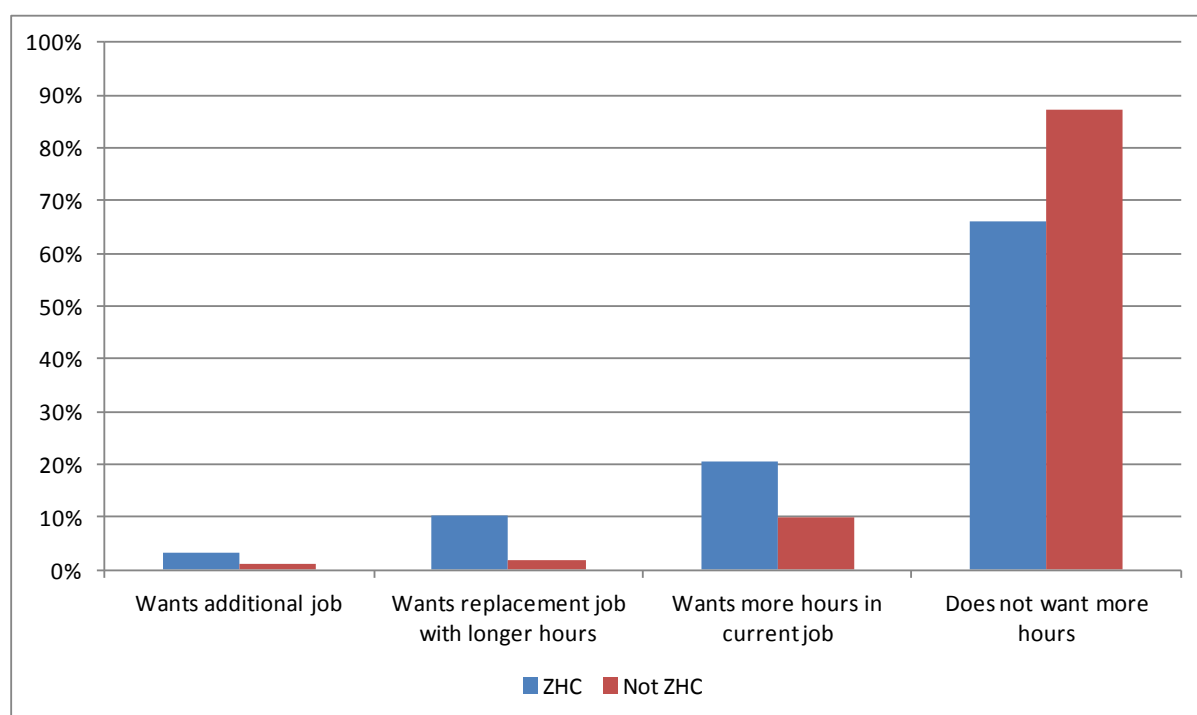


Source: Labour Force Survey

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 10).

Chart 10: Looking for another job or more hours, October to December 2014



Source: Labour Force Survey

Next steps

A third survey has taken place for January 2015, with further ones planned for May and November (to coincide with the LFS periods). The next set of results is planned for publication in August 2015.

Annex A – Questionnaire for business survey

Question	Question Text	Response choices	Routing
Intro	<p>Hello my name is, and I'm calling from the Office for National Statistics</p> <p><i>If 20 or less employees</i> The Office for National Statistics has committed to extending current employment questions on its business surveys in order to collect more detailed information on the type and number of employment contracts used by employers. I would like to speak to the owner of [name of business]</p> <p>I would like to ask you a small number of questions that will take no more than a few minutes to answer.</p> <p><i>If more than 20 employees</i> The Office for National Statistics has committed to extending current employment questions on its business surveys in order to collect more detailed information on the type and number of employment contracts used by employers. I would like to speak to the person responsible for Human Resources or Personnel matters for [name of organisation].</p> <p>I would like to ask you a small number of questions that will take no more than a few minutes to answer. <i>[if participated in previous survey add the following]</i> This is to up-date the information you provided last year.</p>	Continue	Go to 1a
1a.	Would you be the correct person to speak to me about this?	Yes Yes but inconvenient No	Go to 1c Offer to call back Go to 1b
1b.	Who would be the correct person to talk to?	Contact given Don't know Unable to provide a contact	Call and start at Intro Offer to call back Ask for reason
1c.	<p><i>If not talking to business owner (ie. Number of employees greater than 20)</i> What is your job title?</p>		Go to 1d

1d.	How many staff including temporary staff does your company/organisation employ?	Number Given Don't know	Go to Intro2 Go to 1e.
1e.	Are you able to estimate how many staff including temporary staff are employed by your company/organisation?	Yes No	Go to 1f. Go to 1g.
1f.	Record the estimated number of staff.	Estimate or Estimated Proportion	Got to Intro2
1g.	If I am able to call you back at another time would you be able to provide an estimate?	Yes No	Arrange Callback Go to Intro2
Intro2	I would now like to ask you about the type of employment contracts you use. A standard employment contract requires the employee to work a minimum set number of hours per week (for instance 37 hours for full time and less than 30 hours for part time employees). In addition, some employers use employment contracts that do not guarantee to provide the employee with any set hours and will only pay the employee for those hours which are actually worked.	Continue	Go to 2a
2a	Does your company/organisation employ people who are on a contract which does not guarantee a minimum number of hours work? (this could be weekly, fortnightly, monthly or annually)	Yes No	Go to 3a Go to 3f
3a	How many of your employees, including those on temporary contracts, are on a contract which does not guarantee them work?	Answer recorded Not Answered	Go to 3d Go to 3b
3b	Can you provide an estimate or estimated proportion?	Yes No	Go to 3c Go to 3d
3c	Record Estimate or Estimated proportion		Go to 3d
3d	How many of these employees worked in the fortnight commencing 19 th January 2015?	Answer recorded Not able to answer but could for a different period Not able to answer at all	Go to 4a Go to 3e Go to 4a
3e	Record answer and start/end date of the different period		Go to 4a
3f	Zero Hours Contracts Definition: A zero hour contract is a contract where the employer does not guarantee to provide the worker with work	Yes No	Go to 3a Go to 4a

	<p>and will only pay the worker for those hours which are actually worked.</p> <p>Whilst a zero hour contract does not include a minimum hours work guarantee, it may include other obligations, e.g. a retainer (such as a retained fire officer)</p> <p>Does your company/organisation employ any staff on zero hour contracts?</p>		
4a.	Does your company/organisation employ people on a contract that guarantees between one and seven hours work (this could be weekly, fortnightly, monthly or annually)?	<p>Yes</p> <p>No</p>	<p>Go to 4c</p> <p>Go to 4b</p>
4b.	Are any other type of employment contract used other than a standard F/T or P/T employment contract?	<p>Yes – Record the types</p> <p>No</p>	<p>Go to 4c</p> <p>Go to Outro</p>
4c.	How many of your employees are on a contract that guarantees between one and seven hours work (this could be weekly, fortnightly, monthly or annually)?	<p>Answer recorded</p> <p>Unable to Answer</p>	<p>Go to 5a</p> <p>Go to 4d</p>
4d	Can you provide an estimate or estimated proportion?	<p>Yes</p> <p>No</p>	<p>Go to 4e</p> <p>Go to Outro</p>
4e	Record Estimate or Estimated proportion		Go to 5a
5a	<p>Thinking about those employees with employment contracts that do not guarantee a set number of hours work or with less than seven hours work guaranteed,</p> <p>Do these contracts include any obligations/restrictions around working for other employers?</p>	Open text field to record response	Go to Outro
Outro	<p>Thank you very much for your time today. Your responses have been most useful in expanding our knowledge within this topic area.</p> <p>Do you have any questions for me?</p> <p>Goodbye</p>	Open text field to record any questions asked and answers given.	If unable to answer any questions arrange a call back from the Survey Area.