Calculating the true cost of non-compliance

Joscelyne Shaw
Head of Policy & Influencing

4 May 2012

ENA SHE Management Conference 2012

“Raising Standards, Saving Lives”
British Safety Council

We are a charity and corporate membership body

Our vision is that no one should be injured, killed or made ill by their work

We promote a sensible, proportionate approach to health and safety management

- We operate in the UK and internationally; members include SMEs & large multinationals
- Key sectors include: construction; manufacturing; energy (distribution and generation) & transport
- We have more than 7,000 members
- We work with some 50 of the FTSE100 companies
Disseminating awareness & information

Our campaigns

Our manifesto *Working Well* launched in House of Commons on 23 April 2012

www.britsafe.org/manifesto

“Raising Standards, Saving Lives”
Disseminating awareness & information
Our campaigns

Speak up, stay safe
Targeting young workers and those new to work
www.britsafe.org/speakupstaysafe
www.twitter.com/speakupstaysafe
www.facebook.com/speakupstaysafe

“Raising Standards, Saving Lives”
Numbers on poor health and safety
Statistics from HSE for 2010/11

2009/10 figures
152 fatalities
0.5 deaths per 100,000 workers

1 Apr-31 Dec 2011 figures
203* fatalities

Fatal injury
171
(0.6 deaths per 100,000 workers)

Major injury reported by employers
26,000

Injury reported by employers
118,000

Self-reported injury leading to over 3-days absence
200,000

Self-reported injury at work
603,000
So what does this mean in terms of economics?

Statistics from HSE for 2010/11

• 1.2 million working people were suffering from a work-related illness

• 26.4 million working days lost due to work-related illness and workplace injury (excl. cancers) – down from 28.5 million in 2009/10 (or 1.2 days per worker)

= Work-related ill health and injury costing Britain £14 billion a year

• Looking at 2009/10 figures, “somewhat over half of the total cost fell on individuals whilst the remainder was shared between employers and government.”
Ensuring compliance: Role of enforcement

In 2009/10 ONS and HSE reported that:

- 885 offences were instituted by HSE
- 283 offences were instituted by local authorities
- 15,837 enforcement notices were issued by all enforcing authorities.

In 2010/11 ONS and HSE reported that:

- 912 offences were instituted by HSE
- 294 offences were instituted by local authorities
- 18,290 enforcement notices were issued by all enforcing authorities.
But some numbers we are not seeing...

• Long term latency diseases and their impact – this is starting to change, e.g. Asbestos related diseases
  • ONS (2010) estimated 8,000 cancer deaths occur in Britain each year attributable to past exposure to occupational carcinogens; around half of these are asbestos related (including mesothelioma).

• Economic research into the linkages between health and productivity – study by Frontier Economics (2008) :
  • Established a statistical link between health and economic potential both at macro- and micro-economic levels.
  • It found that those in excellent health earn between 4-7% more per hour than those whose health is average, controlling for other characteristics; compared to those whose health is poor earn 7-15% less than those whose health is average.
  • The analysis suggests that tackling ill-health caused by work may be one component in influencing economic performance.
What evidence is there on compliance costs?

Earlier research

• Entec study (2002) found that:
  • Medium and large companies expend most on training; small on training and PPE
  • Larger organisations believe benefits outweigh costs (may be related to SMEs having less experience of accidents; also less likely to have performance measures and targets in place)

• No evidence of a compliance problem on ELCI (Greenstreet Berman, 2003)
• Organisations responded to ELCI cost pressures:
  • Primarily by trying to improve health and safety,
  • Also, to lesser extents, reducing operating costs, contesting claims and switching insurers.

• Evidence that elsewhere, integration of rehabilitation into compensation schemes motivate business and can be designed to support SMEs (Greenstreet Berman, 2002).
What evidence is there on compliance costs?

Earlier research

- Greenstreet Berman (2005) found that the list of motivational factors remains largely unchanged from previous research, namely:
  - enforcement/regulation, reputational risk, the moral case, avoiding cost of accidents and business incentives
  - Organisational approach is also influenced by size and sector.

- However, it was notable that:
  » The financial incentive provided by insurance premiums had grown
  » The fear of enforcement is intertwined with the fear of reputational damage as well as business disruption
  » There was also evidence that the moral case remains a driver, especially in SMEs where you may know or be related to your colleagues. In larger firms the moral case is expressed in terms of societal values
  » It was also clear that understanding and awareness remain key precursors.
What evidence is there on compliance costs?

• More recently a PriceWaterhouseCooper’s study demonstrated a return on investment of £4.17 for every £1 when following the delivery of workplace wellbeing programmes. It is clear however that failure to address ill health results in significant costs to business.

• CBI quote that on average ill health costs each business £600 per employee per year.

• Long term absence contributes to up to 75% of absence costs (CIPD) demonstrating the value of early intervention in cases of ill health.

• The benefit to cost ratio for all health and safety regulation in Great Britain is £1.58 of benefit on a £1 cost of compliance.
Recognition of factors influencing compliance

- Not all businesses are the same – low risk vs. high risk

- Ensuring clarity of regulations and requirements for business to ensure that there is not over-compliance

- Sensible and proportionate management of risk – matter of understanding risk and debunking myths around health & safety

- Learning lessons - Flixborough, Bhopal, Piper Alpha, Buncefield and Texas City - evidence that lack of injuries and near misses is no guide whatsoever that all is well in process safety terms. Need to balance short-term business pressures.
Support for good health and safety

British Chamber of Commerce, May 2011:

“The BCC supports good health and safety regulation. The UK has a good record on health and safety and it is essential that it is maintained. There is no doubt that sensible rules are needed to prevent serious accidents.”
Support for good health and safety

Ragnar Lofstedt, Safety Management, February 2012:

“Overwhelming, evidence we received in writing and orally showed health and safety was not a burden for industry. The review revealed that the health and safety model of this country was broadly fit for purpose.

There’s of course a couple of tweaks you can do to it and I’m sure we could offer consolidation of regulations – for example with regard to mining and petroleum regulations. Overall, we felt it was fit for purpose so we should not be tinkering with it too much. And I think the broader message for the prime minister is that we should be looking for better regulation, trying to reduce the bureaucracy and things like that, and we should not be looking at cutting back on health and safety regulation – that is not what my review is saying.”
What evidence is there on non-compliance costs?

To the Individual

Table: Summary of aggregate costs to individuals of workplace fatalities and injuries and work-related ill health in 2009/10

<table>
<thead>
<tr>
<th></th>
<th>Estimates cost (£ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>central</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss of income</td>
<td>803</td>
</tr>
<tr>
<td>Compensation</td>
<td>(988)</td>
</tr>
<tr>
<td>Non-financial human costs</td>
<td>7,634</td>
</tr>
<tr>
<td>Health and rehabilitation cost</td>
<td>124</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>21</td>
</tr>
<tr>
<td>Total costs</td>
<td>7,594</td>
</tr>
</tbody>
</table>

Note: confidence intervals are not additive so do not sum to the total. Inflows are shown in parentheses.
What evidence is there on non-compliance costs?

To the Employer

Table: Summary of aggregate costs to employers of workplace fatalities and injuries and work-related ill health in 2009/10

<table>
<thead>
<tr>
<th></th>
<th>Estimated cost (£ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>central</td>
</tr>
<tr>
<td></td>
<td>lower</td>
</tr>
<tr>
<td>Sick pay (inc NI)</td>
<td>1,154</td>
</tr>
<tr>
<td>Insurance premiums</td>
<td>1,732</td>
</tr>
<tr>
<td>Production disturbance</td>
<td>118</td>
</tr>
<tr>
<td>Administrative and legal costs</td>
<td>55</td>
</tr>
<tr>
<td>Total costs</td>
<td>3,059</td>
</tr>
</tbody>
</table>

Note: confidence intervals are not additive so do not sum to the total.
What evidence is there on non-compliance costs?

To government

- Costs arising from loss of earnings to the individual (Benefits payments, reduction in tax and national insurance receipts)
- Medical treatment and rehabilitation costs
- Administration and legal costs
HSE’s Fee For Intervention (FFI)

• Recognise that this may be a necessary step to manage significant budget reductions

• Have some concerns about the possible impact upon HSE’s regulatory relationships

• HSE have responded recently that FFI:
  • Shift the balance in favour of those doing the right thing; provide an incentive to operate within the law
  • Recognise need for clear mutual expectations of how the scheme will work and provide confidence that it will be implemented fairly
  • They intend to publish a review after FFI’s first year, and will make the nature, number and outcome of the appeals transparent

• Some concerns remain and the opinions of some of our members appears to have shifted over the last 6 months

www.britsafe.org
020 8741 1231
@britsafe
www.linkedin.com/groups?gid=3156135&trk=hb_side_g
www.youtube.com/britishsafetycouncil
www.facebook.com/britishsafetycouncil

“Raising Standards, Saving Lives”