## AUDITOR-GENERAL'S REPORT PERFORMANCE AUDIT

# Sick Leave Department of Premier and Cabinet



The Legislative Assembly Parliament House SYDNEY NSW 2000 The Legislative Council Parliament House SYDNEY NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Sick Leave: Department of Premier and Cabinet**.

Peter Achterstraat Auditor-General

Pote Autostrant.

Sydney
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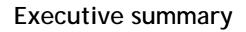
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#### **Background**

In 2006 the NSW Government said that it would aim to reduce average public sector sick leave for full time employees by one day per person a year by 2008-09. It estimated it would save around \$45 million by not having to replace front-line workers on sick leave.

In this audit we assessed whether:

- the NSW public sector met the Government's 2008-09 target
- public sector agencies reduced sick leave.

We reviewed statewide data on sick leave to identify trends and spoke to 12 public sector agencies to discuss how they managed sick leave.

#### Conclusion

The NSW public sector did not meet the Government's target, however sick leave reduced by 1.84 hours per person per year between 2004-05 and 2008-09, just over a quarter of a day.

Sick leave decreased in almost 40 per cent of NSW public sector agencies during this period. This group makes up over two-thirds of the workforce which is why their improved performance has reduced the public sector's overall sick leave rate, although marginally.

#### Supporting findings

We found that no initiative on its own will reduce sick leave. Agencies can adopt a range of strategies to suit their workplace to address both genuine illness and sick leave abuse by employees.

To help prevent illness we found agencies had adopted healthy workforce initiatives to promote employee wellbeing. This included influenza vaccinations, gym memberships, and employee counselling.

Addressing inappropriate use of sick leave by staff requires a different approach. Supervisors within agencies must actively monitor and manage staff suspected of abusing sick leave and have clear rules for managing absences. Some strategies adopted by agencies included:

- interviewing staff returning from sick leave
- case managing people with psychological issues
- calling people on sick leave to check their welfare and return date
- penalising employees with excessive or unauthorised leave.

These initiatives have saved the state money. Based on data provided by the NSW Police Force and State Transit Authority we estimate that these agencies together saved almost \$20 million over three to five years. This is a good result.

However agencies must maintain focus on sick leave. The latest results show no improvement with average public sector sick leave for 2009-10 remaining steady at around 8.1 days per person per year.

Agencies said the key barriers in reducing sick leave were an ageing workforce, an industrial environment which slows workplace reform, and an entitlement culture where staff think they must 'use it or lose it'.

We found that agencies with a higher entitlement tended to have a higher sick leave rate. Sick leave entitlement, which agencies negotiate through industrial agreements, varied significantly in the 12 agencies we interviewed from five to 20 days per person per year.

We also found that in the NSW public sector:

- sick leave increases with age and length of service
- the more employees get paid the less sick leave they take
- coastal employees take more sick leave than those in the country
- there can be a spike in sick leave before or after weekends and public holidays.

It also became clear that staff engagement is a key factor in reducing sick leave. As well as implementing specific sick leave initiatives, agencies should examine what motivates people to go to work. Ultimately, happy healthy people take less sick leave.

#### Recommendations

- 1. We recommend that by September 2011, the Department of Premier and Cabinet help public sector agencies manage sick leave by sharing best practice examples of:
  - a) agency strategies to reduce sick leave such as return to work interviews, welfare checks, and case managing staff with psychological issues (page 17)
  - agency analysis of sick leave trends and patterns such as sick leave by weekday to help identify cases of excessive sick leave (page 18)
  - c) monitoring sick leave with other human resource indicators including staff engagement to find out what motivates staff to go to work (page 18).
- 2. We recommend that by February 2011, the Department of Premier and Cabinet provide agencies with the sick leave rates of all agencies in the NSW public sector so they can compare their performance (page 10).
- 3. We recommend that by February 2011, the Department of Premier and Cabinet publish the average annual sick leave rate for the NSW public sector on its website to advise people of the public sector's performance (page 10).

#### Response from the Department of Premier and Cabinet

Thank you for the opportunity to comment on the final report dated 16 November 2010 about your performance audit on sick leave.

The Department of Premier and Cabinet (DPC) supports the Auditor-General's three recommendations.

The performance audit places a strong emphasis on reporting agency sick leave rates and using comparisons between agencies to drive change. Many factors contribute in a complex way to sick leave patterns in organisations. These factors include industrial arrangements, nature of the work and the workplace, ageing of the workforce, level of disease in the community, and external environmental factors as well as organisational culture and management strategies.

There are different sick leave arrangements in the New South Wales (NSW) public sector, mostly contained in awards, reflecting the complex and varied legislative and industrial environment that governs the operation of the NSW public sector.

Over the past four years, the Government's wages policy has assisted agencies to achieve reforms to work practices and industrial instruments, enabling tighter management of sick leave and targeted reduction in sick leave levels. Many agencies have identified savings from targeted sick leave reductions.

In particular, the Memorandum of Understanding (MOU) signed in settlement of the Crown Employees (Public Sector Salaries - 2008) Award includes changes to award provisions for sick leave accrual and evidence of illness. The MOU requires agencies to implement tailored strategies to reduce sick leave to 45.06 hours per employee. A revised 'Managing Sick Leave Policy' was released to the sector in May 2009. It is too soon to assess the effects of these reform strategies and DPC will monitor their effectiveness over time.

Agencies are provided with a broad range of information on an annual basis as a part of the workforce profile CEO report produced by DPC: From 2009/10 onwards, lead agency Chief Executive Officers will also be provided with this information at a cluster level.

It should be noted that care is warranted when using summary statistics on sick leave. Small changes in sick leave rates over a relatively short period are not necessarily good indicators of the effectiveness of sick leave reduction strategies. Therefore DPC proposes to publish sick leave data with commentary that enables agencies to analyse their performance in the context of the complexities of their workforce environment.

(signed)

Brendan O'Reilly Director General

Dated: 30 November 2010

## Key findings

#### 1 Public sector performance against sick leave target

#### 1.1 Has the sick leave target been met?

#### Conclusion

The NSW public sector did not meet the Government's 2008-09 target but sick leave has reduced slightly.

In 2006 the NSW Government said that it would aim to reduce average public sector sick leave for full time employees by one day a year by 2008-09. This was based on the 2004-05 sick leave rate which was 8.37 days. The Government estimated savings of around \$45 million in replacement costs for front-line workers.

Target not met but sick leave reduced slightly While the public sector did not meet the target, average sick leave reduced 1.84 hours per person per year since 2004-05 (or three per cent).

Exhibit 1: Average public sector sick leave per person (FTE)							
	2004-05 2005-06 2006-07 2007-08 2008-09 2009-10						
Hours	58.62	55.67	57.20	58.90	56.78	56.90	
Days	8.37	7.95	8.17	8.41	8.11	8.13	

Source: NSW Public Sector Workforce Profile

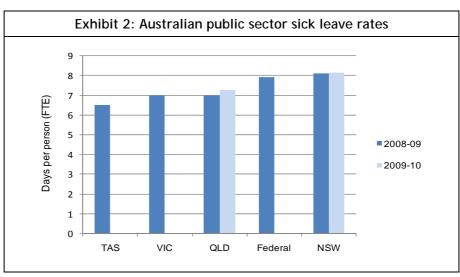
Note: Days based on a seven hour work day. FTE means full time equivalent.

Based on the Government's 2006 estimate, the NSW public sector has saved \$11.7 million. But savings could be greater. We estimate that the NSW Police Force and State Transit Authority together saved almost \$20 million over a three to five year period.

The results for 2009-10 show no improvement with average public sector sick leave remaining steady at 8.13 days per person per year.

NSW is higher than other states

In 2008-09 the NSW public sector had the highest reported sick leave rate in Australia. Sick leave rates ranged from 6.5 to 8.11 days per person per year.



Source: Australian State and Territory central departments.

2008-09 sick leave rates for SA, WA, ACT and NT are not publicly available.

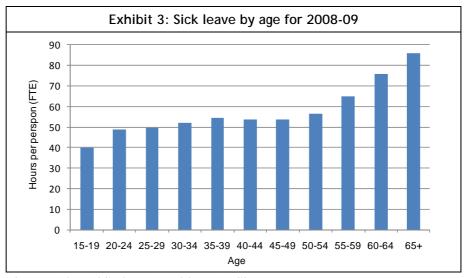
2009-10 sick leave rates were only available for NSW and Qld.

Sick leave is higher in the public than private sector Some studies show that sick leave is higher in the public sector than the private sector. In its 2009 survey of Australian public and private sector agencies, absence management firm Direct Health Solutions found that sick leave was 2.1 days higher in the public sector. This could be due to lower sick leave entitlements in the private sector, averaging ten days. Its 2010 survey results show the gap between private and public is narrowing.

We examined sector-wide sick leave data for 2008-09 to identify trends across the NSW public sector. We found that:

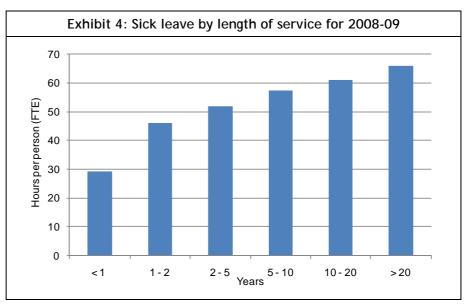
- sick leave increased with age and length of service
- the more employees were paid, the less sick leave they took
- coastal employees took more sick leave than those in the country
- males took slightly less sick leave than females
- small agencies generally had lower sick leave than large agencies
- sick leave is highest in police and emergency, and human services.

Sick leave increases with age



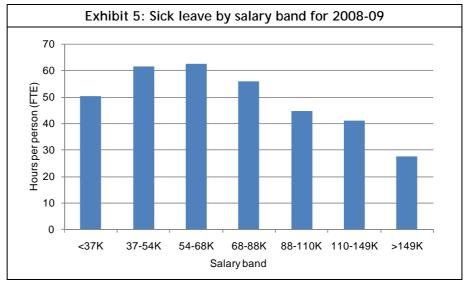
Source: NSW Public Sector Workforce Profile

Sick leave increases with length of service



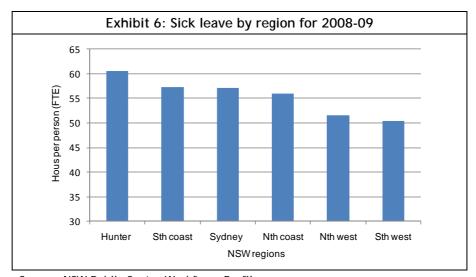
Source: NSW Public Sector Workforce Profile

High earners take less sick leave



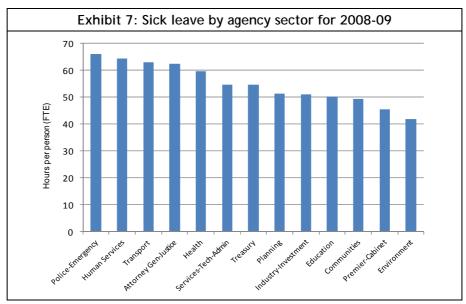
Source: NSW Public Sector Workforce Profile

Coastal employees take more sick leave



Source: NSW Public Sector Workforce Profile

Sick leave differs between agency sectors



Source: NSW Public Sector Workforce Profile

'Mondayitis' in the public and private sector Many agencies we spoke to said there was a spike in sick leave before or after weekends and holidays. Similar patterns were found in reviews of sick leave taken by fire fighters and teachers. For example, a review of the Department of Education and Training found peaks in sick leave on Mondays and Fridays. Some private sector studies show the same trend.

There may be good reasons for increased sick leave before and after weekends and holidays. For example there may be an increased risk of sporting injuries on weekends and greater exposure to sick people at social events.

The Department of Premier and Cabinet (DPC) does not collect data on sick leave taken without a medical certificate by week day. However agencies should monitor this and other trend data in order to identify any patterns, such as excessive or unsupported sick leave. We discuss this further in Section 2.3.

#### 1.2 Are guidelines in place for managing sick leave?

#### Conclusion

The Department of Premier and Cabinet has guidelines in place to assist agencies manage sick leave.

Sick leave guidelines are in place

DPC has guidelines in place to help agencies manage sick leave including how to deal with unacceptable absences. The guidelines do not set an overall sick leave target but advise agencies to set targets and benchmarks to reflect their workplace.

The guidelines are based on the *Crown Employees (Public Service Conditions of Employment) Award 2009.* This award does not apply to all public sector employees such as teachers, police officers and health professionals. However this does not prevent them from adopting the guidelines. In fact many agencies we spoke to advised they use them when developing their own sick leave policies.

Many factors affect sick leave rates within the workplace. DPC has policies in place to assist agencies with many of these such as:

- workplace bullying
- occupational health and safety
- occupational stress
- performance management
- influenza pandemics
- healthy workforce.

#### 1.3 Are sick leave results monitored centrally?

#### Conclusion

The Director-General of the Department of Premier and Cabinet monitors sick leave for the NSW public sector on an annual basis, but there is no routine analysis of sick leave patterns.

DPC is responsible for collecting sector-wide sick leave data as part of its workforce profile database. The Director-General of DPC receives an annual report which includes:

- average sick leave per headcount and full time employee or equivalent
- sick leave rate for the NSW public sector
- sick leave rates for the current and previous year.

## DPC monitors sick leave but does limited analysis

Other than the total sector sick leave rate, DPC does not routinely analyse sick leave by categories such as age, salary, location or long term trends.

DPC advises that it plans to revise its workforce profile analysis and reporting in light of the new *Government Information (Public Access) Act 2009.* We support this and encourage DPC to include sick leave analysis in future reports.

#### 1.4 Are agencies advised of their sick leave results?

#### Conclusion

The Department of Premier and Cabinet sends each agency an annual report on their workforce profile which includes their sick leave results.

## Agencies receive annual sick leave reports

Agencies receive their sick leave results annually and can compare these to the totals for the NSW public sector and their policy sector. However we believe this is not enough to trigger change in poor performing agencies.

DPC advises that it intends to give the head of each public sector super department the sick leave results of all agencies in its group. This is a good start and will help agencies benchmark performance against others in their sector. We believe DPC should go one step further and let agencies know where they rank in comparison to all others in the public sector. This is even more important for agencies not within a super department, such as the NSW Police Force and NSW Fire Brigades.

There is also no publicly available information on the sick leave rate for the NSW public sector. Public reporting is an important accountability mechanism which allows the public to judge the Government's achievements.

#### Recommendation

That Department of Premier and Cabinet by February 2011:

- provide agencies with the sick leave rates of all agencies in the NSW public sector so they can compare their performance
- publish the average annual sick leave rate for the NSW public sector on its website to advise people of the public sector's performance.

#### 2 Public sector agency sick leave results and initiatives

#### 2.1 Have public sector agencies reduced sick leave?

#### Conclusion

The results are mixed with some agencies reducing sick leave, while in others it has increased.

In almost 60 per cent of public sector agencies sick leave increased or showed no improvement between 2004-05 and 2008-09. However, sick leave decreased in the remaining 40 per cent and this group makes up over two-thirds of the workforce.

The table below lists the top ten agencies with more than 1,000 employees, which reduced sick leave between 2004-05 and 2008-09.

Two-thirds of the workforce have reduced sick leave

Exhibit 8: Large agencies that have reduced sick leave					
Agency	2008-09 FTE	2008-09 sick leave (hours)	Per cent sick leave reduction		
Attorney General's Department	4,174	49.09	22		
NSW Police Force	18,726	61.39	18		
Sydney Water Corporation	3,188	44.30	14		
State Transit Authority	4,548	60.80	13		
Dept of Ageing, Disability and Home Care	8,919	65.72	11		
Department of Corrective Services	6,465	74.01	11		
NSW Rail Corporation	13,078	70.37	7		
Office of State Revenue	1,134	53.29	6		
Department of Commerce	3,908	55.39	5		
NSW Fire Brigades	3,889	95.31	5		

Source: NSW Public Sector Workforce Profile

Notes: These ten agencies make up 23 per cent of the workforce.

Sick leave rate is hours per full time equivalent (FTE) non-casual employee per year.

Reducing sick leave is not easy. While genuine illness is unavoidable, studies show that some unplanned absences can be prevented. High sick leave can reflect an organisation's culture, management practices or working conditions. In the 12 agencies we spoke to, staff advised that the most common barriers to reducing sick leave were:

- an entitlement culture
- an ageing workforce
- industrial constraints.

## A 'use it or lose it' culture exists

All agencies reported that some employees view sick leave as an entitlement they must 'use or lose'. Agencies cited the following examples:

- employees taking the same amount of sick leave each year
- increased sick leave prior to retirement
- rostered sick leave where an employee takes sick leave to ensure another colleague receives overtime.

## The public sector is ageing

The public sector is also getting older. The average age of employees is 45 years, up from 43 in 2005. As sick leave increases with age, it will be more difficult to reduce as the population ages.

Public sector employees are almost eight years older than the average age of a person living in NSW, estimated to be about 37 years in 2009. This means that age could have a greater impact on sick leave rates in the public sector than the private sector.

## Industrial issues can slow reform

Agencies with high union membership, especially front-line services, said that negotiating workplace reform could be slow. Only gradual changes could be introduced each award, generally every three years.

However DPC advised that some agencies had negotiated sick leave initiatives under the Government's wages policy introduced in 2007. The policy allowed wage increases of 2.5 per cent per year. Extra increases were available where employee-related savings could be achieved, for example through reduced sick leave or overtime.

Other key barriers to reducing sick leave included:

- managers' inability to discuss sick leave with their staff
- working conditions (such as outdoor work, shiftwork, and contact with members of the public, children or sick people)
- uncertainty around agency restructures and staff freezes
- perceived inability to contact doctors who have provided medical certificates to staff suspected of abusing sick leave
- limited corporate service systems.

Despite these barriers some agencies had reduced sick leave taken by staff or kept their sick leave rate below the public sector average.

#### 2.2 Are strategies in place to manage sick leave?

#### Conclusion

Agencies had a range of strategies in place to manage sick leave, however their success varied.

We found that no policy or initiative on its own will help reduce sick leave. All 12 agencies have strategies in place to reduce it, though their success varied with sick leave decreasing in some, but increasing in others.

Sick leave strategies fell into two groups. The first relates to initiatives introduced through award negotiations or as cost saving measures. We identified four key cost saving strategies used by agencies to reduce sick leave, and which may help address the entitlement culture:

- reduced sick leave entitlement
- protocols for managing absences with clear trigger points and follow-up mechanisms for staff with excessive or unauthorised leave
- better tools to assist local managers reduce sick leave
- case management of staff with psychological or stress-related issues.

The second group relates to healthy workforce initiatives to prevent illness and promote wellbeing.

The following case studies show various cost saving and healthy workforce initiatives adopted by agencies between 2004-05 and 2008-09.

#### Reduced entitlement

Two agencies had changed their employees' sick leave entitlement. As part of a salaries claim in 2009 the Department of Education and Training reduced teachers' sick leave entitlement from 22 full and 22 half days to 15 full days per year. Maritime NSW had reduced sick leave entitlement even further.

#### Exhibit 9: Reduced sick leave entitlement

In 2008 Maritime NSW changed its sick leave entitlement from a minimum of five days to an absolute value of five days per person per year. Employees can also request additional sick leave if it is judged genuine and reasonable. This is based on an employee's length of service.

Maritime NSW first reduced its sick leave entitlement to five days in 1993, the minimum allowed under state law. A further change in 1996 allowed employees to cumulate sick leave for three years only, meaning they can accrue a maximum sick leave balance of 15 days.

Decrease in sick leave as a result of agency initiatives: 23% or 8.13 hours per person per year since 2004-05.

Source: Maritime Authority of NSW Enterprise Agreement 2007-2010

Other agencies had also reduced their sick leave entitlement earlier. For example in 1995 the State Transit Authority introduced a staggered entitlement rate for its bus drivers linked to length of service.

Sick leave entitlement varied significantly across the 12 agencies from five to 20 days (see Appendix 1). We found a correlation between the entitlement and sick leave rate, meaning the higher the entitlement the more sick leave taken. Some private sector studies show the same trend.

#### Absence management protocols

Six agencies have absence management protocols which outline what managers should do when they identify employees with excessive sick leave. For example employees with unacceptable sick leave patterns might be placed on an absence management program. Managers might issue a formal warning to an employee and ask them to:

- support all sick leave with a medical certificate
- regularly meet their supervisor to discuss their attendance
- be examined by an agency doctor.

If attendance is still unacceptable supervisors can take disciplinary action against staff and deny paid sick leave. In addition to absence management protocols, one agency also introduced follow-up phone calls or welfare checks for people on sick leave.

#### Exhibit 10: Welfare checks

In November 2007 State Transit Authority (STA) introduced welfare checks for bus drivers on sick leave. Health officers call employees each day they are sick to discuss their illness, whether medical treatment has been sought, and a likely return to work date. If the employee cannot be contacted or provides an unsatisfactory response, action can be taken against the employee.

Decrease in sick leave as a result of agency initiatives: 13% or 8.99 hours per person per year since 2004-05.

Source: STA 2009 Bus Operations Enterprise (State) Award

State Transit Authority estimates it has saved \$2.8 million between 2006-07 and 2009-10 as a result of these initiatives.

#### Tools to help local managers reduce sick leave

Four agencies had introduced tools to help supervisors manage sick leave taken by their employees. These included self assessment tools, training on sick leave protocols and guidance on return to work interviews.

#### Exhibit 11: Sick leave self assessment tools

In 2007 the NSW Police Force introduced a self assessment tool to help Local Area Commands (LACs) assess their performance against ten human resource areas including sick leave. Actions expected of each LAC include:

- referring inappropriate sick leave to management
- systems for checking and recording medical certificates
- deducting leave without pay from employees not complying with protocols on medical certificates
- return to work interviews to canvass welfare and support issues.

Another tool requires LACs to check compliance with two key protocols:

- receipt of mandatory medical certificates
- monitoring of staff with five or more unsupported sick leave occasions.

The NSW Police Force also introduced a protocol directing employees to call, not text, their supervisor when they are sick.

Decrease in sick leave as a result of agency initiatives: 18% or 13.57 hours per person per year since 2004-05.

Source: NSW Police Force HR Review Tool, Command Management Framework

The NSW Police Force estimates it has saved \$16.8 million or over 21,000 police shifts between 2004-05 and 2008-09 as a result of these initiatives.

Agencies said managers' inability to discuss sick leave with staff was a key barrier. Four agencies had tried to address this with:

- tough conversation training for managers (EnergyAustralia)
- management training on communication, grievances, and wellbeing (NSW Ambulance Service, Department of Environment, Climate Change, and Water (DECCW), and Sydney South West Area Health Service).

#### Case management of employees with mental health or stress-related issues

Many agencies said that employee engagement is crucial for a productive workplace. Stressed and unmotivated employees are more likely to take sick leave. One agency introduced an initiative to address mental health and stress-related issues.

#### Exhibit 12: Dealing with psychological and stress-related issues

The Department of Education and Training (DET) found that psychological issues make up about 10 per cent of workplace injuries, yet account for 42 per cent of the cost of workers' compensation payouts. This is because the issues to be addressed are complex and employees may take more leave.

To help address this, in 2008 DET introduced an early intervention service to manage the first 72 hours of psychological incidents. Occupational Health and Safety staff identify employees involved in stress-related incidents and work with their manager, doctor, and rehabilitation officer to develop a return to work strategy.

Decrease in sick leave since this initiative was introduced in 2008: 6% or 3.05 hours per person per year.

Source: DET Management of Psychological Injuries, 2008

The NSW Ambulance Service also plans to introduce mental health initiatives including stress management training, mental health first aid guidelines, and a self harm prevention advisory panel. This is in addition to their peer support program which aims to help staff deal with traumatic workplace incidents. DECCW is also introducing a rewards and recognition program to improve staff engagement and commitment.

Other cost saving initiatives are in place

Agencies have implemented many other cost saving and occupational health and safety (OHS) initiatives to manage sick leave. These include:

- requiring medical certificates after two days (previously three) (various)
- capping the use of sick leave to top-up workers compensation payments (DET)
- capping sick leave payouts (EnergyAustralia)
- fatigue management policies especially for shift workers (NSW Ambulance Service, Fire Brigades, Police Force, Rail Corporation (RailCorp), STA)
- drug and alcohol policies (RailCorp, EnergyAustralia, Fire Brigades, STA)
- routine staff health assessments (RailCorp, Maritime NSW, Delta Electricity, DECCW, STA).

Some OHS polices could increase sick leave initially, for example new safety standards requiring thorough health checks may detect previously unknown health problems. However employee health should improve in the long-term.

#### Healthy workforce initiatives

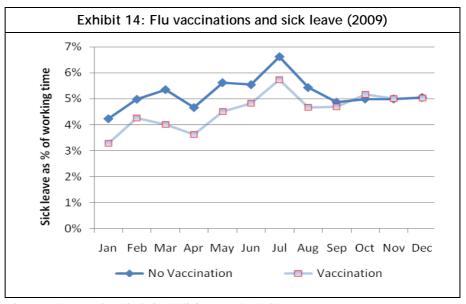
All agencies had introduced healthy workforce initiatives to prevent illness and promote employee wellbeing. These ranged from employee counselling and support services, which all agencies had in place, to subsidised gym memberships and corporate bikes.

	Exhibit 13: Healthy workforce initiatives						
	Employee assistance programs	Flu vaccination	Subsidised gym/sport membership	Brochures /intranet advice	Health fairs or seminars	Onsite gyms/ sport	Infection/ pandemic protocols
Ambulance	✓	✓		✓			✓
DECCW	✓	✓			✓	✓	
Delta	✓	✓	✓	✓			✓
DET	✓		✓	✓			✓
Energy Aust	✓	✓	✓	✓	✓	✓	✓
Fire Brigade	✓	✓		✓		✓	
LPMA	✓	✓				✓	
Maritime	✓	✓	✓	✓	✓	✓	✓
Police	✓	✓		✓			
RailCorp	✓	✓		✓	✓	✓	✓
SSWAHS	✓	✓		✓			✓
STA	✓	✓					✓

Source: Audit Office research

See Appendix 3 for a complete list of sample agencies.

Because the benefits of healthy workforce initiatives are long term it is difficult to link these with reduced sick leave. However one agency had reviewed the impact of influenza vaccinations on its sick leave rate. RailCorp found that employees who received influenza vaccines took less sick leave than those who were not vaccinated, especially in winter.



Source: Data and analysis by Rail Corporation NSW

While no policy or initiative on its own will help reduce sick leave there are a number of emerging themes agencies should consider. The first is better monitoring and management by supervisors supported by clear absence management protocols. This means supervisors know what triggers to look for, how to discuss them with staff, and what to do if they find inappropriate use of sick leave.

The second theme relates to staff engagement. Sick leave is one of many indicators an agency can use to assess the health of its workforce in terms of engagement, loyalty and commitment. Agencies which monitor staff engagement levels will be in a better position to identify and address any problems. We discuss this further in the next section.

#### Recommendation

We recommend that by September 2011, the Department of Premier and Cabinet help public sector agencies manage sick leave by sharing best practice examples of agency strategies to reduce sick leave such as return to work interviews, welfare checks, and case managing staff with psychological issues.

#### 2.3 Is there adequate data to monitor sick leave?

#### Conclusion

All 12 agencies had adequate data to monitor sick leave rates, however four advised that poor corporate service systems limited analysis.

All agencies collect basic data on sick leave which enabled them to monitor their sick leave rates. Most monitored sick leave at both local management and executive levels. For example:

- in all but one agency supervisors monitored staff sick leave
- in ten agencies the executive monitored sick leave quarterly or monthly.

Ideally sick leave should be managed at the local level, not by human resource departments. Human resources key role should be to develop policy and intervene only when matters need escalation or disciplinary action.

Targets alone will not reduce sick leave

Seven agencies had also developed sick leave targets against which they monitored their performance. Actual results however were mixed. Five of the seven agencies with targets reduced sick leave indicating that targets alone are not sufficient to reduce sick leave.

Inadequate IT systems can limit analysis

As well as monitoring their overall sick leave rate, it is important that agencies also monitor trends and identify patterns in sick leave taken by employees. This can include sick leave by job type, age, tenure or weekday. This enables agencies to identify instances of excessive or unsupported sick leave.

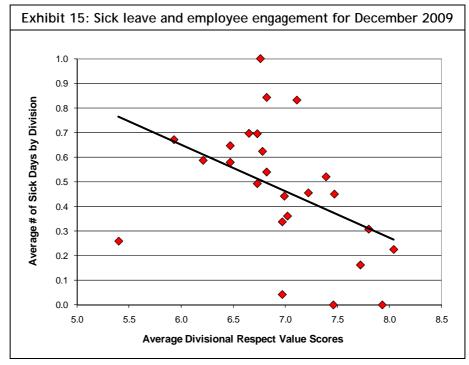
Most agencies advised they were able to identify and monitor trends of this nature. However four agencies said inadequate corporate service systems prevented them from performing any meaningful analysis. For example, data needed to be manually extracted from several databases which was time consuming.

Six agencies monitor sick leave with other indicators Ideally sick leave should be monitored with other human resource indicators as part of an overall approach to managing staff engagement and absenteeism. We found that six agencies monitored sick leave with other human resource indicators such as:

- overtime
- staff turnover
- excess annual leave
- training.

Happy employees take less sick leave

RailCorp had also analysed the correlation between sick leave and employee engagement. It collects information on employee engagement through its cultural survey, measured as the corporate value 'respect'. It found some correlation between 'respect' and sick leave, suggesting that engaged employees take less sick leave.



Source: Data and analysis by Rail Corporation NSW

Staff engagement levels can reflect an organisation's culture. A 2007 study found that organisational climate, or employees' perceptions about their workplace, accounted for 16 per cent of sick leave taken by staff. Therefore we encourage agencies to monitor sick leave with other human resource indicators, including staff engagement.

#### Recommendation

We recommend that by September 2011, the Department of Premier and Cabinet help public sector agencies manage sick leave by sharing best practice examples of:

- agency analysis of sick leave trends and patterns such as sick leave by weekday to help identify cases of excessive sick leave
- monitoring sick leave with other human resource indicators including staff engagement to find out what motivates staff to go to work.

## **Appendices**

Appendix 1 Sick leave entitlement

Agency	Entitlement (as per award)	Standard hours per week	Entitlement in days <sup>1</sup> (based on award conditions)	Avg sick leave 2008-09 (hours per FTE)
NSW Fire Brigades	144 hours	40	18	95.31
EnergyAustralia <sup>2</sup>	64 -144 hours	36	9 - 20	53.42
Delta Electricity <sup>3</sup>	126 hours	35	18	79.76
NSW Ambulance Service	114 hours	38	15	79.77
Rail Corporation NSW	114 hours	38	15	70.37
NSW Police Force	114 hours	38	15	61.39
State Transit Authority <sup>4</sup>	8-15 days	38	8 - 15	60.80
Land and Property Management Authority	15 days	35 - 38	15	55.46
Department of Education and Training	15 days	-	15	50.35
Department of Environment, Climate Change and Water	15 days	35 - 38	15	41.07
Sydney South West Area Health Service <sup>5</sup>	70 - 76 hours 10 working days	35 - 40 (avg 38)	9 - 10	57.47
Maritime NSW	5 days	35 - 38	5	26.69

Source: Audit Office research, NSW Public Sector Workforce Profile Notes

<sup>&</sup>lt;sup>1</sup> We calculated 'entitlement in days' using a 5 day working week, based on the standard hours outlined in each agency's award or workplace agreement. We recognise staff in some agencies do shift work therefore the hours an employee works per 'working day' may vary these results. Entitlement reflects an agency's core role, for example, for NSW Fire Brigades we used the award conditions for fire fighters.

<sup>&</sup>lt;sup>2</sup> Sick leave entitlement is staggered up to five years.

<sup>&</sup>lt;sup>3</sup> Delta Electricity advised that it incorrectly included 'sick leave taken as carer's leave' in its paid sick leave figures reported to DPC which may inflate its sick leave rate.

<sup>&</sup>lt;sup>4</sup> Sick leave entitlement is staggered at five and seven years.

<sup>&</sup>lt;sup>5</sup> Sick leave entitlement varies by job type (eg nurses, medical officers, staff specialists). Maximum entitlement for a minimum 12 months employment.

Appendix 2 Sick leave results for large public sector agencies

Agency	2004-05	2005-06	2006-07	2007-08	2008-09	% change
Country Energy	34.68	37.46	37.79	47.83	48.68	40.37
EnergyAustralia	42.87	48.24	49.98	50.48	53.42	24.59
Department of Environment and Climate Change	36.22	38.77	38.76	41.21	41.07	13.38
Land and Property Management Authority	49.76	53.98	52.51	53.52	55.46	11.44
NSW Department of Primary Industries	41.03	42.31	41.27	44.13	44.70	8.95
New Children's Hospital, Westmead	49.51	52.66	52.16	55.48	53.81	8.67
Department of Juvenile Justice	72.87	73.07	72.14	78.97	78.63	7.90
North Coast Area Health Service (AHS)	57.85	59.77	56.77	59.60	62.37	7.80
Greater Southern Area Health Service	54.54	57.21	54.43	56.18	58.31	6.91
Northern Sydney and Central Coast AHS	56.79	58.17	56.53	60.31	60.25	6.08
Integral Energy	48.36	44.45	42.86	49.79	51.24	5.97
NSW Housing	58.08	62.70	60.87	62.59	61.35	5.63
Greater Western Area Health Service	56.12	57.21	58.42	58.01	58.36	3.98
Sydney West Area Health Service	58.71	59.74	58.99	62.80	60.29	2.69
Roads and Traffic Authority of NSW	58.16	57.95	55.02	56.15	59.03	1.49
Ambulance Service of NSW	78.62	79.91	74.21	77.64	79.77	1.46
Department of the Arts, Sport and Recreation	50.40	50.21	49.92	52.54	50.44	0.45
WorkCover NSW	62.80	52.74	54.33	57.68	62.97	0.27
Department of Education and Training	50.93	47.33	53.41	53.40	50.35	-1.14
Hunter and New England Area Health Service	59.88	58.05	58.17	60.48	58.95	-1.55
South Eastern Sydney and Illawarra AHS	58.17	57.71	58.60	61.09	56.86	-2.27
Department of Community Services	61.67	58.84	61.24	62.87	59.82	-3.01
Sydney South West Area Health Service	59.33	58.42	57.63	58.81	57.47	-3.14
Health Support Services	-	-	67.56	47.12	65.24	-3.43
NSW Fire Brigades	R	100.55	110.87	109.33	95.31	-5.22
Department of Commerce	58.52	53.87	56.83	59.51	55.39	-5.35
Office of State Revenue	56.81	55.67	56.93	59.60	53.29	-6.20
NSW Rail Corporation	75.84	74.48	73.23	72.58	70.37	-7.21
Department of Ageing, Disability and Home Care	73.43	61.39	64.50	69.98	65.72	-10.50
Department of Corrective Services	82.83	74.22	75.77	74.46	74.01	-10.64
State Transit Authority of NSW	69.79	66.17	67.93	64.51	60.80	-12.88
Sydney Water Corporation	51.34	52.85	43.52	42.06	44.30	-13.71
NSW Police Force	74.96	71.30	67.66	65.97	61.39	-18.11
Attorney General's Department of NSW	62.98	54.06	27.27	62.26	49.09	-22.05

Source: NSW Public Sector Workforce Profile

Notes

R: data integrity unacceptable

Sick leave data does not include sick leave taken as carer's leave or sick leave without pay.

EnergyAustralia provided an updated figure for their sick leave rate for 2005-06.

These agencies make up 94 per cent of the public sector workforce.

The working conditions and workplace environment in agencies may differ.

#### Appendix 3 About the audit

#### Audit objective

This audit assessed whether the NSW public sector met the Government's sick leave target and sick leave rates are decreasing.

#### Lines of inquiry

We sought to answer the following questions:

- has the NSW public sector met the Government's 2008-09 sick leave target?
- have public sector agencies reduced sick leave over the last five years?

#### Audit criteria

In answering the lines of inquiry, we used the following audit criteria (the 'what should be') to judge performance. We based these standards on our research of current thinking and guidance on better practice. They have been discussed, and wherever possible, agreed with those we are auditing.

For line of inquiry 1, we assessed the extent to which:

- the Department of Premier and Cabinet (DPC) has guidelines in place for NSW public sector agencies on managing sick leave
- DPC monitors public sector sick leave including trends over time
- DPC ensures sick leave results are easily available to public sector agencies
- the NSW public sector met the Government's 2008-09 sick leave target and the sick leave rate has decreased.

For line of inquiry 2, we assessed the extent to which:

- public sector agencies have strategies in place to manage sick leave
- public sector agencies collect sufficient information to enable them to monitor sick leave
- public sector agencies' sick leave rates have reduced over the last five years.

#### Audit scope

By 'public sector' we mean both budget funded agencies and public enterprises. We examined sector-wide sick leave data to identify trends and asked selected agencies about their strategies to reduce sick leave.

This audit did not examine:

- detailed sick leave polices and management practices within agencies
- specific policies to reduce sick leave such as the Healthy Workforce Policy.

#### Audit approach

We acquired subject matter expertise by:

- interviewing staff from DPC responsible for:
  - central policies and procedures regarding sick leave
  - monitoring and reporting sector-wide sick leave results.
- reviewing central policies and procedures for monitoring sick leave
- analysing data on sick leave including trends by agency, age and salary
- interviewing selected agencies about barriers and initiatives to reduce sick leave.

We also examined approaches to managing sick leave in other jurisdictions and the private sector.

#### Audit sample

We visited the following 12 agencies. Our selection was based on:

- sick leave results
- agency size (full time equivalent)
- role (front-line, policy/administration).

NSW Ambulance Service
Delta Electricity
Department of Education and Training (DET)
Department of Environment, Climate Change and Water (DECCW)
EnergyAustralia
Land and Property Management Authority (LPMA)
Maritime NSW
NSW Fire Brigades
NSW Police Force
Rail Corporation NSW (RailCorp)
State Transit Authority (STA)
Sydney South West Area Health Service (SSWAHS)

#### **Audit selection**

We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to Parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

#### Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 on performance auditing, and to reflect current thinking on performance auditing practices. We produce our audits under a quality management system certified to International Standard ISO 9001. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

#### Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the Department of Premier and Cabinet. In particular we wish to thank staff in the Public Sector Workforce Directorate including our liaison officers Mr Mark Webb and Ms Samara Dobbins. We also wish to thank our sample agencies who provided us with valuable information about their initiatives to reduce sick leave and other material relevant to the audit.

#### Audit team

Our team leader for the performance audit was Tiffany Blackett, who was assisted by Vanessa Bailey. Jane Tebbatt and Giulia Vitetta provided direction and quality assurance.

#### Audit cost

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$166,127.

# Performance Audits by the Audit Office of New South Wales

#### Performance Auditing

#### What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of Government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance* and Audit Act 1983.

#### Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently, economically or effectively and in accordance with the law.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from Parliamentarians, the public, agencies and Audit Office research.

### What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant Minister and the Treasurer are also provided with a copy of the final report. The report tabled in Parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

### Do we check to see if recommendations have been implemented?

Following the tabling of the report in Parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the Parliamentary website.

#### Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice. We are also subject to independent audits of our quality management system to maintain certification under ISO 9001.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every three years. The review's report is tabled in Parliament and available on its website.

#### Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

#### Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website <a href="https://www.audit.nsw.gov.au">www.audit.nsw.gov.au</a> or contact us on 9275 7100.

## **Performance Audit Reports**

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
209	Department of Premier and Cabinet	Sick Leave	December 2010
208	Department of Industry and Investment NSW Treasury	Coal Mining Royalties	30 November 2010
207	Whole of Government electronic information security	Electronic Information Security	20 October 2010
206	NSW Health NSW Ambulance Service	Helicopter Emergency Medical Service Contract	22 September 2010
205	Department of Environment, Climate Change and Water	Protecting the Environment: Pollution Incidents	15 September 2010
204	Corrective Services NSW	Home Detention	8 September 2010
203	Australian Museum	Knowing the Collections	1 September 2010
202	Industry & Investment NSW Homebush Motor Racing Authority Events NSW	Government Investment in V8 Supercar Races at Sydney Olympic Park	23 June 2010
201	Department of Premier and Cabinet	Severance Payments to Special Temporary Employees	16 June 2010
200	Department of Human Services - Ageing, Disability and Home Care	Access to Overnight Centre-Based Disability Respite	5 May 2010
199	Department of Premier and Cabinet NSW Treasury WorkCover NSW	Injury Management in the NSW Public Sector	31 March 2010
198	NSW Transport and Infrastructure	Improving the Performance of Metropolitan Bus Services	10 March 2010
197	Roads and Traffic Authority of NSW	Improving Road Safety: School Zones	25 February 2010
196	NSW Commission for Children and Young People	Working with Children Check	24 February 2010
195	NSW Police Force NSW Department of Health	Managing Forensic Analysis - Fingerprints and DNA	10 February 2010
194	Department of Premier and Cabinet Department of Services, Technology and Administration NSW Treasury	Government Advertising	10 December 2009
193	Roads and Traffic Authority of NSW	Handback of the M4 Tollway	27 October 2009
192	Department of Services, Technology and Administration	Government Licensing Project	7 October 2009
191	Land and Property Management Authority Maritime Authority of NSW	Administering Domestic Waterfront Tenancies	23 September 2009

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
190	Department of Environment, Climate Change and Water NSW Environmental Trust	Environmental Grants Administration	26 August 2009
189	NSW Attorney General's Department NSW Department of Health NSW Police Force	Helping Aboriginal Defendants through MERIT	5 August 2009
188	NSW Department of Health	Tackling Cancer with Radiotherapy	23 June 2009
187	Roads and Traffic Authority of NSW	Improving Road Safety - Heavy Vehicles	13 May 2009
186	Grants	Grants Administration	6 May 2009
185	Forests NSW	Sustaining Native Forest Operations	29 April 2009
184	NSW Police Force	Managing Injured Police	10 December 2008
183	Department of Education and Training	Improving Literacy and Numeracy in NSW Public Schools	22 October 2008
182	Department of Health	Delivering Health Care out of Hospitals	24 September 2008
181	Department of Environment and Climate Change	Recycling and Reuse of Waste in the NSW Public Sector	11 June 2008
180	Follow-up of 2003 Performance Audit	Protecting Our Rivers	21 May 2008
179	NSW Office of Liquor, Gaming and Racing; NSW Police Force	Working with Hotels and Clubs to reduce alcohol-related crime	23 April 2008
178	Greyhound and Harness Racing Regulatory Authority	Managing the Amalgamation of the Greyhound and Harness Racing Regulatory Authority	3 April 2008
177	Office of the Director of Public Prosecutions	Efficiency of the Office of the Director of Public Prosecutions	26 March 2008
176*	Better Practice Guide	Implementing Successful Amalgamations	5 March 2008
175	Department of Commerce Department of Primary Industries	Managing Departmental Amalgamations	5 March 2008
174	Department of Education and Training	Ageing workforce - Teachers	13 February 2008
173	NSW Police Force	Police Rostering	5 December 2007

<sup>\*</sup> Better Practice Guides

#### Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website <a href="https://www.audit.nsw.gov.au">www.audit.nsw.gov.au</a>.

If you have any problems accessing these reports, or are seeking older reports, please contact our Office Services Manager on (02) 9275 7116.