Before You Announce Cost Cuts Price the Employment Consequences



The slide says twelve positions will be eliminated and annual payroll will fall by C$1 million. The savings start in January. Somewhere below the line, an allowance covers severance. Leadership approves the plan, and HR receives the names a week before the announcement. By then, several of the most expensive decisions have already been made.

HR needs to enter that discussion earlier, with a different question. When will the proposed reduction actually release cash, after the organization meets its employment obligations and pays for the work that still has to be done? A position disappearing from the organization chart doesn’t answer it.

December makes this question especially important. A new budget can turn an untested reduction into a financial commitment before anyone has examined individual employment terms, overlapping termination dates or the cost of keeping operations running. The Bank of Canada’s October 2026 Monetary Policy Report describes continuing uncertainty alongside a stronger growth outlook and persistent inflation pressures. [1] That combination calls for careful decisions about capacity. It doesn’t support treating every vacant or occupied position as an interchangeable cost.

The immediate task for HR is to make the proposed savings reviewable. Establish the obligations, build a credible implementation timetable and show Finance which assumptions could change the result. Leadership can then choose a course with a realistic understanding of its cost.

Work backwards from the proposed savings date

Ask Finance to identify the first month in which it expects lower spending, together with the amount. Then work backwards. What must happen before the organization can legally and operationally stop paying for those positions? Who must receive notice, what employment terms remain in force and which decisions depend on information the team hasn’t yet collected?

This conversation often exposes a mismatch between a financial target and an

implementation plan. Finance may mean a full-year annualized reduction. Operations may mean employees will leave after a transition period. HR may be considering salary continuation. All three can describe the same initiative while producing very different cash forecasts. Put the dates and payment assumptions on the same page before the figures travel further.

Build the employee-level estimate from records rather than an average package. Verify the employing entity, jurisdiction, service history and applicable agreement. Identify compensation that needs assessment beyond base salary, including incentive arrangements, benefits and pension terms. Have counsel assess contractual and other potential entitlements where necessary. A standard percentage of payroll may be useful for an early sensitivity exercise, but it isn't a reliable final estimate of what each departure will cost.

Keep the categories clear. Statutory notice or termination pay, any separately applicable statutory severance, contractual rights and potential civil claims aren't interchangeable labels. In Ontario, for example, statutory severance is distinct from termination pay and has its own eligibility rules. [2] A spreadsheet headed simply "severance" can conceal an omitted obligation or count the same cost twice.

The forecast also needs to distinguish cash timing from the accounting treatment of a restructuring charge. Finance should determine the appropriate accounting treatment. HR's contribution is to establish the payment arrangements and employment facts on which that treatment and the cash forecast depend. An expense recognized in December doesn't necessarily mean cash leaves in December, and an annualized salary reduction doesn't mean the business has that amount available to spend in January.

Count the whole decision before approving its parts

A manager planning eight departures may reasonably see a small departmental change. So may the managers planning fifteen and twenty-seven departures elsewhere. HR needs to examine whether the decisions interact under the applicable group or mass termination rules. Separate approval papers don't necessarily create separate legal events.

Ontario's mass termination framework generally concerns 50 or more employees at an establishment within a four-week period, subject to the applicable rules and exceptions. Its establishment definition can also bring exclusively home-based employees into the assessment. [3] An office-only list is therefore an unsafe starting point for a workforce that has changed since 2020. The review should establish where affected employees work and how the legal definition applies to their circumstances.

The notice period is another material variable. Ontario's regulation prescribes eight weeks for 50 to 199 terminations, twelve for 200 to 499, and sixteen for 500 or more. [4] Those figures don't establish the employee's complete entitlement. They identify one part of a wider assessment that must be completed before management promises a departure date or final savings number.

There are procedural consequences as well. Ontario's guidance says mass termination notice isn't effective until the Director of Employment Standards receives Form 1. It also describes employee information requirements and job-seeking leave introduced in November 2025. [3] An announcement drafted as though only individual letters are required can therefore leave the organization with an implementation problem that

better communications won’t repair.

Federally regulated operations require a separate analysis. Federal guidance describes group termination requirements for 50 or more employees at a single industrial establishment on the same date or within four weeks, with exclusions and specific obligations. These include advance notice and a joint planning committee; individual termination requirements also remain relevant. [5] Don’t carry Ontario’s definition of establishment into that review, or borrow the establishment mapping used for another federal employment standard without checking its legal basis.

Have one person maintain a consolidated calendar of proposed departures across the organization. Record changes to the plan as they occur, including additions, deferred departures and temporary measures that may become terminations. Counsel should assess the relevant counting rules and exceptions. The point is to understand the obligations created by the real plan, rather than discover them after several managers have independently communicated pieces of it.

Test whether the cheaper alternative is actually available

When the termination estimate rises, leadership often asks about temporary layoffs, reduced hours or lower compensation. Those options deserve examination. Their price can’t be assessed until HR establishes whether the employer has the authority to implement them and what conditions apply.

Ontario’s employment standards guidance expressly cautions that a temporary layoff may result in constructive dismissal if the employment contract doesn’t allow it. [3] Compliance with a statutory temporary-layoff framework doesn’t, by itself, settle the contractual issue. A proposed three-month interruption shouldn’t enter the forecast as three months of guaranteed payroll savings merely because management intends to recall everyone.

Pay reductions and substantial changes to duties, authority or location also need assessment before they are presented as settled decisions. In Potter v. New Brunswick Legal Aid Services Commission, the Supreme Court of Canada explained the constructive dismissal framework, including substantial unilateral changes and conduct that shows the employer no longer intends to be bound by the contract. [6] The case isn’t a new 2026 development. It remains an important reason to examine the substance of a restructuring rather than rely on the label assigned to it.

A voluntary arrangement requires more work than an employee signing a form during a difficult meeting. HR should obtain advice on the proposed terms, the process for reaching agreement and any consideration required. Give employees accurate information and a real opportunity to consider the proposal. Record what happens if an employee declines, because that outcome belongs in the cost model too.

Collective agreements create their own implementation constraints. Review the applicable provisions for notice, seniority, displacement, recall and consultation before treating a particular staffing arrangement as available. An operationally attractive option may require bargaining or produce movements elsewhere in the workforce. Price those consequences rather than assuming the initial list of affected employees will remain the final list.

Calculate savings using the work that remains

A reduction can comply with employment law and still miss its financial target. The usual reason is straightforward: the work hasn’t fallen as quickly as the headcount. Someone continues doing it through overtime, a contractor invoice or a manager’s steadily expanding workload.

Before assigning savings to a role, require the operational owner to explain what will happen to its work. Some tasks may stop. Others may move to an existing team or a service provider. Where technology is expected to absorb the workload, establish when it will be ready and what human review will remain. A software purchase order isn’t evidence that a process can operate without the employee who currently understands its exceptions.

This is where HR can challenge a proposal without defending every existing position. Ask for the service level the smaller team will deliver and the volume it can handle. Examine who will authorize urgent decisions, cover absences and perform required checks. If those answers depend on an employee whose role is being eliminated, the transition plan has a dependency that needs a cost and an owner.

Use a simple financial model that makes these effects visible. Suppose twelve roles each cost C$85,000 a year, including salary and employer costs that would actually cease following departure. Removing them produces a theoretical annual reduction of C$1.02 million, or C$85,000 a month once all twelve costs have stopped. That is the steady-state starting point, not the first-year result.

Now assume all twelve departures take effect on April 1. There are nine months of gross savings in the calendar year, worth C$765,000. For illustration, allow C$300,000 for departure payments and related obligations, C$60,000 for implementation and transition support, and C$15,000 a month for replacement capacity from April through December. The resulting first-year net cash benefit is C$270,000: C$765,000 less C$300,000, C$60,000 and C$135,000.

These are hypothetical Canadian-dollar planning assumptions. The departure allowance isn’t a legal entitlement formula, and the calculation assumes that every listed expense represents incremental cash spending. It excludes tax effects, financing costs and any revenue change. Payroll and Finance must replace the assumptions with the actual payment profile, ensuring that salary continuation, benefit costs and transition work aren’t counted in two places.

The difference is still instructive. A proposal described as saving C$1.02 million annually delivers C$270,000 in the first calendar year under these assumptions. If the C$15,000 monthly replacement cost continues, the ongoing annual net reduction is C$840,000. Leadership should see both figures before using the larger amount to fund another commitment.

Add one sensitivity that could realistically affect the decision. If all departures move from April 1 to July 1, gross savings fall to C$510,000 for that year. Holding the departure and implementation allowances constant, and assuming six months of replacement capacity costing C$90,000, the first-year net benefit falls to C$60,000. A three-month delay has changed the result by C$210,000. It may still be the right decision, but the timing is plainly material.

Don’t convert every operational concern into a speculative dollar figure. An

unsupported estimate of lost morale adds little precision. Where there is evidence, use it: actual overtime rates, supplier quotes, expected processing volumes and documented service penalties. Where there isn't, identify the uncertainty and set a decision point for resolving it.

Examine who carries the reduction

Selection criteria deserve scrutiny before the names are finalized. Ask whether the proposed measures assess work the organization needs or reflect uneven access to assignments, visibility and training. A manager's instinct that someone is "less committed" needs examination if it rests on approved leave, an accommodation or a working arrangement rather than evidence about the role.

This isn't an invitation to build a retrospective performance case. If the business reason is the removal of work, document the work being removed. If roles remain and employees must be selected, establish the criteria and review their application consistently. Preserve the original business rationale and record material changes. Rewriting the explanation after employees challenge it makes the decision harder to assess and the organization's account less credible.

Have counsel assess human rights, protected-leave, reprisal and other statutory issues in the applicable jurisdictions. Include employees who aren't currently at work in that review rather than dropping them from the dataset. Their status may affect the analysis, timing and process. It shouldn't be left for payroll to discover when final documents are being prepared.

The people staying need attention too. Identify any role that would become the only source of a critical authorization or specialist capability. If continuity depends on a particular employee remaining through a transition, discuss a retention arrangement before the announcement changes that employee's incentives. Cost the arrangement explicitly and decide what protection the organization needs if the employee leaves anyway.

Approve the implementation alongside the savings

A restructuring proposal should reach leadership with the information needed to authorize a real decision. Show the month-by-month cash estimate, the legal assumptions reviewed and the work the reduced organization will continue to perform. Name the outstanding decisions that could alter the timetable. Avoid presenting an unresolved entitlement estimate as a fixed commitment simply because the budget requires a number.

There should also be a controlled path from approval to announcement. Confirm who can change the affected population, who approves employee terms and which documents must be ready before communications begin. Managers need enough guidance to explain the business decision accurately and refer individual questions to someone who can answer them. They shouldn't be negotiating benefits or predicting legal entitlements in an improvised conversation.

Check implementation capacity as seriously as operational capacity. Payroll may need to process different payment arrangements, maintain applicable benefits and issue employment records while handling year-end work. HR must deliver documents, support meetings and track responses. Legal review takes time. Put those activities on the

schedule and resource them before leadership commits to the announcement date.

After implementation, Finance and operations should compare the result with the approved assumptions. Has replacement spending increased? Were departures delayed? Is work returning as consultancy fees? Review actual spending alongside the service measures the smaller team agreed to meet. If the numbers have moved, update the forecast while management still has time to respond.

The approval request should ultimately be specific: this reduction, implemented on these terms and dates, is expected to produce this financial result. That is a decision leadership can own. HR’s role is to ensure that the employment consequences have been examined while the organization can still change its plan.

Sources

[1] Bank of Canada. Monetary Policy Report October 2026. Published October 28 2026. https://www.bankofcanada.ca/publications/mpr/mpr-2026-10-28/

[2] Ontario Ministry of Labour Immigration Training and Skills Development. Severance pay. Your guide to the Employment Standards Act. https://www.ontario.ca/document/your-guide-employment-standards-act-0/severance-pay

[3] Ontario Ministry of Labour Immigration Training and Skills Development. Termination of employment. Your guide to the Employment Standards Act. Includes mass termination procedures remote employees job seeking leave and temporary layoff guidance. https://www.ontario.ca/document/your-guide-employment-standards-act-0/termination-employment

[4] Ontario Regulation 288 01. Termination and Severance of Employment. Section 3. https://www.ontario.ca/laws/regulation/010288

[5] Employment and Social Development Canada. Termination layoff or dismissal. Federal labour standards. https://www.canada.ca/en/services/jobs/workplace/federal-labour-standards/termination.html

[6] Supreme Court of Canada. Potter v New Brunswick Legal Aid Services Commission 2015 SCC 10. https://decisions.scc-csc.ca/scc-csc/scc-csc/en/item/14677/index.do