

DBULLETIN

The Comprehensive Spending Review: How can employers respond?

On 20 October 2010 George Osborne unveiled the biggest UK spending cuts in decades.

This review comes hot on the heels of the Emergency Budget in June which has already had a massive knock on effect for employers contracting with the public sector or other organisations who receive public sector support. Remember the headlines as Connaught and John Laing Partnership went into administration?

Employers will be immediately assessing the impact of the cuts on their own businesses. For some employers the review will mean full scale restructuring and wide ranging redundancies. For others, employers will have to look at how to provide the same level of service to their clients or customers but at a more competitive price. This can often mean that redundancies will make them less competitive.

So what can employers do once they have reduced their workforce to a critical mass but need to find other ways of cutting costs? In this article we look at various tactics to cut costs where redundancies alone will not achieve your commercial objectives.

Deferring employment and offering sabbaticals

Employers should start by looking at ways employment can be deferred. A logical first step to consider is imposing a recruitment freeze, something which many organisations have employed with success over the past 2 years. This is a simple way to stop further expenditure being incurred.

If offers of employment have already been made, employers should determine whether people are willing to defer the start of their employment for a few months. A percentage of the future employee's intended salary could be paid in exchange for them taking up the offer of deferred employment.

If you have a graduate scheme, consideration should be given to putting this on hold until the organisation can financially support such a scheme.

In addition, employers should look at offering existing staff sabbaticals, either unpaid or on a reduced paid basis.

Changing employees' terms and conditions

If variations are being made to employees' contracts, employers need to proceed with caution. In most cases, an alteration to an employee's contract will be a breach of contract unless the employee agrees to the change. Employers will therefore need to seek the

consent of the employees. If they are unable to get this, an employer can consider unilaterally imposing the change or terminating the contracts on notice and offering to re-engage the employees on the new terms. These two options come with a risk of potential unfair dismissal claims if they are not dealt with appropriately. However, pressing economic needs will often support a fair reason to terminate and re-engage employees.

Working hours

One way in which employers can avoid redundancies is to change employees' working hours on a temporary basis until the financial position of the organisations improves. Employees could be offered a 4 day working week, shorter working hours, and a change in their shift patterns or flexible working i.e. the opportunity to work part time or partake in a job share with a corresponding adjustment to their salary.

Pay

Employers can ask their employees if they would be willing to take a % cut in pay for a set period to safeguard jobs. It is surprising how agreeable staff can be to this if the alternative is to carry out redundancies.

Organisations could also consider increasing the amount of unpaid leave that employees can take.

Reducing the amount of overtime that is offered is

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another way to reduce costs. Giving employees' time off in lieu should be considered as an alternative to paid overtime.

Freezing wage levels for a period of time is a further option if this is permitted under the contract of employment.

Benefits and bonuses

Re-thinking the benefits packages that are provided to employees and making suitable alterations is a method that can be used to reduce an organisation's expenditure. A starting point is for organisations to cut back on fringe benefits such as newspapers, subsidised canteens and free mobile phones.

Cutting back on benefits such as private medical insurance should also be considered. Furthermore, if the organisation has a bonus scheme then this could be re-evaluated.

Employers need to look at their employees' contracts to see if the benefits they intend to cut back on are contractual benefits. Employers should be aware that even if a benefit is discretionary and not in an employee's contract, the employee may still be entitled to receive it if it has been provided consistently over a long period of time. Even if the contract allows for discretionary bonuses, it still may not be justified to provide employees with no bonus at all. Depending on the criteria set for giving bonuses, the refusal to pay any bonus may be deemed to be unreasonable.

Outsourcing/insourcing

Employers need to evaluate whether outsourcing work or keeping work within the organisation will be more cost effective to the business.

Employers should assess whether they are outsourcing work to contracts that could be done by their own employees with the correct training. Alternatively could work be produced more economically if it was

outsourced? Outsourcing doesn't necessarily mean redundancies have to take place – this could be a temporary solution to a recruitment freeze that has been imposed.

Other cost saving techniques you may want to consider include:

- Transferring staff internally to areas of the business where there is a need for employment
- If it is recognised that there is an absenteeism problem within the organisation, attempts should be made to reduce this. Incentives could be used to encourage good attendance at work.
- Volunteers could be recruited to undertake part time work.
- Organisations could offer those who are close to retirement age an option to take early retirement on a cost neutral basis to the company.

Conclusion

Although redundancies may seem like an easy option to reduce costs, employers may have already trimmed down their workforce enough or recognise that this may not be the best solution in the long run, particularly given this could result in loss of productivity.

Further if key employees are removed from an organisation then this may make things difficult in the future when the market recovers. Redundancies also create low morale within organisations and can create a divide between employers and employees.

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