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Costing Sickness Absence in the UK

S Bevan
S Hayday

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Report 382

COSTING SICKNESS ABSENCE IN THE UK

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The Institute for Employment Studies

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Executive Summary

Sickness absence is an issue of growing concern among employers in the UK owing to changing legislation, increased competitive pressures and the greater awareness of the costs incurred as a result of absence. Despite this growing concern over sickness absence, virtually no robust data exists on its direct or indirect costs. The most usual method of estimation uses only the basic salary of the absent employee, and neglects other significant aspects such as other salary oncosts, overtime, payments to replacement workers and all management costs from both line management or HR functions.

As a major provider of long-term disability insurance, UNUM was seeking to fund independent and robust research to establish a sound and accessible approach to the costing of health related absences among UK employees. The Institute for Employment Studies (IES) was commissioned to conduct a study which would devise, test and apply such an approach. This report presents the findings of the first stage of this work.

The study consisted of four elements:

- An extensive literature review which demonstrated that although many aspects of absence had been investigated, comprehensive analysis of absence costs at the firm level was very rare.
- The creation of a case study methodology to collect information from a small number of predominantly private organisations about their business context, approach to absence, absence patterns and costs.
- The testing within each organisation of a spreadsheet tool which collected data across a range of headings.
- Analysis of the data from each case study to examine the absence costs attributable to different staff groups and to derive aggregate costs.

The study was not able to collect data from as many organisations as was originally planned, but sufficient information has been collected from the nine case studies to explore the range of costs associated with absence and to look at the reasons for their variability.

The main findings of this first stage of the research are:

- Organisations appear fundamentally ill equipped to form a comprehensive view of their absence costs. This is applies to even 'leading edge' UK employers who have the most sophisticated information systems. This implies that they are making decisions leading to considerable expenditure on staffing with only a partial view of the likely cost and no means of identifying the short or medium-term benefits of this expenditure.
- The study suggests that between two and 16 per cent of annual salary bill may be spent by employers on absence. It is likely that as little as half of this can be attributed to the gross employment costs of those who are absent. The remainder of the costs are determined by the choices the employer makes about how absence is covered, the extent to which absence management procedures are followed and how pro-actively long-term absence is managed.
- The factors that affect the variability of absence costs are the number of part-time staff, the age profile, occupational mix of employees and the work location. Additionally, the balance between short and long-term absences is important, as long-term absence incurs higher costs.
- Evidence from the studies suggests that the impact of LDTI on costs is effective only if it is combined with a coherent absence management strategy. Early intervention in possible long-term absence will reduce costs; but short-term absence is often the main emphasis of absence management policies.

UNUM has a clear interest in the impact of long-term disability insurance (LTDI) on absence costs and its benefits to employers. The research to date implies that employers have no appreciation of the annual costs of absence to their businesses. Many will be entirely satisfied with reducing the headline rate and will not see costs as a high priority. However, lower absence rates do not necessarily translate into reduced absence costs.

1. Costing Sickness Absence in the UK

1.1 Background

Employers across the UK have become noticeably more concerned to influence the levels of sickness absence in their workforce. There are several reasons for this:

1. Employers have a more explicit '**duty of care**' towards their employees than ever before. Both UK and EU legislation, together with case law, have made employers infinitely more aware of the need to safeguard the physical and psychological well-being of their employees. Fear of litigation is a key pressure here. As an indicator of employers' concern, some seven per cent of the UK workforce are now covered by Employee Assistance Programmes (EAPs).[1]
2. Increased **competitive pressures** on businesses have forced them to maximise every contributor to labour productivity. Achieving high levels of attendance has become a pre-requisite for such improvements.
3. Increasing **workforce diversity**, (more people with disabilities, more women with domestic caring responsibilities and a rapidly ageing workforce), has complicated working and attendance patterns beyond all recognition.
4. **Costs** incurred as a result of absence have increased. In the UK this is due, in part, to changes to the SSP regulations in the mid-nineties. It is also due to greater awareness of the direct costs associated with absence, together with an acknowledgement of the hidden, indirect, costs of absence.

Despite growing concern over sickness absence among employers, virtually no robust data exists on its direct or indirect costs. The CBI reports that only 25 per cent of UK employers calculate their absence costs (The Industrial Society puts this figure at 54 per cent). Various other bodies have sought to estimate the costs of absence at aggregate level. For example:

[1] Employee Assistance Professionals Association, 1999

- The CBI estimates the total annual costs in the UK at £11 billion (The Industrial Society equivalent is £12.9 billion). The equivalent costs in the US are said to exceed $30 billion.
- Costs in the UK Civil Service are estimated at £404 million each year.
- Costs in the Police Force are said to be £210 million a year and £56 million in HM Prison Service.

The majority of the cost data which are published, however, are based solely on estimates of the direct salary costs of employees off sick. While some include wider employment costs, and others seek to estimate temporary replacement costs and overtime payments, these are few and far between.

The limitations of the current approaches to costing sickness absence have a number of consequences:

1. At the current level of aggregation, such large numbers (*eg* £11 billion) have little impact on the perceptions or behaviour of individual employers.
2. They do not deal comprehensively or consistently with the indirect costs of absence. These include the costs of temporary cover, management time, reduced productivity and reduced customer retention.
3. They are not sufficiently sensitive to gender, sectoral, occupational or regional differences in absence patterns and costs.
4. Very little is known about the factors affecting variations in the costs of absence and, therefore, their susceptibility to measurement, monitoring, prediction, management and control.
5. They do not differentiate between short-term and long-term absence costs.
6. They fail to differentiate between 'casual' absence, absence attributable to domestic caring responsibilities,[1] and absence caused by genuine illness or injury.

It is reasonable to conclude, therefore, that most UK employers are seriously underestimating the costs of sickness absence. Evidence from previous IES research,[2] shows that many employers' approaches to measuring and monitoring absence leave much to be desired. In addition, failure to address short-term absences can increase the risk of increasing longer-term absence from work. Indeed, there is growing evidence that these risks are already increasing:

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[1] Up to one-third of all absence are thus attributable, according to a recent IPD survey conducted by IRS (2000).

[2] Bevan S, Hayday S (1998), *Managing Attendance: A Review of Good Practice*, IES Report 353

- Between 1975 and 1995 the proportion of 16 to 44s with a long-standing illness rose from 16 to 23 per cent (and from 34 to 41 per cent among the 45 to 65s).[1]
- In 1995, 4.5 per cent of employees had a work-related illness which caused them to lose at least three months work in the previous year.[2]
- An IES study of NHS staff for the Health Education Authority[3] showed that five per cent of NHS staff were absent for 20 days or more during their last period of absence (0.5 per cent for over 100 days); that absence **duration** rose with obesity, alcohol and tobacco consumption; that the average duration of absence rose with age (mean of 12 days for those over 55).
- There has been recent policy emphasis in the UK on the benefits to be gained by improving the rehabilitation of sick or injured employees. DSS data suggest that 3,000 people move from statutory sick pay to incapacity benefit each week. The TUC claims that only 23 per cent of employers provide any form of rehabilitation.

As a major provider of long-term disability insurance (LTDI), UNUM was seeking to fund independent and robust research which will establish a sound and accessible approach to the costing of health-related absences among UK employees.[4] To this end, it commissioned the Institute for Employment Studies (IES) to conduct a study which would devise, test and apply such an approach. This report presents the findings of the first stage of this work.

1.2 Objectives of the study

The primary objectives of the study were to:

- develop a working definition of employee health-related absence
- identify credible ways to measure the total costs of these absences
- measure these costs for a selected number of employers in the UK
- analyse the results and explain reasons for cost differences among employers

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1 ONS, *Living in Britain*, 1999

2 HSE, *Self-reported Work-related Illness in 1995*, 1998

3 Bevan S, Seccombe I (1996), *Working for Your Health: A Survey of NHS Staff*, Health Education Authority

4 UNUM has previously supported comparable research in the USA which successfully quantified several components of absence costs.

- report both the costs and what drives these costs up or conversely, reduces them.

Throughout the study, IES has been keen to place particular emphasis on the need for both robust and practical work. While complex statistical modelling may bring academic rigour, our concern has been to deliver a credible approach which, while soundly based, is readily applicable both at an aggregate level and at the level of the individual employer.

1.3 Our approach

There have been several elements to the study:

Literature Review

The purpose of the literature review was to assess the extent to which previous research had identified or quantified any of the core components of absence costs. The full review appears in Appendix 1. It concludes that, while very many aspects of sickness absence have been the subject of detailed study, rigorous and comprehensive analysis of absence costs at the level of the firm are very rare. Those which did exist supported the approach taken by the previous UNUM study in the USA, *ie* one that perceives absence costs as being made up of direct, indirect and absence management costs.

Research Design

The study was designed to collect detailed data in a small number of organisations (up to 12). To do this, IES constructed a case study methodology based on a range of predominantly private sector organisations. Some were chosen because they had undertaken recent reviews of their approaches to absence measurement and management, others because they had adopted particular approaches to absence management (*eg* use of LTDI). The aim was to collect information about the organisations' business contexts, their approaches to managing absence, their recent absence patterns and their absence costs.

Data Collection

Based on previous studies, IES drafted and tested a spreadsheet-based tool aimed to collect absence data related to sickness across a range of headings. This tool appears in Appendix 2.

The spreadsheet collects information for all employees and groups of staff as defined in consultation with the organisation. The staff groups were chosen to reflect differences in absence behaviour. The four sections on the spreadsheet request the following information for the most convenient recent twelve month period:

Employee and staff group data

Average annual full-time equivalent, headcount, gender, age groups, number of days absence in year, number of incidences of absence by duration, and potential working days in the year.

Direct costs

Salary costs: annual salary, employer's National Insurance contribution, employer's contribution to pension, bonus payments, contracted overtime.

Benefits: car allowances, private healthcare, disability cover, any other benefits.

Indirect costs

Internal replacement worker: overtime, 'acting up' allowance.

External replacement worker: daily agency costs.

Absence management costs

Line manager costs: arranging cover, return-to-work interviews, supervising replacements, absence administration.

Human resource department time: collating and reporting data, administration.

Training: line manager training, trainer employment costs.

Health promotion: Employee assistance programmes, subsidised facilities, occupational health services.

Case study employers were visited and taken through the detail of the spreadsheet, and employee groups and time period were agreed. It was stressed at these meetings that it was only absence due to illness that should be considered. In the UK, unlike America, maternity leave is not considered to be sickness absence and would be recorded separately.

The organisations were then asked to populate the spreadsheet as far as possible. Subsequent visits and telephone support ensured that the amount of data collected was maximised. In most cases the participants were able to provide data on direct costs and absence management costs, though indirect costs were less easy to provide, owing to the difficulty of isolating those that related to absence rather than increased workload and absence for other reasons. The distinction of work related injury and illness compared with other accidents and illness was not made in the data collected. It was not possible for most of the case studies to extract this information in aggregate.

Short- and long-term absence

The definition of short-term absence as sickness lasting ten days and under, and long-term absence as durations of over ten days, as used throughout the report, emerged from our discussions with employers.

Cost of lost productivity

It was not possible to identify the cost of productivity lost due to the inexperience of replacement workers. Employers found this very hard to quantify in relation to sickness absence and were reluctant to do so.

Data analysis

The data from each participating organisation was then analysed to ensure consistency, to examine differences between the absence costs attributable to different staff groups, and to calculate the aggregate costs. These costs were expressed as a percentage of the basic salary bill before employer's contribution to National Insurance and pensions are added. Estimates were also made of the costs of both long- and short-term absence by applying the proportion of days lost for each to total absence costs. Details appear in the case studies which make up the main body of the report.

1.4 Structure of the report

The report comprises two distinct sections:

1. **Case study data**: Each case study is presented, giving details of the business context of each organisation, absence management policies and practices and details of absence costs.
2. **Conclusions**: Here the aggregate findings and conclusions of the study are presented. This section will include a discussion of how general the findings are to other employers, and a discussion of how the work might be extended across a wider range of organisations.

Appendices are used to present background data, research tools and other supporting material.

2. Case Study 1: Large Retail Company

2.1 Background

The organisation described in this case study is an established retail company with over 50,000 employees in stores throughout the UK. Their absence rate on an annual basis averages 4.5 per cent, but there is great variation by store depending on size and location. The focus of absence monitoring is at store level and, although there is a corporate target for absence, each store has its individual target. At Head Office the monitoring of absence is not routine, but is collected via payroll and for day to day management depends on personal knowledge and contact with staff.

2.2 Absence management

Line managers in the stores are responsible for their staff absence and are supplied with data each month. HR are there to support the managers, with absence and its management being viewed as owned both centrally and locally. There are clear policies and procedures for dealing with absence, but these are not prescriptive; a flexible approach is encouraged in handling each situation. Some line managers sometimes find this discretionary approach difficult to apply and would prefer clear rules to follow. Training for line managers in handling absence is given by coaching on site, rather than holding large central training events.

2.3 Health promotion and employee support

Health is given a high profile in the company by an occupational health team who instigate programmes concerning smoking, diet, stress, *etc.* and are organised centrally. There are also occupational health advisers who are local general practitioners. This service is contracted out as external support is viewed as impartial by staff.

Employees are also able to use a welfare helpline, which will direct them to appropriate support services. Counselling outside the organisation is also available for those suffering from stress. Private medical treatment is used in some instances if staff are on a long NHS waiting list and a clear business need is identified.

2.4 Injuries and rehabilitation

The company holds insurance for accidents, and injury schemes are in place. They have had to make adjustments in response to the Disability Discrimination Act, but these are generally not difficult to accommodate. There is a considerable number of job types and functions within each store and is it always possible to adjust working hours to what the individual can manage. The company has not been involved in tribunals or capability hearings due to problems with absence. It is treated as a conduct issue and cases have been resolved well before legal action was necessary.

2.5 Absence data

The company records all absences within the stores and identifies the causes by nine codes. It is therefore possible to isolate absence due to sickness within the data. Absence is treated in terms of hours, rather than days or shifts. This deals with the problem of part-time staff absence being overstated by being counted in whole days, and provides an accurate figure. This case study is the only one where a system of hourly recording is used. To overcome the problem of identifying continuous spells of absence where part-time staff do not work consecutive days, personnel absence records were extracted and the durations of absence were manually recorded.

Both part-time and full-time employees have the same entitlement to sick pay, which is that they are not eligible until they have given three months service and then the number of weeks pay they are entitled to increases over time. It has not been possible to allow for this in the calculations because the costings, for ease of deriving other items, are based on the number of days absence, not payments made.

Absence across the whole organisation is not a vital statistic for the company as the management of attendance operates at store level. All monitoring, as a result, is on this basis. Owing to this it was decided that the most realistic and practical method of looking at sickness absence was to take three representative stores and study them in depth rather than just taking a generalised view across the company.

The three stores studied were selected for their size, location and absence patterns. The first store was small, located in the West Country with a relatively low level of absence; the second was a medium store in the Midlands with average absence and the third, largest, store was based in London and had significant absence and absence issues.

The employee groupings to be used in the analysis were thought most usefully to be management, salesfloor and backstage staff.

Table 2. 1: Case study 1: Absence costs for small store

	Total	Managers	Salesfloor	Backstage
Number (FTE)	61	5	45	11
Absence rate (%)	5.6%	0.8%	7.0%	2.3%
Percentage bouts of absence: 2 weeks or under	91.9%	100%	91.9%	90.3%
Percentage bouts of absence: Over 2 weeks	8.1%	0	8.1%	9.7%
Salary bill	£780,984	£106,680	£542,804	£131,500
Direct absence costs	£41,783	£897	£37,809	£3,077
Indirect absence costs	£13,000	0	£13,000	0
Absence management costs	£13,224	£462	£10,759	£2,003
Total absence costs	£68,007	£1,359	£61,568	£5,080
Absence costs: % of salary bill	11.2%	1.6%	14.6%	4.9%
Absence costs: per employee	£861	£272	£1,044	£339

Source: IES 2001

This would reflect the different types of absence behaviour and, critically, the data were accessible. The stores investigated will be described separately in the rest of this chapter.

2.6 Small store

Table 2.1 shows the absence costs for a small store in the West of England, which has 79 employees representing 61 full-time equivalents. They are predominantly female and two-thirds work part time. The age distribution shows that two in five staff are over fifty years old and only 16 per cent are under 30. Their overall absence rate is 5.6 per cent, but this conceals the almost negligible rate for managers of 0.8 per cent, seven per cent for the sales floor and 2.3 per cent for backstage workers.

The duration of absence is typically one day, with 57 per cent of all episodes in this category. However, for the salesfloor 60 per cent of absence is one day, whereas for backstage it is 40 per cent and for the managers a few single days account for all their sick absence.

Direct costs of absence

The direct costs of absence are the pay and associated oncosts of absent employees that is being paid while they are away sick. For this store in 2000 the direct absence costs are based on the total employment costs of staff, which are annual salary, employer's

contribution to National Insurance and pensions. No bonuses are paid and there are no financial benefits.

The total payroll for this store is £780,984 and applying the hourly costs for the staff groups that this implies produces a direct cost for absence of £41,783.

Indirect costs

The indirect costs of absence are staffing costs that are incurred to cover the work of the absent employee. In this store, extra hours would be worked by existing staff to cover one-third of the absence, but other colleagues would absorb the remaining workload. No outside or temporary staff would be used. The cost of extra hours worked averages £250 a week, which on an annual basis amounts to £13,000.

Absence management costs

The estimated costs of managing absence by Human Resources and by line managers are £13,224 for this small store. It is estimated that line managers spend nine hours a week dealing with absence, the majority of this time being devoted to arranging cover for staff. A further two and a half hours are spent in HR on administering and reporting absence. Occupational Health Services cost the store £2,200 and the rehabilitation of staff through reduced-hours working accounts for £3,640. It has not been possible to apportion the cost of the welfare helpline to this or any of the stores in this case study as the cost of this was not made available.

Total absence costs

The total cost of absence for this store is £68,007 taking into account the three cost areas:

	£	%
Direct	41,783	61
Indirect	13,000	19
Management	13,224	19
Total	**68,007**	**100**

This represents 11.2 per cent of the basic salary bill. Over one-third of this total cost derives from the cost of replacement workers and absence management costs, aspects that were not previously being recognised by the store. Long-term absence accounts for 31 per cent of total absence costs.

Table 2. 2: Case study 1: Absence costs for medium store

	Total	Managers	Salesfloor	Backstage
Number (FTE)	117	7	94	16
Absence rate (%)	4.0%	0.2%	4.8%	1.5%
Percentage bouts of absence: 2 weeks or under	94.6%	100%	94.2%	100%
Percentage bouts of absence: over 2 weeks	5.4%	0	5.8%	0
Salary bill	£1,363,171	£152,379	£1,033,788	£177,004
Direct absence costs	£52,127	£313	£49,197	£2,617
Indirect absence costs	£3,500	0	£3,500	0
Absence management costs	£21,072	£671	£16,950	£3,451
Total absence costs	£76,699	£ 984	£69,647	£6,068
Absence costs: % of salary bill	6.8%	0.7%	8.0%	5.2%
Absence costs: per employee	£465	£123	£520	£264

Source: IES 2001

2.7 Medium store

The medium store in the Midlands selected for the study has 165 employees representing 117 full-time equivalents. Almost one in five are male and approaching three-quarters of employees work part time. One-third of the staff are under 30 years old. The absence rate for the whole store is 4.0 per cent, although there are variations by staff group. The salesfloor have an 4.8 per cent absence rate, while backstage staff have 1.5 per cent and the managers, in contrast, have 0.2 per cent. The majority of absences last one day (57 per cent) and only five per cent extend beyond two weeks. The details of absence in this store are shown in Table 2.2.

Direct costs of absence

The direct costs of absence in this store are based on a salary bill of £1,363,171 alone, which includes pension and National Insurance, as no other benefits are applicable. It is known that the store had 9,225 hours of absence in 2000. When hourly employment costs are applied to this, the cost directly attributable to absent workers is seen to be £52,127.

Indirect costs of absence

The indirect costs of absence are low in this store, as they do not usually replace absent staff; their colleagues generally cover for them. The extra hours that are worked due to absence cost £3,500

and represent cover for just seven per cent of absence. No section mangers were absent for long enough in 2000 to make acting up payments, which are paid by the company, necessary.

Absence management costs

The costs of managing absence in this store are estimated to be £21,072. Half of this is due to the use of Occupational Health Services. Line managers at the store spend in total eight hours per week conducting return to work interviews and arranging cover for absent staff, a further three hours are spent on administration due to absence.

Total absence costs

The total costs of absence in this medium-sized store from each of the cost areas are:

	£	%
Direct	52,127	68
Indirect	3,500	5
Management	21,072	27
Total	**76,699**	**100**

The total figure of £76,699 is 6.8 per cent of the basic salary bill for the store. However, when looked at by staff group this rises to 8.0 per cent for salesfloor and decreases to 5.2 per cent for backstage. The cost of management absence is a relatively low 0.7 per cent. The cost of long-term absence in this store represents 43 per cent of all absence costs.

2.8 Large store

The largest store in the company has 1,275 employees who, when part-time working is taken into account, reduce to a full-time equivalent of 1,216. One-third of the workforce are male and 70 per cent work part time. The employees are relatively young, with 38 per cent being under 30 years old and only 11 per cent over 50 years. The absence rate is high for the organisation at 7.5 per cent but, in contrast to the other two stores, it is highest among backstage workers at 8.3 per cent. The salesfloor has a rate of 7.8 per cent and in this store the managers have a significant level of absence at 3.7 per cent.

Table 2. 3: Case study 1: Absence costs for large store

	Total	Managers	Salesfloor	Backstage
Number (FTE)	1,216	122	941	153
Absence rate (%)	7.5%	3.7%	7.8%	8.3%
Percentage bouts of absence: 2 weeks or under	88.7%	na	na	na
Percentage bouts of absence: Over 2 weeks	11.3%	na	na	na
Salary bill	£12,965,413	£2,444,707	£9,047,807	£1,472,899
Direct absence costs	£970,141	£90,994	£756,581	£122,566
Indirect absence costs	£408,460	0	£351,312	£57,148
Absence management costs	£238,348	£15,251	£196,186	£26,911
Total absence costs	£1,616,949	£106,245	£1,304,079	£206,625
Absence costs: % of salary bill	16.4%	5.7%	19.1%	18.5%
Absence costs: per employee	£1,268	£1,022	£1,321	£1,161

Source: IES 2001

Direct costs

The total salary bill in this store is £12,965,413 and the number of hours lost to absence was 128,000 in 2000. Applying the hourly rate to this produces a figure of £970,141 as the payments made to staff who are unable to work.

Indirect costs

No additional workers are used on a temporary basis to cover for absence in this store; existing staff work extra hours to cope with the workload. The cost of these extra hours is estimated to have been £408,460 last year.

Absence management costs

The cost of managing absence in this large store is £238,348. Annually, almost 11,000 hours are spent by line managers dealing with absence, which costs the company £98,458. Conducting disciplinaries within this costs £41,149 alone. Human Resources administration time concerned with absence represents £44,882, and £93,193 is spent on Occupational Health Services. The remaining £1,815 is spent on line manager training.

Conclusions

The total cost of absence at this large store is divided by the cost categories as follows:

	£	%
Direct costs	970,141	60
Indirect costs	408,460	25
Management costs	238,348	15
Total costs	**1,616,949**	**100**

As a percentage of basic salary costs, this total represents 16.4 per cent, rising to 19.1 per cent for the salesfloor, closely followed by backstage at 18.5 per cent. The cost of absence for managers, unusually, accounts for 5.7 per cent of their basic salary costs. Long-term absence in this large store represents a high 74 per cent of all absence costs.

2.9 Overview of the three stores

Table 2.4 presents comparative data for the three stores discussed in this case study. The stores have different profiles; workers in the small store are predominantly older while those in the large store are younger. There is a reducing percentage of female workers as the store size increases, decreasing from 93 per cent to 66 per cent. The smaller store with older workers has more long bouts of illness due to chronic conditions, predominantly due to back problems, compared to the large store where the younger workers are affected more by stress and mental conditions. The medium store with its more even spread of workers by age, interestingly, has the lowest absence rate.

When the cost of absence as a percentage of basic pay is considered, the medium-sized store has the lowest rate at 6.8 per cent, compared with 11.2 per cent for the small store and 16.4 per cent for the large. This is mainly due to its low level of absences over two weeks — 5.4 per cent, compared to 8.1 per cent for the small store and 11.3 per cent for the large store. It is also spending the most in terms of occupational health advice and support which, as a percentage of total absence, costs 12.8 per cent, compared to 3.2 per cent for the small and 5.8 per cent for the large store. Occupational health advice is effective by ensuring that a member of staff who has been absent over a period of time can return to work to a role that they can perform and for an appropriate number of hours. They can also assist and advise staff on safe and effective ways of working. This suggests that the reduction of the number of long-term absences and the use of occupational health services can significantly reduce the cost of absence to the company.

Table 2. 4: Case study1: The three stores

	Small	Medium	Large
Number (FTE)	61	117	1,216
Male	7%	19%	34%
Female	93%	81%	66%
Full-time	35%	27%	30%
Part-time	65%	73%	70%
Under 30	16%	32%	38%
30-30 years	25%	15%	35%
40-49 years	18%	24%	20%
50 +	40%	28%	11%
Absence rate (%)	5.6%	4.0%	7.5%
Percentage bouts of absence: 2 weeks or under	91.9%	94.6%	88.7%
Percentage bouts of absence: over 2 weeks	8.1%	5.4%	11.3%
Total absence costs	£68,007	£76,699	£1,616,949
Percentage spent on OHS	3.2%	12.8%	5.8%
Absence costs: % of basic pay	11.2%	6.8%	16.4%

Source: IES 2001

3. Case Study 2: Insurance Company

The second case study is an established insurance company with over 500 employees in the UK, based in the South of England on one site. Their absence rate in the year 2000 was 2.4 per cent, but this relatively low rate is increasing slightly with more absence due to stress and mental disorders.

3.1 Absence management

The company has a clear and concise absence management policy, which stresses the need to be concerned with employee welfare but also to 'proactively' manage every absent member of staff. Absence management is expected to be a line responsibility where the employee is ill for up to four weeks, but after this time Human Resources will become involved to help with the management of the individual. Coaching and support is available to managers on an individual basis. The sickness absence procedures for employees are explained at induction and form part of the employee handbook.

3.2 Health promotion and employee support

The company actively promotes health among its staff by having a gym on site, an active sports and social club, provision of healthy options at lunchtime and has supported health programmes, such as QUIT for smoking. Staff are also encouraged to take part in the sponsored cycles and walks that the company holds for charity.

External employee support is provided by the counselling service EAR, which staff in need of help can approach directly. Additionally, the company subscribes to Childcare Solutions, which will advise on any child-related difficulties.

3.3 Insurance and disability

The organisation holds disability insurance with itself, rather than self-insuring as was done previously. This gives better access to their own medical and occupational health services. A company doctor is available for medical claims, to advise existing employees, and is also used for pre-employment screening. Adjustments

covered by the Disability Discrimination Act have been made by the company, such as purchase of special seating and phones, but these are generally not recorded. A rehabilitation service is part of the company and will assist with the return to work of recovering employees.

3.4 Absence data

Absence is monitored by monthly returns from line managers, which are then entered into each individual's record. The software used is capable of providing detailed analyses of absence within the company, which has benefited this case study.

Information was generated for each of the seven grades of staff but, for ease of presentation, this has been combined into the groups of post and clerical support, administration, team leaders and managers, including the senior management team.

3.5 Employee profile

The organisation has a headcount of 541 staff which equates to 520 full-time equivalents and is evenly spread by gender: 56 per cent of staff are female and 44 per cent are male. The workforce is young, with 39 per cent being under 30 years old and 29 per cent being between 30-39 years. Only seven per cent of staff work part-time.

The overall rate of absence of 2.4 per cent conceals the variation by staff group. Managers have the lowest rate at 1.3 per cent, with team leaders having the highest at 4.6 per cent. Post and clerical support and administrative staff each record 2.3 per cent.

Table 3.1 shows the absence costs for the company.

3.6 Direct costs of absence

The direct costs of absence are the pay and associated oncosts of absent employees that continue to be paid while they are away sick. These include basic salary, National Insurance and pension contributions by the employer plus, in this case, bonus payments. The benefits of car allowances and disability cover, which also continue if the employee is not working, are also included here. The total direct employee costs are £15,461,972 for this organisation. The basic salary element of this amounts to £11,336,518, with the other items inflating this by 36 per cent.

Table 3. 1: Case study 2: Absence costs

	Total	Post/ Clerical	Admin	Team leaders	Managers/ SMT
Number (FTE)	520	51	338	54	77
Absence rate (%)	2.4%	2.3%	2.3%	4.6%	1.3%
Percentage bouts of absence: 2 weeks or under	93.2%	87.6%	94.8%	88.4%	91.1%
Percentage bouts of absence: over 2 weeks	6.8%	12.4%	5.2%	11.6%	8.9%
Salary bill	£15,461,972	£900,887	£7,805,352	£1,833,716	£5,136,410
Direct absence costs	£353,539	£20,651	£179,751	£84,577	£68,560
Indirect absence costs	£150,986	0	£150,986	0	0
Absence management costs	£32,796	£2,528	£15,896	£6,051	£8,321
Total absence costs	£537,321	£23,179	£346,633	£90,628	£76,881
Absence costs: % of salary bill	4.7%	3.5%	6.1%	6.7%	2.1%
Absence costs: per employee	£991	£414	£985	£1,618	£1,002

Source: IES 2001

3.7 Indirect costs

The indirect costs of absence are the staffing costs that are incurred to cover the work of the absent employee. It has been estimated from discussions with line managers that it is usual to absorb the workload of absent staff for the first one or two days but after this time it is likely that some overtime working will be necessary. A final option is to use a temporary worker, although this would not be possible for managers or where specialist knowledge was necessary. Generally it would only be among administrative staff, the largest group, that overtime due to absence would be a significant cost.

It was very difficult to get estimates of how much overtime and employment of temporary workers was due to sickness absence, as volume of work was a much greater influence. A more sound approach is to calculate the number of days absence that fall into the three to 20 days category and assume that 40 per cent of this is covered by overtime, an estimate that appears reasonable from the interviews with managers. This produces a figure of £108,936 for overtime working in 2000 due to sickness.

The use of temporary staff due to absence was equally difficult to identify. After looking at HR records of temporary employment and recognising that some managers employed their own staff directly, some assumptions were made on the reasons for

employment and its length. These gave an estimate of £42,050 for temporary employment costs, which appeared reasonable.

3.8 Absence management costs

The estimated costs of managing absence in the company are £31,796. Line manager time devoted to dealing with absence and training represents £17,771 and central administration costs a further £1,025. The employee counselling support services cost a combined £14,000. The costs of health promotion were not provided for this case study and are therefore not included here. Similarly, no cost for the provision of sports facilities has been attributed to sickness absence management. This was virtually impossible to determine and it was considered prudent not to inflate the costs with an item that could easily be disputed.

3.9 Total absence costs

The total cost of absence to this organisation is £537,321 taking into account the three cost areas:

	£	%
Direct	353,539	66
Indirect	150,986	28
Management	32,796	6
Total	**537,321**	**100**

This represents 4.7 per cent of the basic salary bill which rises to 6.7 per cent for team leaders and 6.1 per cent for administrative staff. Absence among managers costs a low 2.1 per cent of basic salary costs and for post and clerical staff this is 3.5 per cent. The cost of long-term absence as a proportion of total absence expenditure is 54 per cent.

4. Case Study 3: Financial Services Company

4.1 Background

This large financial sector company employs over 7,000 people in the UK and its products are prominent in a range of markets. It operates out of five main UK locations, including its head office, where over 2,000 staff are employed. The company is unionised, operating a partnership deal with its main unions. The majority of its staff are administration and clerical workers, with most working in processing jobs in either head office, in one of its regional centres, or in a call centre. Overall sickness absence rates in the company averages 3.2 per cent, though this masks some variation by staff group.

4.2 Absence policy and practice

While the company seeks to apply a consistent approach to absence management, a range of practices exist across each of the locations. This makes the collation of corporate absence statistics very difficult and unreliable, and has made development of a coherent approach to absence management troublesome. These inconsistencies have most recently been the subject of concern for the trade unions, who have pointed out differences in the 'trigger points' used to highlight staff with attendance problems. In addition, one regional office uses Bradford scores (see Appendix 3) to calculate absence levels, while other sites use absence rates and the percentage of days lost.

At the time the company was visited by IES it had recently completed a review of its absence policies. This resulted in further clarification of:

- notification procedures
- line managers roles in monitoring absences
- return to work interviews
- collating data on causes of absence
- role of employees
- role of occupational health advice
- training for managers.

The remaining challenge is to ensure compliance with these policies and procedures.

Long-term absences

In the recent past, the company has focused on the management of short-term absences, which account for almost 85 per cent of all incidences. However, there is a realisation that more focus is required on longer-term absences.

Long-term absences are not currently being managed effectively for the following reasons:

- Line managers are failing to keep effectively in touch with staff who are off sick for long periods. Few are conducting home visits, for example.
- The HR manager asserted that managers are generally unaware of the LTDI scheme. This covers all permanent staff with over one year's service, and managers are unaware of its provisions. This results in claims which could be avoided.
- There is no ready access to occupational health advice within the company.
- Managers are generally not confident dealing with issues such as stress.

In addition, the rehabilitation of those returning from long periods of absence works well only if the LTDI is operating effectively. Otherwise, outside the provisions made under the LTDI scheme, there are no formal procedures to encourage effective rehabilitation.

Employee health and well-being

The company offers a range of benefits in this area, though access varies by location. It has its own healthcare company and offers subsidised membership of leisure clubs and other exercise facilities. It promotes healthy eating in its restaurant facilities and offers facilities for cyclists. However, it is aware that these activities have been introduced 'piecemeal' and do not constitute a coherent approach to workplace health promotion.

The company offers employees access to an Employee Assistance Programme (EAP), which is delivered through an external provider. It is based around 24 hour telephone support and offers guidance across a range of issues, including:

- finance
- the law
- relationships
- family care
- work, including stress.

It is open to all family members of the employee. Take-up of this service is monitored, though its effectiveness is not.

4.3 Absence data

The company keeps computerised records of staff absence on an historical basis. Records are regularly reported and tend to be disaggregated by:

- location
- frequency
- duration.

Average days lost and average duration of absence per employee are also calculated. On all main indices, absence levels in the business are increasing. The company attributes this to:

- a young workforce (*eg* higher casual sickness)
- some organisational change in two of its larger locations.
- poor adherence to absence management procedures.

As Table 4.1 shows, the absence rates and the patterns of absence vary by staff group. As might be expected, absence rates are higher among administrative staff (3.8 per cent) and lowest among managers (1.5 per cent). Among administrative staff however, there appears to be a marked difference in long-term

Table 4. 1: Case study 3: Absence costs

	Total	Managers	Admin	Sales	IT
Number (FTE)	7,071	1,219	4,894	504	545
Absence rate (%)	3.2%	1.5%	3.8%	1.7%	2.7%
Percentage bouts of absence: 2 weeks or under	83.7%	92.5%	79.2%	91.1%	94.5%
Percentage bouts of absence: Over 2 weeks	14.3%	7.5%	20.8%	8.9%	5.5%
Salary bill	£152,850,114	£50,580,018	£79,502,172	£10,666,575	£12,101,349
Direct absence costs	£5,684,288	£1,105,330	£3,852,034	£274,275	£452,649
Indirect absence costs	£3,127,271	£240,800	£2,601,889	£118,836	£168,873
Absence management costs	£3,048,391	£234,726	£2,536,261	£115,839	£164,613
Total absence costs	£11,859,950	£1,580,856	£8,990,184	£508,950	£786,135
Absence costs: % of salary bill	7.8%	3.1%	11.3%	4.8%	6.5%
Absence costs: per employee	£1,677	£1,297	£1,837	£1,010	£1,442

Source: IES, 2001

sickness. Here, almost 21 per cent of all periods of absence in this group were over ten days. This compares unfavourably with the other staff groups, where the figure is less than ten per cent.

4.4 Absence costs

Using data provided by the company for the year 2000, IES has calculated the costs of absence across all staff groups and in aggregate.

Direct costs

The company conducts periodic calculations of absence costs using annual salary as their basis. However, adding in employers' National Insurance contributions of 12.2 per cent, employers' contribution to the company pension scheme and annual performance bonuses, increases these wage costs by an average of 33 per cent. Adding in the costs of wider benefits such as cars (for managers and sales staff), private healthcare and costs of premiums under the LTDI scheme, raises these employment costs still further.

Applying the current pattern of absence to these direct costs results in an aggregate annual figure of £5,684,288, or 3.7 per cent of the salary bill.

Indirect costs

The indirect costs of absence are driven by the choices the company makes about covering for absent employees. In most cases cover is internal, with administrative staff having access to overtime payments. Agency staff or temps are used only rarely for administrative staff and IT staff. Absence among managers and sales staff are not formally covered, though colleagues are expected to pick up urgent work of colleagues.

As a result, most (85 per cent) of the indirect costs of absence are attributable to providing internal cover for administrative staff who, as we have seen, have the highest rates of absence and long-term absence.

The total annual indirect costs of absence are £3,127,271, or 2.1 per cent of the salary bill.

Absence management costs

Absence management costs are mainly accounted for by line manager time and the time of HR staff. Line managers spend time:

- arranging cover
- supervising cover

- tracking long-term absences
- conducting return-to-work interviews.

As reported above, there is a view that managers do not spend as much time as they should managing absences. The figures included in this costing are based on estimates of actual time spent, rather than what time should be spent and, as such, are likely to be an underestimate.

One full-time HR post at head office is dedicated to managing absence, and field HR staff each spend an estimated three hours per week on absence issues.

The EAP has an annual cost of £135,000.

In aggregate, therefore, the annual absence management costs incurred by the company total £3,048,391, or 2.0 per cent of the salary bill.

4.5 Conclusions

Table 4.1 summarises the cost information described in this case study. The key points include:

1. Absence levels are increasing in the company.
2. Absence management procedures are not being fully carried out, especially among those with long-term illness or injury.
3. Total absence costs of almost £12m represent 7.8 per cent of the salary bill.
4. Of these costs, 47.9 per cent are accounted for by direct costs, 26.4 per cent by indirect costs and 25.7 per cent by absence management costs.
5. The annual cost of absence per employee is £1,677.
6. Long-term absence accounts for 70 per cent of all absence costs.

Overall costs are likely to be amenable to reductions if absence management procedures are more consistently adhered to. More specifically, improved management of long-term absences among administrative staff would be likely to reduce costs significantly.

5. Case Study 4: Local Authority

5.1 Background

This organisation is a County Council employing over 9,000 people. It provides services to a wide, semi-rural area. It has many offices and other work locations (*eg* care homes). In the mid-1990s a significant proportion of its manual worker posts were 'outsourced', reducing its headcount to current levels. Those employees previously categorised as manual workers (*eg* care staff) have been re-labelled 'former manual' employees as a result of a move towards a single status within the authority.

The Authority is unionised and employs a wide variety of staff including teachers, social workers and administration/clerical. Overall sickness absence rates in the company averages 4.2 per cent, though this masks some variation by staff group.

5.2 Absence policy and practice

The Authority has very comprehensive absence policies and procedures. These are agreed with trade unions and are contained within the Authority's employee handbook. Within these over-arching policies, each main department is responsible for day-to-day management of absence. This includes:

- collecting, monitoring and reporting of absence data
- monitoring the role played by line managers
- managing access to welfare and occupational health support
- organising internal and external cover
- participating in Authority-wide stress audits and acting on the results.

In the main, the Authority feels that absence policies and procedures are complied with. Recent legal cases[1] have emphasised the liability of Local Authorities for the well-being of their employees. Attendance management features prominently among the Authority's performance indicators.

[1] For example, *Walker vs. Northumberland County Council*.

Short-term absences

Across the Authority, bouts of short-term absence account for 94.5 per cent of all incidences. This proportion is higher among administrative employees, and lowest among former manual employees.

Employee health and well-being

The Authority engages in a range of activities aimed at promoting the health of its employees. These include:

- stress audits
- access to professional counselling
- health promotion campaigns (including manual handling, smoking cessation, back injury prevention)
- free blood pressure checks
- access to massage, t'ai chi classes for employees.

In addition, a 'Health at Work' strategy is being formulated and will go live in 2002.

The Authority employs a corporate welfare officer who co-ordinates access to a number of external counsellors. A medical advisor is also employed, together with an occupational health nurse. A number of other employees have health and safety roles in their departments.

5.3 Absence data

The Authority produces monthly departmental reports on absence. The corporate personnel department produces an annual report for the senior management team and the chief executive.

Data are available by:

- department
- employee group
- employment status (FT/PT).

Average days lost and average duration of absence per employee are also calculated. On all the main indicators, absence levels across the Authority have been decreasing for the last three years, though there has been a recent upturn among teaching staff.

Table 5. 1: Case study 4: Absence costs

	Total	Teachers	Admin/ prof.	Former manual	Education other
Number (FTE)	9,161	3,539	3,978	1,542	102
Absence rate (%)	4.2%	3.7%	4.7%	4.1%	3.0%
Percentage bouts of absence: 2 weeks and under	94.5%	95.0%	92.8%	96.4%	94.8%
Percentage bouts of absence: Over two weeks	5.5%	5.0%	7.2%	3.6%	5.2%
Salary bill	£250,080,000	£116,130,000	£81,900,000	£46,200,000	£5,850,000
Direct absence costs	£10,215,816	£4,296,816	£3,849,300	£1,894,200	£175,500
Indirect absence costs	£2,689,492	£823,314	£1,382,952	£461,432	£21,794
Absence management costs	£7,513,163	£2,299,948	£3,863,311	£1,289,023	£60,881
Total absence costs	£20,418,471	£7,420,078	£9,095,563	£3,644,655	£258,175
Absence costs: % of salary bill	8.2%	6.4%	11.1%	7.9%	4.4%
Absence costs: per FTE	£2,261	£2,097	£2,286	£2,364	£2,531

Source: IES, 2001

As Table 5.1 demonstrates, the absence rates and patterns of attendance vary between employee groups. Absence rates are higher among administrative employees (4.7 per cent) and lowest among non-teaching education employees (3.0 per cent). Among administrative employees a higher proportion of bouts of absence (7.2 per cent) are longer than ten days. This compares with other employee groups where the figure is at or below five per cent.

5.4 Absence costs

Using data provided by the corporate personnel department, IES has calculated the costs of absence across a number of employee groups.

Direct costs

The annual report of absence which is compiled by the Authority uses salary data to estimate absence costs. However, adding employers' National Insurance contributions (9.2 per cent) and employers' contribution to pensions (variable by employee group), adds a further 18 per cent to employment costs. No other financial benefits accrue to Authority employees.

Applying the current pattern of absence to these direct costs results in an aggregate annual figure of £10,503,360 or 4.2 per cent of the salary bill.

Indirect costs

The indirect costs of absence are influenced by the costs of replacing absent employees, especially where external replacements are used. A large component is the use of supply staff to cover absences among teachers. Among other employee groups, informal internal cover is used in the first instance. 'Acting-up' allowances are payable at management discretion after four weeks — these are used among teaching staff and among administrative employees only.

The total annual indirect costs of absence are £2,690,568, or 1.1 per cent of the salary bill.

Absence management costs

Absence management costs are primarily accounted for by line manager time and personnel/welfare staff time. Line managers spend time:

- arranging cover
- supervising cover
- referring employees to Welfare Staff
- attending capability hearings
- tracking long-term absences
- conducting return-to-work interviews.

Each department has a personnel manager and administrative support with responsibility for managing and monitoring absences. The Authority has no extensive health insurance scheme. There is a small voluntary scheme with 200 members.

The annual absence management costs incurred by the company total £7,516,170, or 3.0 per cent of the salary bill.

5.5 Conclusions

Table 5.1 summarises the cost information described in this case study. The key points to note include:

1. Absence levels are decreasing in the Authority, although rates among teaching staff have been increasing recently.
2. Absence management procedures are being adhered to in the majority of cases.
3. Total absence costs of almost £21m represent 8.3 per cent of the salary bill.

4. Of these costs, 50.9 per cent are accounted for by direct costs, 12.9 per cent by indirect costs and 36.1 per cent by absence management costs.
5. The annual cost of absence per employee is £2,260.
6. Fifty-five per cent of all absence costs are attributable to long-term absences.

Overall costs might be reduced slightly if the Authority improved its management of long-term absences among administrative and professional staff.

6. Case Study 5: Regulatory Body

This case study is of an organisation that monitors and regulates a major UK industry in the interests of the public. It employs just over a thousand, mainly specialist staff, in London and the south of England. The organisation had an overall absence rate in the year 2000 of 1.9 per cent, but this rate increases to 3.1 when administrative staff are considered as a group alone.

6.1 Absence management

The organisation has an absence policy which is clearly presented to managers. It immediately states that it is intended to 'promote the highest practicable attendance standards rather than penalise poor attendance'. In the introduction to the policy the point is specifically made that staff costs account for over 60 per cent of operating costs. Attendance problems are to be identified early and resolved promptly by managers using their own discretion. Training in attendance management is given as part of general management training and one to one coaching is also available. The policy has been formulated in consultation with the appropriate trade unions.

6.2 Health promotion and employee support

Free private medical insurance is given to senior staff and discounted schemes are provided for other employees. Health checks can also be requested by staff aged over 40 years. The organisation has a no smoking policy and access to a local gym at a reduced rate has been arranged. No formal health promotion activities or programmes are implemented.

Welfare counselling is initially available through the personnel section, who include trained counsellors, and outside support will also be considered. The organisation has its own occupational health team who will liase with an employee's GP or consultant.

6.3 Insurance and disability

The organisation has injury on duty schemes and medical retirement schemes, as its professional staff need to be in excellent

health to perform their duties. These are funded by the organisation itself.

6.4 Absence data

Absence is monitored by line managers who are expected to record all absences and the reasons given by employees. The absence codes provide for sickness absence to be clearly identified and the type of condition to be recorded. The system does not register actual hours lost but uses units of a day, half day and shift. This may produce an overestimate of lost part-time hours, however, the vast majority of staff work full-time so no great distortion will result.

The organisation uses sophisticated computer software to record absence onto personnel records and is able to track the absence of long-serving staff since the early 1980s. It is possible to group employees by a range of variables, and after discussion it was decided that for the purposes of this study that three groups were appropriate. These groups were managerial, professional and technical, and administrative staff.

6.5 Employee profile

The organisation has a headcount of 1,073 of which two-thirds are male. The age structure is unusual with nearly one-third of the workforce being over 50 years old and almost a further third being between 40 and 49.

The overall absence rate is relatively low at 1.9 per cent, but this varies from 0.8 per cent for managers to 3.1 per cent for administrative staff. Ninety per cent of all absence is for less than six days, although this figure is lower for managers at 86 per cent.

Table 6.1 shows the absence costs for the company.

6.6 Direct costs of absence

The direct costs of employment for this organisation are the basic pay and associated oncosts of pensions and National Insurance contributions, plus a small amount of contracted overtime for administrative staff. In addition, managers have car allowances and private healthcare insurance paid by the organisation. The figure for disability cover is not known. These items raise the basic salary bill from £39 million to £50 million. When the daily employment cost is derived from this and applied to the number of days absence, the direct costs of absence are shown to be £814,899.

Table 6. 1: Case study 5: Absence costs

	Total	Managers	Prof./Tech.	Admin
Number (FTE)	1,073	127	632	314
Absence rate (%)	1.9	0.8	1.6	3.1
Percentage bouts of absence: **one** week or under	90.3%	85.7%	90.7%	90.2%
Percentage bouts of absence: over **one** week	9.7%	14.3%	9.3%	9.8%
Salary bill	£38,920,000	£8,280,000	£25,000,000	£5,640,000
Direct absence costs	£814,899	£93,564	£501,367	£219,968
Indirect absence costs	£37,870			£37,870
Absence management costs	£15,098	£574	£6,870	£7,654
Total absence costs	£867,867	£94,138	£508,237	£265,492
Absence costs: % of salary bill	2.2%	1.1%	2.0%	4.7%
Absence costs: per employee	£809	£741	£804	£846

Source: IES 2001

6.7 Indirect costs

The indirect costs of absence are the staffing costs that are incurred to cover the work of the absent employee. Generally in this organisation it is only administrative staff that will be replaced by external agency workers. The workload of managers and professional staff is either absorbed by their colleagues or managed by the absent member of staff themselves.

The organisation was able to supply the costs of employing temporary agency staff. The assumption was then made that all absence between six and 20 days, plus half of that over one month, was covered by outside staff. This produced an estimate of £37,870 for indirect costs.

6.8 Absence management costs

The estimated costs of managing absence in the company are £15,098. This figure is composed of £2,145 for the annual cost of collating absence data plus £12,953 for the total cost of managing each incident of absence. This figure is an underestimate, as the cost of line manager training and use of occupational health services have not been made available.

6.9 Total absence costs

The minimum total cost of absence to this organisation is £867,86, taking into account the three cost areas:

	£	%
Direct	814,899	94
Indirect	37,870	4
Management	15,098	2
Total	**867,867**	**100**

This represent 2.2 per cent of the total basic salary bill, but for administrative staff this rises to 4.7 per cent of their basic salary costs. Absence among managers costs a low 1.1 per cent of the basic salary costs of managers, and for professional and technical staff this is 2.0 per cent of their paybill. Absence on average costs £809 for each member of staff. The cost of long-term absence is £282,057, or 33 per cent of total absence costs.

7. Case Study 6: Large Retail Group

The company in this case study is the largest retailer in its sector and is comprised of several chains of stores. It employs 28,000 people throughout the UK. Its whole ethos is centred on selling and all other aspects are secondary to this drive; absence management is not seen as a vital issue for the group. It has a culture of constant change of both staff and objectives.

7.1 Absence management

The group has no overall absence policy; different systems are used throughout. The requirements for employees to report sickness are given in the staff handbook, but there are no corresponding guidelines for managers. Formal policies have been worked on for the past 18 months but, as yet, there has been no final outcome. Managers should deal with absence and report to the area HR representative, but in reality the approach is totally pragmatic: staff who are absent for prolonged periods are not actively managed just replaced. Managers receive little training in how to address absence, as their focus is on selling and marketing. The group accepts a high turnover rate of staff in its stores with only head office being relatively stable.

7.2 Health promotion and employee support

There is no health promotion within the group and little employee support. HR can advise staff on who to approach for advice and counselling, but this is not paid for by the company and is generally not well advertised.

7.3 Insurance and disability

The group has permanent disability insurance with UNUM and perceives the level of claims as high. Only thirty-five per cent of staff take up the offer of a pension, so the majority of staff are not covered. Employee injuries are also covered by insurance schemes.

Senior staff at head office are covered by a private health insurance scheme. Head office staff also have access to occupational health

services on the industrial estate where they are located, but there is no provision for other employees.

7.4 Absence data

A review of information systems is currently taking place with the intention of creating a common database for pay, pensions, personnel records and attendance. The intention is to achieve this within a year, which may result in attendance not being initially included.

Absence is currently recorded inconsistently, so the figures in this chapter will certainly understate the cost to the company. There are difficulties in recording the absence of part-time staff; if an employee works three days a week and is absent for several weeks, the system does not recognise this as continuous absence. The company was therefore unable to supply duration of absence figures owing to the large number of part-time staff.

The group has just over 23,000 employees, but this case study will only consider sales and head office. The absence of staff in service and distribution is recorded on cards, but not entered onto a computer system, so an overview of absence is not possible for this part of the group.

Table 7. 1: Case study 6: Absence costs

	Total	Sales	Head Office
Number (FTE)	18,755	15,729	3,026
Absence rate (%)	5.2	5.6	3.1
Percentage bouts of absence: 2 weeks or under	na	na	na
Percentage bouts of absence: Over 2 weeks	na	na	na
Salary bill	£143,027,858	£73,463,695	£69,564,163
Direct absence costs	£7,522,552	£4,943090	£2,579,462
Indirect absence costs	£1,802,458	£840,619	£961,839
Absence management costs	na	na	na
Total absence costs	£9,325,010	£5,783,709	£3,541,301
Absence costs: % of salary bill	6.5	7.9	5.1
Absence costs: per employee	£497	£368	£1,170

Source: IES 2001

7.5 Employee profile

Table 7.1 shows the absence costs for the company based on just over 23,000 staff. The absence data available suggest an absence rate of 5.2 per cent overall, with sales having an underestimated 5.6 per cent and head office a (probably more accurate) 3.1 per cent. Three-quarters of the workforce are male and 22 per cent of staff are part-time. The age profile is remarkably young with just over half the staff being under 30 and a further quarter being between 30 and 39 years.

7.6 Direct costs of absence

The direct costs of employment for this company are based on basic salary, employer's contribution to National Insurance and pensions, plus private healthcare insurance and disability cover. This gives a figure of £172,061,318 for total direct employment costs, an increase of 20 per cent over the basic salary cost. When the daily employment cost is calculated and applied to the number of absent days, a direct cost for absence of £7,522,552 is produced.

7.7 Indirect costs

No data were made available on the costs of replacement workers when staff are absent. Discussion with the company established that staff would not generally be replaced in large stores as their workload could be absorbed. However, where the outlet was small this approach could not be used and temporary staff would be employed.

The approximate distribution of stores by type and size was known, which enabled an estimate of indirect absence costs in small stores of £840,619 to be made. This was achieved by applying the absence rate to the potential working days in these stores and assuming that half would be covered by a temporary worker. A similar approach was adopted for head office, but only 40 per cent of absence was assumed to be covered by overtime and external workers. An indirect cost of £961,839 in head office was estimated in this way.

7.8 Absence management costs

No estimate of absence management costs has been made for this company, as no information is available on which to base them. Without knowledge of the number of incidences of absence it is impossible to realistically attribute a management cost for the line manager or HR. In view of the lack of emphasis on absence in the company, this conservative approach seems wisest.

7.9 Total absence costs

The minimum total cost of absence to this organisation is £9,325,010 taking into account only two cost areas:

	£	%
Direct	7,522,552	81
Indirect	1,802,458	19
Management	na	–
Total	**9,325,010**	**100**

This incomplete estimate shows absence costs representing 6.5 per cent of the salary bill for all staff, rising to 7.9 per cent for sales and 5.1 per cent for head office. The head office estimate has the problem that no allowance is made for grade. Managers generally have low rates of absence, but are paid above the average. When the total salary bill for head office is just divided by the number of staff, it will tend to overstate the cost. This illustrates how important it is to collect information by grade and not function.

The costs in this case study only partially reflect the true cost of absence to the group; more active management of absence would undoubtedly result in substantial savings. At the moment the company, through inconsistent data collection, has no means of appreciating the real impact of absence on its operating costs.

8. Case Study 7: Department in a Major Law Firm

This case study is one of the major law firms in the City, whose main business is with leading edge technology, media and telecommunications companies. It has doubled in size over the past three years. The company now employs approaching five hundred staff, but this chapter will describe the absence in one specialist department of 93 staff who are legal professionals, referred to as 'fee earners' and secretaries. The rate of absence in this department is a low 1.8 per cent, but this varies between 0.7 per cent for fee earners and 5.9 per cent for secretaries. This rate has remained stable despite the expansion of the firm.

8.1 Absence management

There are relatively few formal policies in the company; much is at the partners' discretion. However, there is a need for this to change as the company expands and consistency is required. HR are beginning to develop more formal policies for managers. A number of generally accepted practices and procedures are followed by employees when they are absent.

8.2 Health promotion and employee support

A range of benefits are paid for by the firm and made available to all staff, including health and dental cover, woman's health clinic and gym membership. Personnel staff are also available to confidentially discuss absence or other problems, and are able to recommend a counselling service where necessary

The firm does not undertake health promotion, as they are relatively small. It does give attendance bonuses of £500 to staff who take three days or less sick leave and £300 to those taking under five days. Varied views were expressed on the effectiveness of this. The problems of staff attending when they would have been better resting at home was mentioned, plus the feeling that absence need not be curtailed once the five day limit had been exceeded.

8.3 Insurance and disability

The company has permanent health insurance, which pays the salary of absent staff after 13 weeks. This is not used greatly and examples were given of people on long-term sick leave who are still paid in full by the company.

8.4 Absence data

All absence is logged centrally on a database, both initially when a member of staff phones in sick to notify personnel, and on the person's return when an absence form has to be filled in. The size of the firm results in all absence being noticed and recorded.

8.5 Employee profile

The department in this case study has 58 fee earning staff and 35 secretaries. The fee earning staff are equally divided between men and women but the secretaries are, with one exception, all female. Virtually all staff are full-time with only three staff employed four days a week, so there are no problems of over or under recording part-timers' absence. The absence rate is low at 1.3 per cent. Absence among fee earners is 0.6 per cent and that for secretaries is 2.5 per cent. One-fifth of the fee earners' absence is over two weeks, while for the secretaries it is only 2.4 per cent. This reflects the usual pattern of professional staff not taking short-term sick

Table 8.1: Case study 7: Absence costs

	Total	Fee Earners	Secretaries
Number (FTE)	93	58	35
Absence rate (%)	1.3	0.6	2.5
Percentage bouts of absence: 2 weeks or under	94.8%	80.0%	97.6%
Percentage bouts of absence: Over 2 weeks	5.2%	20.0%	2.4%
Salary bill	£4,372,500	£3,480,000	£892,500
Direct absence costs	£53,829	£24,778	£29,051
Indirect absence costs	£18,693		£18,693
Absence management costs	£5,335	£825	£4,510
Total absence costs	£77,857	£25,603	£52,254
Absence costs: % of salary bill	1.8	0.7	5.9
Absence costs: per employee	£837	£441	£1,493

Source: IES 2001

leave but managing to work at home. They have to be seriously ill to take absence leave.

8.6 Direct costs of absence

The direct costs of employment for this company are based on basic salary, employer's contribution to National Insurance and pensions, plus bonus payments. This produces a figure of £4,372,500 for total direct employment costs, an increase of eight per cent over the basic salary cost. Regrettably, the cost of employee health benefits and disability cover are not included in this estimate, which would increase this figure. Calculating the daily cost of employment and multiplying this by the number of absent days gives a direct cost for absence of £53,829.

8.7 Indirect costs

There is a small float of secretaries in each department, who are used to cover absence, peaks in workload and basic word processing. There is a preference for using this type of cover first, as these staff know the systems used. Temporary staff will be bought in if there is no cover available internally, owing to the volume of work or sickness. Longer-term cover is more often provided by temporary staff who have worked with the firm before.

Using this information with replacement worker costings provided by the company, and assuming half of short-term absence is covered by float workers and all long-term absence by external workers gives an estimate of £18,693 for the cost of replacement workers. Fee earners are not replaced when absent, but have to manage their own workloads or it is absorbed by colleagues, so attract no replacement cost.

8.8 Absence management costs

No actual absence management costs were received from this firm. An estimate has been made of how much it costs to manage each incidence of absence of both fee earners and secretaries. This covers the time spent in administration, return-to-work interviews and providing cover staff. A figure of £5,335 has been derived by costing the number of estimated hours per year spent by staff on these activities.

8.9 Total absence costs

The minimum total cost of absence to this department within the legal firm is £77,857 based on the costs below:

	£	%
Direct	53,829	69
Indirect	18,693	24
Management	5,335	7
Total	**77,857**	**100**

The cost of absence per individual employee is £837 on average for the department, but this conceals the low cost of £441 for fee earners and the high cost of £1,493 for legal secretaries. Long-term absence accounts for a quarter of all absence costs.

The total cost of absence represents 1.8 per cent of the basic salary bill, the lowest figure in the case studies. It should be borne in mind that this is an atypical case because it considers a staff mix where almost two-thirds are in the professional/managerial category, which depresses absence levels and costs. It does not include the absence and associated costs of support staff that would be likely to increase the costs of absence.

9. Conclusions

It is reasonable to conclude that the study to date has met some, but not all of, its objectives. More specifically:

- It has not collected data from as many organisations as originally planned.
- It has, however, collected quite detailed data from those organisations who have participated.
- By looking at the costs of absence across staff groups, the study has been able to explore some of the factors affecting the variability of the costs identified.
- It has been able to emulate the approach taken by the previous UNUM study in the USA.

This final chapter discusses the implications of the findings to date, and highlights how the work might be taken forward.

9.1 General findings: a capability deficit?

Based on the experience of gathering data of this kind, we feel that it is fair to conclude that even the most 'leading-edge' UK employers, with the most sophisticated information systems and HR functions appear fundamentally ill-equipped to form a comprehensive view of their sickness absence costs. Indeed, this problem extends to most aspects of HR costing. This is, in itself, an important finding of the study. If large employers, especially those where labour costs represent a significant proportion of their total running costs, are unable to produce even rudimentary data on staff costs, it is likely that they will be managing 'blind' in a number of key areas, namely the costs of:

- absence management
- attraction and recruitment
- employee turnover
- employee under-performance, low morale *etc.*
- low productivity
- training and development.

In addition, inability to compute cost data will almost inevitably be matched with an inability to calculate the value of benefits (*eg* of reduced absence, turnover *etc.*) in the areas outlined above.

The wider significance of these observations is that many UK employers are likely to be making decisions leading to considerable expenditure on staffing, with

- only a narrow view of the costs — this research suggests that crude indicators of direct salary costs are the most likely to be used
- little or no capacity to identify or even estimate the short or medium-term benefits of this expenditure.

While the current study has a limited scope, it is likely that many employers would benefit from guidance on both the costs and benefits of staff-related decisions they make.

9.2 Absence costs

The current study suggests that between two and sixteen per cent of annual salary costs may be being spent on absence by large UK employers. Further, it is likely that as little as half of this amount can be attributed to the gross employment costs of those who are absent. The remainder of the costs are driven by choices the employer makes about:

- the ways that absences are to be covered
- the extent to which it encourages compliance with absence management procedures
- the extent to which it wishes to be proactive in the management of long-term absences.

It seems reasonable to conclude, therefore, that up to half of the costs of absence are directly within the control of the employer.

Table 9.1 shows the variation in absence rates and costs from the case study organisations. Among the factors which seem to affect the variability of absence costs in the case study organisations are the following:

- **number of part-time staff:** we found that the treatment of part-time staff in absence statistics was, at best, inconsistent. In many cases this led to an inflation of absence levels.
- **approach to organising cover:** choices which employers make about the way they organise cover for absent employees can have an impact on costs. Using informal, internal cover by colleagues on a temporary basis can be the least expensive. Paid overtime or 'acting-up' allowances can increase these costs. The use of external agency or contract staff can be the most expensive.

- **age profile of the workforce:** the evidence to date suggests that a young age profile is associated with higher levels of short-term absence, while an older age profile is associated with higher levels of long-term absences. As we know, the UK workforce is set to age considerably over the next 20 years.
- **work location:** employees with long or difficult journeys to work can have higher absence costs.
- **balance between short-term and long-term absence:** in general, staff groups where a high proportion of bouts of absence are long-term are most likely to incur significant absence costs.

Table 9. 1: Summary of absence rates and costs by organisation

Organisation	Absence rate	Short-term absence incidences	Long-term absence incidences	Short-term absence costs	Long-term absence costs	Absence costs as % salary bill	Average annual cost per employee
	%	%	%	%	%	%	£
Retail company:							
Small store	8.1	91.9	8.1	69.4	30.6	11.2	861
Medium store	4.0	94.6	5.4	56.6	43.4	6.8	465
Large store	7.5	88.7	11.3	25.6	74.4	16.4	1,268
Insurance company	2.4	93.2	6.8	46.5	53.5	4.7	991
Financial services company	3.2	83.7	14.3	29.7	70.3	7.8	1,677
Local authority	4.2	83.7	5.3	45.1	54.9	8.2	2,261
Regulatory body	1.9	90.3	9.7	67.5	32.5	2.2	809
Retail group	5.2	na	na	na	na	6.5	497
Department in law firm	1.3	94.8	5.2	75.5	24.5	1.8	837

Source: IES 2001

Table 9. 2: Absence costs as a percentage of salary bill by organisation and type (per cent)

Organisation	Org	Managers	Prof.	Admin/ clerical	Sales	Manual
Retail company:						
Small store	11.2	1.6			14.6	4.9
Medium store	6.8	0.7			8.0	5.2
Large store	16.4	5.7			19.1	18.5
Insurance company	4.7	2.1	6.7	5.8		
Financial services company	7.8	3.1	6.5	11.3	4.8	
Local authority	8.2		6.4	10.7		7.8
Regulatory body	2.2	1.1	2.0	4.7		
Department in law firm	1.8	0.7		5.9		
Retail group	6.5			5.1	7.9	

Source: IES 2001

- **occupational mix:** the study has found that employee groups with a higher proportion of long-term absence, and where cover for absences is likely to involve formal (*ie* paid) internal replacement or the use of external agency staff, have higher absence costs. Table 9.2 shows the cost of absence as a percentage of salary bill by occupational group.
- **adherence to absence management policies:** ineffective absence management can lead to increased casual, short-term absences and more costly long-term absences where such absences are left unmanaged for too long.

Impact of LTDI

While it is difficult to be conclusive about the impact of LTDI on overall absence costs, evidence from the case studies suggests that:

- employee groups with high levels of long-term sickness absence appear to inflate the costs of absence appreciably
- the existence of LTDI can help to prevent or reduce these costs **only** if it is accompanied by effective mechanisms for the proactive management of absences. Where LTDI is part of a coherent absence management strategy (*eg* early intervention and managed rehabilitation), the downward pressure on costs can be significant.
- early intervention in cases of long-term absences is likely to contribute to the prevention of some costs.

UNUM has a clear interest in the impact of LTDI on absence costs and the extent to which LTDI may benefit employers. Our assessment to date suggests that:

- many large employers have no view of the annual costs of absence to their business. Indeed, as many have been successful in reducing their headline rate of absence, many will not consider absence costs a high priority. The current study suggests that this is an erroneous judgement and that lower absence rates do not always mean low absence costs.
- many have introduced absence management policies and practices which focus specifically on short-term absences. Most, for example, have clear notification procedures, and use return-to-work interviews, *etc.* Far fewer have effective policies for managing long-term absences with which their line managers or HR professionals feel comfortable. This can have the effect of increasing levels of long-term absence and, therefore, absence costs.
- In organisations where long-term absences are currently or prospectively a problem, early intervention, effective management and controlled rehabilitation and return to work processes are likely to have the effect of reducing costs and improving productivity.

Appendix 1: Literature Review

This review has been conducted to supplement literature already held by IES and reviewed in our publication for the Health Education Authority (HEA).

Sources examined

A through search of recently published periodicals and books was made, looking for discussions of absence management and costing. Ideally, it was hoped that the research would provide examples of absence costing models. Using the University of Sussex and IES library resources, searches of economic, human resources and medical literature databases were conducted. A visual scan of recently published journals was also made, as these are not always included on the electronic databases. The university catalogue was screened plus those of other local colleges for likely sources of information. Considerable time was also spent on the Internet seeking useful sites and data on absence.

Key themes

Overall, we found that the material generated by the review falls into two distinct categories:

- literature on costing methodologies
- literature on absence management policy and practice (with a distinct sub-set focusing on job retention and rehabilitation management).

There were also areas where we found little or no useful material on issues central to the current study. These included:

- the variability of absence costs
- correlations between absence costs and occupation, sector, gender or age
- any link between absence management strategies and absence costs.

These themes were explored in more detail in the IES study.

Costing methodologies

Within this category, there are two groups of material providing practical examples of costing methods which will be useful to the study.

Tools to cost absence

While these are very few and far between, we found one or two useful examples:

1. a checklist produced by Cascio (2000) to derive the hidden costs of 'Absenteeism and Sick Leave'. The checklist, which comprises eleven key steps, is illustrated with worked examples from a hypothetical manufacturing company. The chapter in which this checklist is described also contains guidance on the interpretation of absence costs data and the management of absence.
2. a simpler checklist reported by Seccombe and Buchan (1993) for use among nursing staff in the NHS. It differentiates between direct and indirect costs, identifies the approaches used to cover for absent employees and attempts to quantify the impact of absence on both quality of patient care and on productivity. Contains a worked example.
3. an approach to costing absence, which is based on predicted behaviour, described and tested in a study by Martocchio (1992). Using measured job attitudes, this work predicts absence behaviour among employees and then seeks to ascribe a cost to this absence. This is the least useful study as it implies that absence is dispositional. It also fails to differentiate between direct and indirect costs.

While this is a somewhat disappointing result, it is not unexpected. On a positive note, the Cascio work is quite comprehensive and will be of considerable benefit.

Tools to cost other labour flows

This is a field where the review has unearthed rather more which will be of practical benefit. The main area covered by this work is employee turnover, where more work on costing has been conducted.

Much of this work is rooted in Human Resource Accounting approaches that were popular in the USA in the 1970s and 1980s. Thus, the work of Bassett (1972), Flamholtz (1973), Jeswald (1974), Fitz-enz (1984) and Dawson (1988) were attempts to devise robust approaches to the calculation of replacement costs. For the most part, this work is comprehensive, but is likely to be too complex to be used by managers in organisations. Other, more practical approaches (Cawsey and Wedley, 1979; Hall, 1981; Cascio, 1987;

Bland-Jones, 1990 and Fair, 1992) are more useful as they were based on data to which employers were likely to have access and were presented in a more logical manner. A detailed checklist produced by Hall (1981) remains one of the most comprehensive and practical tools available. Important features include its approach to costing lost productivity among replacement staff, its use of weighted averages in the firm-level aggregation of job-specific data, and its worked examples.

The various approaches to costing employee turnover in the literature lead us to the view that there are four main elements of cost which can be identified:

- **Separation costs:** costs relating to the termination of the contract of employment (*eg* exit interviews, payroll administration).
- **Temporary replacement costs:** costs generated by the provision of temporary or supplementary cover as a direct consequence of an employee leaving.
- **Recruitment and selection costs:** those costs incurred in replacing the single, notional leaver.
- **Induction and training costs:** those costs incurred, after appointment, in establishing the new incumbent in his or her post, and developing their skills and expertise to the point at which they cease to be a net cost to the employing organisation.

Based on these headings, IES (Buchan, Bevan and Atkinson, 1988) has developed its own turnover costing checklist by asking twenty employers to complete the checklist for three different jobs (clerical, professional and managerial). The piloting exercise judged the checklist against four main criteria:

- **Incidence:** the extent to which the defined cost was commonly or normally incurred during turnover.
- **Variability:** the potential variance in the magnitude of the cost incurred.
- **Maximum magnitude:** the extent to which the cost heading was a major contributor to the overall cost of turnover.
- **Accuracy of measurement:** the degree to which an accurate measurement of the defined cost was feasible, given the existence (or otherwise) of relevant data.

It was found that certain posts, and the way that a vacancy was covered, attracted higher temporary replacement costs. It was also found that employers needed to make assumptions about the cost of management time (by the hour or the day), and about the time it took for a new recruit to become a net contributor to the organisation (the learning curve productivity costs).

In using the principles of the Hall checklist and the checklist devised by IES for the purpose of costing absence, a number of points should be noted which might reasonably be expected to increase the values derived by them:

1. The checklists rely predominantly on identifiable direct costs. They makes no allowance for other items of cost which might reasonably be attributable to turnover or absence, including lost sales, lost customers, sales opportunities not taken, inability to take on new (or fulfil existing) contracts. These 'opportunity' costs can be attributed both to the leaver/absentee and to those covering the vacancy or spending time filling the vacancy or organising cover.

2. The salary element of costs do not account for National Insurance contributions or other employer 'on-costs'.

3. No allowance is made for any performance differential between leavers and their replacements.

4. No allowance is made for 'depreciation' of human assets. Bassett (1972) argues, for example, that the cost of recruiting a new graduate might be depreciated over the span of time it takes for the knowledge the degree encompasses to become obsolete. Taking this approach would inevitably spread recruitment and training costs over several years. The current approaches take a simple 'within-year' view.

5. No account is taken of lost productivity among co-workers of a leaver/absentee both while the vacancy remains unfilled and during the induction and initial training of a new or temporary postholder.

At the same time, in a number of other respects, an individual incidence of turnover or absence may result in short-term financial benefits. These include the following:

1. the saving of the employment costs of the leaver/absentee while the post is vacant

2. the difference in salary between the leaver/absentee and the replacement (assuming the replacement is being paid at a lower level).

Neither of these factors is taken into account in the costing approaches reviewed to date. To this extent, replacement and productivity figures arrived at through the use of the checklists cannot be said to be 'net costs'.

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Appendix 2: Spreadsheet Based Tool

Table A2:1 Employee and staff group data

	Total	Group 1	Group2	Group 3	Group 4
Average FTE in Year					
Headcount					
Gender: Average FTE					
Male					
Female					
Full/Part Time: Average FTE					
Full time					
Part time					
Age Group: Average FTE					
Under 30					
30-39					
40-49					
50+					
Absence					
Number of days absent in year					
Number of Incidences by Duration					
1 day					
2 days					
3 days					
4-5 days					
6-10 days					
11-20 days					
1-6 months					
6+ months					
Absence Rate					
Potential working days in year					
Absence Rate					

Table A2:2 Direct costs

	Total Employees		Group 1		Group 2		Group 3		Group 4	
	%	£	%	£	%	£	%	£	%	£
Salary payments (Total & Group)										
Annual salary										
Employers' NI Contribution (12.2%)										
Employers' Contribution to pension (%)										
Bonus payments (Annual Value)										
Contracted Overtime (Annual Value)										
Total Employment Costs										
Daily employment costs										
Benefits										
Employee Benefits (Annual Value)										
Car allowance										
Private healthcare										
Disability Cover										
Holiday entitlement (days)										
Other 1										
Other 2										
Other 3										
Total Benefits										
Total Direct Costs										

Table A2:3 Indirect costs

	Total Employees	Group 1	Group 2	Group 3	Group 4
	£	£	£	£	£
Replacement worker (internal)					
Daily Overtime					
Daily 'Acting-up' allowance					
Daily employment costs					
Direct salary					
NI Costs					
Pension Costs (%)					
Other benefits					
Total Daily Employment Costs					
Replacement worker (external)					
Hourly agency costs					
Hours per day					
Daily Costs					
Number days employed					
Total Replacement Costs					
Learning Curve Costs (non-productive pay)					
Weeks to effectiveness					
% effectiveness in 1st third					
% effectiveness in 2nd third					
% effectiveness in last third					
Weekly Costs (assumes 5 day week)					
Cost for replacement period					
Total Indirect Costs					

Table A2:4 Absence management costs

	Total Employees		Group 1		Group 2		Group 3		Group 4	
	Hours	**£**	**Hours**	**£**	**Hours**	**£**	**Hours**	**£**	**Hours**	**£**
Line Manager time										
Arranging cover										
Return-to-Work interviews										
Training replacements										
Supervising replacements										
Administration										
Total										
HR Time										
Collating & reporting data										
Administration										
Total										
Training										
Line manager training										
Trainer employment costs										
Total										
Health Insurance										
Total annual cost of premiums										
Health Promotion (annual costs)										
EAPs										
Subsidised facilities										
Occupational Health Services										
Total										
Total Management Costs										

Appendix 3: Bradford Scores

In organisations where the majority of staff work shifts and rotas, the disruption caused by frequent short-term absences is often greater than that caused by occasional long-term absences.

The Bradford factor measures an employee's irregularity of attendance by combining measures of absence frequency and duration. These scores indicate whether the composition of an individual's sickness absence record comprises a few, or many, spells of short or long duration. They can be used to monitor trends in sickness absence, to provide 'trigger' points, and for comparison with absence rates.

The basic formula is:

S × S × D

S = the number of spells of absence in a specified period
D = the number of days (or hours) of absence in that period

Box 1 illustrates the Bradford scores for three employees each with the same annual absence rate (based on 12 days absence).

Box 1: Bradford Scores

one absence of 12 days: Bradford score = 1 x 1 x 12 = 12 points

six absences of 2 days each: Bradford score = 6 x 6 x 12 = 432 points

12 absences of one day each: scores 12 × 12 × 12 = 1,728 points

Box 2 shows how one NHS Trust is using Bradford scores:

Box 2: Using Bradford Scores

This Trust produces a quarterly manpower report for each clinical directorate, locality and staff group. In each case the report shows:

% of staff with less than 300 points

% of staff with 300 to 499 points

% of staff with 500 or more points

% of staff with 5 or more spells of sickness absence in a rolling 52 week period

Comparison between sickness absence rates and average Bradford score can be revealing and can help to target action appropriately. A high absence rate and a low Bradford score clearly indicates that absence is due to a small number of staff with long absences. In contrast, low absence and a high Bradford score shows that there is a small number of staff with frequent short absences.