

Meltzer Mason Heath

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UPDATE + NEWS + REVIEW

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"If we had no winter, the spring would not be so pleasant: If we did not sometimes taste adversity, prosperity would not be so welcome" **Anne Bradstreet**

Cost Cutting in Uncertain Economic Times

Arron Heath

When businesses face declining turnover and diminished profits due to uncertain economic conditions, cost cutting, cost reduction, consolidation or cost management become matters for management contemplation.

The temptation is often to look for major, single solutions, with the obvious "nuclear" options of outsourcing, and/or dramatic cuts in personnel. However, often companies attempting to make big changes miss the advantages of applying a continuous cost management discipline. Companies attempting to restructure encounter difficulties in quitting leases and, sometimes, do not have sufficient cash available for redundancy payments.

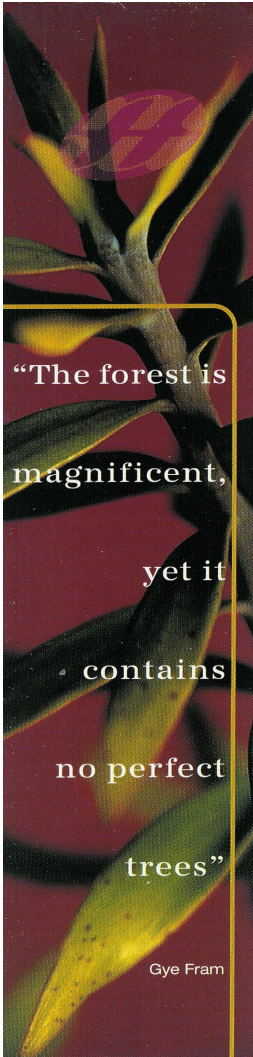
Cost cutting efforts to date in New Zealand appear to have focussed mainly on freezing salaries for the overall workforce and no salary increases for executives. Further efforts will likely include unpaid leave (voluntary or mandatory), a shorter work week and other more flexible arrangements. We are aware of firms in Auckland where employees have agreed to work a 5 day week while getting paid for 4 days in order to preserve jobs.

Companies are looking at outside contractors to replace professional/technical staff and a shift to part-time work for non-management staff. This approach can lead to concerns regarding core competence, decreased speed of response to market demands, increased problems of quality control and vulnerability to supplier defaults.

In a sluggish economy, running leaner is important, but not every cost cutting measure is a good one. While cuts in marketing, overheads and staff are likely to occur this will impact long term planning and strategy. It's still important for business to think long term.

Here are some of the more interesting cost reduction measures being considered:

- **Voice Over Internet Protocol (VOIP)**
Implementing this technology, especially in companies with heavy long distance voice traffic, can dramatically reduce telephone costs.
- **Open Source Software**
IT costs can be significantly reduced (savings in licence costs and maintenance) but offset somewhat by higher initial training costs.
- **Improving Meeting Management**
Cutting the time spent in meetings and making the meetings themselves more effective will lead to an increase in productivity.
- **Service Provider Contracts**
Medium term contracts with service providers outline the level of service required and enable competitive quotes to be obtained from a variety of potential providers.
- **Freeze employee numbers and eliminate bonuses**
- **Control unmanaged costs that can be measured and cut (e.g. electricity and printing costs)**
- **Verify invoices before payment**
- **Review costing system to produce goods or provide services**



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Companies should consider appointing a cost cutting team, setting cost cutting goals and show employees what the company is still doing to take the focus off what's being taken away.

Redundancy Considerations

In the current economic climate businesses may consider redundancies as a cost cutting solution. Redundancies must be justified both procedurally and substantively and be for a genuine business reason.

New Zealand employment legislation requires employers to consult with employees prior to making any decisions. The consultation process includes advising the affected employee(s), giving the employee(s) time to consider the redundancy proposal and then considering any feed back that may be received.

In a genuine redundancy situation the employer is entitled to select employees for redundancy. The selection criteria must be properly formulated and applied according to the standard of a reasonable employer acting fairly and in good faith. The selection criteria should be disclosed.

There is no statutory entitlement to redundancy compensation. Employment agreements may include a redundancy clause. In a receivership or liquidation, employees with a redundancy clause in their employment contract have a preferential claim against their employer for arrears of salary/wages, holiday pay and redundancy pay. The current maximum entitlement is \$16,240 (gross). There is no redundancy entitlement in a voluntary administration.

However, the ReStart scheme, administered by Work & Income New Zealand, is available to redundant employees in low to moderate incomes with children and also to those with high living costs. The scheme comprises:

- ReCover - to help families with children that are no longer eligible for the in-work tax credit.
- RePlace - to help with accommodation costs, and which provides up to \$100 per week depending on circumstances.
- ReConnect - to help redundant employees find new employment.

ReStart can be paid up to a maximum of 16 weeks, or until the redundant employee re-enters full time work, whichever occurs first. To qualify for ReStart the employee must have been in full time work for at least six months and meet a cash assets test. Not all employees will be eligible for ReStart. Those that are eligible have 20 days from the day they are laid off to apply for the scheme.

Blue Chip Update

Arron Heath

An Application for Directions has been filed but a High Court hearing date has not yet been obtained. Issues relating to service of the Application on interested and possibly interested parties remain to be resolved together with related funding matters.

Proceedings brought by lawyers acting for investors whose deposits are held in solicitors' trust accounts are continuing against the developers of three Auckland apartment blocks. These proceedings seek to have Sale and Purchase Agreements cancelled and the deposits returned to investors.

Most investors in the three developments purchased Blue Chip's Premium Income Product (PIP's) with some Joint Venture and Put and Call Option Agreements also being sold.

The Liquidators are aware of another proceeding where an investor in a Blue Chip Joint Venture arrangement is taking action against the finance company with a mortgage over the investor's personal residence and the investment property.

The Blue Chip Liquidators (Jeff Meltzer, Arron Heath and Lloyd Hayward) continue to investigate options for recovery of investors' deposits that were released to Blue Chip in return for interest payments, as these investors will not benefit from the legal proceedings currently underway.

Between the professional staff at Meltzer Mason Heath there is over 100 years insolvency experience. This means that any problems or uncertainties facing your clients are likely to have been seen by us before. Please call us, and as always we will offer you and/or your clients a free one hour consultation.

Jeff Meltzer, Karen Mason, Arron Heath, Mike Lamacraft, Lloyd Hayward, Rachel Mason & Trish McLennan.

