

4. What are the costs of work-related ill health in rail?

Key findings: Costs of ill health in the rail industry

- HSE estimates costs to rail employers of work-related illness in railway operatives¹² to be of the order of £2.5 to £5 million per year. As this estimate includes work-related ill health arising from current working conditions, and excludes long latency disease such as cancer, true costs are likely to be higher.
- 2014 RSSB research¹⁹ estimates the direct and indirect cost of total sickness absence in the GB rail industry at around £316m annually. If costs of presenteeism are included (£474 million), the total annual cost of impaired health is estimated to be as high as £790m.
- RSSB research estimates that for every £13 lost to sickness absence among employees in the railway industry, only £1 is spent on supporting their health.
- We want to see more rail companies evaluate the cost effectiveness of health and wellbeing initiatives in order to target investment efficiently, and be able to demonstrate that the costs associated with ill health are at least as good as comparators within and outside the industry.

- 4.1 In the last few years we have seen an increasing focus on the costs of ill health in rail. This has been driven by a numbers of factors including the McNulty Rail Value for Money study²⁸, the introduction of worker health and wellbeing into new rail franchises (for example InterCity East Coast in 2014 and TransPennine Express and Northern in 2015), the emphasis by government on the societal and individual benefits of 'good work', the impact of low worker engagement on GB productivity, and the challenges of keeping an ageing workforce productive. For the first time, ORR has included a requirement for £55 million in efficiency savings on occupational health management in Network Rail's Final Determination for 2014-19²⁹.
- 4.2 There are a range of estimates on the potential costs of worker ill health in the rail industry. Although the current cost estimates vary, they all indicate that the costs of failing to properly manage ill health are very significant, providing an opportunity to realise substantial savings.
- 4.3 HSE has used its cost of ill health model³⁰ to estimate costs of new cases of work-related ill health in railway operatives. HSE estimates¹³ the total annual costs to GB society of new cases of work-related illness in railway operatives¹² resulting from

²⁸ McNulty report: <https://www.gov.uk/government/publications/realising-the-potential-of-gb-rail>

²⁹ Final Determination for Network Rail 2014-19: http://orr.gov.uk/_data/assets/pdf_file/0011/452/pr13-final-determination.pdf

³⁰ HSE ill health cost model: <http://www.hse.gov.uk/statistics/sources.htm#hse-cost-model>

current working conditions to be in the order of £10 to £20 million. Around half these costs fall to individuals, with the remainder shared by employers and government (24% each). Using this model, costs to rail employers of work-related ill health in railway operatives alone would be of the order of £2.5 to £5 million per year. HSE estimate the unit costs of work-related illness for all occupations to be £17,400 (based on 2012 prices), with the cost to the employer of £4,100 per case. The HSE cost estimates include only the cost of cases arising from current working conditions, and exclude any costs arising from long latency disease such as cancer. As a result, the actual costs to the rail industry from work-related ill health in railway operatives are likely to be higher.

- 4.4 Research published by RSSB in 2014¹⁹ estimated the direct and indirect cost of all sickness absence in the GB rail industry at around £316m annually. If costs of presenteeism are included (£474 million), the total annual cost of impaired health is estimated to be as high as £790m. The average total annual cost of sickness absence per rail employee was estimated at £2,631, although the reports suggests that this might vary from £3,270 for each TOC employee, £1,715 for infrastructure contractors and £1,565 for FOC employees.
- 4.5 The 2014 RSSB research clearly demonstrates the business case for a more proactive approach to reducing sickness absence and presenteeism. RSSB's 2014 analysis indicated an average of £201 per person per year spent on health and wellbeing programmes. Most of this is spent on statutory requirements such as medicals, drug and alcohol testing, and rehabilitation. The cost-spend ratio for sickness absence was estimated at 13:1, meaning that for every £13 lost to sickness absence amongst employees in the railway industry, only £1 is spent on supporting their health. If presenteeism is included, the cost-spend ratio increases to 33:1, meaning that for every £1 spent on better health management and engagement, up to £33 could be saved in avoidable costs from sickness and reduced productivity resulting from presenteeism. RSSB has calculated that a reduction of just 0.4% in the LTR of 3.9% would deliver savings in sickness absence costs alone of £32m per year.

Being informed on costs of ill health

- 4.6 Striving for greater efficiency by reducing costs from workers suffering occupational ill health is a key focus of ORR's 2014-19 health programme. We want rail companies to be aware of their costs, and be able to demonstrate that the direct and indirect costs associated with ill health are at least as good as comparators within and outside the industry. In their 2014 Absence Management Survey³¹, the CIPD reports that around a fifth of all organisations surveyed evaluate the impact of their employee health and wellbeing programmes. Those companies with a target for reducing sickness absence and those who use absence as a Key Performance Indicator (KPI) are more likely to evaluate the impact of their wellbeing spend than those who don't. Those who do evaluate wellbeing spend are also more likely to increase their total

³¹ CIPD Absence Management survey 2014: <http://www.cipd.co.uk/research/absence-management-survey.aspx>

wellbeing spend subsequently. RSSB-led projects proposed under the Industry Roadmap to develop a cost benefit analysis tool and to evaluate the impact of health initiatives, should help to support industry progress in this area.

- 4.7 Responses from rail companies to ORR's health data surveys in 2011 and 2014 (see Annex D) indicate costs of Employers' Liability Insurance Claims (ELCI) settled for work-related ill health of around £3 million per year, based on a small sample who provided claims data. The 2014 survey responses showed a marked upturn in the number of health claims submitted, which may impact on future costs of health claims settled.
- 4.8 The internal report for ORR on management referrals from a leading industry OHP indicated potential for modest cost savings to rail clients from failure to attend, or cancellation of, referral appointments. Over the period April 2012 to November 2014, avoidable (direct) costs from failure to attend or cancellation of appointments among TOC clients amounted to £91,420, with costs to infrastructure clients of £29,222.
- 4.9 Since 2010 we have seen examples of good practice by rail companies in demonstrating and sharing the cost benefits of specific health initiatives via case studies on our website³². By prioritising and tackling the key issues impacting on employee wellbeing, London Overground Rail Operations (LOROL) improved employee attendance significantly, saving £100,000 in direct absence costs in 2011-12³³. Merseyrail demonstrated reductions in sickness absence, with savings of at least £11,000, in the pilot of its 'Heart on Track' fitness and healthy eating challenge³⁴. Network Rail's physiotherapy pilot resulted in a 60% reduction in sickness absence resulting from early management referral and physiotherapy treatment³⁵. Southern Railway has demonstrated improved ill health case management by regaining control of its health services and bringing it back in house. They shared their understanding on costs and benefits at the Industry Safety Leaders meeting. We want to see more rail companies evaluate the cost effectiveness of health and wellbeing initiatives, in order to target investment intelligently and efficiently, and to share good practice, for example by producing case studies for our website.

³² ORR health case studies: <http://orr.gov.uk/what-and-how-we-regulate/health-and-safety/guidance-and-research/occupational-health-guidance/case-studies>

³³ LOROL case study: http://orr.gov.uk/_data/assets/pdf_file/0018/5355/wellbeing-study-london-overground.pdf

³⁴ Merseyrail case study: http://orr.gov.uk/_data/assets/pdf_file/0006/3588/oh-case-study-heartontrack.pdf

³⁵ NR case study: http://orr.gov.uk/_data/assets/pdf_file/0006/4488/physiotherapy-pilot.pdf.