

## **Directors' Duties in Health and Safety**

### **Regulatory Impact Assessment (Initial)**

#### **Purpose and Intended Effect**

##### **Objective**

1. To improve director leadership on health and safety and, through that, reduce the incidence of workplace ill health and injury in Great Britain.

##### **Background**

2. Directors have a key role in health and safety management and performance of their organisations. The issue is how to best motivate directors to fill this role effectively. Following a Work and Pensions Select Committee recommendation in 2004, the Government asked the Health and Safety Commission (HSC) to evaluate the effectiveness of current measures, legislative and voluntary, and report with recommendations to Ministers by the end of 2005.
3. At its meeting in December 2005, HSC considered the current arrangements for ensuring that directors fulfil their role within health and safety management. Whilst there was a general consensus that the current arrangements were having a positive impact on director behaviour, the Commission asked HSE to examine a number of approaches to further motivate directors, including:
  - provision of authoritative guidance setting out what is expected of directors;
  - serious examination of the options for legislative change to strengthen director leadership and;
  - seeking greater use of enforcement.

##### **Rationale for Government Intervention**

4. It has long been established that directors have a key role in health and safety management and performance of their organisations. In 2005, Greenstreet Berman conducted telephone interviews with 364 large firms, and large organisations from the public and voluntary sector. This research showed that 79% of the directors surveyed felt that health and safety was directed at board level. However, when these figures were verified by interviewing other representatives of the organisations, the figure fell

to 64%.<sup>1</sup> For the purpose of this RIA, the assumption has therefore been made that 70% of organisations direct health and safety at board level.

5. The number of organisations with director involvement in health and safety management has increased since the introduction of HSC's "Directors' responsibilities for health and safety" guidance in 2001. However, research also indicates that this momentum will not continue at its current pace without further intervention. Although there is a consensus that more needs to be done to further encourage the remaining 30% who do not already lead health and safety at board level, there is debate over the most effective way of doing this. This RIA explores the options, as listed below.

### Options

#### Option A

6. This option will leave HSE policies and practices unchanged. It is estimated that around 70% of enterprises currently direct health and safety at board level. This typically means that they:
  - o have a board level health and safety strategy;
  - o have performance criteria to implement it;
  - o monitor progress;
  - o evaluate this against the performance criteria;
  - o amend the strategy where necessary.
7. There are likely to be changes which take place over the course of the appraisal period considered in this RIA which mean that the costs and benefits associated with option A will be non-zero. However, for the purposes of this document we only consider the net change between option A and options B and C.

#### Option B

8. This option will introduce new legislation to improve director leadership in health and safety, backed up by clear and credible guidance.
9. Under this option, it is assumed that, of the 30% of enterprises which do not currently follow good practice advice, and do not direct health and safety at board level, 50% would ensure that their directors take time to familiarise themselves with the new duties placed upon them. Thirty-five percent of those 50% would go on to enact changes in their organisations. This gives a total of around 5% of all enterprises that will direct health and safety at board level after the introduction of new legislation and guidance.

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<sup>1</sup> *Health and Safety Responsibilities of Company directors and management board members: 2001, 2003, and 2005 surveys*, Greenstreet Berman 2006 (HSE Research Report 414).

10. We assume that this option has some impact on the 70% of enterprises which currently engage with health and safety at director level. Specifically, enterprises in this group are assumed to familiarise themselves with the new duties and 40% of this group decide to take some action as a result.

### **Option C**

11. This option will introduce clear and credible guidance in order to improve director leadership in health and safety.
12. Under this option, it is assumed that, of the 30% of enterprises which do not currently follow good-practice advice, 40% would ensure that their directors take time to familiarise themselves with the new guidance. Twenty percent of those 40% would go on to enact changes in their organisations. This gives a total of between 2% and 3% of all enterprises that will move to follow any new guidance.
13. We assume that enterprises which currently direct health and safety issues at board level also take time to familiarise themselves with the new guidance.

## **Costs and Benefits**

### **Information Sources and Assumptions**

14. The Health and Safety Executive (HSE) carried out extensive research to identify motivators of director leadership, in order to advise HSC in December 2005. Research undertaken externally was also included in the evidence base, such as the CCA's "Making Companies Safe: What works?" This research was peer reviewed and discussed at public forums.
15. The number of directors in Great Britain has been taken from the Labour Force Survey (LFS). Wage data have been taken from the Annual Survey of Hours and Earnings (ASHE) and the number of businesses has been taken from the Small Business Service. The data on work-related accidents and incidences of ill health have been taken from the HSE.<sup>2</sup>
16. All options exclude any improvement in director involvement following HSC's instruction to HSE to update its enforcement guidance to Inspectors.
17. A number of assumptions and estimations are made in this document. These are detailed in the relevant sections below and are also listed here for clarity:
  - Under option B, around 5% of the total population of enterprises will enact changes resulting in increased duties on directors and health and safety improvements and under option C, between 2% and 3% will do so. These figures were derived following consultation with prominent stakeholders in April 2006.

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<sup>2</sup>Data are available from <http://www.statistics.gov.uk/>, <http://www.sbs.gov.uk/> and <http://www.hse.gov.uk/statistics/>.

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- Under options B and C we assume that the 70% of enterprises which currently engage with health and safety at director level take the time to familiarise themselves with any changes. In addition, under option B, we assume that 40% of this 70% take some further action.
  - When an enterprise actively engages with health and safety at director level, it achieves between a 5% and 10% reduction in work-related accidents and incidences of ill health.
  - The total number of individuals to which the duties apply is 1.3 million and the total number of enterprises to 1.2 million.
  - There will be no net effect on organisations from any changes in the type of enforcement or inspection activity as the overall level of such activity will remain constant.
  - Organisations are currently required to have access to advice and guidance from competent individuals within their organisations by virtue of The Management of Health and Safety at Work Regulations, although it is assumed that under option B, directors will need to attend one external training course and that a small number of enterprises will choose to seek external advice. A one-day training course for directors in the relevant area costs £1000. The rate charged by the relevant external consultant, for two days, is £720.
  - The average hourly wage of an individual to which the duties apply is £26, although this figure may conceal wide variation within the group. The average hourly wage of an administrative assistant is £12.<sup>3</sup> (Both these figures include 30% for non-wage labour costs.)
  - Directors undertaking health and safety duties will make two presentations to the board per year and each enterprise will spend one week on administrative support for the directors' duties.
18. The increase in the number of organisations that actively manage health and safety will not continue with the same momentum without further intervention. The research indicates that in order to encourage the 30% who do not direct health and safety at board level, a multi-faceted approach is needed.<sup>4</sup> The remaining 30% manage health and safety in a number of ways, including those who completely delegate health and safety management away from the board, to those who do have some board level involvement.

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<sup>3</sup> Both wage figures taken from the ASHE Spring 2005.

<sup>4</sup> *Health and Safety Responsibilities of Company directors and management board members: 2001, 2003, and 2005 surveys*, Greenstreet Berman 2006 (Research Report 414)

19. The base year for the analysis is 2005 and the options are considered over a period of ten years. Following the recommendations in the Treasury Green Book, a discount rate of 3.5% is used for costs while health benefits are discounted at 1.5%.<sup>5</sup>

### Sectors and Groups Affected

20. All of the options being considered will apply across the whole economy, as all enterprises will be subject to any changes in the responsibilities faced by directors.<sup>6</sup> The total number of enterprises in Great Britain is around four million. However, only those enterprises with employees and directors will be affected by the proposed options.

21. The Small Business Service publishes data on the number of enterprises in the Great Britain. These data include those businesses that are not registered for VAT and are shown in Table 1.<sup>7</sup>

Enterprise size	Number
With no employees	3,125,505
1-4	808,525
5-9	218,680
10-19	111,070
20-49	59,670
50-99	18,115
100-199	8,875
200-249	1,830
250-499	3,735
500 or more	4,465
Total:	4,360,475
Total, excluding self-employed:	1,234,970

**Table 1: All enterprises in Great Britain, 2004 (Source: SBS)<sup>8</sup>**

<sup>5</sup> The Green Book is available from <http://greenbook.treasury.gov.uk/>. It is considered that the value attached to health benefits has a constant utility value over time and it is therefore uprated in real terms each year by real GDP per capita growth (i.e., currently, by about 2% per year, since at the moment the real per capita GDP growth is forecast at around 2% per annum). This uprating, coupled with a 3.5% discount rate, gives an 'effective' discount rate for health and safety benefits of 1.5%.

<sup>6</sup> It should be noted that the definition of the term "director" is not precise. In this document, the word is used to indicate those of both public and private organisations.

<sup>7</sup> In order to reach a figure for Great Britain, the most recent (2003) regional figures available for Northern Ireland have been subtracted from the most recent (2004) figures for the UK. These data come from the Small Business Service and have been rounded so the figures may not add up to the totals.

22. The source of data for Table 1 does not specify which enterprises have directors. However, for the purposes of this analysis, we assume that the population of relevant enterprises is 1.2 million. This is likely to be a slight over-estimate as it includes some enterprises that are partnerships and some that do not have directors.
23. It is possible that the introduction of options B or C would have a disproportionately large effect on enterprises in higher risk sectors.
24. The options presented in this assessment will have a direct impact on all of the directors in Great Britain. The exact number of directors (as defined for the purpose of this document) is not available so it has been estimated by making a judgment on which Standard Occupational Classifications are likely to represent the roles carried out by directors. This information is available from the Spring 2005 wave of the Labour Force Survey for the UK, and we estimate that there are around 1.3 million directors in the UK. The options considered in this document relate to Great Britain, so the number given above is a slight overestimate.<sup>8</sup> The specific occupational codes included are given in Appendix 1.

### **Benefits**

#### ***Social Benefits***

25. The most recent HSE statistics (for 2004/05) state that there were 220 fatal workplace accidents, approximately 363,000 workplace injuries and around 576,000 new cases of work-related ill health.<sup>9</sup> It is anticipated that some of the options presented here will result in the prevention of some of these accidents and incidents of ill health. It is assumed that this reduction in accidents occurs evenly amongst the different types of injury and ill health. While it is possible that some organisations may from time to time concentrate on the prevention of certain types of incident, it is likely that, in the long term, high-level involvement at director level would achieve an across-the-board reduction in injuries and ill health.
26. In order to present these possibilities in a way that can be meaningfully compared with the likely costs associated with the options, monetary values have been attached to each accident prevented. These figures represent an estimate of the implicit value given, by society, to the prevention of "average" accidents. This value includes the direct costs associated with an incident (for instance, medical treatment costs), the value of lost productive output and a measure of the subjective costs, often referred

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<sup>8</sup> For reference, the total number of employers in Northern Ireland in 2003 was 33,000. Source: SBS.

<sup>9</sup> The accident statistics in this document have been adjusted to take account of the known under-reporting of accidents to HSE. More information can be found at <http://www.hse.gov.uk/statistics/overpic.htm>, particularly in the "Health and Safety Statistics 2004/05" publication.

to as “pain, grief and suffering” incurred due to the incident. More information on this approach can be found on the Department for Transport website.<sup>10</sup>

Type of incident	Prevention Value
Fatalities	£1,440,000
Serious injuries	£40,000
Over-three-day injuries <sup>11</sup>	£6,000
New cases of illness	£7,000

**Table 2: Monetary values of the prevention of different types of incidents.<sup>12</sup>**

### Option A

27. There are no anticipated social benefits accruing from option A.

### Option B

28. It is assumed that 70% of enterprises follow the existing guidance with regard to directors’ duties. Approximately 20% of the remaining 30% are assumed to make some changes to their organisation, which result in the prevention of a proportion of accidents and incidences of ill health caused by health and safety failures in the workplace. This means that from the total population of all businesses, around 5% will make changes. HSE has commissioned case studies which indicate that, in organisations which set out to tackle health and safety issues at director level, there may be between a 5% and 10% reduction in incidences. (This range has been taken from the HSE leadership case studies.<sup>13</sup> While some of these case studies show reductions in injuries of up to 25%, it is considered that these are unlikely to be replicated in the majority of enterprises.)

29. In addition to the reduction in accidents and ill health amongst those enterprises which currently do not direct Health and Safety at board level, we assume that following a review of processes some reductions will also be achieved amongst those enterprises which already direct health and safety at board level. We assume that this will mean that around 2% of the total population of enterprises will take some action and that this action will result in a 2% reduction in accidents in those enterprises.

30. Based on the assumptions presented in the previous paragraphs, together with the most recent HSE statistics, between 2,780 and 5,140 workplace injuries and

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<sup>10</sup> [http://www.dft.gov.uk/stellent/groups/dft\\_rdsafety/documents/page/dft\\_rdsafety\\_610642.hcsp](http://www.dft.gov.uk/stellent/groups/dft_rdsafety/documents/page/dft_rdsafety_610642.hcsp)

<sup>11</sup> This is a HSE category to indicate injuries where a worker is away from their job for over three days.

<sup>12</sup> The values for serious and “O3D” injuries are generated by uprating the figures given in the HSE publication, “The Costs to Britain of workplace accidents and work-related ill health”

<sup>13</sup> The studies are available at <http://www.hse.gov.uk/corporateresponsibility/casestudies/>

incidences of ill-health would be prevented in each year of the appraisal period, as shown in Table 3.

Type of incident	Percentage reduction in incidents	
	5%	10%
Fatalities	1	1
Serious injuries	200	380
Over-three-day injuries	790	1450
New cases of illness	1790	3310
Totals	2780	5140

**Table 3: Possible declines in incidents, where enterprises take action.<sup>14</sup>**

31. For the purposes of this analysis, these figures are assumed to stay constant over the appraisal period.
32. Given the estimated reductions in Table 3 and the appraisal values set out in Table 2, the following estimated benefits have been calculated.
33. If workplaces which introduces new measures due to the introduction of this option realise, on average, a 5% decline in occurrences of work-related accidents and ill-health, then the present value to society of the prevented injuries and illness would be £248 million. A 10% decline would realise benefits worth £457 million. These figures can be expressed in annualised terms as £26 million and £48 million, respectively.<sup>15</sup> These benefits are split evenly between reductions in ill-health and reductions in injury.

### Option C

34. Under this option it is assumed that just under 10% of the 30% of enterprises, which do not currently follow existing guidance, would implement some changes. This makes up between 2% and 3% of the total population of enterprises. As discussed above, it is expected that these enterprises will achieve between a 5% and 10% decline in work-related accidents and ill-health.

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<sup>14</sup> Note that figures may not sum to the totals due to rounding.

<sup>15</sup> Annual figures in this document have been calculated by dividing the present value of the cost or benefit by an annualisation factor. This transformation gives a figure which represents a yearly flow of funds which, when discounted over the appraisal period of 10 years, equals the present value. For this document the annualisation factors are 9.36 for benefits and 8.61 for costs.

35. Given these assumptions and the most recent HSE statistics, between 1,070 and 2,150 occurrences of health and safety failures will be prevented in each year of the appraisal period, as shown in Table 4.

Type of incident	Percentage reduction in incidents	
	5%	10%
Fatalities	0	1
Serious injuries	80	160
Over-three-day injuries	300	610
New cases of illness	690	1380
Totals	1070	2150

**Table 4: Possible declines in incidents, where enterprises take action.**

36. These figures are assumed to stay constant over the appraisal period.
37. Given the estimated reductions in Table 4 and the appraisal values set out in table 2, the following estimated benefits have been calculated.
38. If, in organisations which make changes as a result of the implementation of option C, 5% of accidents are prevented the present value of the benefits to society would be £96 million (£10 million annualised), over the ten year appraisal period. If 10% of accidents are prevented, the total would be £191 million (£20 million annualised). These benefits are split evenly between reductions in ill-health and reductions in injury.

### ***Environmental Benefits***

39. There are no environmental benefits envisaged for any of the options.

### ***Economic Benefits***

40. Options B and C will lead to a fall in the number of days lost due to accidents and ill health in the workplace. We assume that each day lost costs business, on average, the level of the average daily wage, £110 (including 30% for non-wage labour costs). In 2004/2005 HSE estimate that 35 million days were lost as a result of workplace accidents and occurrences of ill health.

### **Option A**

41. There are no anticipated benefits from option A.

### **Option B**

42. Under this option, it is assumed that approximately 5% of all organisations will take action to place duties on directors. Of these enterprises, there will be between a 5%

and a 10% fall in the number of days lost due to workplace injuries and occurrences of ill-health. In addition, there will be some decline in days lost amongst the 70% of enterprises which currently direct health and safety at board level, as outlined above. The value to business of these savings is given in Table 5.

Decline in days lost	Value of lost output, saved	
	Present Value	Annualised
5%	£112M	£12M
10%	£206M	£22M

**Table 5: Cost savings to business from reduced days lost, option B**

43. These savings to business are incorporated in the benefits to society, outlined above.

### **Option C**

44. If this option is implemented, it is assumed that between 2% and 3% of all organisations will take action to place duties on directors. Of these enterprises, there will be between a 5% and a 10% fall in the number of days lost due to workplace injuries and occurrences of ill-health. The value to business of these savings is given in Table 6.

Decline in days lost	Value of lost output, saved	
	Present Value	Annualised
5%	£43M	£5M
10%	£87M	£9M

**Table 6: Cost savings to business from reduced days lost, option C**

45. These savings to business are incorporated in the benefits to society, outlined above.

### ***Total Benefits***

46. The total benefits for options B and C are made up from the decline in workplace accidents and incidents of ill-health resulting from engagement, at director level, with health and safety matters. These benefits include the saving to business due to a reduction in the number of days taken off work due to ill health and injury. There are no benefits under option A.

47. The total benefits for option B range from £248 million to £457 million (£26 million to £48 million annualised), depending on how successful organisations are in reducing the levels of ill health and injury in the workplace when directors take on health and safety duties.

48. For option C range, the total benefits range from £96 million to £191 (£10 million to £20 million annualised), depending on how successful organisations are in reducing

the levels of ill health and injury in the workplace when directors take on health and safety duties.

### Costs

#### *Costs to Business*<sup>16</sup>

##### **Option A**

49. There are no anticipated costs to business from option A

##### **Option B**

50. The introduction of option B will require that directors familiarise themselves with the legal obligations placed upon them. It is assumed that this takes one hour of a director's time and that all directors who follow the existing guidance will familiarise themselves with the change. Of the directors who do not currently follow the guidance, we assume that 50% will take the time to familiarise themselves with the guidance.
51. Given the number of directors calculated in paragraph 20, an average gross hourly wage (including 30% for non-wage labour costs) of £26 and the assumptions made in the previous paragraph, the first year familiarisation costs will be £28 million. We assume that 10% of directors are new each year, and together with the initial cost, this comes to a total present value of £52 million, or £6 million expressed as an annualised figure. This is an administrative cost.
52. In addition to familiarising themselves with the requirements of option B, some directors will take action to ensure that they are able to fulfil the duties required of them. It is assumed that of the 30% of enterprises not currently following the guidance, 50% will familiarise themselves with the new requirements and, of those, a further 35% will take some further action. This makes up approximately 5% of the total population of enterprises.
53. It is assumed that organisations currently have access to advice and guidance from competent individuals within their organisations as they are required to do so by virtue of The Management of Health and Safety at Work Regulations, but that for directors to fully understand the duties required, they will have to undertake a training course lasting one day (7 hours). The cost of this training is made up of the price paid for the training, together with the cost of a director's time. The price for the relevant one-day training course is £1000 and the value of a director's time is £180. One such course would be necessary for each business that takes action.

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<sup>16</sup> The term 'Business' includes all public and private organisations

54. The total costs to business of the relevant training will be £74 million in the first year. Given a 10% rate of turnover for directors, the total present value of the costs over the ten-year appraisal period is £131 million, or £15 million in annualised terms.
55. In addition to training costs, it is likely that organisations will need to implement some internal changes to meet the requirements in this option. It is assumed that no major organisational changes are needed but that there will be some additional costs, as follows.
56. Twice-yearly 2 hour briefings to the board of a company will be needed. This is assumed to cost the time of the population of directors in organisations that implement changes, together with 3 hours preparation time for each meeting for those directors with responsibility for health and safety. It also includes five days (of seven hours each) spent by administrative staff in support of the responsible directors. The average wage for administrative staff, including 30% for non-wage labour costs, is £12 per hour. A proportion of this cost will be administration costs which do not directly result from the duties placed upon directors. It is not known exactly what proportion that may be.
57. The cost to organisations of the extra meetings and administrative support required for directors to fulfil their duties under this option is £404 million over the ten year appraisal period, or £47 million as an annualised figure.
58. In addition to the costs incurred by enterprises which enact changes in order to reach the standards set out under this option, it is expected that some enterprises which are currently engaging with health and safety at director level will spend time assessing whether any changes are needed to their existing practices. Specifically, we assume that of the 70% already at the desired level, 40% incur some costs. Of that 40%, 75% will take one day of a director's time to examine their processes and 25% will hire an external consultant for two days (at twice the cost of a director) to carry out the work. The total present value of these costs is £211 million (£25 million annualised).
59. It is assumed that 5% of the enterprises which spend time assessing their existing practices internally and 20% of those which consult externally, will enact some changes in order to improve their health and safety performance. For the purposes of this document, we assume that those changes take the form of a one-day training course for one director and 2 days of time spent by administrative support staff. The present value of these costs over the appraisal period is £76 million, or £9 million as an annualised figure.
60. The total costs to business from all of the factors considered above are £877 million in present value terms or £102 million as an annualised figure.

### **Option C**

61. The introduction of option C will increase the level of awareness amongst directors and result in some of those directors taking action to meet the existing duties placed

upon them. It is assumed that all directors who follow the existing guidance will familiarise themselves with the changes and that, of the directors who do not currently follow the guidance, 40% will take the time to familiarise themselves with the changes.

62. Given the number of directors calculated in paragraph 13, an average gross hourly wage (including 30% for non-wage labour costs) of £26 and the assumption made in the previous paragraph, the first year familiarisation costs will be £27 million. We assume that 10% of directors are new each year, and together with the initial cost, this comes to a total present value of £50 million, or £6 million expressed as an annualised figure. This is an administrative cost.
63. In addition to familiarising themselves with the requirements of option C, some directors will take action to ensure that they are able to fulfil the duties required of them. It is assumed that of the 30% of enterprises not currently following the guidance, 40% will familiarise themselves with the new requirements and, of those, a further 20% will take some further action. This makes up between 2% and 3% of the total population of enterprises.
64. Given the assumptions made under option B with regard to directors' wages, administrative support costs and the time and actions taken to satisfy the new duties, the total costs to business are as follows:
65. The total costs to business of the relevant training will be £34 million in the first year and given a 10% rate of turnover for directors, the total present value of the costs over the ten-year appraisal period is £60 million, or £7 million in annualised terms.
66. The cost to businesses of extra meetings and administrative support required for directors to fulfil their duties under this option is £185 million over the ten year appraisal period, or £21 million as an annualised figure. A proportion of this cost will be administration costs which do not directly result from the duties placed upon directors. It is not known exactly what proportion that may be.
67. The total costs to business from all of the factors considered above are £296 million in present value terms or £34 million as an annualised figure.

### ***Costs to the Health and Safety Executive and Local Authorities***

#### **Option A**

68. There are no costs to HSE or Local Authorities arising from option A.

#### **Option B**

69. Under this option, HSE and Local Authority inspectors would be required to carry out some familiarisation with the new duties and undergo training to ensure they are adequately prepared to deal with both new queries made of them and potential new costs associated with enforcement action. It is expected this will take two days (14

hours) for each inspector and that the training will take place internally. The total, one-off, cost of this training to HSE and Local authorities is £1.5 million.

70. The overall level of inspection and enforcement activity is not expected to change.
71. There is also likely to be some cost to HSE from an increased level of enquiries about the duties from directors and other interested parties. This cost has not been quantified.

### **Option C**

72. If this option is implemented, HSE and Local Authority inspectors will need to take some time to familiarise themselves with the guidance produced. This is expected to take one day (7 hours) for each inspector and that the training will take place internally. The total, one-off, cost of this training to HSE and Local authorities is £0.7 million.
73. The overall level of inspection and enforcement activity is not expected to change.
74. There is also likely to be some cost to HSE from an increased level of enquiries about the duties from directors and other interested parties. This cost has not been quantified.

### ***Other Costs***

75. Options B and C introduce the possibility that the selection criteria for directorships will be altered. If firms are required to recruit directors who would not otherwise be chosen, it is likely to be reflected in the financial performance of the organisation. This is an unintended consequence of the options presented here and has not been quantified.

### ***Total Costs to Society***

76. There are no costs associated with option A. The costs of options B and C are made up of the administration costs from familiarisation (both to business and to HSE inspectors) with the new guidance or regulation and the costs of carrying out the new duties, where directors were not already doing so.
77. For option B, the total costs come to £877 million (£102 million annualised) and for option C the costs total £296 million (£34 million annualised).

### **Balance of Costs and Benefits**

78. Table 7 presents a summary of the quantified costs and benefits presented above. Figures are present values, with annualised values in brackets. A detailed breakdown of the costs and benefits is presented in Appendix 2.

	Benefits		Costs
	Low (5%)	High (10%)	
<b>Option A</b>	£0	£0	£0
<b>Option B</b>	£248M (£26M)	£457M (£48M)	£877M (£102M)
<b>Option C</b>	£96M (£10M)	£191M (£20M)	£296M (£34M)

**Table 7: Total estimated costs and benefits**

79. In addition to the quantified costs and benefits presented in Table 7 are the unquantified costs and benefits outlined above.

### ***Uncertainties***

80. There are a number of uncertainties associated with the options presented in this document. Due to the lack of a precise definition of a “director”, the number of individuals likely to be affected by the options has only been roughly estimated. The number of enterprises in Great Britain to which the options would apply is also unknown and has been estimated by assuming that all employing organisations would come within the scope of the proposals. The precise consequences for a business being required to assign health and safety duties to directors are also unknown.
81. While an estimate has been made for the number of directors in Great Britain, this may not reflect the number of directorships. If a director holds more than one directorship then the duties placed upon them are likely to vary from those assumed in this document.
82. HSE has evidence on the current levels of director involvement in health and safety in large organisations and on the likely outcomes when directors take on health and safety duties. It is not known, however, if this evidence applies similarly to small and medium sized enterprises (SMEs). For the purposes of this analysis, it has been assumed that the effects are the same for SMEs as for large organisations.
83. The health and safety benefits for options B and C have been calculated by assuming that certain percentages of the total number of workplace accidents and occurrences of work-related ill health in Great Britain would be prevented. However, the assumptions behind these percentages have not been tested. The assumption has also been made that the total level of injuries and ill-health in Great Britain will stay constant over the appraisal period. The current trend in work-related injuries indicates that this may not be the case. If the level of workplace injuries continues to fall, as is expected, then the total benefits calculated in this analysis will be over-estimates.
84. It has been assumed that some actions are taken by some enterprises amongst the section of the population which is already considered to carrying out the duties expected of them by HSE at director level. However, exactly what proportion will incur

these costs or what those costs might be is not known. In particular, it has been assumed that SMEs behave in the same way to large organisations in this regard.

85. Although it is assumed that the overall level of enforcement activity will not rise as a result of any of the options, an unintended consequence of option B may be that the focus of enforcement activity changes, diverting resources away from existing workstreams. The cost or benefit of this is not known.

### **Small Firms Impact Test**

86. None of the options presented are intended to adversely affect small and medium sized enterprises. Options B and C specifically aim to be applicable to all sizes of organisation and sector. There is no expectation that the overall level of enforcement activity will rise.

**Appendix 1**

**Three-digit occupational classifications used to determine the population of directors.**

Included	Excluded
111 Corporate Managers & Senr Officials	113 Functional Managers
112 Production Managers	114 Quality and Customer Care Managers
118 Health and Social Services Managers	115 Financial Instit and Office Managers
121 Mngrs in Farming Hort Forestry etc	116 Mngrs in Distrib Storage and Retail
122 Managers in Hospitality and Leisure	117 Protective Service Officers
123 Managers in Other Service Industries	

## Appendix 2

Breakdown of Table 7 - Total Estimated Costs and Benefits<sup>17</sup>

## OPTION A

	Benefits	
	Present Value	Annualised
<b>Total:</b>	<b>£0M</b>	<b>£0M</b>

	Costs	
	Present Value	Annualised
<b>Total:</b>	<b>£0M</b>	<b>£0M</b>

## OPTION B

	Costs	
	Present Value	Annualised
Familiarisation for Directors	£52M	£6M
Training	£131M	£15M
Board meetings, cost of time for attendees	£157M	£18M
Administrative support	£247M	£29M
Costs amongst the already-compliant (checking existing processes)	£211M	£25M
Costs amongst the already-compliant (implementing changes)	£76M	£9M
Familiarisation costs to HSE/LA inspectors	£1M	£0.2M
<b>Total:</b>	<b>£877M</b>	<b>£102M</b>

	Benefits	
	Present Value	Annualised
<b>A</b> H&S benefits amongst those already complying	£39M	£4M
<b>B</b> 5% fewer accidents amongst newly-engaging enterprises	£209M	£22M
<b>C</b> 10% fewer accidents amongst newly-engaging enterprises	£418M	£45M
<b>Total (A + B):</b>	<b>£248M</b>	<b>£26M</b>
<b>Total (A + C):</b>	<b>£457M</b>	<b>£49M</b>

<sup>17</sup> Note that the figures presented may not sum to the totals, due to rounding.

## Annex 5 to HSC/06/44

### OPTION C

	<b>Costs</b>	
	Present Value	Annualised
Familiarisation for Directors	£50M	£6M
Training	£60M	£7M
Board meetings, cost of time for attendees	£72M	£8M
Administrative support	£113M	£13M
Familiarisation costs to HSE/LA inspectors	£1M	£0.1M
<b>Total:</b>	<b>£296M</b>	<b>£34M</b>

	<b>Benefits</b>	
	Present Value	Annualised
5% fewer accidents amongst newly-engaging enterprises <b>Total:</b>	<b>£95M</b>	<b>£10M</b>
10% fewer accidents amongst newly-engaging enterprises <b>Total:</b>	<b>£191M</b>	<b>£20M</b>