

Settlement agreements

Using settlement agreements

A settlement agreement is a document that sets out the terms and conditions for settling an employment dispute. For example, a potential employment tribunal claim.

Settlement agreements used to be called 'compromise agreements'.

A settlement agreement is:

- in writing
- legally binding
- voluntary
- reached through discussion and negotiation

The agreement can include:

- a financial payment
- an employment reference
- agreement to not make a claim to an employment tribunal
- a confidentiality clause to not share specific information

Who can make a settlement agreement

A settlement agreement can be made between an employer and:

- a worker
- a former worker
- a job applicant

Who an employer makes a settlement agreement with will depend on the type of legal claim they could make. The type of claim someone is eligible to make will depend on their [employment status](#).

Eligibility to make certain types of claim

Some types of legal claim can only be made by someone with the [legal status of employee](#). This includes former employees.

For example:

- unfair dismissal
- constructive dismissal
- breach of contract

- redundancy pay

Someone is not likely to be an employee if they're:

- an agency worker
- a casual worker
- on a zero-hours contract

For example, only an employee would be eligible to make a claim for unfair dismissal. The employer might offer a settlement agreement to stop them from making a claim at an employment tribunal.

Some claims, for example a discrimination claim, can be made by someone who:

- is [legally classed as an employee](#)
- is [legally classed as a worker](#)
- a former employee or worker
- applied for a job

For example, if an unsuccessful job applicant feels discriminated against in an interview, they might make a claim for discrimination. The employer could use a settlement agreement to stop them from making a discrimination claim at an employment tribunal.

For a settlement agreement to be legally valid

For a settlement agreement to be legally valid, it must meet all of these conditions:

- be in writing
- be related to a specific complaint or claim at an employment tribunal or another court
- the worker must get advice from a relevant independent adviser
- the independent adviser must be insured
- the agreement must name the adviser

A settlement agreement must state:

- that all of these legal conditions have been satisfied
- the specific legal claims that it covers

For example, a settlement agreement would not be valid if it stated that the agreement is 'in full and final settlement of all claims'.

When a settlement agreement might be used

Settlement agreements can be used to:

- settle a dispute or legal claim
- end an employment relationship

A settlement agreement can be used without ending an employment relationship. For example, if there's a dispute over a bonus, an employer might use one to mutually agree the amount.

Anyone can suggest making a settlement agreement.

An example of an employer suggesting a settlement agreement

Pat has been employed as a sales representative for 10 years with their employer. The organisation has to reduce the number of sales representatives. So Pat is offered a new administrative role in the head office.

Despite support from their manager, Pat's struggling and feels they'll never get used to the new role. This affects their performance. After discussions with their manager, the manager suggests a settlement agreement.

After considering the terms of the settlement agreement and getting independent advice, Pat accepts the offer. They leave the organisation with an agreed one-off payment and a reference. Pat agrees that they will not make a claim to an employment tribunal.

An example of an employee suggesting a settlement agreement

Kai and Ali work on the same team but they do not get along on a personal level. They are highly motivated and valuable members of the team. Despite efforts to improve relations between them, their personality clash is affecting the team's performance.

Ali feels that the situation will never improve. They meet with their manager and suggest entering a settlement agreement to end employment. Their manager does not want to lose them but the current situation is not working for anyone.

They meet to discuss and agree the terms of the settlement agreement. Ali leaves with an agreed financial payment and a reference. They agree on a leaving date so that the manager has time to recruit a replacement.

Deciding whether to use a settlement agreement

A settlement agreement can be used to:

- end an employment relationship quickly
- agree financial payment
- agree a job reference
- avoid the time, cost and stress involved in an employment tribunal claim

However, settlement agreements are not always the best way to settle a dispute or deal with problems at work.

Before offering a settlement agreement, employers should consider:

- the cost of any financial payment
- whether it's the best way to deal with a problem
- how it might impact the working relationship if a settlement is not agreed
- the effect on the wider workforce, if a settlement agreement is not used properly or used in place of good management

Employers can often resolve issues:

- with good performance management
- by following fair procedures for [discipline and grievance](#)

This is usually the quickest and easiest solution.