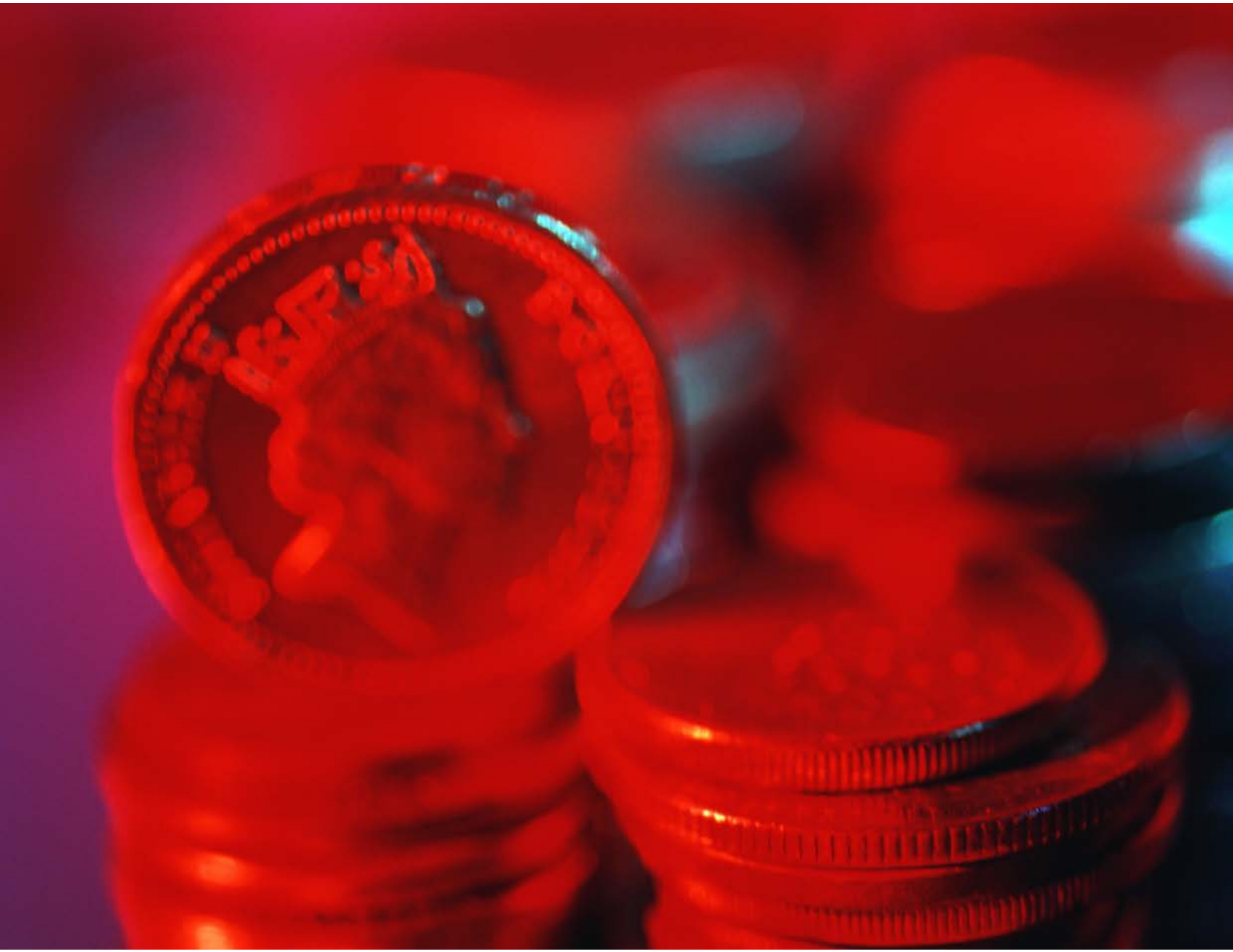


Current Issues Note 45

# The extent and consequences of zero-hours contracts and labour market casualization in London

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## Executive summary

Through the recent economic downturn employment levels held up remarkably well when considering the experience of previous recessions. In addition, since the downturn, employment levels have increased significantly such that jobs located in London and the proportion of Londoners in employment are both at, or around, record levels.

Official estimates suggest there are around 70,000 people currently employed on zero-hours contracts in London. Despite the possibility of an underestimate in the statistics, zero-hours contracts account for a very small proportion of all employment in London.

Zero-hours contracts are defined in the Small Business, Enterprise and Employment Act 2015 as a contract of employment or other worker's contract under which:

- a) the undertaking to do or perform work or services is an undertaking to do so conditionally on the employer making work or services available to the worker; and
- b) there is no certainty that any such work or services will be made available to the worker.

Prior to the definition provided in the Small Business, Enterprise and Employment Act 2015, there was no legal definition for this contractual agreement, however an important feature which distinguishes them is the lack of minimum working hours. This report uses the available information and literature on zero-hours contracts which was written prior to the newly introduced definition and the data are based on the definition from the Office for National Statistics (ONS) of zero-hours contracts.

Drawing upon evidence at the UK level from official sources from the ONS, the main findings of this report are:

- The prevalence of zero-hours contracts has increased in the past couple of years, but it still represents a very small proportion of overall employment.
- Zero-hours contracts are a more prevalent form of employment (when compared to other forms of employment) for workers aged 16-24 and aged 65 and older.
- Sector analysis of zero-hours contract usage indicates that health and social work, hospitality and administration account for more than half of all zero-hours contracts currently in use.
- The average weekly hours worked by individuals on zero-hours contracts is 25 hours, which is greater than the average for part-time employment of 16 hours.

Furthermore, analysis by the International Labour Organization (ILO) seems to suggest that there is a trend towards more 'casual' employment in advanced economies, with a trend to more 'formalised' employment in most developing countries (albeit starting from very different levels).

The flexibility of zero-hours contracts may well be attractive to some workers (as well as employers). Any potentially damaging consequences from zero-hours contracts are most likely to arise in situations where the individual feels they have no alternative means of employment (such that there is an imbalance of power between the employer and the employed).

## 1. Introduction

At present there are no official regional labour market data that are fully disaggregated by type of employment contract for instance including zero-hours contracts or non-guaranteed hours contracts (NGHCs).

Official data at the national level from the Labour Force Survey (LFS) (and complimented by a survey of businesses - both administered by the ONS) provide the main source of data on zero-hours contracts. Data from the LFS provides additional information on the characteristics of those employed on zero-hours contracts and the industries in which they are most common<sup>1</sup>.

This report attempts to analyse the extent and consequences of labour market casualization in the UK and London. In order to do this, the report focuses on London's labour market allowing us to understand the prevalence of zero-hours contracts in the context of London's employment and unemployment statistics. Also, the report looks at present data from the ILO suggesting the growing phenomenon towards greater flexibility is not a trend unique to the UK. Mainly national data on zero-hours contracts is then presented. An appendix contains details of how the statistics on zero-hours contracts are collected and their limitations as well as further information on employment law as it relates to zero-hours contracts.

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<sup>1</sup> Office for National Statistics, Supplementary LFS data on zero-hours contracts , reference table, 2015

## 2. London's labour market in context

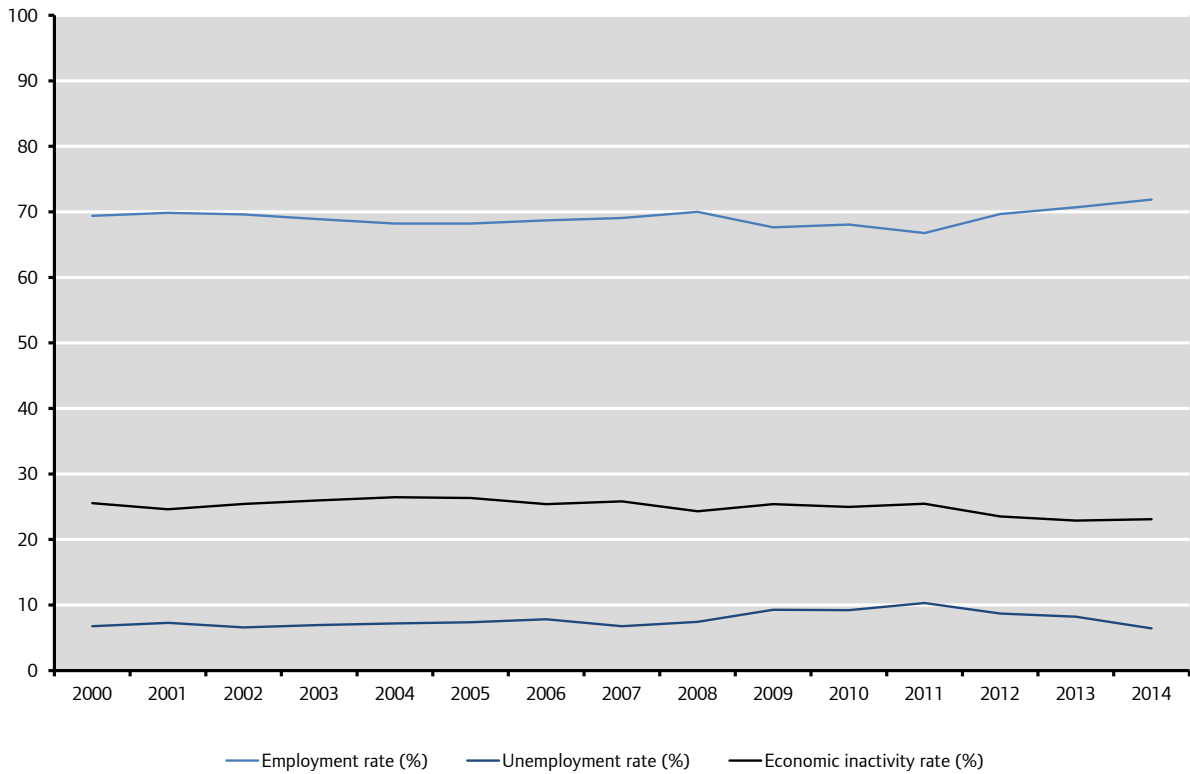
The output contractions experienced in the UK in 1979 and 1990 of 5.6 per cent and 2.2 per cent respectively caused unemployment rates of over 10 per cent. However the 6.0 per cent fall in GDP between the first quarter of 2008 and the second quarter of 2009 resulted in an unemployment rate of approximately 8 per cent at the UK level. In the recent recession, therefore, the UK labour market has displayed a significant level of resilience.

The latest labour market figures show continued improvements in London with the employment rate being at, or around, record highs. Employment rates for both men and women continue to increase, and for women the estimate for Q1 2015 was close to the highest ever rate at 65.4 per cent. Workforce jobs (i.e. the number of jobs located in London, whether or not they are taken by residents of London), reached 5.62 million in Q1 2015 – a new high since the measure began in 1996.

London's ILO unemployment rate in the three months to March 2015 was 6.2 per cent. This is down 0.2 percentage points on the previous quarter and down 1.6 percentage points on the year. The timelier Claimant Count also showed a continued fall in May 2015, with the rate unchanged from the previous month at 2.0 per cent (but down 0.7 percentage points on the year). This is the lowest the rate has been since August 1975.

**Figure 1: Employment rate, inactivity rate and unemployment rate<sup>2</sup> for London over time**

London (October to December quarters in each year)  
 Percentages



Data are seasonally adjusted

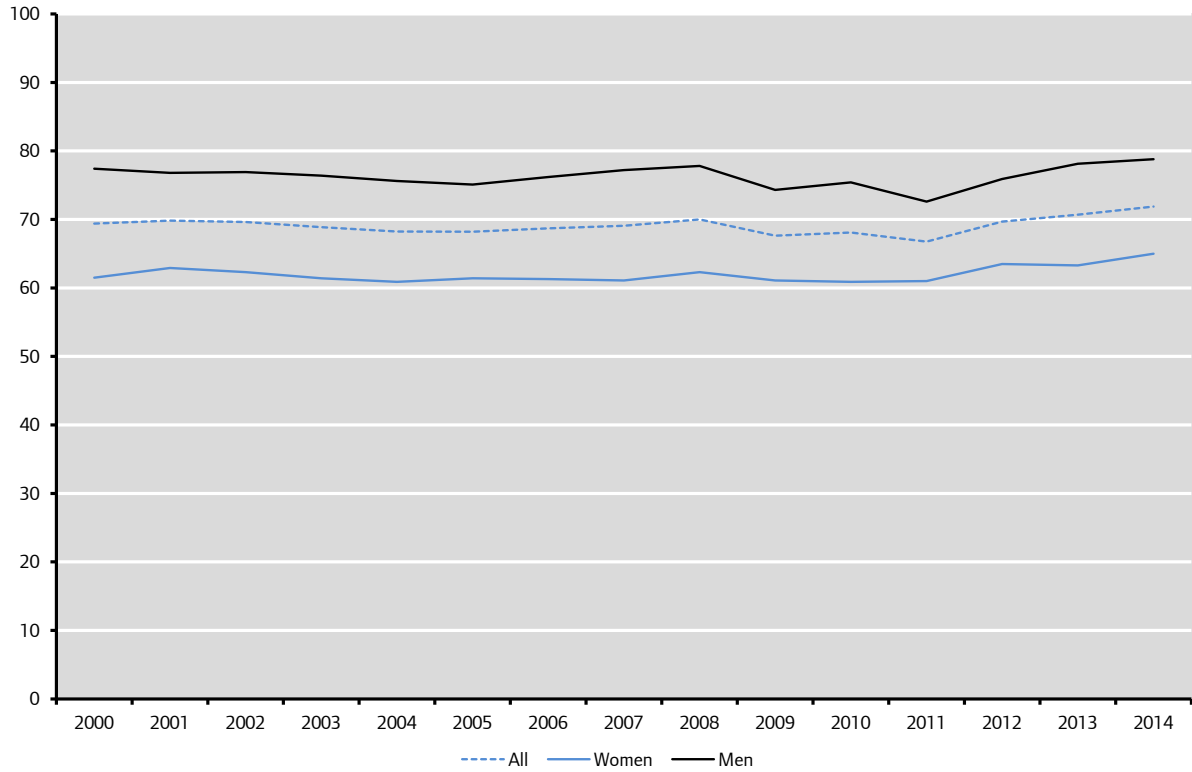
Source: Labour Force Survey, Office for National Statistics

**Figure 1** shows the movement in the employment rate, economic inactivity rate and unemployment rate in London over the last 14 years. It shows that London’s employment rate recently rose above 70 per cent for the first time during this period. The chart shows that despite a dip in the employment rate and a rise in the unemployment rate during the recent downturn, since 2011 the employment rate has been rising and the unemployment rate falling. Indeed, the latest estimate for the employment rate (i.e. the proportion of London’s resident working age population in employment) in the first quarter of 2015 indicates a rise to 72.1 per cent, an increase of 1.0 percentage point from the previous year – close to the highest rate recorded since 1992.

<sup>2</sup> The headline employment and inactivity rates are based on the population aged 16 to 64 but the headline unemployment rate is based on the economically active population aged 16 and over. The employment and inactivity rates for those aged 16 and over are affected by the inclusion of the retired population in the denominators and are therefore less meaningful than the rates for those aged from 16 to 64. However, for the unemployment rate for those aged 16 and over, no such effect occurs as the denominator for the unemployment rate is the economically active population which only includes people in work or actively seeking and able to work.

**Figure 2: Employment rates<sup>3</sup> by sex**

London (October to December quarters in each year)  
 Percentages



Data are seasonally adjusted

Source: Labour Force Survey, Office for National Statistics

Following the headline changes in London’s employment rate, there have been changes in the employment rates for men and women aged 16 to 64 over the period from 2000 to 2014:

- the employment rate for women rose from 61.5 per cent in Q4 2000 to 65.4 per cent in Q1 2015, which was very close to the highest rate for this period<sup>4</sup>
- for men employment rates peaked in Q4 2008 at 77.8 per cent but fell more significantly than for women during the downturn, reaching a low of 74.3 per cent in Q4 2009. However, by Q1 2015 the employment rate for men had surpassed its pre-downturn level to stand at 78.8 per cent.

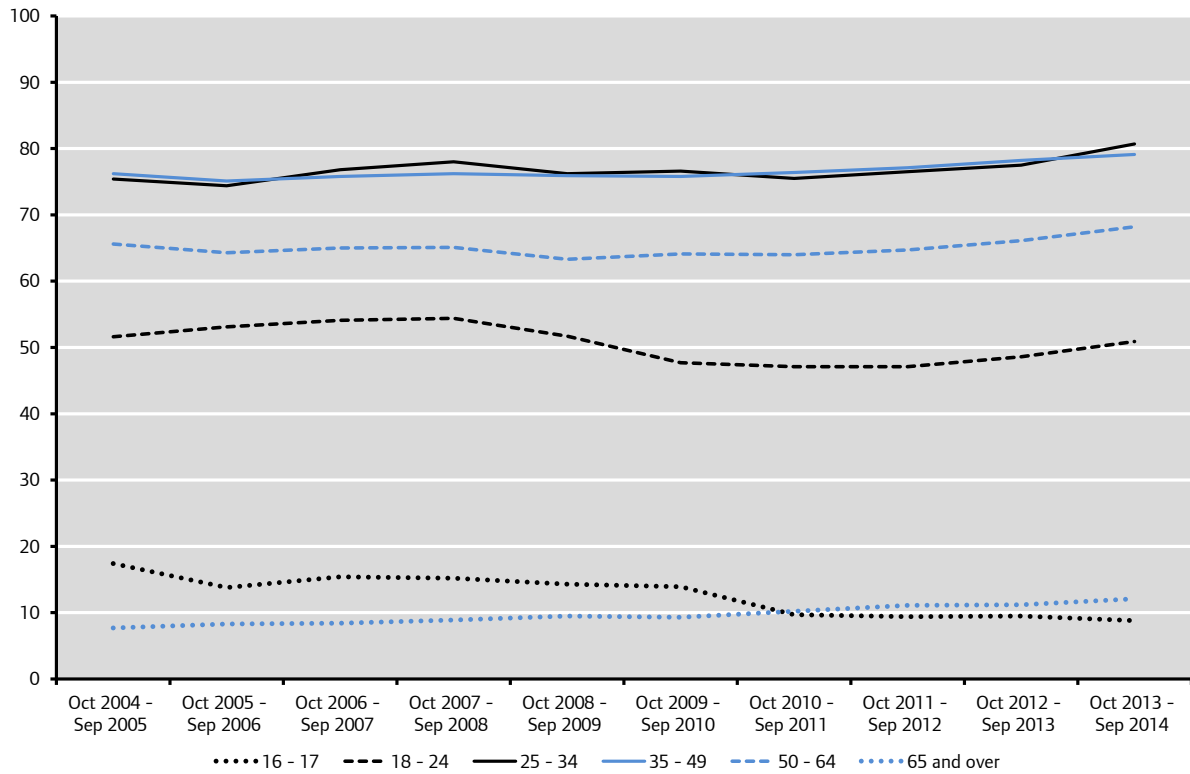
<sup>3</sup> The headline employment rate is the number of people aged 16 to 64 in employment.

<sup>4</sup> “Over the last 15 years not only has there been an increase in the employment rates for all women there has also been a narrowing of the gap in employment rates between women with and without dependent children. One factor which has contributed to this narrowing of the employment gap is a slight shift in the age of mothers, with more women having children later in life and older mothers more likely to be in employment” (Office for National Statistics, Labour Market, 2011).



**Figure 3: Employment rates<sup>5</sup> by age group**

London (October to September)  
 Percentages



Data are seasonally adjusted

Source: Labour Force Survey, Office for National Statistics

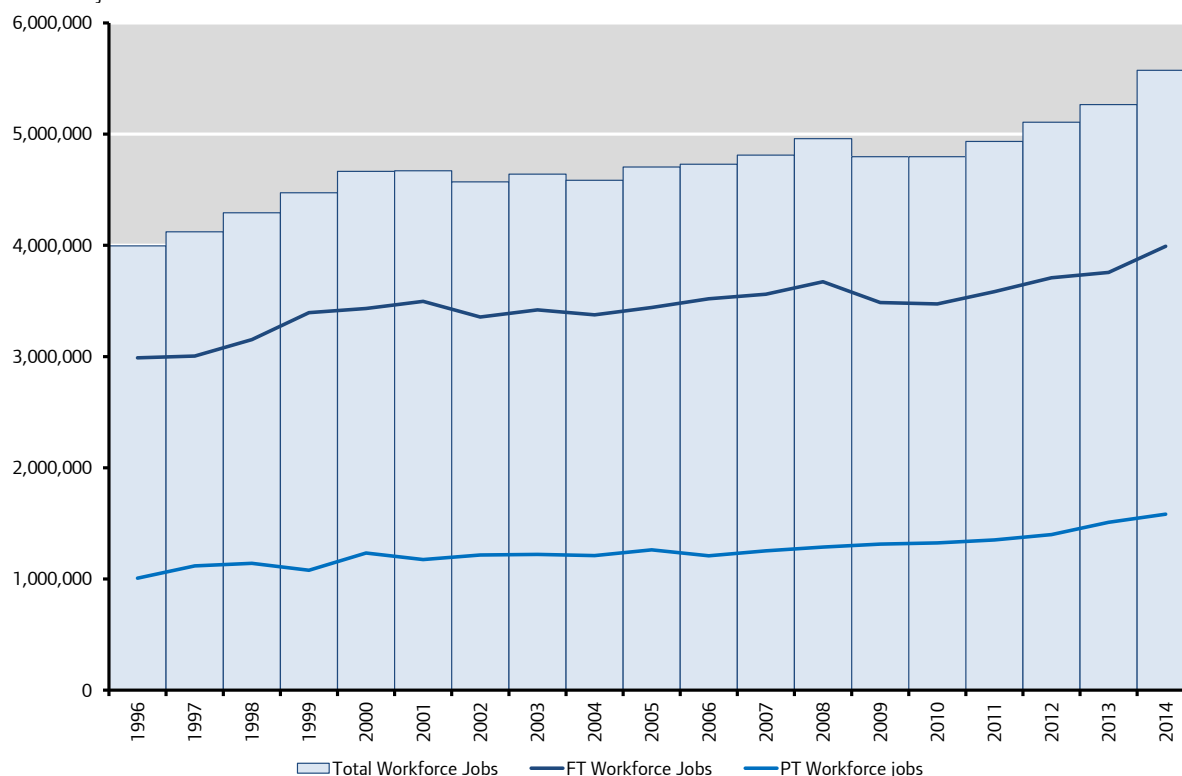
**Figure 3** shows that between 2004 and 2014 (October to September) there were also changes in employment rates within different age groups, with the biggest changes being seen within the 16 to 17-year-old age group which saw a 8.6 percentage point fall in employment rates and within the 50 to 64-year-old age group, with a 4.9 percentage point increase in employment rates<sup>6</sup> (and a continuing increase in the employment rate of those aged over 65).

<sup>5</sup> The headline employment rate is the number of people in each age group in employment.

<sup>6</sup> “The large fall in the employment rates for the groups of people aged 16 to 24 may be because a higher proportion of this age group are remaining in education. The rise in employment rates for people aged 50 to 64 may be due in part to activities undertaken under a Public Service Agreement (PSA), agreed by the Labour Government in 2007 (HMT, 2007), to ‘maximise employment opportunity for all’. People aged 50 to State Pension age were identified as a disadvantaged group and a performance indicator for this PSA was to narrow the gap between the employment rates for disadvantaged groups and the overall rate for all people” (Office for National Statistics, Labour Market, 2011).

**Figure 4: Part-time and full-time workforce jobs<sup>7</sup>**

London (July to September quarters in each year)  
Number of jobs



Data are for Q3 from 1996 to 2014

Source: ONS Workforce Jobs series, Nomis

Since the 2008–09 recession, the labour market has recovered very strongly with the overall level of jobs located in London rising strongly. The position for part-time and full-time workers has been slightly different over this period.

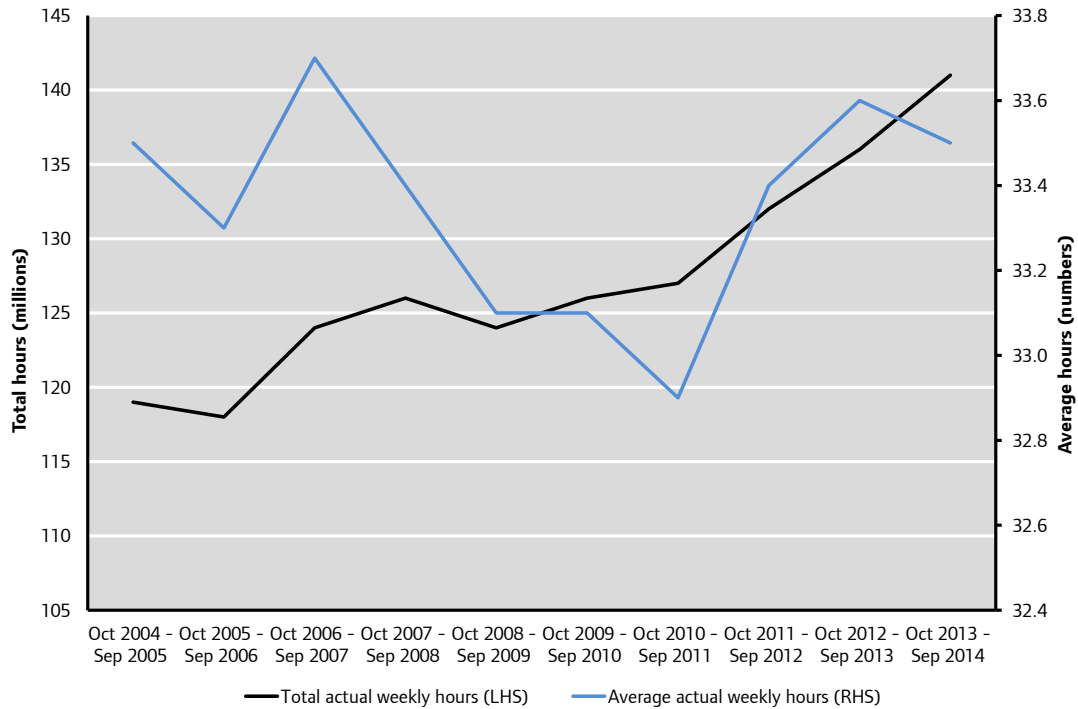
For example employment numbers mask the changing patterns in full-time and part-time employment over the recession as shown in **Figure 4**. The growth in part-time jobs from 1996 has exceeded that of full-time jobs (57.2 per cent *versus* 33.6 per cent respectively). This is a trend that has continued in the more recent history, since the financial crisis. In London the respective growth in part-time and full-time jobs was 23.0 per cent and 8.7 per cent respectively (reaching 1,583,000 and 3,991,000 respectively). The biggest annual increase in workforce jobs occurred in the year to Q3 2014 (+5.9 per cent). This was driven by full-time jobs which grew at their fastest rate (+6.3 per cent) since the financial crisis. However, the biggest annual increase in part-time jobs in London occurred in the year to Q3 2013 (+7.9 per cent)<sup>8</sup>.

<sup>7</sup> People aged 16 and over.

<sup>8</sup> This analysis is from 'Togni, L., Part-time employment in London, GLA Economics Current Issues Note 43, 2015', [www.london.gov.uk/sites/default/files/CIN42-part-time%20employment%20in%20London.pdf](http://www.london.gov.uk/sites/default/files/CIN42-part-time%20employment%20in%20London.pdf)

**Figure 5: Total and average weekly hours worked<sup>9</sup>**

London (October to December quarters in each year)  
 Millions/Units



Data are seasonally adjusted

Source: Labour Force Survey, Office for National Statistics

**Figure 5** shows that the average actual weekly hours worked by individuals fell heavily during the downturn, between 2007 and 2011, but has since picked back up with the latest estimate for London being 33 hours and 30 minutes. The fall between 2007 and 2011 may reflect a rise in the proportion of people working part-time or an increase in the number of people choosing to or having to work fewer hours. The growth in total hours worked over the period illustrates both the resilience of employment during the recession and its subsequent strong growth.

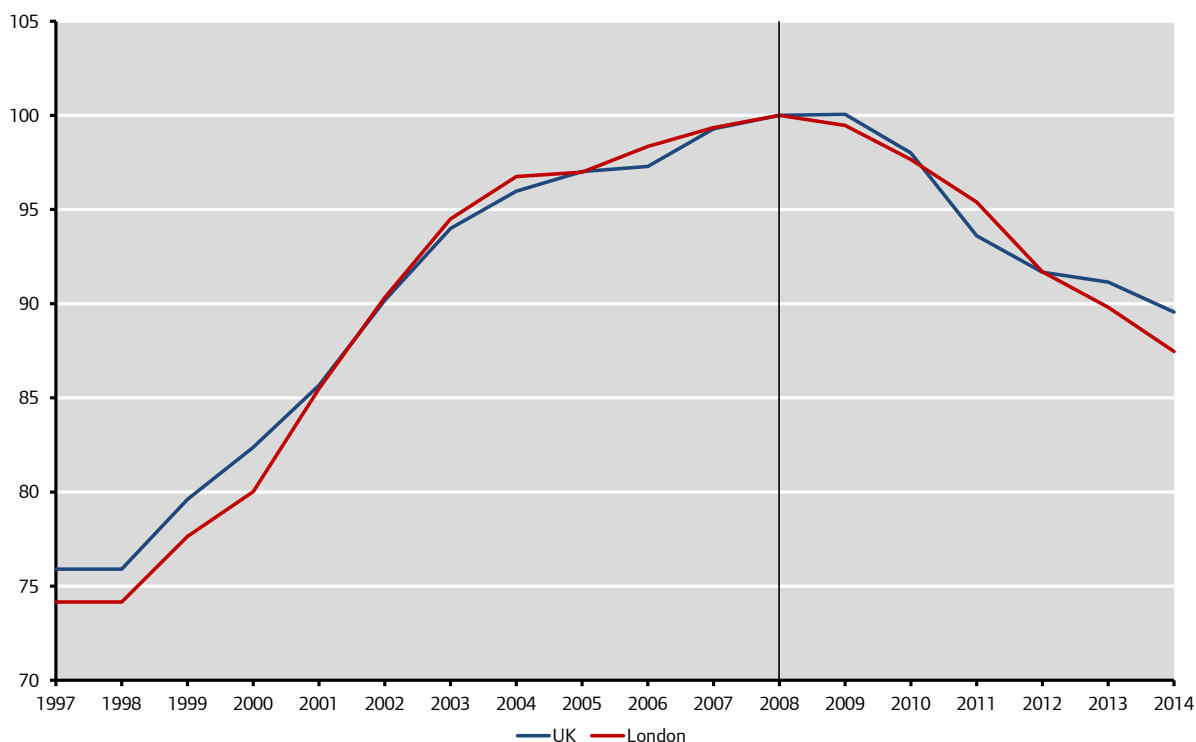
The changes in the number of hours worked indicates that this is perhaps a more responsive measure of the labour market as opposed to employment. During times of uncertainty firms may reduce hours, or use flexible working arrangements as opposed to reducing staff in order to avoid the costs associated with redundancy<sup>10</sup>.

<sup>9</sup> All workers, main and second jobs.

<sup>10</sup> Office for National Statistics, Economic Review, Page 7, Figure 5: Average weekly hours of work (Full-time, part-time), May 2015, [http://www.ons.gov.uk/ons/dcp171766\\_403187.pdf](http://www.ons.gov.uk/ons/dcp171766_403187.pdf)

**Figure 6: Changes in real earnings from 1997 to 2014<sup>11</sup>**

London and UK  
Index 2008=100



Source: ONS, Annual Survey of Hours and Earnings (ASHE), 1997 to 2014 (provisional)

Earnings in London continue to be significantly higher than the average for the UK; the provisional median weekly pay (excluding overtime pay) for London £552.90 compared with the UK average of £402.50. However, inflation-adjusted earnings as in **Figure 6** show that since the 2008-9 financial crisis there has been a continued real terms decrease every year. In 2014, real weekly earnings decreased by 2.3 per cent in London compared to the previous year and this compares to a decrease of 1.6 per cent in the UK as a whole. This is especially true for part-time workers in London and workers at the lower end of the earnings distribution (20th percentile).

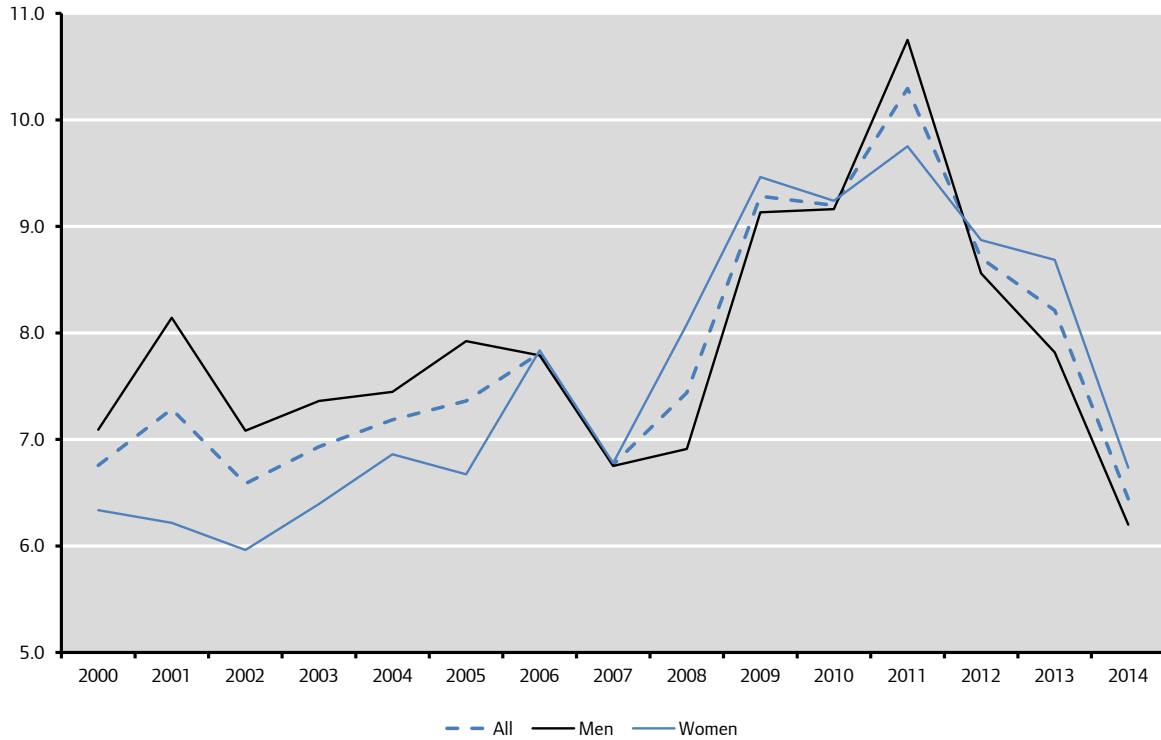
An increase in labour market flexibility might facilitate such wage adjustments in response to changes in economic activity. However, the ONS Economic Review from May 2015 states that: "...the sources of earnings growth vary across the distribution. At the higher end, where earnings are growing strongly, all three elements [basic pay, variable pay and hours worked] make a contribution to average earnings growth. Although longer hours of work and stronger variable pay together account for a large fraction of the growth of earnings for the 19th quantile, higher basic pay – perhaps as a result of promotions and job changes – accounts for more than half of the growth in earnings for this group. At the lower end of the earnings growth distribution, by contrast, basic pay made a much smaller contribution. Reduced hours worked and lower variable pay accounted for 12.3% of the 13.9% fall in earnings for the second quantile. Basic pay – which is thought to be relatively sticky downwards- contributed 1.3

<sup>11</sup> Togni, L., Labour Market presentation, LEP Skills Employment Working Group, May 2015

percentage points to the fall in earnings growth for this group – the only quantile for which basic pay made a negative contribution”<sup>12</sup>.

**Figure 7: Changes in unemployment rates<sup>13</sup> by sex over time**

London (October to December quarters in each year)  
 Percentages



Data are seasonally adjusted  
 Source: Labour Force Survey, Office for National Statistics

**Figure 7** shows patterns of unemployment rates over the recent years. During the most recent recession the headline unemployment rate for London increased from 6.8 per cent in 2007 (October 2007-December 2007) to a peak of 10.3 per cent in 2011 (October to December quarter), an increase of 3.5 percentage points. In 2014 the unemployment rate in London was 6.4 per cent for all people.

The chart shows the path of the male and female unemployment rates over time. For men, the unemployment rate has increased from a pre-recession level of 6.8 per cent in 2007 to a high of 10.8 in 2011 before falling again to 6.2 per cent in 2014. The unemployment rate for women also stood at 6.8 per cent in 2007 rising to just below 10 per cent in 2011, before falling back under 7 per cent. It can be seen that for much of the period since 2008, the female unemployment rate has been above that for men – in contrast to the period leading up to 2007.

<sup>12</sup> Office for National Statistics, Economic Review, Page 8, Figure 6: Contributions to mean weekly earnings growth in 2014 for those employees in continuous full-time employment, by earnings growth quantile (%) May 2015, [http://www.ons.gov.uk/ons/dcp171766\\_403187.pdf](http://www.ons.gov.uk/ons/dcp171766_403187.pdf)

<sup>13</sup> The unemployment rate is the number of unemployed people (aged 16 and over).

**Table 1: Unemployment by age<sup>14</sup>**

London (October to September)  
Percentages

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
<b>16-17</b>	42.6	41.8	42.9	41.9	41.9	41.4	50.8	51.1	52.0	51.7
<b>18-24</b>	17.0	17.3	16.0	15.8	18.2	22.0	23.1	22.5	22.9	17.9
<b>25-34</b>	6.6	7.4	5.6	5.6	7.8	7.3	8.7	8.2	7.9	5.7
<b>35-49</b>	4.7	6.3	5.7	5.2	6.7	7.2	6.9	7.0	6.6	5.8
<b>50-64</b>	4.0	4.4	3.8	4.5	5.7	6.5	6.3	6.0	6.0	5.6
<b>16-64</b>	7.2	8.1	7.1	7.0	8.7	9.2	9.7	9.3	9.2	7.4

Data are seasonally adjusted

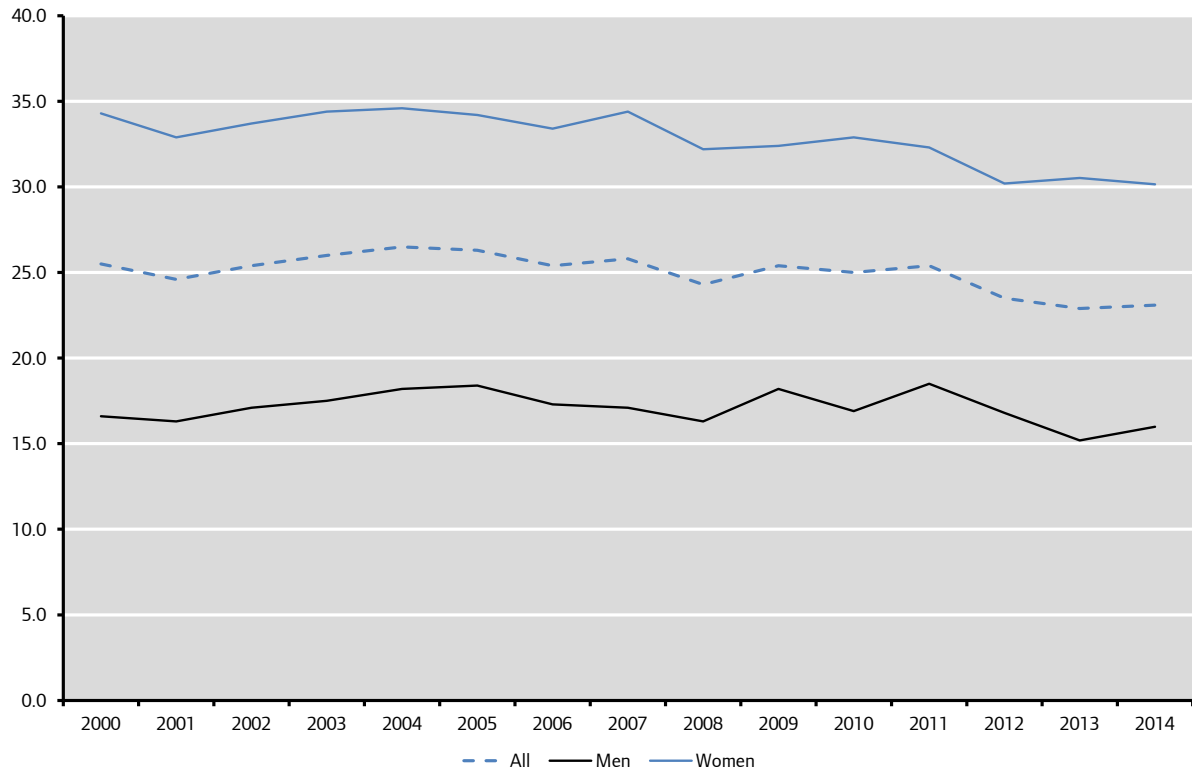
Source: Labour Force Survey, Office for National Statistics

Unemployment rates also differ by age group. As shown in **Table 1**, from October 2004 to September 2005 people aged 16 to 17 had the highest rate of unemployment (42.6 per cent compared with 7.2 per cent for those aged 16-64), while those aged 50 to 64 had the lowest rate of unemployment (4.0). This difference has remained for the last 10 years. Between 2009-10 and 2010-11 those aged 16 or 17 also saw the biggest rise in unemployment, an increase of 9.4 percentage points compared with a rise of 0.5 percentage points for all those aged 16 to 64. Since 2010-11, unemployment rates have fallen across all age groups with the exception of 16-17 year olds.

<sup>14</sup> Office for National Statistics, [Regional Labour Market: HI07 - Headline Indicators for London, May 2015](#), reference table 2(2), 2015

**Figure 8: Economic inactivity rates by sex<sup>15</sup>**

London (October to December quarters in each year)  
 Percentages



Data are seasonally adjusted for Q4

Source: Labour Force Survey, Office for National Statistics

Over recent years the proportion of people aged 16 to 64 who were classified as economically inactive has been relatively stable, varying between a low of 23 per cent in 2013, and a high of 27 per cent in 2004, as shown in **Figure 8**.

While the overall proportion of people classified as economically inactive has been fairly stable the trend by sex is slightly different. Between 2000 and 2014 the proportion of women classified as economically inactive fell, from 33.4 per cent to 30.1 per cent, while the trend for men only fell by 0.6 percentage points from 16.6 per cent to 16.0 per cent

<sup>15</sup> People aged 16 to 64.

**Table 2: Reasons for economic inactivity by sex**

London (October to September)  
Percentages

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
<b>Men</b>										
<b>Student</b>	40.8	40.3	40.2	39.9	44.4	45.8	46.9	44.7	46.8	47.8
<b>Looking after family / home</b>	5.3	5.1	5.8	5.4	4.6	4.6	4.3	4.9	4.7	6.6
<b>Temp sick</b>	3.2	4.3	4.0	3.6	2.2	2.1	2.2	2.8	2.3	2.7
<b>Long-term sick</b>	26.9	25.5	26.2	27.9	27.6	24.9	24.8	24.5	23.8	22.0
<b>Retired</b>	6.7	7.5	7.3	8.8	8.4	9.2	9.2	8.7	8.8	7.8
<b>Other</b>	16.2	15.8	15.9	13.6	11.9	12.3	11.3	13.2	13.1	12.2
<b>Does not want job</b>	75.2	74.5	69.9	68.2	74.3	71.5	72.1	71.2	71.9	70.8
<b>Wants a job</b>	24.8	25.5	30.1	31.8	25.7	28.5	27.9	28.8	28.1	29.2
<b>Women</b>										
<b>Student</b>	21.2	20.9	21.8	22.8	23.0	24.1	23.2	25.8	25.5	25.1
<b>Looking after family / home</b>	45.1	44.9	45.2	44.0	44.9	43.5	45.1	43.2	42.4	43.3
<b>Temp sick</b>	2.1	1.5	1.5	1.7	1.7	1.5	1.7	1.2	1.8	2.0
<b>Long-term sick</b>	12.3	12.7	11.9	12.5	12.8	12.0	11.4	11.7	11.8	12.4
<b>Retired</b>	8.4	8.0	8.7	8.9	8.8	8.5	8.9	8.4	7.8	7.4
<b>Other</b>	10.8	11.4	10.5	9.8	8.2	9.8	9.3	9.1	10.1	9.5
<b>Does not want job</b>	77.4	77.2	75.3	75.7	77.6	77.2	76.7	74.4	74.0	74.4
<b>Wants a job</b>	22.6	22.8	24.7	24.3	22.4	22.8	23.3	25.6	26.0	25.6

Data are seasonally adjusted<sup>16</sup>

Source: Labour Force Survey, Office for National Statistics

There have also been changes in the reasons for economic inactivity, as shown in **Table 2**. Between 2004 and 2014 there has been a fall of 1.8 percentage points in the proportion of women who give 'looking after the family/home' as the prime reason for economic inactivity. Over the same period there was an increase of 3.9 percentage points in the proportion of women giving the reason for economic inactivity as 'student'; those who were 'retired' fell by 1.0 percentage points. For men the biggest increase was in the proportion reporting being 'students' (an increase of 7.0 percentage points); the proportion reporting that they were inactive due to 'looking after the family/home' also increased by 1.3 percentage points. The proportion of men reporting 'long-term sickness' as their main reason for economic activity fell by 4.9 percentage points.

<sup>16</sup> Data are seasonally adjusted for October to the following September



**Table 3: European comparisons of employment rates<sup>17</sup> over the last seven years (Q1 2007 to Q4 2014)<sup>18</sup>**

Percentages

	Q4 2014	Lowest		Highest	
Austria	71	69	Q1 2007	72	Q3 2013
Belgium	62	61	Q1 2011	63	Q4 2007
Bulgaria	61	57	Q1 2012	65	Q3 2008
Cyprus	69	61	Q1 2014	72	Q4 2007
Czech Republic	70	64	Q1 2010	70	Q4 2014
Denmark	74	71	Q1 2014	79	Q3 2008
Estonia	70	59	Q1 2010	71	Q3 2008
Finland	68	67	Q1 2010	72	Q2 2008
France	64	63	Q1 2012	65	Q3 2008
Germany	74	68	Q1 2007	74	Q3 2014
Greece	50	48	Q4 2013	62	Q2 2008
Hungary	63	54	Q1 2010	63	Q3 2014
Ireland	63	58	Q1 2012	70	Q3 2007
Italy	56	55	Q1 2014	59	Q2 2008
Latvia	67	57	Q1 2010	70	Q4 2007
Lithuania	66	56	Q1 2010	67	Q3 2014
Luxembourg	68	63	Q4 2008	68	Q4 2014
Malta	62	54	Q1 2007	64	Q3 2014
Netherlands	74	73	Q1 2014	78	Q4 2008
Poland	63	55	Q1 2007	63	Q4 2014
Portugal	63	59	Q1 2013	69	Q2 2008
Romania	61	57	Q1 2007	63	Q3 2014
Slovakia	62	58	Q1 2010	63	Q3 2008
Slovenia	64	62	Q1 2013	70	Q3 2008
Spain	57	54	Q1 2013	66	Q3 2007
Sweden	75	70	Q1 2010	77	Q3 2014
United Kingdom	72	69	Q1 2010	72	Q4 2014
EU-27 average	65	64	Q1 2010	66	Q3 2008

Source: Eurostat

In Q4 2014 the employment rate in the UK was 72 per cent, the fifth highest employment rate amongst the European Union-27 countries (EU) and 7.0 percentage points above the EU-27 average, as shown in **Table 3**.

<sup>17</sup> Employment rates for 15 to 64-year-olds.

<sup>18</sup> Highest and lowest employment rates and the quarters in which they were observed.

In Q4 2014, the highest rate of employment was seen in Sweden (75 per cent) and the lowest in Greece (50 per cent). Over the last seven years employment rates have varied both within and between countries. Across countries, rates have varied from a low of 48 per cent in Greece in Q4 2013 and a high of 79 per cent in Denmark in Q3 2008. The countries which have seen the largest changes in employment rates within the last four years were:

- Greece with a high of 62 per cent in Q2 2008 and low of 48 per cent Q4 2013 (minus 14 percentage points)
- Latvia with a high of 70 per cent in Q4 2007 and low of 57 per cent Q1 2010 (minus 13 percentage points)
- Estonia with a high of 71 per cent in Q3 2008 and low of 59 per cent Q1 2010 (minus 12 percentage points)

The UK has seen less variation with a high of 72 per cent in Q4 2014 and low of 69 per cent in Q1 2010<sup>19</sup>.

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<sup>19</sup> A comparison of EU indices of labour market flexibility was presented by the Institute of Directors (IoD) in the Big Picture: Is the UK economy sunk? Article 1: Does the UK still have a flexible labour market? February 2009. The data looked at the averages of hiring and firing flexibility, working hours flexibility, and internal task flexibility to which an overall index of labour flexibility was assigned <http://www.iod.com/influencing/big-picture/big-picture-archive/big-picture-february-2009#labour>

### 3. Flexibility in the global labour market

Map 1: Percentage of workers without a permanent contract



Source: International Labour Organisation

The latest World Employment and Social Outlook 2015 report from the International Labour Organisation has highlighted the trends which have been seen in the global labour market over time. According to this report<sup>20</sup>, for the countries with available data (84 per cent of the world's workforce), around three quarters of people in employment are on temporary contracts, short-term contracts or are working in informal jobs without a contract, are in own-account or unpaid family work. The remaining quarter are in a stable employment relationship (waged or salaried work on a full-time permanent basis) although this share is declining.

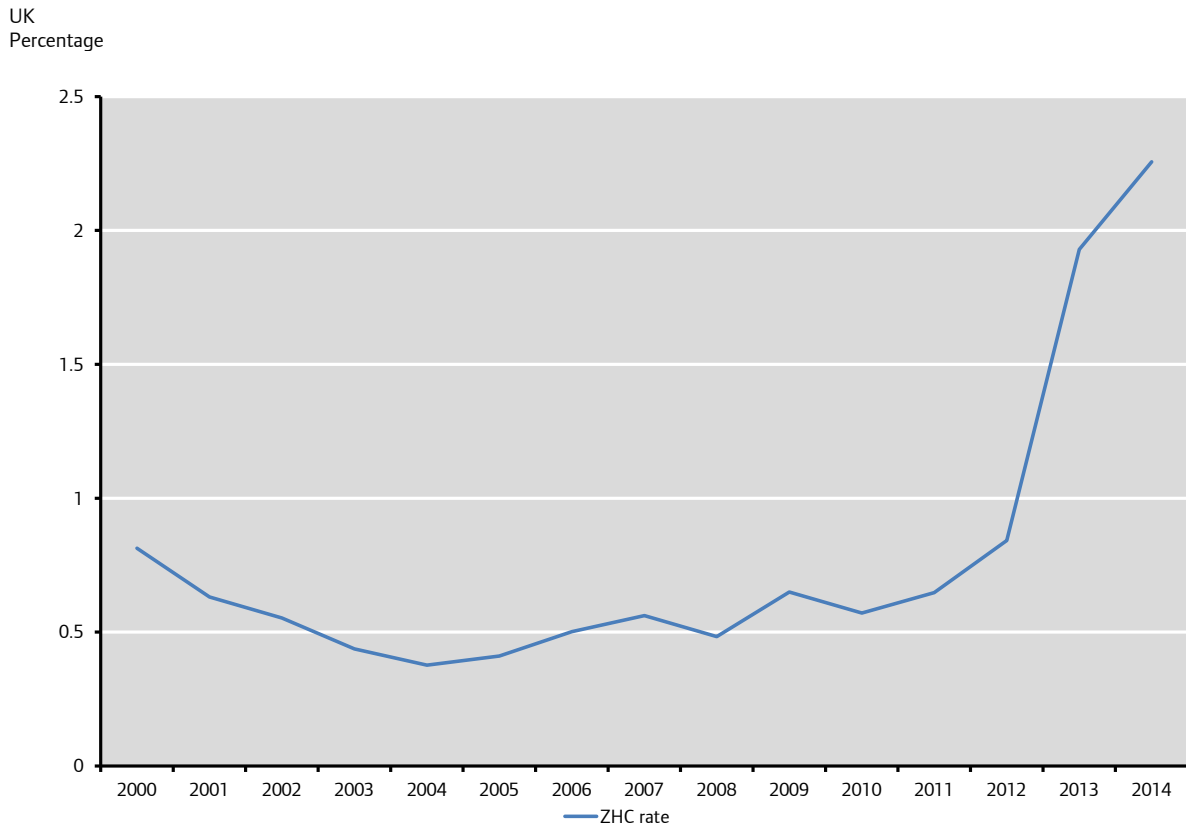
The report warns that the transformation of working arrangements could potentially affect economic growth by failing to provide sustainable support to the currently weak levels of global aggregate demand. Additionally, the aggregate wage bill will be adversely impacted, which will negatively affect household consumption and hence overall aggregate demand. The ILO obtained a global estimate of aggregate wages lost due to the global jobs gap (which measures the number of jobs lost since the start of the crisis compared with pre-crisis trends in employment-to-population ratios) equal to 1.2 per cent of total annual global output and approximately 2.0 per cent of total global consumption. In 2013, ILO calculations indicated that developed economies and the EU accounted for 73 per cent of the estimated global wages lost due to the jobs gap.

<sup>20</sup> International Labour Organization, World Employment Social Outlook, The changing nature of jobs, report, 2015  
[www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_368626.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_368626.pdf)

## 4. National statistics

The latest estimate of the number of people employed on a zero-hours contract is approximately 697,000 in the UK. Analysis of LFS findings suggests that the incidence of zero-hours contracts is higher in young people aged between 16 and 24, with this age group accounting for 237,000 of zero-hours contracts. The 65 years and over age group also has a larger proportion of individuals on zero-hours contracts than not on these contracts (6 per cent compared with 4 per cent for people employed by other means).

**Figure 9: Zero-hours contracts rate<sup>21</sup>**



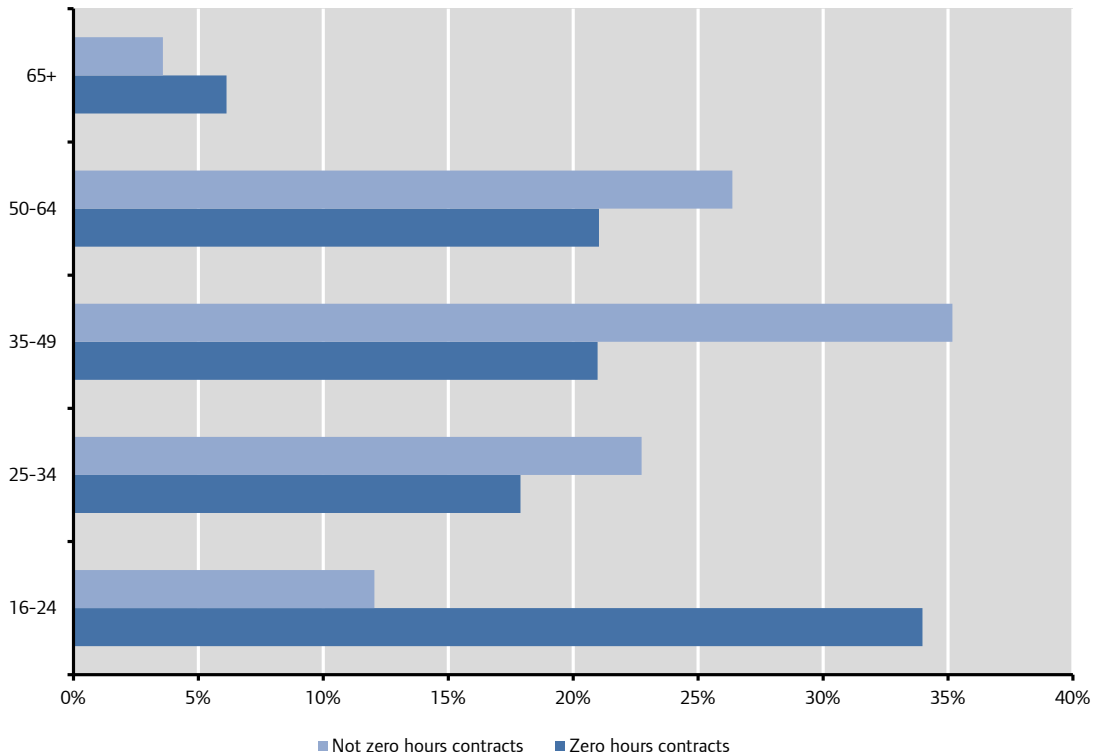
Data shown are from Q4 2014  
 Source: Labour Force Survey, Office for National Statistics

**Figure 9** shows the path of zero-hours contracts over time (in the UK). It shows that prior to the recession from 2000 to 2004 there was a gradual fall in the use of zero-hours contracts, followed by a steady increase from 2004 to 2012. This has been succeeded by a sharp rise of 1.1 percentage points from 2012 to 2013 and a rise again to 2014. Nevertheless, the chart shows that despite this rise (which in part may be driven by greater awareness of zero-hours contracts – see the appendix for more details) zero-hours contracts account for less than 2.5 per cent of all employment in the UK.

<sup>21</sup> People aged 16 and over

**Figure 10: Zero-hours contracts by age<sup>22</sup>**

National  
 Percentages



Data shown are from Q4 2014

Source: Labour Force Survey, Office for National Statistics

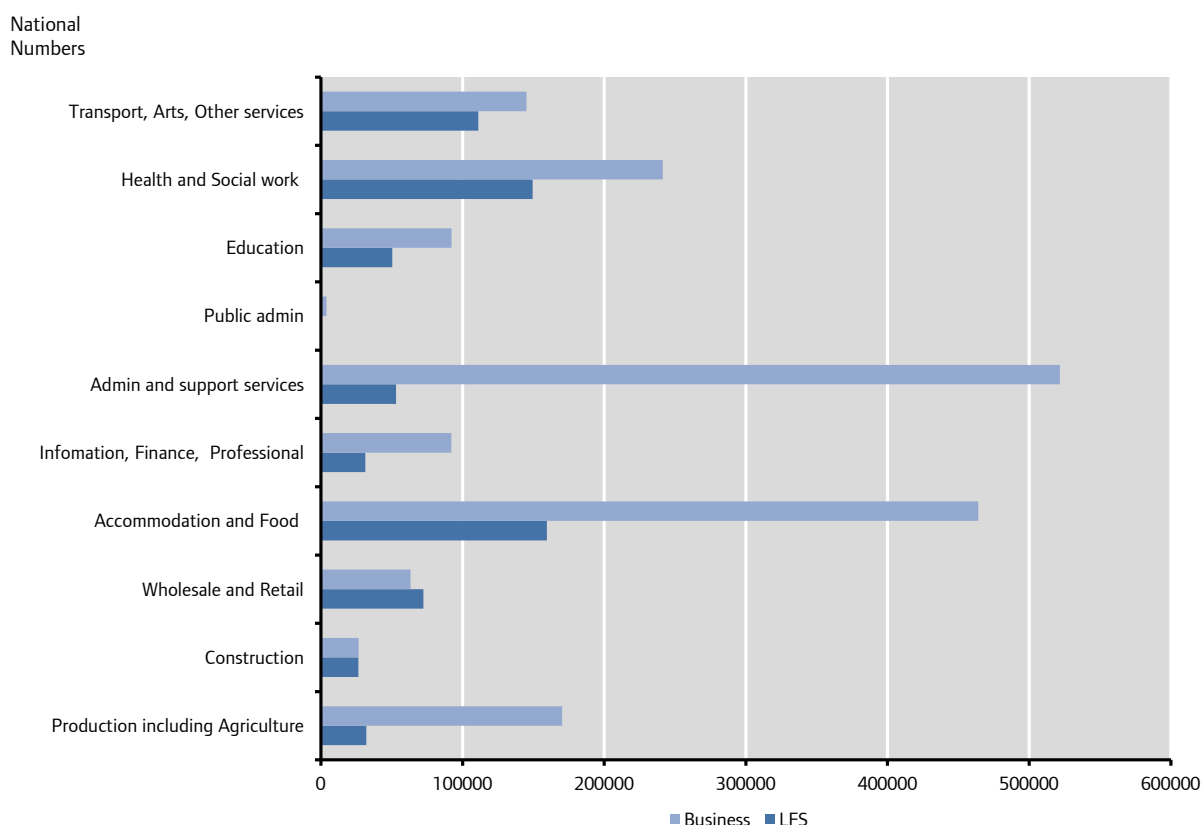
**Figure 10** shows the percentage differences between those on zero-hours contracts and those who are not across the UK as a whole.

It is estimated that 613,000 of zero-hours contract workers identified are British nationals and from this 578,000 individuals were born in the UK, however there is currently no evidence detailing the workers’ ethnicities. According to analysis by the Resolution Foundation, people on zero-hours contracts are more likely to have GCSEs as their highest educational qualification (31 per cent) compared to those with a degree (21 per cent)<sup>23</sup>. The correlation between the youngest or oldest ends of the age range may be due to the flexibility that allows the 16-24 year olds to undertake work along with studies and the 65 and over to ease into retirement by accepting progressively fewer hours and work beyond the state pension age, perhaps as a means of extra income or to occupy time.

<sup>22</sup> Data in this section is from the Office for National Statistics, Labour Force Survey or the Business Survey

<sup>23</sup> A Matter of Time, The rise of zero-hours contracts, Resolution Foundation, Matthew Pennycook, Giselle Cory, Vidhya Alakeson, June 2013, [www.resolutionfoundation.org/wp-content/uploads/2014/08/A\\_Matter\\_of\\_Time\\_-\\_The\\_rise\\_of\\_zero-hours\\_contracts\\_final\\_1.pdf](http://www.resolutionfoundation.org/wp-content/uploads/2014/08/A_Matter_of_Time_-_The_rise_of_zero-hours_contracts_final_1.pdf)

**Figure 11: Zero-hours contracts by industry**



Data shown are from Q4 2014

Source: Labour Force Survey, Business Survey, Office for National Statistics

In businesses that employ individuals on these contracts, the most frequently cited industries are accommodation and food, administration and support services and health and social work (ONS Business Survey)<sup>24</sup>, however zero-hours contracts can also be found in roles within the education sector.

The results from the LFS and the ONS Business Survey are shown in **Figure 11**.

Most zero-hours contracts can be found in the private sector as this sector accounts for 85 per cent of all zero-hours contracts, whereas the share of people working in the private sector not on zero-hours contracts is 76 per cent<sup>25</sup>.

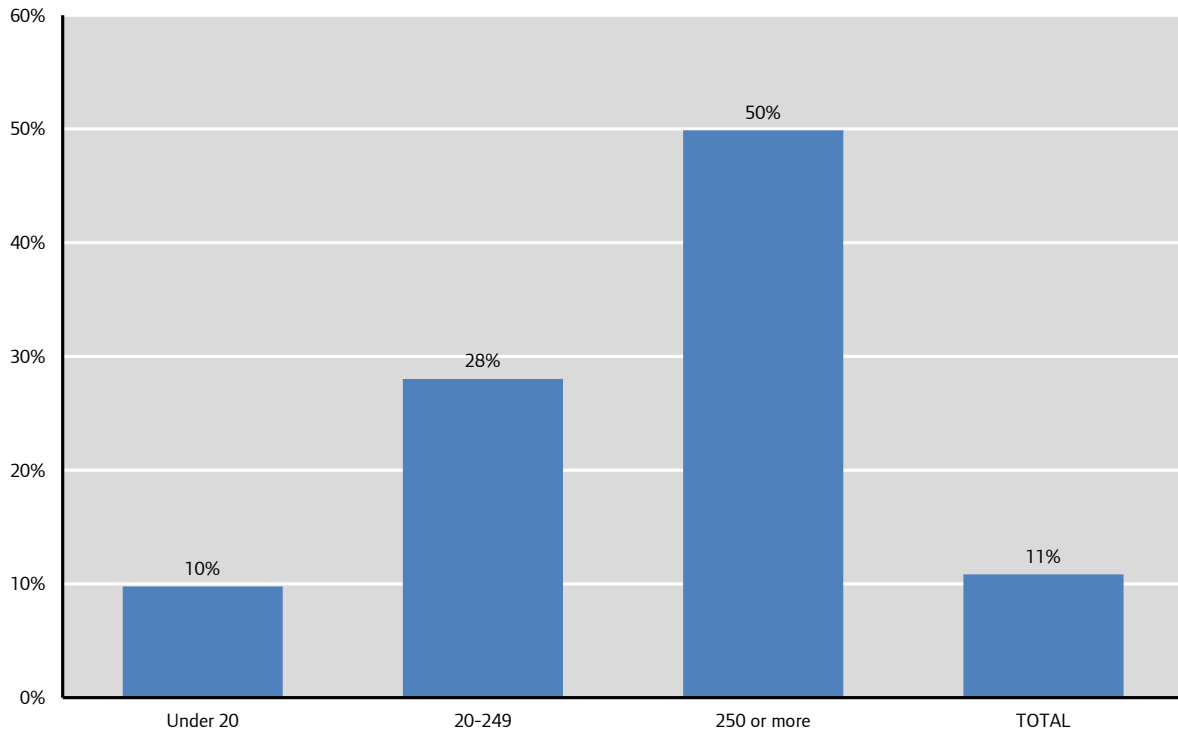
The LFS found that the largest proportion of businesses using NGHCs was in the accommodation and food sector at 23 per cent (159,491) of the LFS total of 697,000. In the Business Survey, NGHCs were most cited in administration and support services at 29 per cent (521,767) of the Business Survey total of 1.8 million.

<sup>24</sup> See 'Data limitations' on page 27 for information on the Labour Force Survey (LFS) and the Business Survey.

<sup>25</sup> A Matter of Time, The rise of zero-hours contracts, Resolution Foundation, Matthew Pennycook, Giselle Cory, Vidhya Alakeson, June 2013, [www.resolutionfoundation.org/wp-content/uploads/2014/08/A\\_Matter\\_of\\_Time\\_-\\_The\\_rise\\_of\\_zero-hours\\_contracts\\_final\\_1.pdf](http://www.resolutionfoundation.org/wp-content/uploads/2014/08/A_Matter_of_Time_-_The_rise_of_zero-hours_contracts_final_1.pdf)

**Figure 12: Proportion of businesses using 'NGHCs' by size of business**

National  
Percentages



Data shown are from Q4 2014

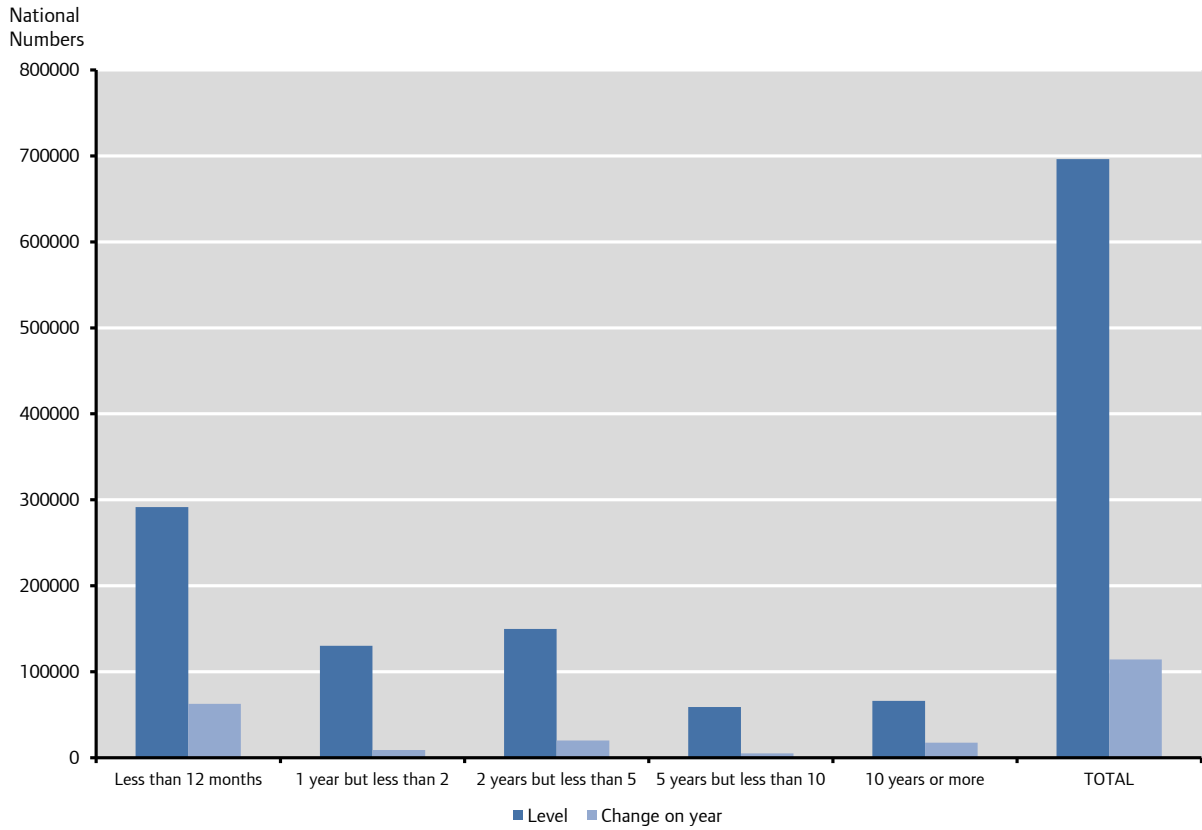
Source: Business Survey, Office for National Statistics

Zero-hours contracts in workplaces vary across a wide range of different sectors and occupations; however the prevalence will differ depending on whether it is measured by share of businesses or as a share of all zero-hours contracts.

The ONS Business Survey indicates that 11 per cent of businesses use NGHCs (including zero-hours contracts) as shown in **Figure 12**. They will tend to be businesses with employment of 250 or more (50 per cent) compared with the 10 per cent share accounted for by businesses with employment under 20<sup>26</sup>. However, the use of zero-hours contracts will vary between individual businesses, despite being of similar size and operating within the same sector.

<sup>26</sup> 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.

**Figure 13: Zero-hours contracts by length of time in job<sup>27</sup>**



Data shown are from Q4 2014 and change from Q4 2013  
 Source: Labour Force Survey, Office for National Statistics

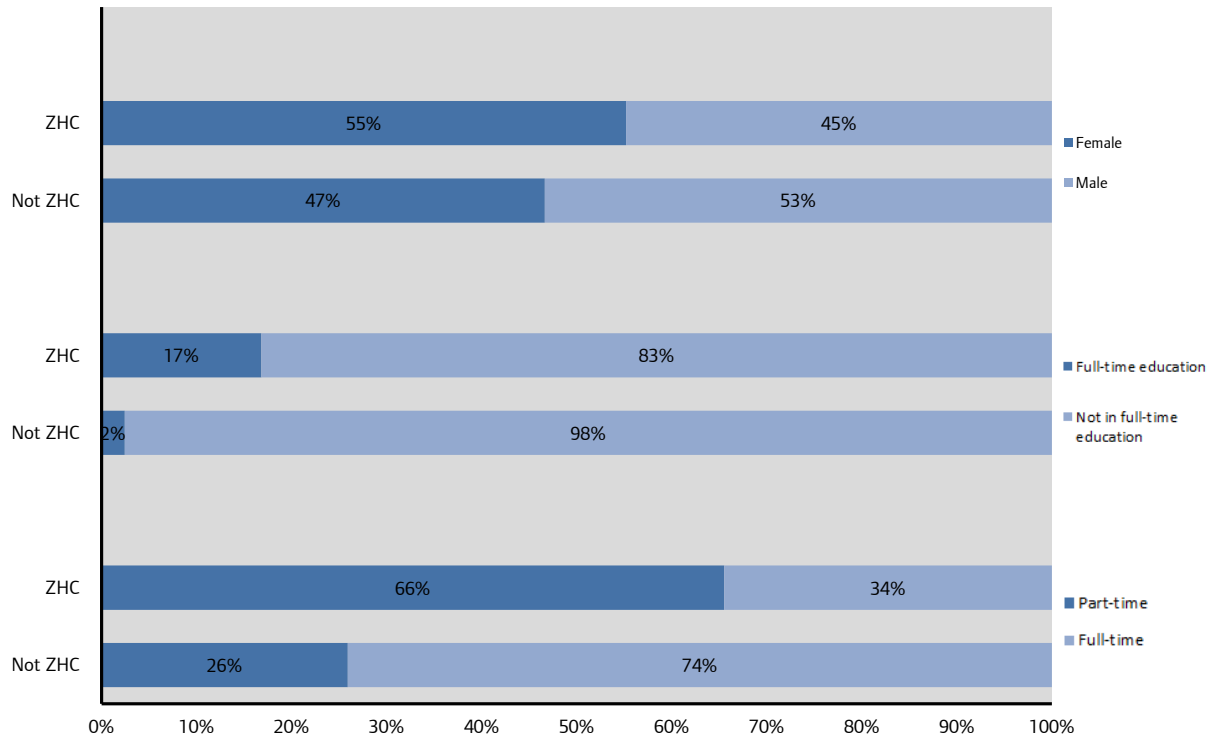
The 2014 LFS results estimate that a significant number of people working on a zero-hours contract basis will have been with their current employer for less than 12 months and these individuals account for a 42 per cent proportion of zero-hours contracts while only 9 per cent of people working on a zero-hours contract basis will have been with their current employer for 10 years or more.

<sup>27</sup> Office for National Statistics, Supplementary LFS data on zero-hours contracts, reference table 13, 2015.



**Figure 14: Zero-hours contracts by male/female, education status and part-time/full-time employment<sup>28, 29</sup>**

National Percentages



Data shown are from Q4 2014

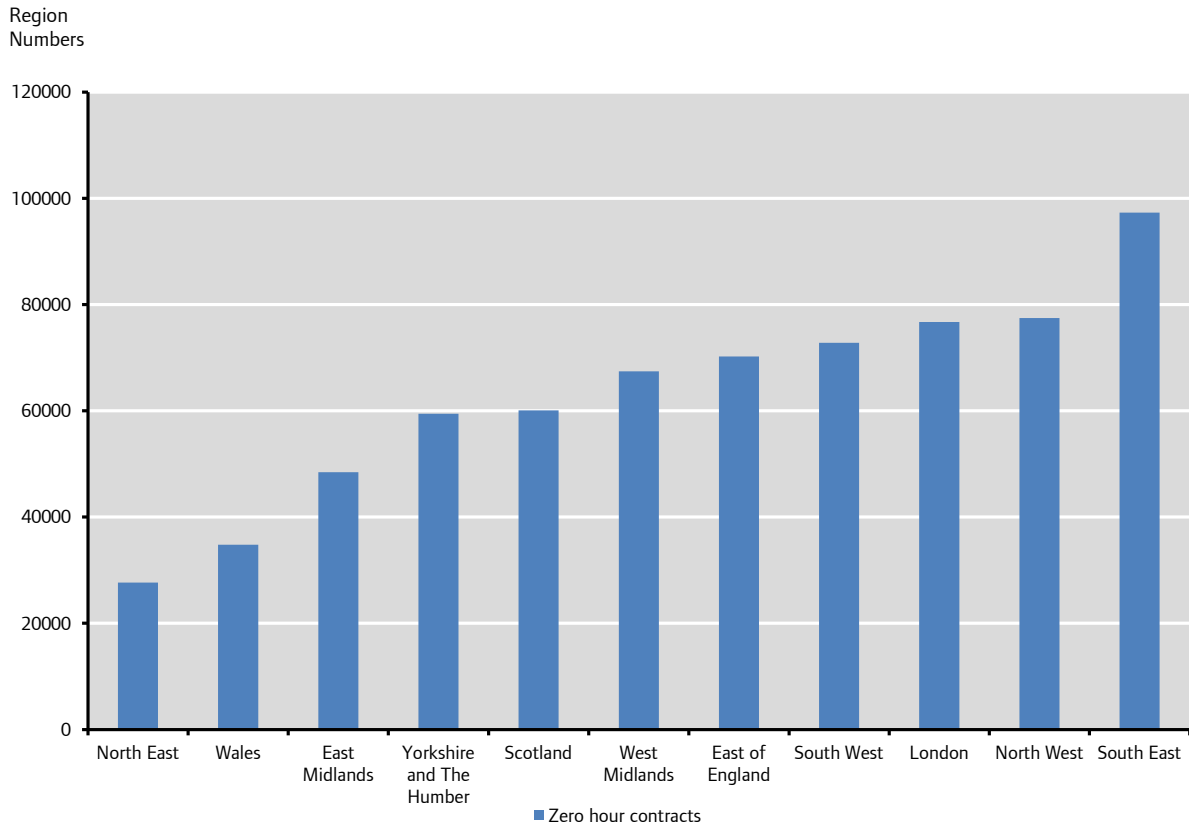
Source: Labour Force Survey, Office for National Statistics

- Women make up a larger proportion of individuals reporting working on zero-hours contracts compared with men; however the distribution is not hugely different as 55 per cent are women and 45 per cent are men. Men make up a bigger proportion of being in other forms of employment at 53 per cent.
- For the education status, 17 per cent of people on zero-hours contracts are in full-time education compared with just 2 per cent for people in employment but not on ZHC.
- A larger proportion of people in zero-hours contracts are likely to be in part-time employment than full-time employment (a difference of 40 per cent with those not on zero-hours contracts). 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 non-ZHC employees, and a similar pattern is seen with usual hours worked which were 25.1 and 36.7 respectively.

<sup>28</sup> People 16 and over

<sup>29</sup> Office for National Statistics, Supplementary LFS data on zero-hours contracts , reference tables: 5,11 and 3 respectively, 2015

**Figure 15: Zero-hours contracts by region<sup>30</sup>**



Data shown are from Q4 2014

Source: Labour Force Survey, Office for National Statistics

For the UK (excluding Northern Ireland)<sup>31</sup>, the LFS estimates for October to December 2014, the region with the highest number of zero-hours contracts in use is the South East as this accounts for 14.1 per cent (97,300), second is the North West with 11.2 per cent (77,500) and London is third with 11.1 per cent (76,700).

<sup>30</sup> Office for National Statistics, Supplementary LFS data on zero-hours contracts, reference table, 2015

<sup>31</sup> Estimates for Northern Ireland are considered too unreliable and therefore no data are available.

## 5. Consequences

One main issue with zero-hours contracts is the legal and institutional framework. As there are complexities concerning the employment status of these individuals, there may be, as a result, implications for employment rights. Many zero-hours contract workers may not, by default, accrue the same employment rights normally entitled to employees, which may deprive them of the protection they are due. Employers in the UK are only required to issue a written employment contract after a month of continuous work and given the nature of zero-hours contracts and the potentially irregular working hours, some of these workers may find themselves waiting longer than a month to claim eligibility for employment rights.<sup>32</sup> However, this need not, necessarily, be an issue if individuals have the option of other, alternative, forms of employment.

The uncertainty that results from no guaranteed minimum hours might also make it difficult to manage household expenditure because of the variability in earnings, possibly making it difficult to pay basic outgoings such as rent and utility bills. This situation may be further exacerbated by problems that could arise in gaining access to benefits and tax credits. For instance, a person on a zero-hours contract can alternate between working full time, part time and no work at all and there may be administrative problems causing benefits to be delayed, underpaid or even overpaid. This is likely to be more of an issue the fewer alternative employment options an individual has. However, the flexibility of zero-hours contracts may well be beneficial for some. For example, for parents with young children, zero-hours contracts can help avoid childcare costs. Against this, not having a guaranteed income can undermine living standards and consequently family life. It may also not be possible to arrange for childcare if parents are called at short notice to work, leaving parents forced to refuse. As a result, incentives to work may be affected<sup>33</sup>. Again this situation need not, necessarily, be problematic if there are alternative employment options. As a result, any potentially damaging implications from zero-hours contracts are most likely to arise where the individual feels they have no alternative means of employment (such that there is an imbalance of power between employer and the employed).

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<sup>32</sup> Chartered Institute of Personnel and Development, Zero-hours contracts: understanding the law, Guide, November 2013, [www.cipd.co.uk/binaries/zero-hours-contracts\\_2013-understanding-the-law.pdf](http://www.cipd.co.uk/binaries/zero-hours-contracts_2013-understanding-the-law.pdf)

<sup>33</sup> A Matter of Time, The rise of zero-hours contracts, Resolution Foundation, Matthew Pennycook, Giselle Cory, Vidhya Alakeson, June 2013, [www.resolutionfoundation.org/wp-content/uploads/2014/08/A\\_Matter\\_of\\_Time\\_-\\_The\\_rise\\_of\\_zero-hours\\_contracts\\_final\\_1.pdf](http://www.resolutionfoundation.org/wp-content/uploads/2014/08/A_Matter_of_Time_-_The_rise_of_zero-hours_contracts_final_1.pdf)

## Appendix A: Data

### Methodology<sup>34</sup>

#### ONS Labour Force Survey

The latest estimates for people on zero-hours contracts are provided by the Labour Force Survey which defines a zero-hours contract as *'where a person is not contracted to work a set of hours, and is only paid for the number of hours that they actually work'*. Individuals on zero-hours contracts are seen as being in employment regardless of the total number of hours worked during the reference week of the survey which is inclusive of people who did not work any hours whilst on their employment contract. The contract of employment must be in existence at the time of the survey as this is important in determining the employment status. Respondents are able to identify themselves as being in work during the reference week or away from a job which they expect to return to. Therefore individuals on zero-hours contracts may be in either of the two categories during the survey; and according to the internationally agreed definition of employment they would be classified as been in employment.

The responses collected from using the variable FLEX10-type of work arrangement agreed- can be used to calculate the number people on zero-hours contracts. The LFS question asked for this variable is: 'Some people have special working hours arrangements that vary daily or weekly. In your (main) job is your agreed working arrangement any of the following...'

1. Flexible working hours (Flexitime)
2. Annualised hours contract
3. Term-time working
4. Job sharing
5. Nine day fortnight
6. Four-and a half day week
7. Zero-hours contract
8. On-call Working
9. None of these

To which the respondent can provide up to 3 different responses, and the first option would be the main working hours arrangement. The responses from FLEX10 (1-3) are fed into FLED10 which records the 'main' type of agreed work agreement; for a zero-hours contract FLED10=7. The question FLEX10 is asked during the April to June and October to December calendar quarters and the ONS recommends using time series data from October to December quarters only and any analysis be restricted to 2000 onwards, due to missing variables on datasets between 1997 and 1999. It is important to note that the methodology was revised in 2014 because of a check which prevented people who work in 'shift work' being asked about zero-hours contracts. The ONS states that zero-hours contracts and shift work are no longer deemed incompatible. Due to changes in the methodology between 2000 and 2014; the estimates may not allow for a direct comparison.

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<sup>34</sup> Office for National Statistics, Estimating Zero-Hour Contracts from the Labour Force Survey, Guidance and methodology, 2013, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/267634/bis-13-1275-zero-hours-employment-contracts-FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/267634/bis-13-1275-zero-hours-employment-contracts-FINAL.pdf)

## Data limitations

It is important to note that the survey which details the characteristics of people employed on zero-hours contracts was first available in 2014, therefore the data does not allow for analysis of how the statistics have changed over time. Estimates for Q4 of 2014 suggested 697,000 people were on zero-hours contracts (the true figure is likely to lie between 630,000 and 765,000).

As previously mentioned, prior to the Small Business, Enterprise and Employment Act 2015 zero-hours contracts could not be explicitly defined, therefore statistics produced by the ONS may refer to contracts with no guaranteed minimum working hours. The ONS advises that although the latest estimate of people employed on zero-hours contracts represents 2.3 per cent of people in employment for October to December 2014; data from the LFS<sup>35</sup> relies on individual responses which can be affected by whether they recognise the 'zero-hours contract' term and understand the contractual agreement. The implications of failure to identify their employment contract could result in a significant underestimation in the prevalence of zero-hours contracts. Perhaps due to high media coverage in recent years there is now greater awareness; however the extent of the effect is unknown.<sup>36</sup>

## ONS Business Survey

This different survey estimates 1.8 million contracts that do not guarantee hours and where work was carried out and 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. The details below provide further explanation of the considerations to be taken into account when comparing the figures from the ONS Business Survey and the LFS and the main reasons why the two estimates differ:

- a) the perceptions and levels of awareness of zero-hours contracts will differ between individuals and also between employers and employees.
- b) the LFS counts people who report that their main employment is a "zero-hours contract"
- c) the estimate from businesses is counting contracts. This will be greater than the number of people as people can have more than one contract;
- d) the estimates from businesses will include contracts that cover a variety of working arrangements.
- e) the estimates from the business may report multiple contracts for each job
- f) the questions asked of respondents differ slightly, with the business survey asking about contracts not guaranteeing any hours, while the LFS question uses the term "zero-hours contracts"
- g) the LFS includes all people in employment (including the self-employed) while the business survey only includes employees.

These considerations are inclusive of individuals in their main employment who work 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 if and when they choose to, availability of work or to supplement their main employment.

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<sup>35</sup> See 'Methodology' on page 27 for more information on the Labour Force Survey.

<sup>36</sup> More information on the data limitations and methodology of NGHCS and zero-hours contracts data are available in the Office for National Statistics, Analysis of Employee Contracts that do not Guarantee a Minimum Number of Hours, February 2015, [www.ons.gov.uk/ons/dcp171776\\_396885.pdf](http://www.ons.gov.uk/ons/dcp171776_396885.pdf)

## Appendix B: The nature of zero-hours contracts

### Employment contracts<sup>37</sup>

#### Full-time permanent employment contract

Full-time permanent contracts are the most recognised form of employment in the UK. Workers employed on this contract type either receive hourly pay or a fixed salary. They are typically aware of their working hours, entitlements, position within the organisation, rights, obligations etc. Full-time employment comes with benefits that are not offered to part-time, temporary, or flexible workers. The average actual weekly hours work of full-time employees in the UK is usually 35 hours or more.

#### Part-time employment contract

Usually, a part-time employment contract will have similar clauses, terms and conditions to a full-time permanent employment contracts and the distinction is the average number of weekly hours. The average actual weekly hours of work for individuals on part-time contracts in the UK is 16 hours. For both part-time and full-time employment, the contract issued by the employer must meet statutory requirements. In addition, part-time workers are protected from being treated less favourably than equivalent full-time workers.

#### Fixed-term employment contract

A fixed-term employment contract is set in advance and is typically used for employees who are fulfilling temporary work so the contract will normally end when the specific task or event ends (depending on the nature of the work) . The duration of the contract can vary between weeks, years and they will last for a certain length of time however they can be extended. There are a wide number of work arrangements that fall into this type of contract and so it can vary dramatically in its scope and extent.

#### Zero-hours contract

Zero-hours contracts are legal in UK Employment law, and until recently there was no legal definition outlining their precise meaning. The common definition which was previously used stated that a zero-hours contract is an employment contract in which an employer does not guarantee an individual a defined number of working hours, nor do they guarantee any minimum working hours, in turn, the individual is not obliged to accept any work and will work as and when required. An example of a typical clause found in these contracts is as follows: *“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”*<sup>38</sup>. Zero-hours workers are entitled to statutory annual leave and the National Minimum Wage in the same way as regular workers.

#### Casual work contract

Although zero-hours contracts fall into the category of casual work, casual work contracts are a definitive type of employment and hence differ from zero-hours work. Generally, an individual on a casual work contract will be classified as a ‘worker’ as opposed to an ‘employee’ (people on zero-hours contracts can be employees or workers). A characteristic of this employment type which can overlap with fixed-term employment contracts is that they don’t tend to be

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<sup>37</sup> Employment Law Contract, Different types of Employment Contract, <http://employmentlawcontract.co.uk/employmentcontracts/>

<sup>38</sup> Office for National Statistics, Estimating Zero-Hour Contracts from the Labour Force Survey, Guidance and methodology, 2013, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/267634/bis-13-1275-zero-hours-employment-contracts-FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/267634/bis-13-1275-zero-hours-employment-contracts-FINAL.pdf)

permanent and are used to fulfil seasonal work. Unlike the zero-hours model, a casual worker cannot refuse to accept work offered to them.

### **Consultancy agreement (self-employed)**

A contractual consultancy agreement is used in instances where services are provided by a contractor or self-employed person and is not employed by or integrated into the employer's business. Individuals are self-employed if there is no obligation to provide personal service and there is no mutuality of obligation.

### **Employment status<sup>39</sup>**

The constitution of employment law in the UK governs the relationship between an employer and an employee. A contract of employment is an essential component of the agreement, outlining the precise extent of each party's respective rights, obligations and workers identified as employees are entitled to the full scope of employment protective norms of the Employee Act. However, individuals in the workforce categorised as non-employee workers are not entitled to the same employment protection as those with employee status.

The main types of employment status are:

- worker
- employee
- self-employed and contractor
- director
- office holder

### **Worker**

The typical characteristics of a worker are:

- they have a contract or other arrangement to do work or services personally for a reward (the contract doesn't have to be written)
- their reward is for money or a benefit in kind, e.g. the promise of a contract or future work
- they only have a limited right to send someone else to do the work (subcontract)
- they have to turn up for work even if they don't want to
- their employer has to have work for them to do as long as the contract or arrangement lasts
- they aren't doing the work as part of their own limited company in an arrangement where the 'employer' is actually a customer or client

### **Employee**

- An employee is someone who works under an employment contract.
- A person may be an employee in employment law but have a different status for tax purposes. Employers must work out each worker's status in both employment law and tax law.

### **Self-employed and contractor**

- A person is self-employed if they run their business for themselves and take responsibility for its success or failure.
- Self-employed workers aren't paid through PAYE, and they don't have the employment rights and responsibilities of employees.
- A person can be both employed and self-employed at the same time

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<sup>39</sup> Employment status, <https://www.gov.uk/employment-status>

## Employment rights<sup>40</sup>

The employment status will be dependent on the clauses within the contract. The three main types of employment status are: employee, self-employed and worker. Individuals on zero-hours contracts will usually be employees or workers. The individual's employment status will depend on what the contract says and how the arrangement operates in practice. The tests to establish the correct status of: employee, worker and self-employed are established by case law.

Right/Protection	Employee	Worker	Self-employed
Right not be unfairly dismissed (after two years' service)	Yes	No	No
Right to receive written statement of terms and conditions	Yes	No	No
Itemised payslip	Yes	No	No
Statutory minimum notice	Yes	No	No
Statutory redundancy pay (after two years' service)	Yes	No	No
Protection from discrimination in the workplace	Yes	Yes	Possibly
National Minimum Wage	Yes	Yes	No
Protection from unlawful deduction from wages	Yes	Yes	No
Paid annual leave	Yes	Yes	No
Right to daily and weekly rest breaks	Yes	Yes	No
Pension auto-enrolment	Yes	Yes	No
Right to be accompanied at a disciplinary or grievance hearing	Yes	Yes	No
Rights under data protection legislation	Yes	Yes	Yes
Whistleblowing protection	Yes	Yes	Possibly
Statutory Sick Pay	Yes	Possibly	No
Statutory maternity, paternity, adoption leave and pay	Yes	No	No
Unpaid time off to care for dependents	Yes	No	No
Right to request flexible working	Yes	No	No
Time off for ante-natal care	Yes	No	No
Time off for trade union activities	Yes	No	No
Protection under the transfer of undertakings legislation	Yes	No	No
Health and safety in the workplace	Yes	Yes	Yes

Source: CIPD

Research conducted by the Chartered Institute of Personnel and Development (CIPD) on employers found that nearly two-thirds of employers (64 per cent) classify zero-hours contract staff as employees, and 19 per cent group them as workers. Three per cent of employers categorised their zero-hours contract workers as self-employed.

The CIPD states there may however be some confusion in understanding employment status for zero-hours contracts as the remaining 14 per cent either did not know or did not classify the status. Consequently, individuals on zero-hours contracts may be engaged as workers, employees or even self-employed and can also be working part-time or full-time.

<sup>40</sup> Chartered Institute of Personnel and Development, Zero-hours contracts: understanding the law, Guide, November 2013, [www.cipd.co.uk/binaries/zero-hours-contracts\\_2013-understanding-the-law.pdf](http://www.cipd.co.uk/binaries/zero-hours-contracts_2013-understanding-the-law.pdf)



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