12 Ways to Cut HR Costs: Part 7 - North Shoring

By Daniel Pollard - 27 October 2020

UK employers consulted with staff on nearly half a million redundancies during the pandemic - roughly 1.5% of the working population. The true number will have been much higher as small-scale redundancies are not captured by government statistics. The furlough scheme will have given many employers an opportunity to pause but as the scheme comes to an end, employers face some tough choices.

Over recent months we have seen a huge amount of creativity from our clients in finding ways to minimise redundancies. Over the next couple of weeks we will share 12 possible strategies adopted by our clients and some thoughts of our own to help reduce cost without compulsory lay-offs.

7. North Shoring

We are likely to have a renewed interest in moving workplaces to less expensive real estate and/or to less expensive areas of the country. This is usually meant to refer to the great “northern” powerhouse cities of Manchester, Sheffield, Leeds and Liverpool but other options include the South West, Wales, Scotland and Northern Ireland.

The reason that this is so attractive is that office costs in Central London are around £50-60 per square foot with comparable space in Cardiff, Leeds or Newcastle costing closer to £15-20 per square foot. What might not be immediately obvious to a US based CFO is that hidden behind these numbers is the huge differential in residential housing costs between these cities. With families in the UK spending between 18-33% of their income on housing, staff based outside of the most expensive areas of Greater London can achieve the same or better standard of living with substantially reduced salary levels.

As a result of structure problems with labour mobility in the UK, it has historically been hugely expensive for employers to relocate staff and most relocations work on the basis of hiring “locally” with the absolute minimum number of senior/skilled staff to move.

Probably the largest cost associated with relocating staff, is the fact that in the UK a very large proportion of skilled/professional employees own their own homes and will incur a large stamp duty charge on the purchase of a new home. (For our US readers: This is a tax that will be alien to you - it is basically a transaction tax paid by a buyer on the purchase of property).

Employers are only able to reimburse relocation costs of up to £8k on a tax-free basis and have to “gross up” the excess for tax. To illustrate the point, an employee who purchases a house to the value of £500k will have to pay £15k in stamp duty and will (conservatively) incur another £15k or so in moving costs. Reimbursing £30k in moving costs will cost the employer close to £47k once grossed up for tax.

Until 31 March 2021, homes up to £500k benefit from a stamp duty holiday, which reduces the £47k cost in our example to a far more manageable £15k.

If there ever was a time to relocate staff in or around the UK then the time is now.

For all 12 ways to reduce HR costs without redundancies click here.

