




Reimagine zero-hours contracts

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Sometimes an idea is so good that two people may have it at the same time. So when I read Matthew Taylor's review of modern working practices, commissioned from the RSA chief executive by the government in 2017, I was heartened to hear he had drawn similar conclusions to my own. Like me, he wants to give workers on such contracts a higher rate of pay for any unplanned work, as well as the right to request guaranteed weekly hours. But I would go even further taking the opportunity to create new financial products for some of society's more vulnerable people.

The Taylor Review expresses concerns that whilst zero-hours contracts provide flexibility to employers and employees, that's not always to the benefit of the latter. Some employers may even see zero-hours as a way to transfer risk by avoiding salary commitments or potential future redundancy payments.

But when you're on such a contract, it's much harder to get a mortgage, loan or mobile phone contract, while the uncertain cashflow creates considerable economic insecurity. Furthermore, a lack of rights over redundancy or unfair dismissal could make zero-hours workers more fearful of their positions and open to exploitation.

But these concerns don't mean we have to throw the baby out with the bathwater. After all, the CBI's submission to the Taylor Review emphasised that "the UK's flexible labour market has been an invaluable strength of our economy, underpinning job creation, business investment and our competitiveness." And Taylor himself commented "to ban zero-hours contracts in their totality would negatively impact many more people than it helped".

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Taylor’s (and my) recommendation is to retain this flexibility, whilst tilting the balance of power away from the employer in the direction of greater equilibrium.

To do so, we propose that any hours not guaranteed in the zero-hours contract should be paid for at a higher rate (perhaps 15-20% higher), compensating workers for the unplanned nature of these hours. What this means is that if an individual is on a contract guaranteeing, say, 15 hours a week, but is frequently asked to work more than this, she/he should receive the standard (i.e. at a minimum, the National Minimum or National Living Wage) rate for these 15 hours, and the new higher rate for any hours beyond.

This is not unlike the Australian model of ‘casual loading’, which specifies a 25% wage premium for such work². One hoped-for consequence is that, rather than have to continually pay above minimum wage, employers would opt instead to give workers a greater number of guaranteed hours – thus increasing workers’ certainty of income.

They might even give workers a straight choice between a fixed-hours employment contract (providing the attendant security and other benefits) and a zero-hours contract with the promise of higher pay for extra hours worked. Taylor feels zero-hours workers should get the chance to request a new contract guaranteeing a set number of regular hours, after they’ve been working for an employer for a year.

Let’s not forget that some workers actually like the flexibility of zero-hours, as it fits in with their lifestyles, and gives them the choice to take on additional hours as and when it’s convenient.

And, interestingly, when McDonald’s offered some zero-hours workers the option of fixed contracts with a minimum number of guaranteed hours, about 80% chose to remain on a flexible arrangement³.

The government has already agreed to ask the Low Pay Commission to look into the Taylor Review’s recommendations for a wage premium⁴, and is also consulting on the right to request more regular hours⁵.

Taking control of finances

As I mentioned though, my ideas go beyond Taylor – to consider how to use these proposed changes to give some of our lowest-paid workers a better shot at financial planning.

Currently, those on zero-hours contracts find themselves having to put money aside, in preparation for any weeks in which they earn either less than usual. And given their precarious financial position, they may not be making any pension provision. To make matters worse, failure to pay regular National Insurance contributions – an all-too-common occurrence when your income might fluctuate from week-to-week – can leave them short of a full state pension on retirement.

Indeed, one of the contributors to the Taylor Review states. “There is a need for financial services designed for people with irregular incomes. People with irregular incomes still need to meet regular outgoings such as rent, food, etc⁶.”

My suggestion for addressing this challenge is to hold back any surplus ‘premium’ income – earned by working additional hours – in a separate account, to be accessed during periods when there is no work coming in and assist with ‘income smoothing’. Ideally, this could be done in a tax-efficient way, with the savings invested gross (i.e. no tax or National Insurance is applied until the money is accessed.) A zero-hours worker would ideally draw this money only when needed, to avoid succumbing to the temptation of short-term or payday financing.

Another option would be to direct the additional income directly into some form of private, managed pension, to help workers get on the road to a better planned financial future.

As well as boosting pay packets, taken in the round these proposals should reduce low-paid workers’ dependence upon state benefits – both during their working lives and in retirement – as they’d have more reliable income streams. Such a scenario can only spell good news for both the workers’ wellbeing, and the government’s coffers.

With the Taylor proposals still being considered by the government, the future of zero-hours is uncertain. It’s clearly in everyone’s interests to come up with a solution that incentivises businesses as well as providing appropriate rights to flexible workers, as part of a mutually beneficial arrangement. I think the ideas set out in this article do just that. gives appropriate rights to flexible workers as part of a mutually beneficial arrangement. I think the ideas set out in this article do just that.

Contact

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