

GUIDANCE ON PREPARING A SIMPLE OHS BUSINESS CASE



Australian Government
Australian Safety and Compensation Council



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1. INTRODUCTION

Operating a business involves ensuring that money is spent wisely and that there are returns on investment. Too often, however, safety is seen as a cost for business rather than an investment.

This document provides guidance for occupational health and safety (OHS) practitioners, officers and managers on how to prepare an effective business case for introducing an OHS solution at the workplace

Why is OHS important?

Every day a person is killed or dies as a result of a work related accident or injury. Each year approximately 140,000 people are injured so badly that they make a claim for workers compensation. This alone costs workers compensation schemes in excess of \$5 billion a year. There are further costs in terms of pain, suffering, loss of amenity of life and the impact on families. Maintaining a focus on OHS in the workplace will ensure that every Australian arrives home from work each day in the same state as when they left.

What is an OHS Business Case?

An OHS business case is an argument that supports an intervention for an OHS issue, eg placing guards on a piece of plant, providing staff with ergonomic equipment or changing work flow to minimise the potential for injury. It sets out the reasons for the intervention, including the relevant legal obligations, and ensures that safety management is cost effective.

A business case is used to support a particular course of action when there may be several different options. Even with risk control interventions, in most cases, there will be a number of different actions that would all achieve legal compliance, eg there may be different ways of resourcing a key OHS function, there may be different strategies to deal with prevention of bullying. A business case will help you support the best action for your organisation and particularly to establish the advantages of solutions that support achieving higher orders of control.

An integral part of any business case is a cost-benefit analysis. This process involves stating all the costs and benefits of an intervention, and then quantifying these to demonstrate the savings accrued from an intervention. Those factors that cannot be quantified may still be used in the business case, but excluded from the cost benefit analysis. For example there may be the cost of not complying with relevant legislation (fines avoided), the image of the business as an employer (employee welfare) and corporate image (customer perception). These costs are difficult to quantify, but essential to support the business case for the intervention.

The following table lists some of the direct and indirect costs of occupational accidents and ill health at the workplace.¹ These costs can be significant, with the indirect costs often exceeding the direct costs.

1 ILO, Occupational Safety and Health: Synergies Between Security and Productivity, 2006.



Direct Costs

- > Disruption to business and ongoing lost production from worker absence
- > Worker's lost wages and possible costs of retraining for a different job
- > First aid, medical and rehabilitation costs
- > Insurance costs and possibly higher future premiums
- > Costs of compensation
- > Any fines or legal proceedings following the accident/case of ill health
- > Replacing or repairing damaged equipment

Indirect Costs

- > Management time in subsequent investigation, perhaps jointly with the enforcing authority and other administrations
- > Cost of retraining someone else for the job, and possible recruitment of replacement worker
- > Poorer long-term work employability because of injury
- > "Human costs"—loss of quality of life and general welfare
- > Lower motivation to work and workforce morale, increased absenteeism
- > Poorer enterprise reputation and client and public relations
- > Damage to the environment

The payback period of an intervention can be calculated to demonstrate the time taken to recover the initial investment and begin to make savings. Some companies will approve a proposal for an intervention based on the highest positive return on investment or the shortest time to repay the initial investment.

Being an employer of choice through an emphasis on safe working environment and practices will be a benefit to an organisation that can be included as a positive factor in a business case. Being an employer of choice can result in decreased recruitment costs, lower staff turnover and more productive and committed staff. There may be the imperative to be socially responsible for other reasons, including portraying a positive image to customers or shareholders which may result in increased sales and higher share value.



2. HOW DO I PREPARE AN OHS BUSINESS CASE?

There are many factors that can be used to justify an intervention in addition to potential savings and avoidance of costs as mentioned above. Completing a risk assessment, as a first step, will highlight how serious the health and safety problem is.

Other factors that influence your organisation can also be considered, such as:

- > Legal compliance (individual liability, regulatory enforcement)
- > Financial (cost, profit)
- > Moral (care and concern, corporate citizenship)
- > Corporate image
- > Quality orientation
- > Industry pressure (customer/supplier relationships, industry networks, social pressure)

The second step involves identifying various solutions or control measures, based on the analysis of the above drivers. To determine the suitability of the solutions, a range of criteria can be used, including:

- > Government policy and direction, including changes to legislation
- > Links to organisational goals and objectives
- > Required OHS outcomes
- > Needs analysis
- > Funding availability
- > Timing
- > Interdependency with other activities

Analyse the impacts of possible interventions, such as safety, financial, technical, environmental and human resource impacts. Discuss the interventions and their implications with key stakeholders – OHS personnel, senior management, health and safety representatives or committees, employees.

Finally, develop the preferred intervention and the arguments to support it, including a suitable cost-benefit analysis. Anticipate any objections or barriers and prepare counter arguments. Analyse the consequences of not implementing the intervention, eg. compliance, corporate image, loss of time, money and labour.

The following sections describe how to prepare a cost-benefit analysis (CBA) and recommends a format for an OHS Business Case.



3. COST-BENEFIT ANALYSIS

Step 1 The perspective

The intention of any CBA should be to ensure that the best possible result is obtained for everyone in the organisation, not just particular groups. You need to start by getting the perspective right — think through the issues from many different perspectives. You may need to consult with others in the organisation to do this effectively. For example, you would want to avoid a change in the production process that would reduce the risk to one group of workers only by increasing the risk to another group. This might occur, for example, if a chemical or physical hazard is removed from one site only to be released at a similar concentration in another.

Step 2 Identifying the costs and the benefits

Start by making two lists. The first list is of all the non-trivial costs (- sign) and savings (+ sign) associated with the intervention. Costs and savings refer to resource uses. Here is a brief example:

Costs (-)	Benefits (+)
Modification of machinery and/or worksite	More efficiency from a new machine
Training personnel in safe operation of new equipment	Improved quality of product from new machine
New safety kits for staff in area	Reduced risk of death
Slower cycle time because of new guarding	Reduced risk of non-fatal injury or ill-health
	Better relationship with customer because of improved quality and service
	Avoiding the costs associated with non-compliance (eg legal costs, prohibition notices disrupting production)

In an actual situation, these lists may be considerably longer. You will need to talk to others, especially those who will work in the changed areas, those who manage that area and any specialised staff. For example, if you can see that quality and productivity might change, then it will be important to get the views of the Quality Manager and the Operations Manager as well as those who work in the area.

Often, preparing two well-developed lists of costs and benefits will be sufficient to make the argument you want. It may not be necessary to go further by quantifying the costs and benefits and then expressing their value in dollars. The best course of action may be plain for all to see.

Step 3 Quantifying the costs and benefits

Now each of the costs and benefits you have identified needs to be expressed in the units that are natural to them in your organisation. For example, how much reconstruction of the worksite? How much



modification of how much machinery? How many new safety kits? How many health and safety incidents avoided?

Some of this will be obvious to you, but other items may need specialist knowledge, so you may need to get advice from other people in your organisation or outside it.

Step 4 Valuing in dollars

Now you can work out the value of each of the costs and benefits in dollars. For each:

total value = quantity x price

This is usually straightforward where resources have a well-recognised price. It is much more difficult to express the value of lives saved or the value of good or bad health changes in dollars.

The UK HSE provides a guide to quantifying injury costs that could be used to quantify some of the benefits of reducing injuries: <http://www.hse.gov.uk/businessbenefits/index.htm>.

However, this method does not tell the whole story. You will also need to account for the uninsured costs of workplace illness and injury (the so-called intangible costs). The injured worker is likely to put a higher value on what they have lost.

Step 5 Refining the CBA

To round off your CBA you will need to consider:

- > That there will be a point at which increasing the resources for an intervention will make increasingly less difference, thus you will need to find a balance between the investment required and the benefits reaped.
- > An assessment of how reliable your estimates were in calculating the costs and benefits. Some benefits and costs may occur in the future, in this case, you may need to calculate the net present value of these costs to make your estimates more accurate in today's money terms. Information on how to calculate net present value can be found in the OHS Business Case trainers guide and learning materials on the ASCC website: www.ascc.gov.au.

You may also wish to conduct a sensitivity analysis. This analysis is where you replace your base figures with best case and worst case figures to see how this would effect your decision. Further information on this can be found in the OHS Business Case trainers guide and learning materials on the ASCC website: www.ascc.gov.au.

Step 6 Interpreting the Cost-Benefit Analysis

The results of your CBA can be expressed in either of two ways:

the net benefit = total benefit minus total cost, or as

the benefit-cost ratio = total benefits divided by total costs

Each of these two expressions has their proponents and their relevance. The more straightforward is the net benefit: if after adding up all the costs and benefits (remembering which have a positive and which have a negative sign), the sum is greater than zero, then this is an argument for going ahead with the planned intervention - but keep in mind that there may be another use of these resources which has an even greater net benefit. If, on the other hand, the sum is negative, this suggests that, overall, people will be worse off if the change is implemented – and so, back to the drawing-board.



Always remember that CBA is a method for helping decision makers to make better choices, but it can never provide just one final number that automatically makes the choice for you. In making a decision about an intervention you will need to consider the other drivers of change in your organisation and in the wider society, as well as who will influence the decision and how they might do this.

4. BUSINESS CASE FORMAT

This section provides guidance on the headings that you may wish to include in your OHS Business Case. As you develop your OHS Business Case you may think of additional arguments relevant to your organisation and add further headings that are not already included. Reference materials may assist you in this process and further guidance material is listed at the end of this document.

Executive summary

Write a brief description of what you propose, a synopsis of the arguments for and against the intervention, and a summary of the recommendations.

Background

Give the background to the problem in clear terms that will be understandable to the decision maker. Use sub-headings to guide the reader. This section might include some detailed information that addresses the drivers in your organisation, eg. an analysis of safety performance indicators, a summary of the perception of the organisation's status in the community as determined by a market survey; or an analysis of quality outcomes in a relevant period; or appropriate financial data.

The effect of the problem

Describe the effects of the issue and the impact on the organisation in detail. For example this might be a detailed description of the costs and damage associated with the problem that you will also include in a CBA. There might be detailed qualitative information from worker, customer, or supplier surveys. Some data might be presented in tables or graphs. It might be useful to compare one area where the problem is experienced with another area that is unaffected.

The proposed intervention

Describe the range of interventions that are under consideration. Discuss the relative merits and difficulties of each. Include a CBA. Make your recommendation about the intervention that you support.



Summarise your discussion by outlining the costs and benefits of the proposed intervention. You could use sub-headings like these, or others if they suit your case:

Employer Benefits	Employee Benefits
<ul style="list-style-type: none"> > Control of risk > Improved maintenance > Streamlined management structure > Improved accountability of supervisors > Savings in payroll 	<ul style="list-style-type: none"> > Improved occupational health and safety > Predictable shifts > Increased morale > Increased accountability through clear supervisory lines > Improved working environment > Increased job satisfaction
Employer Costs	Employee Costs
<ul style="list-style-type: none"> > Increased capital expense > Increased maintenance costs > Increased training budget 	<ul style="list-style-type: none"> > Possible redundancies > Decrease in overtime > Increased paperwork burden

Impact of maintaining the status quo

This section can carry the warnings about not taking any action and maintaining the status quo. What is likely to happen in financial, human relations, health and safety, quality, legal compliance and corporate image terms?

Recommendation

State the recommended course of action here. This might also include an action plan, the manner in which progress will be assessed and how and when the intervention will be reviewed and evaluated.



ADDITIONAL INFORMATION

ASCC (2006). OHS Business Case Trainers Guide and Learning Materials. www.ascc.gov.au.

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Oxenburgh, M., P. Marlow, et al. (2004). *Increasing productivity and profit through health and safety: The financial returns from a safe working environment*. Boca Raton, Florida, CRC Press.

U.S. Department of Labor Occupational Safety and Health Administration (2005). "The Business Case For Safety" http://www.osha.gov/dcsp/success_stories/alliances/abbott/abbott_casestudies/index.html