

Office for Legal Complaints

Budget 2015/16

**LEGAL**
OMBUDSMAN

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- OLC approved

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1 Executive Summary

The budget for 2015/16 will be the first budget where expenditure and income in respect of Claims Management Company (“CMC”) complaints handling activities have been included within the OLC’s overall income and expenditure. The funding of complaint handling for the legal profession (“Legal activities”) and complaint handling for the claims management industry (“CMC activities”) are separate.

The OLC recognises the requirement to and shall maintain and account for the expenditure relating to Legal activities and CMC activities separately. This separation has been reflected in the proposed budget, which clearly identifies separate budgets for Legal activities and CMC activities within the overall OLC budget as well as separately budgeting for those Indirect costs to be apportioned between the Legal and CLC jurisdictions in line with the basis agreed between the OLC, LSB and MoJ.

2015/16 is likely to be another period of significant change and uncertainty:

- The launch of the new CMC jurisdiction brings with it a number of significant uncertainties particularly in terms of uncertainty regarding demand volumes and the nature of the work and hence productivity.
- The OLC is currently in the process of searching for and appointing a new Chief Executive and a Chief Ombudsman, whilst Accounting Officer responsibilities currently remain with the PAO of the Ministry of Justice (“MoJ”).
- The Interim Chief Executive has commenced a review of the management, governance, structures and skills required by the organisation. Proposals are due to be brought to the OLC in March.
- The OLC will need to regularise various allowances which the PAO determined to be novel and contentious.
- The OLC will be undertaking a comprehensive review of all key financial processes and controls throughout the organisation in order to confirm and to provide the PAO with assurance that no issues exist other than those identified in the 2013-14 accounts.

The level of uncertainty around the expenditure that will result from these activities is much higher than in previous years. It is therefore prudent to include significant contingency elements within the 2015/16 budget, appropriately distributed where necessary between Legal activities, CMC activities and Indirect costs.

Since the publication of the consultation document, we have sought to reduce the costs incurred on a shared basis that would then need to be apportioned between the Legal and CMC jurisdiction as indirect costs. We will continue to refine this as the CMC jurisdiction develops. This is reflected in our proposed budget.

The MoJ has been consulted on the proposed budget for CMCs and has been asked to confirm its position regarding the CMC element of this budget to the Legal Services Board.

Schedule 15 section 23 (1) of the Legal Services Act requires the OLC, before the start of each financial year, to adopt an annual budget which has been approved by the Legal Services Board. The OLC has approved the proposed budget recommends its approval by the Legal Services Board.

2 Forecast out-turn for 2014/15

2014/15 Out-turn: Legal activities

	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Budget	2014/15 Out-turn pre CMC	2014/15 Out- turn*
Cases Resolved (complaints falling within our jurisdiction)	7,455	7,630	8,055	8,000	7,425	7,425
Cost of the Ombudsman scheme	£17.0m	£16.5m	£15.7m	£13.9m	£13.0m	£12.7m
Unit cost £	£2,281	£2,168	£1,950	£1,750	£1,750	£1,709

* Forecast costs after allowing for £0.3m of indirect cost apportionment to CMC activities in 2014/15.

In July 2013 OLC and LeO executive management set out an ambition and implemented a plan to reduce expenditure from £16.5 million in 2012-13 in order to achieve a budget of around £12.0m by 2015/16. Over the last 15 months the OLC and LeO's management team have delivered the planned benefits of this cost reduction plan. In addition, the legal services jurisdiction will now also benefit from economies of scale brought by enabling the CMC jurisdiction.

2014/15 Out-turn: CMC activities

The CMC jurisdiction outturn expenditure is forecast at £0.9m, including £0.3m allocated from LeO's fixed overhead. This is well within the 2014/15 implementation and post go live operating budget of £1.182 million agreed with the MoJ. Savings have been delivered mainly through our ability to recruit sufficient staff directly rather than via agencies which resulted in substantially lower recruitment costs than allowed for in the business plan, as a result of changes to our staffing mix and reduced CMC headcount as we further refined the implementation and resourcing model for CMC activities, and as a result of the compression of the implementation period from around six months to three months.

OLC Out-turn: The combined full year 2014/15 out-turn expenditure for the OLC, including CMC expenditure, is £13.6m

Proposed focus for 2015/16

Our business plan consultation document proposed the following four goals:

- To continue to improve our efficiency
- To implement agreed changes to our jurisdiction
- To help create an improved legal complaints handling system
- To disseminate what we have learned more widely

3 Proposed budget

The proposed budget for 2015/16 is set out below, appropriately split between Legal Activities and Claims Management activities. These budgets are set out in more detail in Section 4 (Legal Activities) and Section 5 (Claims Mgt Activities) together with forecast comparatives for 2014/15:

	Legal Activities £'m	Claims Mgt Activities £'m	OLC Budget £'m
Levy income / Grant in Aid	11.18	2.03	13.21
Case Fee income	1.03	0.60	1.63
Total Income / funding	12.21	2.63	14.84
Direct Costs			
Staff	6.03	1.14	7.17
Other services	0.86	0.23	1.09
Unrecoverable case fees	0.12	0.12	0.24
Direct Contingency	0.15	0.20	0.35
Total Direct Costs	7.16	1.69	8.85
Indirect contingency	0.21	0.03	0.24
Total Indirect cost	4.84	0.91	5.75
Total expenditure	12.21	2.63	14.84
Planned cases resolved	7,600	3,000	
Unit cost	£1,606	£ 877	
Capital expenditure			0.75

	Legal Activities	Claims Mgt Activities	Indirect	Total
FTE Headcount 2015/16	156.5	28.5	48.8	233.8
FTE headcount 2014/15	157.2	27.5*	47.5	232.2*

* Claims Mgt activities average since 1 Jan 2015.

4 Legal complaints budget

		2014/15 Forecast £'000	2015/16 Budget £'000
Levy Income	4.1.3	11,631	11,177
Case Fee Income	4.1.4	1,061	1,030
Total Income		12,692	12,207
Staff Costs	4.1.5	6,202	6,032
Recruitment	4.1.5	70	65
Training	4.1.5	97	101
Travel & Subsistence		6	10
Printing, postage and scanning	4.1.6	225	228
Translation services	4.1.7	55	54
Enforcement & legal fees	4.1.8	36	66
External Research	4.1.9	<u>113</u>	<u>330</u>
Other services - subtotal		602	854
Unrecoverable case fees	4.1.10	119	120
Contingency	4.1.11	50	150
Indirect cost allocation	6.1	5,718	5,051
Total Revenue Expenditure		12,692	12,207
Anticipated volume	4.1.1	7,425	7,600
Unit cost		£1,709	£1,606
Year on year change			
Total expenditure		-19.7%	-3.8%
Unit cost		-12.3%	-6.0%

	2014/15 FTE *	2015/16 FTE average
Operational Headcount		
Operations Management & Team Leaders	14.7	14.7
Ombudsmen	12.0	12.9
Investigators	98.1	93.5
Assessors	25.7	28.7
Coordinators	6.7	6.7
	<u>157.2</u>	<u>156.5</u>

* - Forecast year end position

4.1 Legal complaints – key assumptions

4.1.1 Legal activity volumes and expected demand for complaint handling

The key demand measures for the organisation are set out below:

	Actual 2011-12 Activity	Actual 2012-13 Activity	Actual 2013-14 Activity	Forecast Out-turn 2014/15 Activity	Budget 2015/16
Expected Number of Cases accepted (approx.)	8,420	8,430	8,323	8,000	8,000
% Complaints accepted for investigation that are closed as not within our jurisdiction	13%	8.5%	8.4%	7.5%	7.5%
Expected number of cases requiring full investigation and resolution (external cases)	7,325	7,500	7,619	7,425	7,400
Reduction of Work in progress	130	-	436	-	200
Cases resolved (external measure)	7,455	7,500	8,055	7,425	7,600

January to March 2015 forecast activity has been reduced as the result of the introduction of a new case management system and the move of our offices. As a result we have reduced our 2014-15 outturn volume forecast. We anticipate that this volume will be recovered over the coming months and into 2015-16.

The long term average number of complaints accepted between January 2011 and September 13 was c. 8,300 per annum. Since late 2013 we have seen significant changes to activity volumes which continued throughout 2014. Overall volumes of cases accepted have dropped; down by over 2% compared to 2011-12 and 2012-13 financial years. While Residential Conveyancing (currently c.20% of what we do) has increased in line with housing market – up 23% in 2013/14 compared to the period 2011/12 and 2012/13, and up a further 9% over the 12 months to December 2014. This is more than offset by reductions across all other areas of law, in particular in the areas of Family Law and Wills and Probate.

	Quarterly Average: Two Years to 31 March 2013	Quarterly Average: Financial year 2013-14	Quarterly Average: 12 months to 31 Dec 2014	Change 2013-14 vs. two years to 31 March 2013		Change 12 month s to Dec 2014 vs. 2013- 14	
Analysis of changes in Volume of cases accepted by Area of Law							
Residential Conveyancing	355	436	476	23%	↑	9%	↗
Family Law	370	341	280	-8%	↘	-18%	↓
Wills and Probate	286	263	250	-8%	↘	-5%	↔
Personal Injury	208	207	237	0%	↔	14%	↑
Litigation	199	191	184	-4%	↔	-4%	↔
Crime	139	141	138	1%	↔	-2%	↔
Employment Law	103	98	85	-6%	↘	-13%	↓
Other Areas of law	429	410	393	-4%	↔	-4%	↔
Quarterly Case Volume	2,089	2,086	2,042				
Annualised volume	8,357	8,342	8,169	-0.2%		-2.2%	

We do not anticipate a recovery in the 2015-16 year in Family Law, Crime or Employment areas of law. The current trend in these areas is that volumes in these areas appear to be stabilising, but we anticipate that future activity will be if anything slightly lower than in 2014/15. We anticipate that any ongoing reduction in activity within those areas of law which have been declining will be offset by a continued increase in residential conveyancing activity (albeit we anticipate that any such increase will be much less than experienced in the last 12 to 24 months). Allowing for between 7% and 8% of cases accepted to be outside of our jurisdiction (our current experience), we plan to accept around 8000, and to resolve, around 7,500 to 7600 cases in 2015/16 which includes and anticipates ongoing reductions in work in progress.

4.1.2 Legal Activity: Investigator efficiency

In resourcing the organisation we recognise that some investigators are asked to undertake secondments or other development work from time to time. We use a metric that excludes this “non investigation time”, together with periods of new starter’s initial training and long term sickness or absence, to determine a metric for the “active” investigators (those who are actively engaged in case-work). Investigator efficiency has improved steadily from an average of 7.0 cases resolved per active investigator per month in 2012-13 to 7.4 per month in 2013-14 and is now averaging 8.0 per active investigator per month in 2014/15.

We anticipate that further productivity gains will be realised from the new case management system which we implemented in December 2014. However, as any such change brings with it a certain amount of short term disruption, we have budgeted to

resource our operations based on an efficiency level of around 8.0 cases per month per active investigator in 2015/16. This represents a prudent approach to resource planning. It does not dilute management's commitment to deliver continued improvement in productivity and quality of the service over the remainder of 2014/15 and throughout 2015/16.

4.1.3 Levy Income

Our income in respect of Legal activities is made up of two streams;

- The Levy – which is equal to the expenditure incurred by the Legal Ombudsman in delivering the Ombudsman scheme, less Case fees charged.
- Case Fee Income –Our scheme rules require us to charge a case fee for every potentially chargeable case where it has been decided not to waive the fee.

4.1.4 Case Fees

Our experience is that around 20% of cases are withdrawn, abandoned or dismissed, and around 80% are potentially chargeable. However, we also waive the case fee when we find in favour of the lawyer and found the lawyer had acted reasonably during their first tier complaint handling process. This leaves around 40% of cases as actually chargeable. We have extrapolated this experience to determine the potential revenue due from case fees and pro-rated 2014/15 outturn to reflect anticipated volume reductions anticipated in 2015/16.

4.1.5 Staff costs, recruitment and training

Direct recruitment and external training costs are expected to be broadly similar to those experienced in 2014/15. Over the past two years the organisation has not invested in refresher training for existing employees. In 2015/16 we believe that it is time for a greater focus in this area, and hence the direct and indirect training budgets have been increased to ensure that there is sufficient resource available to deliver and develop more training activities.

4.1.6 Printing, postage and scanning

Our business processes and case management systems are designed to minimise the use of paper at our premises. All case documents are scanned remotely and uploaded into our case management system. All case-work documents produced are printed remotely and posted to complainants. Arrangements have been made with suppliers to ensure that they differentiate between legal activity and CMC activity and hence these costs are to be accounted for as direct costs and not apportioned.

4.1.7 Translation services

This reflects the costs of the translation of correspondence with complainants into appropriate languages in order to ensure that our service is accessible to all. Arrangements have been made with suppliers to ensure that they differentiate between legal activity and CMC activity and hence these costs will be accounted for as direct costs and not apportioned.

4.1.8 Enforcement & legal fees

It is sometimes necessary to take legal action to enforce our decisions &/or to defend challenges to our jurisdiction or decisions. While we seek to recover our legal costs in such cases, this is not always possible. The budget reflects the expected external cost of this enforcement for our legal activity. During 2014/15 we have been successful in recovering a significant proportion of our legal costs in respect of enforcement activities and the costs of defending challenges to our decisions. The 2015/16 budget does not assume that this will always be the case, and hence enforcement costs budgeted in 2015/16 remains similar to 2014/15 budget levels to reflect this risk. Where these costs relate to cases within the legal jurisdiction, costs will be accounted for as direct costs and not apportioned.

4.1.9 External research, insight and analysis

In order to help create an improved complaint handling across the legal sector, better inform consumers of these services and to help inform the profession and regulatory bodies, greater resource is to be dedicated to research, analysis and dissemination of the data generated by our work. This increased resource allocation was reflected in our business plan consultation document. Stakeholder feedback at our consultation event in January supported and encouraged this. This increased resource allocation has therefore been retained within the 2015/16 budget. The increase in budgeted expenditure compared to 2014/15 appears particularly pronounced due to lower than planned expenditure during 2014/15.

Because this area of work is still being developed, the increased funding has not been allocated to specific research or analysis activities. The OLC is also open to working with the regulator community to collaborate on these activities where there is mutual interest. The OLC Board and management will not commit this expenditure until clear outcomes have been defined and approved but it is essential that steps are taken now to ensure that adequate budget resource is allocated to this area. This represents a significant change in focus from previous years. Unrecoverable case fees

4.1.10 Unrecoverable cases fees

We have historically experienced a significant proportion of unrecoverable case fees. The bad debt expense budgeted for in 2015/16 reflects reduced bad debt experience during 2014/15 to date compared to previous years. Bad debts mainly arise where the law firm has gone out of business during an investigation or by the time the complaint is brought to us or by the time it has been resolved. Over the last year we have experienced reduced frequency where this is the case and hence a reduction in bad debt costs. We have included a reserve for bad debts of £120k for 2015/16, similar to our expected experience in 2014/15.

4.1.11 Contingency: Direct Legal activities

Our Legal activities have been broadly stable in nature and out-turn in previous years. The principal risk - and hence any unplanned expenditure - is expected to materialise as indirect expenditure or within the CMC jurisdiction. As a result a general contingency of

2% of legal activities expenditure has been allowed, in line with previous years. Separate contingency is also included within the Indirect costs budget.

5 CMC complaints budget

		2014/15*	2015/16
	Section	Forecast £'000	Budget £'000
Case Fee Income	5.1.4	14	606
Total Income		14	606
Staff Costs	5.1.5	344	1,138
Recruitment	5.1.5	80	20
Training	5.1.5	29	20
Direct Travel & Subsistence		3	8
Direct Printing, postage and scanning and scanning	5.1.6	19	57
Translation services	5.1.7	2	12
Enforcement & legal fees	5.1.8	0	22
Research, analysis and insight	5.1.9	<u>44</u>	<u>100</u>
Other Services Subtotal		177	239
Unrecoverable case fees	5.1.10	0	112
Other set up costs		47	0
Contingency	5.1.11	50	200
Indirect cost allocation	6.1	330	947
Total Expenditure		948	2,636
Forecast / Budget GIA requirement		934	2,030

Business case	£'000	£'000
Expenditure	1,325	2,871
Case Fees*	(143)	(840)
Business case GIA requirement	1,182	2,031

* 2014/15 per BV2 budget allocation. This 2014/15 budget includes the planning and implementation period from October 2014 to the end of January 2015 and the first two months of operation from 28 January to 31 March 2015.

Operational Headcount	2014/15 Forecast FTE average*	2015/16 Budget FTE average
Operations Management & Team Leaders	3	3
Ombudsmen	1	2
Level 1 Investigators	13.9	13.9
Level 2 Investigators	8.8	8.8
Coordinators	1	1
	<u>27.7</u>	<u>28.7</u>

Note: * = Forecast average from January 2015

5.1 CMC Complaints – key assumptions

5.1.1 CMC activity volumes and expected demand for complaint handling

Volume of complaints is one of the key uncertainties facing the CMC jurisdiction.

Estimates by third parties of likely CMC complaint volumes have varied significantly. The

business case approved by the MoJ as part of the implementation of the new jurisdiction was based on the mid-point out of the possible volume range of c 8,000 contacts and 3,000 cases per annum. At the time of preparation of this budget, we have as yet, no robust evidence to confirm actual volumes. The 2015/16 budget therefore remains based on these “mid-point” or “medium” volume expectations.

5.1.2 CMC Activity: Investigator efficiency

During detailed planning for the implementation of the CMC unit, the assumptions and organisational structures were considered and refined. As a result, the mix and roles required were altered, assumptions regarding case complexity and planned headcount were reduced while the skills and competence required of CMC investigators and expected investigator efficiency were increased. The result of this review was that instead of having a separate contact centre and assessment stage, two grades of investigator have been employed to deal with cases. Level 1 Investigators will deal with simpler cases while Level 2 investigators (equivalent to Legal jurisdiction investigators) will deal with the more complex cases. As a result planned headcounts and overall cost estimates are as follows:

CMC Estimates	Business Case	Budget 2015/16
Probability of Volume Occurring	Medium	-
Assumed CMC Contact Volume	8,000	8,000
No of Cases	3,000	3,000
CMC Contact Centre headcount required	6	-
Team Leader Mgt required	4	2
Number of Investigators required	32	24
Number of Ombudsmen/ Assistants required	3	2
Ops Manager required	1	1
Total Headcount Required	46	29
Direct Staff Costs £'000	1,590	1,138
Investigator efficiency (cases per month)		10.5

5.1.3 Income

CMC expenditure is recovered through two mechanisms;

- Grant in Aid – which will be drawn down from the MoJ to the extent of expenditure incurred by the OLC in delivering the CMC element of its scheme, less Case fees charged to CMC firms.
- Case Fee Income – The Scheme rules require us to charge a case fee for every potentially chargeable case where it has been decided not to waive the fee. The scheme rules also establish when a fee will be waived. While the application of these scheme rules requires the exercise of judgement, the scheme rules do not currently allow discretion in respect of when case fees are charged and when case fees will be waived.

5.1.4 Case Fees

In the Legal jurisdiction our experience is that we charge a case fee in around 40% of cases. The original business plan assumed that we would charge case fees in 70% of cases, due to the expectation that initially, at least, a lower proportion of CMC firms would have undertaken reasonable 1st tier complaint handling activities. However, until we have some real experience this remains a key area of uncertainty. For 2015/16 we have reduced the case fee income budgeted so that the total net expenditure equates to the original business plan funding requirement.

5.1.5 Staff costs, recruitment and training

Staff Costs are budgeted based on anticipated headcounts outlined above.

As the CMC team are new, the training budget reflects the anticipated need to develop and deliver CMC industry specific training to support these individuals during their first year. This is in addition to generic training that would be provided to all LeO staff and which is included within the indirect cost allocation.

Direct recruitment costs reflect a slightly higher likelihood of staff turnover during the first year of operation. In addition, while implementation recruitment costs were minimised by coordinating recruitment activity with the Legal jurisdiction, these economies of scale cannot be relied upon going forwards as a mechanism for keeping recruitment costs to a minimum.

5.1.6 Printing, postage and scanning

Our business process and case management systems are designed to minimise the use of paper at our premises. All case documents are scanned remotely and uploaded into our case management system. All case-work documents produced are printed remotely and posted to complainants. Arrangements have been made with suppliers to ensure that they differentiate between legal activity and CMC activity and hence these costs will be accounted for as direct costs and not apportioned. Costs budgeted have been estimated based on expected case volumes using the legal jurisdiction's cost as a baseline.

5.1.7 Translation services

This reflects the costs of the translation of correspondence with complainants into appropriate languages in order to ensure that our service is accessible to all.

Arrangements have been made with suppliers to ensure that they differentiate between legal activity and CMC activity and hence these costs will be accounted for as direct costs and not apportioned. Costs budgeted have been estimated based on expected case volumes using the legal jurisdiction's cost as a baseline.

5.1.8 Enforcement & legal fees

It is sometimes necessary to take legal action to enforce our decisions &/or to defend challenges to our jurisdiction or decisions. While we seek to recover our legal costs in such cases this is not always possible or appropriate. This budget reflects the expected direct costs for this enforcement for our CMC activity to be in line with that of the legal jurisdiction. In the first full year of operation, the risks of bad debts will be more difficult to

predict and possibly greater than legal jurisdiction. This is reflected within contingency budget.

5.1.9 External research, insight and analysis

In order to help create an improved complaints handling system within the CMC industry and to engage with the CMC industry to inform them of LeO's expectations for good complaints handling LeO will need to identify and communicate its findings and expectations. As we develop experience of handling these complaints, it is important that we feed back issues and common themes to the industry. As a result the budget allows for £100k for activity on research, training and feeding back to the CMC industry about how to improve complaint handling during 2015/16. The OLC Board and management will not commit this expenditure until clear outcomes have been defined and approved, however we believe that, as with our legal activities, it is key to ensure that adequate budget resource is allocated to this area.

5.1.10 Unrecoverable case fees

We have experienced a significant proportion of unrecoverable case fees in our Legal jurisdiction. Bad debt mainly arises where the firm has gone out of business by the time the complaint is brought to us or by the time it has been resolved. This is a particular area of concern in respect of smaller CMC firms which we understand from the regulator can have relatively short life-spans. We have included a reserve for bad debts of 20% of case fees amounting to £112k for 2015/16.

5.1.11 Contingency

The CMC jurisdiction is new and there is no equivalent historic volume activity, nor has the complexity of the investigation work required and hence productivity levels are also as yet unproven, case fee income remains equally uncertain. A contingency has therefore been included of £200k (equivalent to 8.5% of expenditure) in respect of this first year of operation.

6 Indirect cost budget

6.1 Indirect costs summary.

		2014/15*	2015/16**	Staff costs 2014/15 £'000	Staff costs 2015/16 £'000	Other costs 2014/15 £'000	Other costs 2015/16 £'000	Total 2014/15 £'000	Total 2015/16 £'000
Chief Exec and COO	6.1.2	3.0	4.1	475	593	21	9	496	602
HR	6.1.3	5.0	5.0	244	229	119	141	363	370
IT and telecoms	6.1.4	7.8	7.2	515	375	1,152	1,040	1,667	1,415
Finance, MI	6.1.5	8.5	8.1	346	349	89	79	435	428
General Counsel & Compliance	6.1.6	7.0	6.8	308	366	13	14	321	380
Policy & Communications	6.1.7	8.0	9.0	446	432	50	48	496	480
Quality & Knowledge	6.1.8	6.2	6.6	310	359	0	20	310	379
Premises and facilities	6.1.9	2.0	2.0	37	45	1,300	796	1,337	842
Training, learning & development	6.1.10	-	-	-	-	29	74	29	74
Recruitment	6.1.11	-	-	-	-	36	200	36	200
Travel & Subsistence	6.1.12	-	-	-	-	31	38	31	38
Governance		-	-	-	-	135	150	135	150
Contingency	6.1.13	-	-	-	-	0	240	0	240
Depreciation and impairment	6.1.14	-	-	-	-	392	400	392	400
Total Indirect Headcount & Costs		47.50	48.80	2681	2,748	3,367	3,249	6,048	5,998
								(5,718)	(5,051)
								(330)	(947)

* - Forecast year end position

** - Average FTE over the 12 months to 31 March 2016

6.1.1 Basis of apportionment of indirect costs

Indirect costs comprise those resources which benefit and support both Legal and CMC activities. These costs are to be apportioned to CMC Activities (and hence to the MoJ) and to Legal activities (and Approved regulators) in proportion to the numbers of Operational employees dedicated to the CMC activities and Legal activities respectively.

This basis of apportionment of costs has been agreed by the OLC, LSB and MoJ and is intended to result in a fair and proportionate allocation of costs between CMC and Legal jurisdictions. The OLC, LSB and MoJ, have agreed to keep this under review and may, if necessary, modify the basis of apportionment by agreement of all parties either in respect of 2015/16, or for 2016/17, as is appropriate. The parties will agree the timetable for any further review thereafter.

6.1.2 Chief Exec and COO

This function includes the budgeted costs for the CEO, COO, Chief Ombudsman and administrative support staff. It is anticipated that Interim resource will be replaced by permanent heads by the end of summer 2015. Other costs comprise an allowance for Board paper production and various offsite meetings and events which may be required over the year.

6.1.3 HR

In addition to traditional transactional HR activities, the HR function provides internal communications, administers training and recruitment, and is responsible for health and safety. HR staff costs in 2014/15 were increased by the addition of one fixed-term head to deliver recruitment activities required by the CMC go live, who will leave LeO by the end of 2014/15. Staff costs for 2015/16 are reduced due to the planned lower levels of recruitment resource required. Other costs comprise the Life assurance costs for all staff, HR legal support and advice, plus administration costs of other benefits and occupational health activities. These are expected to increase in line with headcount planned for 2015/16 as a result of CMC activity.

Training and recruitment budgets are costs are shown separately below.

6.1.4 IT and telecoms

The IT function provides onsite IT desktop support as well as managing LeO's outsourced IT services and telephony providers. LeO's project and change management and business analysis capability also sits within this function. IT staff costs in 2014/15 have included interim costs to manage the IT function and business transformation programme, in addition to further interim costs for internal development of the new case management system to meet CMC go live deadlines. Seconded resource from the operations function was also used to provide user acceptance testing. It is anticipated that these activities will be largely complete by the end of 2014/15 and hence staff costs for 2015/16 are correspondingly lower.

Other costs comprise the costs of LeO's outsourced managed IT services, Telephony call costs plus break-fix and maintenance expenditure required for LeO's desktop IT estate. LeO's outsourced IT contract ends in June 2015. Migration of this service to a new lower cost "Cloud" based platform is in progress. Cost estimates for this alternative

service have been included in the second half of 2015/16, resulting in a reduction in these costs compared to 2014/15.

6.1.5 Finance & MI

The Finance function provides financial planning and analysis in addition to day to day management accounting, financial transaction and payroll processing functions. The MI function provides data extraction, ad-hoc analysis, and routine reporting services for LeO's management, Operations, and Policy and Communications teams. Staffing levels for 2015/16 are assumed to remain broadly unchanged. Other costs comprise statutory External audit and internal audit services. Internal audit services are planned to move from KPMG to the MoJ internal audit service with effect from April 2015. The budget for internal audit has been held steady despite reduced day rates in order to ensure that adequate resource is available to the OLC.

6.1.6 General Counsel & Compliance

The General Counsel & Compliance team primarily provides and coordinates legal support for the OLC in addition to providing legal advice on casework to Ombudsmen and Operations staff in addition to managing the defence of challenges to Ombudsman determinations. In addition the team deals with FOI and DPA requests and provide administrative support for the service complaints adjudicator's reviews of complaints about LeO's service. The budget for 2015/16 has been increased to include one additional paralegal to support anticipated increased work arising from CMC activities.

External legal costs incurred as a result of defending challenges to decisions are budgeted for as direct costs within the enforcement and legal fees heading. Other costs primarily comprise subscriptions to legal journals and advice providers and costs of the external service complaints adjudicator.

6.1.7 Policy & Communications

The Policy & communications function provides stakeholder liaison, external communications and research and analysis. Staff costs in 2014/15 have been increased as a result of the use of interim resource. Costs for 2015/16 are anticipated to reduce as a result of lower costs once a permanent replacement is in place (expected to be by June 2015).

Other costs relate to media monitoring, public relations management costs. Research and analysis costs are budgeted for as direct costs within the External research heading.

6.1.8 Quality & Knowledge

The Quality & Knowledge costs are anticipated to increase on 2014/15 levels due to the full year effect of the addition of headcount mid-year in 2015/16. Other costs are allocated for external expenditure on specific equality and diversity initiatives which are managed within this team. Any research, analysis or other external expenditure relating to the activities of this team are to be drawn from the relevant research, analysis and insight budgets.

6.1.9 Premises and facilities

Facilities staff costs include the costs of two individuals who, in addition to providing facilities management and house-keeping, also provide reception services. Other

Premises costs include rent, rates and service charges, plus electricity charges and costs of outsourced soft facilities management services (cleaning etc). We vacated our original premises at Baskerville House in January 2015 and moved to smaller, lower cost premises. Costs for 2014/15 are correspondingly reduced. Although not included in this budget, we retain an option for additional space at our new premises which is currently occupied by another tenant. We will be required to either exercise or lose this option in the event that this space becomes available.

Dilapidations costs for our former premises were provided for in full in 2013-14. To the extent that we are able to mitigate these dilapidation costs the release of any surplus provision will result in a reduction in premises costs reported in 2015/16. The budget does not assume the release of any provision.

6.1.10 Training, learning and development

The indirect training costs budget reflects the requirement (and commitment) to ensure that support teams continue to develop their skills and capabilities. In addition there are other activities (for example complaint handling, equality and diversity, data protection etc) that are generic to both CMC and Legal employees and which are budgeted for as indirect costs. The budget also includes other learning and development expenditure designed to improve management and leadership, as well as staff engagement activities. Due to the expected changes facing the organisation over 2015/16, additional resource has been allocated to these activities in 2015/16.

6.1.11 Recruitment

There are a number of senior posts currently filled on a temporary basis with interim resource and a review of the possible future management structure of the organisation is currently underway. In addition, an increasing number of support staff have been with the organisation for a number of years, leading to an increased expectation of staff turnover in this area. The specialist nature of many of these roles makes it likely that these will require an agency search and selection approach. The indirect recruitment budget has been increased to reflect these factors.

6.1.12 Travel & Subsistence

Travel and subsistence costs reflect the relevant budgets for all indirect cost functions. These are assumed to remain broadly in line with 2014/15 expenditure levels. Travel or subsistence costs involved in training, communications or other activities designed to improve complaints handling by feeding back issues and common themes to the industry, are expected to be covered from the appropriate external research, insight and analysis budget.

6.1.13 Indirect contingency

As outlined in the executive summary, the OLC will the process of searching for and appointing a new Chief Executive and Chief Ombudsman in 2015. The Accounting Officer responsibilities currently remain with the PAO of the Ministry of Justice ("MoJ"). The Interim Chief Executive has, in the meantime, also commenced a review of the management, governance, structures and skills required by the organisation. Proposals are due to be brought to the OLC in March. These are anticipated to be cost neutral in

the long term but may have significant in year costs which are not directly reflected in the level of contingency set.

The OLC is also in dialogue with the MoJ regarding the planned comprehensive review of all key financial processes and controls throughout the organisation, not just those relating to CE expenditure and remuneration, in order to provide the PAO, the CEO and the Board of the OLC with assurance that no issues exist other than those identified in the 2013-14 accounts. This work will incorporate a risk-based review of internal governance and oversight structures, along with the operation of the key Committees, and, where necessary, will seek to implement enhanced processes and controls, drawing on best practice from other organisations. As interim Accounting Officer of the OLC, and as PAO of the OLC's sponsoring Department, Ursula Brennan will make a formal assessment of this review and will, with the Board of the OLC, take such action as is necessary to mitigate against any such issues arising again in the future. It is probable that the MoJ may seek to define in greater detail compliance arrangements and that this may result in the need for the OLC to incur additional costs which have not been allowed for in this budget.

Given the extent of these uncertainties and expected changes to the organisation's structure over the next six months the contingency reflects the scale of these risks.

6.1.14 Depreciation and impairment

The useful economic life of fixtures and furnishings was extended from 5 years to 10 years in 2013/14. Equipment not in use was disposed of, or impaired to its residual value, during 2013/14 and 2014/15. Surplus equipment disposed of as a result of the move will be accounted for in 2014/15. Leasehold improvements for our new premises are to be amortised to the end of the lease term at the end of August 2024. Leasehold improvements at our previous premises have been fully amortised and will have been disposed of by the end of 2014/15.

The economic life of our IT hardware was extended from 3 to 4 years in 2012-13. This equipment was therefore fully depreciated during 2014/15. The IT infrastructure assets created during the implementation phase of the organisation in 2010 to have no further economic value to the organisation. This asset was fully amortised during 2013-14. The replacement of our existing IT infrastructure due in 2015/16 is planned to be achieved by migration to cloud based services rather than through the acquisition of new capital equipment. As a result, budgeted depreciation costs remain low in 2015/16.

Depreciation on capital expenditure incurred during 2015/16 is anticipated from the point at which these assets are brought into use.

7 Sensitivity analysis

The key factors in addition to operational headcount which affect the ability of the organisation to deliver an effective and timely service are contact and case demand volumes, investigator efficiency. These factors are broadly similar for Legal and CMC activities:

Contact Volume: A 1% change in Contact Volume in legal activities would generate a change of c.700 contacts and around 84 cases per annum. This results in a medium to long term change in the requirement for investigators of +/- 1.0 FTE (+/-£38k per annum payroll costs plus recruitment and training costs). For CMC activities a 1% change in contact volume is expected to result in around an extra 30 cases per annum requiring an additional 0.25 FTE investigators based on assumed productivity levels.

- **Cases Accepted:** A 1% change in the rate at which Legal cases are accepted results in a change of 700 Cases per annum and a corresponding change in the number of investigators required of +/-7.3FTE (+/-£285k per annum payroll costs plus recruitment and training costs). For CMC activities a 1% change in the rate at which cases are accepted would result in around 80 extra cases per annum requiring an additional 0.66 FTE investigators based on assumed productivity levels.
- **Investigator efficiency:** For legal activities a 0.25 cases per month change in investigator efficiency results in a corresponding change in the number of investigators required of +/-3.0 FTE Investigators over the medium to long term (+/-£115k per annum payroll costs plus recruitment and training costs). For CMC activities a 0.4 cases per month change in investigator efficiency leads to a change in the number of investigators required of +/-1.0 FTE Investigators over the medium to long term (+/- £38k per annum).

Operational stepped costs for legal activities both CMC and Legal Activities are incurred in the form of a requirement for 1 additional/fewer Investigation Team Leader (+/-£47k per annum payroll costs plus recruitment and training costs) for each addition/reduction of 12 FTE investigators, and for 1 additional/fewer Operations Manager (+/-£57k per annum payroll costs plus recruitment and training costs) for each addition/reduction of 50 Investigators. CMC activities are currently planned at the upper end of these ratios, hence any significant addition of investigator headcount in the CMC are will trigger the need for additional Team Leader resource.

We have plans in place that would allow us to respond to larger increases in demand of 10% to 20%. These plans are summarised in Appendix I, however an increase in headcount would require additional budget authority from MoJ and or the LSB, and possibly additional grant in aid cash flow support in year. The cost reduction activity of 2013-14 has reduced our ability to respond quickly to significant shifts in demand. We believe that it is sensible to accept this increased risk in the light of the stability of demand over the last three years and the cost savings that this allows. Looking forwards, now that we have reduced the size of our office, our ability to respond quickly to significant shifts in demand is also limited by the speed with which we can move existing employees to increased home-working patterns.

8 Key operational risks and mitigating actions planned

The key risks to the achievement of the budgeted expenditure are detailed below. These apply in principle to both our CMC and Legal activities:

8.1.1 Variations from planned contact and case volume

A short term increase in calls to the service is manageable through the re-deployment of investigator resource to the Assessment Centre. All Investigators are able to work in the Assessment Centre. In the event that contact volumes fell substantially, we would review the underlying causes of this change to ensure that this was expected to be a persistent change, and suspend replacement of leavers from the Assessment Centre until the causes were more clearly understood.

An increase in case volumes, whether generated by an increase or shortfall in contact volumes or by a change to the conversion ratio, would affect the investigator resource pool. The initial consequence of a significant increase above that anticipated is likely to be a backlog of cases waiting for investigation and deterioration in the speed with which we resolve cases (our Timeliness KPI).

These risks are mitigated through our recruitment strategy and flexible working policies. Our flexible working policies allow employees to increase their hours over the short term and to recover these additional hours in the form of “time off” in future months. This provides some time to recruit additional investigator resource, although this extra time would need to “unwind” at some point. We have also put in place arrangements to enable us to quickly recruit additional investigator resource to respond to any medium term increase in demand (See Appendix I). Although these new investigators will not initially deliver the same efficiency as our established investigators, the additional resource will enable us to minimise any backlog that arises and provide the additional capacity required to eliminate it.

In the event of a significant shortfall in case volumes, management would initially require any flexitime to be used up and freeze any planned recruitment activity while determining whether the change was persistent or permanent. It takes a substantial period to recruit and train an investigator, and then for them to become fully efficient. Accordingly, management would only take action to implement any redundancy plans once excess resource capacity had been established as likely to be long term.

As a result of the Ombudsman’s commitment to ongoing improvement and cost reduction, the organisation has reduced its capacity to deal with a significant increase in demand. The impact of such a sudden upturn would be more significant than in the past. We believe that, after three years of operation, this is an appropriate response to what has historically been a steady level of demand.

8.1.2 Planned Investigator efficiency is not met

Investigator efficiency is key to our resource planning and overall cost; a relatively small change in investigator efficiency makes a significant difference to the number of investigators required to maintain the quality and timeliness of our service.

We have mitigated this risk by making a prudent assumption based on actual achievement. To manage this risk, we monitor our work in progress, the rate of cases accepted for investigation and cases resolved weekly, and our Investigator efficiency levels. These are checked on a monthly basis to ensure efficiency levels are within the expected range.

We continually review our business process and the way that we perform our investigations, seeking to streamline and improve these. In the event that planned levels of efficiency were to fall significantly below or above those expected we would adjust investigator resource while we work to restore and achieve the required efficiency levels.

8.1.3 Staff turnover varies significantly from plan

The budget allows for a natural turnover in operational staffing of around 1.0 FTE per month on average. This is based on the staff turnover trends experienced over the past 12 months. Should this rate of staff turnover alter, this would create pressure on the budget. If staff turnover decreases headcount and costs will run in excess of budget. In this scenario the management team will review long term staffing requirements to consider whether a voluntary or compulsory redundancy programme is necessary. Conversely, if staff turnover is higher than forecast, this will result in increased recruitment costs and headcount running potentially below budget together with increased risk of operational disruption.

With the recent classification of the organisation's benefits scheme as novel and contentious there is currently significant uncertainty as to the future structure of this element of employee's remuneration packages and hence increased risk of higher turnover. This risk manifests itself both from the potential impact on staff turnover arising from the uncertainty regarding the future of this part of employee's remuneration, and from the potential impact upon staff turnover (and motivation) in the event that the OLC is required to modify these benefits in a manner that employees regard as detrimental.

The management team will continue to review staff turnover, as well as activity and efficiency levels to determine whether or not to bring forwards the point at which recruitment of replacement investigators will be initiated.

The management team have also mitigated both staff turnover and volume variation risks by planning to recruit and train smaller blocks of operational staff to enable us to more closely meet the demands of variations in activity and changes in headcount.

8.1.4 Large legal costs associated with judicial reviews

To date we have had only one material judicial review which has had a significant financial impact through third party costs requiring settlement. However, there are a small number of challenges ongoing. The nature of these challenges means that should a significant challenge develop, the costs of defending our position may be material.

The OLC and management team manage this risk through regular discussion with General Counsel.

8.1.5 Lack of office space

While we have sufficient capacity at our new premises for staff dealing with the existing jurisdictions, we may be unable to accommodate significant long term increases in headcount, should demand require them. We would deal with this in the short term by increasing levels of home-working among appropriate groups of staff. When selecting our new premises we retained an option to take a further 5,000 square feet of currently occupied space in our current building at our current lower rent. This option will lapse if we do not exercise it when the space becomes available. The current tenant's initial lease term expires in November 2015, however it is as yet unclear as to whether or if they intend to vacate this space. There is also additional vacant space adjacent to our existing premises which we would seek to lease should this be required. However, both of these options would involve additional fit out expenditure and failure to take up the option would require a separate lease at then market rents should additional space be required at a future point and still remain available. This budget does not assume or specifically allow for any fit out costs or additional facilities costs in the event that we exercise this option during 2015/16.

9 Other assumptions

9.1 Other Assumptions

All VAT-able costs have been budgeted to include VAT at 20%.

9.2 Pay, Progression & Revalorisation:

During 2013-14, the organisation updated its pay policy. This resulted in the removal of the two upper pay points on existing pay scales and the introduction of new lower pay scales for new starters. In order to motivate and reward high performance, a system for "recognition payments" was also introduced. These modest recognition payments are non-consolidated payments, in line with our agreed pay remit for 2014/15. We anticipate their continued inclusion in 2015/16. A provision for such payments is included within contingency.

The PAO has recently determined that the flexible benefits and TRS schemes are novel and contentious - and therefore that payments under them are irregular. We will be working with the MoJ to regularise and where necessary revise these arrangements. However, the OLC considers its existing remuneration package to be contractual, and therefore must make provision to meet them, so no adjustments have been made to budgeted expenditure. It may of course be necessary to re-examine this area of the budget once proposals for regularisation have been finalised.

An average of 1% has been budgeted for revalorisation from April 2014 in line with Cabinet Office pay guidance.

National Insurance: Employer's National Insurance has been budgeted for based on the current rate of 13.8%.

Average Employer's Pension contribution: LeO operates a defined contribution scheme. Average Employee contribution to the LeO pension scheme is around 4%. LeO contributes twice the employee contribution up to a maximum of 10%. With auto enrolment of employees into the pension scheme, the take up stands at approx [92] % of all employees. An average Employer's Pension contribution assumption of 8% has been used for 2014/15 which reflects current pension costs to the organisation.

Core benefits: Death In Service and Group Income Protection Benefits are in place in line with our remuneration policy and these benefits have been included as part of HR indirect costs budget.

Flexible Benefits: As part of the organisational set up a flexible benefit scheme has been included in the total remuneration package. Employer costs of the Flexible benefit scheme are capped at 3% of basic pay. This is budgeted in full as part of employee's remuneration package. As noted above the PAO has determined this pay element to be novel and contentious. As yet the impact of regularising this element of pay has not yet been determined.

10 Capital Expenditure & Cash flow

10.1 Capital Expenditure

Anticipated Capital expenditure	£'m
Case Management developments	0.10
Desktop hardware	0.33
IT Infrastructure	0.30
Office Facilities	0.02
Total	<u>0.75</u>

IT Capital expenditure

Our existing onsite IT hardware (Laptops, Monitors etc) will start to need to be replaced during 2015/16 as most of these will be 5 years old in August 2015. We will be in a position to determine the timing of this activity in detail once the refresh of our IT infrastructure has been completed. The budget allows for the estimated costs of this replacement activity to occur in the latter part of 2015/16.

Ongoing Case management developments

As part of the migration to our new case management system, we anticipate being able to deliver most enhancements using in house resource. There remains a planned second phase of development which will need some external development resource. Should this second phase slip into 2015/16 up to a further £0.2m of capital budget may be required unless other capex can be delayed.

IT infrastructure refresh

We will be moving our IT platform to new service providers during early 2015/16. We have allowed for up to £0.3m for the migration and set up costs for this new infrastructure which we will capitalise and amortise over 5 years in line with our depreciation and amortisation policies. The new infrastructure is anticipated to be cloud based and therefore to require minimal hardware expenditure.

Office Facilities

Having moved to new premises in 2014/15 we anticipate only minor break/fix expenditure on office facilities during 2015/16.

10.2 Cashflow

We anticipate a cash balance at the end of 2014/15 of c. £15.2m after receipt of levy funding in respect of 2014/15 of [11.8 million] from approved regulators and Grant in Aid receipts of £0.9m in respect of CMC activities. For 2015/16 forecast expenditure before depreciation and amortisation for our Legal activities is £11.56 million. We anticipate case fee cash collections of £0.9m and Capital expenditure of £0.75m and hence a cash requirement of just over £11.4 million. We therefore anticipate a cash balance at the end of 2015/16, before receipt of levy funds, of £3.8 million. We do not, therefore, expect to require additional Grant in Aid to support our legal activities during 2015/16.

Implementation and operating costs for CMCs are accounted for separately and recovered from the Ministry of Justice in accordance with agreed funding arrangements through Grant in Aid.

11 Changes to the plan and budget arising from the business plan consultation

There have been significant unplanned developments since the publication of our Stakeholder consultation. These have resulted in the need to update and reflect these changes in our financial budget for 2015/16. The key changes to the 2015/16 business plan are highlighted below:

	Legal Activities £'m	CMC Activities £'m
Consultation budget expenditure	11.50	2.87
Reduced direct staff costs	(0.17)	(0.56)
Increased direct research, analysis and insight*	0.05	0.05
Reduce direct unrecoverable case fees	(0.03)	(0.02)
Increased direct contingency	0.02	0.18
Change in Direct costs	(0.13)	(0.35)
Additional indirect interim costs	0.05	0.00
Increased indirect training	0.10	0.01
Increased indirect legal support	0.04	0.00
Increased indirect recruitment	0.09	0.01
Reduced saving from new IT infrastructure	0.11	0.01
Increased governance expenditure	0.13	0.02
Increased central ombudsman expenditure	0.12	0.02
Increased indirect contingency	0.20	0.04
Change in Indirect costs	0.84	0.11
Final proposed budgeted expenditure	12.21	2.63

* Note – In the business plan consultation research costs were shown as an indirect cost. Separate direct costs budgets for this activity have now been established as part of the refinement and finalisation of this budget

Stakeholder feedback has been incorporated into our revised plan and budget. As with previous years there was wide support for our continuing focus on unit cost, balanced with a clear steer that this should not be at the expense of the quality of our decision making.

There was strong endorsement for our four strategic goals, but a consistent call for us to be more ambitious in the delivery of goals three and four. This means increasing our impact through activities that help to drive improvements in the overall complaints handling system and investing in an expanded programme for disseminating our learning both to the profession and consumers. It was widely felt that both of these would benefit from deeper analysis and research.

As part of this process we shared our draft plan and budget with the Ministry of Justice. No substantive changes were required as a result of this engagement.

12 Approval

The Legal Services Board is requested to approve the Budget for the year 2015/16.

Appendix I

Activities & timeframes



Month 5 onwards Permanent	<ul style="list-style-type: none"> Recruitment takes 12 weeks + 4 weeks training Regular cycle of recruitment (quarterly) to replace turnover and maintain profile of LeO as an employer
Months 3 & 4 Temporary	<ul style="list-style-type: none"> Procured panel of agencies who are pre-briefed Contract staff can be recruited and trained in 8 weeks
Months 1 & 2 Existing	<ul style="list-style-type: none"> Mixed workforce including, contract / agency staff and permanent staff on variable hours contracts Ask staff to work extra hours and pay or 'bank' these against time off in lieu Increase hours on variable hours contracts Maintain transferrable skills so that staff can be re-deployed (e.g. Investigators to Assessment Centre)

DEMA

Month 1 Existing	<ul style="list-style-type: none"> Bring all existing work up-to date and reduce work in progress Increase training, encourage use of banked hours and take up of annual leave Reduce hours on variable hours contracts Use resource to create knowledge, complete improvement projects and encourage internal secondments Encourage take up of part time contracts (with option to revert)
Month 2 Temporary	<ul style="list-style-type: none"> Release contract staff
Month 3 onwards Permanent	<ul style="list-style-type: none"> Put recruitment on hold Unpaid leave Redundancy