



Human Resource Management Tool

Calculate the Full Costs of Labour Turnover in Your Council

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Executive Summary

The LGA Research & Development Scheme has provided the funding for the LGA to develop a tool for Human Resource Managers to attempt to establish a benchmark on the full costs associated with labour turnover.

We aim to assist you to find all of your associated labour turnover costs by providing you with a template which will firstly guide you in identifying and then calculating in dollar terms the real cost of replacing an experienced employee. The tool can be used to research and workshop the visible and often hidden costs of turnover of any unskilled, skilled or management position in your Council. The true financial impact of staff turnover in your Councils' annual budget will then be visible for all to see.

Future workforce planning and human resource management strategies on staff retention, training and development can then be better implemented and supported with a view to achieve a benchmark on acceptable costs of staff turnover in your Council.

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Introduction

Do you really know the true financial expense associated with replacing an experienced employee, or do you assume an annual percentage loss and allow room for error?

All of the costs associated with staff turnover are unrecoverable.

Costs are likely to include recruitment costs, productivity losses before an employee departs and after they are replaced, loss of investment in training expenditure, informal induction/development costs associated with assimilating your new recruit into your organisational culture, administration set-up expenses, any new equipment purchases, and the list really does go on!

With any mix of an aging workforce, the job vacancy challenges for some remote and regional Councils, and competition for experienced and capable workers; can your Council agree on and adopt a benchmark for acceptable annual costs associated with labour turnover? If so, where would you begin to find the true costs and once you have confirmed your annual costs, what actions, if any, can be taken by your Council to reduce unnecessary expenses?

The template contained in pages fifteen (15) to eighteen (18) will assist you to identify and then calculate in dollar terms the real cost of replacing an experienced employee.

The case studies contained in pages nine (9) to fourteen (14) are examples of how to fill out the template. At the end of each completed list is an example of extrapolated figures for the Council as a whole. You can choose to collate all the figures for each position type or extrapolate the data for each department or Council as a whole.

It is likely that after having completed this exercise you will be surprised at the true costs associated with the loss of experienced staff. If it has not been a priority in the past, these figures are likely to provide your Council with the confirmation that a more effective staff retention strategy is needed.

Explanation

Referring to the items listed in the template, & adding any of your own, you will need to examine any financial reports and departmental budgets and speak to the relevant Supervisors and/or department Managers, and any other 'key' employees who can help to identify turnover costs in terms of time, items, processes and productivity. All items in your list will then need to be converted into dollars. This is where you will begin to identify more hidden costs associated with labour turnover.

It is important to remember that some item costs are derived only through time, some only through fees and some are derived through both time spent and fees or specific costs. You may want to indicate this on your list to help differentiate between the two for future analysis.

It is likely that you will need to estimate some of the time derived expenses at the beginning of your exercise. It is important to indicate this where you have estimated costs and if you have used internal or external resources for your future reference, as over time your data will become more reliable as you track costs with any new departure and recruit. This may also help you to determine where any costs savings can be made.

Also remember to consider the experience, skill level and the seniority of the departing worker and the new recruit as this will affect the actual costs and will need to be factored into your calculations. For example an unskilled new recruit needed to replace a vacancy created by an experienced and skilled staff member is likely to cost less than if the new recruit is also skilled and experienced and coming into a senior role. It is recommended that you indicate these details with each new departure and recruit as this will affect your annual budget. This will also help you track where cost savings can be made and assist you to identify

what level of experience and skill is needed in the future for any Workforce Planning considerations.

Once you have started, stick with it, as over time your methodology and data will become more and more reliable.

Case Study - Examples

Case Study - 1

POSITION NAME: Leading Worker Street Trees
(Internal Application Process)

DEPARTMENT: Field Services **DATE:** 09/02/2009

NOTICE PERIOD COSTS

- Any Productivity losses \$ 6840.00 (approx. 4 wks)
- Use of "Temps" \$ 3420.00 (approx. 2 wks)

RECRUITMENT COSTS

- Job & Person Description re-drafting
(Internal Process) \$ 63.00 (1 hr ASU-Admin)
- Job Advertisement
 - o Compilation (Internal – Council based only)
 \$ 126.00 (1 hr ASU-Admin)
 (1 hr ASU-HR)
- Time spent reviewing applications -
 - o Department Manager \$ 63.00
 - o Other Coordinator & AWU Rep. \$ 126.00
- Time spent Interviewing Candidates -
 - o Department Manager (& Coordinator) \$ 126.00
 - o Other AWU Rep \$ 45.00 (1hr Admin)
- Time spent on Referee checks -
 - o Manager \$ 31.50 (1/2hr ASU)
- Other Administrative time & expenses (list)
 - o Letters – successful/unsuccessful \$ 126.00 (2hrs ASU-Admin)
- Pre-employment Medical Examinations \$ 120.00
- Cost of Mandated Training Checks \$ 63.00 (1hr ASU-Admin)

NEW EMPLOYEE COSTS

- New Employee Induction Plan (what's
 Involved in your plan – i.e. OHS induction
 EEO, Privacy, fire escape, software knowledge etc.
 who, what (list)
 - Previous Employee Induction \$ 252.00 (4hrs ASU)
 \$ 180.00 (4hrs AWU)
- New Uniforms (include time for fitting &
 Cost of items i.e. hats, gloves, sunglasses)

LABOUR TURNOVER COSTS

(list)

▪ <u>PPE costs</u>	\$ <u>300.00</u>
▪ <u>Fitting time</u>	\$ <u>90.00</u>
- I.T. set-up (system access, security etc.)	\$ <u>200.00</u>

(list any additional details)

Probationary Review & Performance Monitoring \$ 1000.00

Add up all you expenses to show a Total **=\$ 12,851.50**

Mitcham Council had 293 employees as of the date of this case study. It recorded 36 resignations in the financial year giving it a 12.3% turnover rate. If each loss and new recruit out of the 36 resignations cost \$12,851.50 as outlined above, then the annual cost to the Councils budget for the financial year would be \$462,654.00.

Case Study - 2

POSITION NAME: Manager Contracts

DEPARTMENT: Environment & Legal **DATE:** 29/01/2009

NOTICE PERIOD COSTS

- | | |
|---------------------------|-------------------|
| - Any Productivity losses | \$ <u>3000.00</u> |
|---------------------------|-------------------|

RECRUITMENT COSTS

- | | |
|---|-------------------|
| - Recruiters (<i>Internal</i>) | \$ <u>2000.00</u> |
| - Job & Person Description re-drafting
(Internal/External) | \$ <u>200.00</u> |
| - Job Advertisement | |
| o Compilation (<i>Internal</i>) | \$ <u>500.00</u> |
| o Publications (list all i.e. internet
&/or print media) | |
| ▪ <u>Advertiser</u> | \$ <u>2000.00</u> |
| ▪ <u>Internet/Career One</u> | \$ <u>200.00</u> |
| - Time spent reviewing applications - | |
| o HR Officer | \$ <u>500.00</u> |
| o HRM | \$ <u>1600.00</u> |
| o Department Manager | \$ <u>400.00</u> |
| - Time spent Interviewing Candidates - | |
| o Other (name)_____ | \$ <u>1620.00</u> |
| - Time spent on Referee checks - | |
| o HR Officer | \$ <u>200.00</u> |
| o HRM | \$ <u>250.00</u> |
| - Other Administrative time & expenses (list) | |
| ▪ <u>I/V Questions,</u> | |
| ▪ <u>Panel Discussion & _____</u> } | \$ <u>1200.00</u> |
| ▪ <u>Write up & Approval</u> | |
| - Investment in Personality Tests | \$ <u>600.00</u> |
| - Skills Tests | \$ <u>200.00</u> |
| - Cost of Police clearance Checks | \$ <u>100.00</u> |
| - Misc. Expenses (list) | |
| ▪ <u>Phone calls,</u> | |
| ▪ <u>Printing & Stationary,</u> | |
| ▪ <u>I\V Room & _____</u> } | \$ <u>1200.00</u> |
| ▪ <u>Reception</u> | |

NEW EMPLOYEE COSTS

- New Employee Induction Plan (what's Involved in your plan – i.e. OHS induction EEO, Privacy, fire escape, software knowledge etc. who, what (list)
 - Induction \$ 2000.00
- Administrative set-up i.e. business cards, (list)
 - _____ \$ 250.00
- Any additional Training Expenses (list)
 - Induction & Orientation \$ 7000.00
- Estimated productivity losses during training (identify each) include where there is a duplication of work etc.
 - o New employee \$ 12,000.00
 - o Mentor \$ 6000.00
 - o Other employee(s) \$ 4000.00

(List any additional details)

Probationary Review & Performance Monitoring \$ 3000.00

Add up all you expenses to show a Total **=\$ 49,228.00**

Mitcham Council had 293 employees as of the date of this case study. It recorded 36 resignations in the financial year giving it a 12.3% turnover rate. If each loss and new recruit out of the 36 resignations cost \$49,228.00 as outlined above, then the annual cost to the Councils budget for the financial year would be \$1,772,208.00.

Case Study - 3

POSITION NAME: Finance Officer

DEPARTMENT: Finance **DATE:** 03/02/2009

NOTICE PERIOD COSTS

- Any Productivity losses \$ 2280.00
- Use of "Temp" &/or contract labour \$ 5472.00

RECRUITMENT COSTS

- Recruiters (Internal/External) \$ 2000.00
- Job & Person Description re-drafting (Internal/External) \$ 200.00
- Job Advertisement
 - o Compilation (Internal/External) \$ 200.00
 - o Publications (list all i.e. internet &/or print media)
 - Advertiser \$ 2000.00
 - Internet/Career One \$ 200.00
- Time spent reviewing applications -
 - o HR Officer \$ 250.00
 - o HRM \$ 1500.00
 - o Department Manager \$ 250.00
 - o Other (name)_____ \$ 350.00
- Time spent Interviewing Candidates -
 - o HRM \$ 2000.00
 - o Department Manager \$ 400.00
 - o Other (name)_____ \$ 560.00
- Time spent on Referee checks -
 - o HR Officer \$ 140.00
- Other Administrative time & expenses (list)
 - I/V Questions,
 - Writing up recommendation } \$ 525.00
 - & seeking approval
- I.T. & other software costs related to the recruitment process \$ 100.00
- Investment in Personality Tests \$ 600.00
- Skills Tests \$ 200.00
- Misc. Expenses (list)
 - Phone calls,

- Printing & Stationary, _____
- I\V Room & _____ } \$ 1000.00 _____
- Reception _____

NEW EMPLOYEE COSTS

- New Employee Induction Plan (what's Involved in your plan – i.e. OHS induction EEO, Privacy, fire escape, software knowledge etc. who, what (list)
 - Induction _____ \$ 2000.00 _____
 - I.T. set-up (system access, security etc.) \$ 200.00 _____
 - Any additional Training Expenses (list)
 - Systems Training by Civica _____ \$ 6400.00 _____
 - Estimated productivity losses during training (identify each include where there is a duplication of work etc.
 - o New employee \$ 27,360.00
 - o Mentor \$ 9120.00
 - o Other employee(s) \$ 4500.00

(list any additional details)

Probationary Review & Performance Monitoring \$ 2000.00
 - Use of "Temp" &/or contract labour \$ 21,888.00
- Add up all you expenses to show a Total **=\$ 93,695.00**

Mitcham Council had 293 employees as of the date of this case study. It recorded 36 resignations in the financial year giving it a 12.3% turnover rate. If each loss and new recruit out of the 36 resignations cost \$93,695.00 as outlined above, then the annual cost to the Councils budget for the financial year would be \$3,373,02.00.

Template

POSITION NAME: _____

DEPARTMENT: _____ **DATE:** _____

NOTICE PERIOD COSTS

- Any Productivity losses \$ _____
- Any Duplication of work costs \$ _____
- Possible Outsourcing Costs \$ _____
- Use of "Temp" &/or contract labour \$ _____

RECRUITMENT COSTS

- Recruiters (Internal/External) \$ _____
- Job & Person Description re-drafting (Internal/External) \$ _____
- Job Advertisement
 - o Compilation (Internal/External) \$ _____
 - o Publications (list all i.e. internet &/or print media)
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
- Recruitment Centres \$ _____
- Time spent reviewing applications -
 - o HR Officer \$ _____
 - o HRM \$ _____
 - o Department Manager \$ _____
 - o Other (name) _____ \$ _____
- Time spent Interviewing Candidates -
 - o HR Officer \$ _____
 - o HRM \$ _____
 - o Department Manager \$ _____
 - o Other (name) _____ \$ _____
- Time spent on Referee checks -
 - o HR Officer \$ _____
 - o HRM \$ _____

Other Administrative time & expenses (list)

- _____ \$ _____
- _____ \$ _____
- _____ \$ _____
- I.T. & other software costs related to the recruitment process \$ _____
- Investment in Personality Tests \$ _____
- Investment in Integrity Tests \$ _____
- Skills Tests \$ _____
- Costs of drug testing \$ _____
- Pre-employment Medical Examinations \$ _____
- Driving history verification \$ _____
- Cost of Police clearance Checks \$ _____
- Cost of Responsible Person Checks \$ _____
- Cost of Mandated Training Checks \$ _____
- Cost of Background investigations \$ _____
- Misc. Expenses (list)
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
- Other (list)
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____

NEW EMPLOYEE COSTS

- Candidate/Employee travel expenses \$ _____
- Relocation Expenses \$ _____
- New Employee Induction Plan (what's Involved in your plan – i.e. OHS induction EEO, Privacy, fire escape, software knowledge etc. who, what (list)
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____

- New Uniforms (include time for fitting & Cost of items i.e. hats, gloves, sunglasses (list)
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
- I.T. set-up (system access, security etc.) \$ _____
- Administrative set-up i.e. business cards, (list)
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
- Ergonomic assessments \$ _____
- Purchase/use of any new equipment i.e. foot stools, mouse pads, chairs etc. (list)
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
- If your replacement employee is paid more for the same role than their predecessor due to competition, remote location or vacancy issues etc. (provide a reason(s) & \$ value)

\$ _____
- Any increases in Workers' Compensation Expenses \$ _____
- Any increases in Unemployment Insurance Costs \$ _____
- Any increases in Employee Benefit Expenses \$ _____
- Any additional Training Expenses (list)
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
- Estimated productivity losses during training (identify each include where there is a duplication of work etc.
 - New employee \$ _____
 - Mentor \$ _____
 - Other employee(s) \$ _____

(list any additional details)

- EEO/Legal Expenses \$ _____
- Outsourcing Costs \$ _____
- Use of "Temp" &/or contract labour \$ _____
- Other (list)
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____
 - _____ \$ _____

Add up all you expenses to show a Total **=\$**

The data can now be extrapolated to provide an annual cost to the Councils budget.

You may want to have a benchmark for each position type or each department costs or Council as a whole.

1. Total expenses (from list) - \$ _____
 2. The total number of employees* - _____
 3. How many employees resigned in Fin./Cal. Year* - _____
 4. Now divide #2 by #3 totals for % turnover - _____ %
 5. Total Costs of Labour Turnover – multiply #1 by #3 **- \$**
-

**Here is where you determine if you are going to base your calculations on the total of employees for the position type, department or Council as a whole.*