

# Annex A

# Office for Legal Complaints

Budget 2013-14



March 2013

Version: 1.1

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# 1 Executive Summary

This budget reflects the forecast costs and income for the Legal Ombudsman's existing jurisdiction over the legal profession. It does not include a forecast of costs or income relating to potential new jurisdictions such as Claims Management. The budget and funding for these activities are to be agreed separately, and discussions as regards Claims Management are in progress with the Ministry of Justice.

2013-14 will be the Legal Ombudsman's third full year of operation. We believe we have identified and addressed key challenges as to how the scheme operates in practice, and have updated our scheme rules to amend our jurisdictional time limits and case fees. We continue to adapt our process and procedures to focus on improving the timeliness of our complaint handling and the quality and consistency of our work.

Our IT systems will be over three years old by the end of 2013-14. We plan to start to refresh our IT systems during the year so that these continue to support the efficient resolution of complaints. We remain committed to using technology to ensure that our scheme remains accessible and to resolve complaints in a timely manner, consistently and to a high quality. The refreshing and further development of our IT systems has been accelerated as a result of increased risks to our IT services caused by the failure of 2e2, but will also provide us with the flexibility required to adapt to new jurisdictions and a changing legal landscape over the coming years.

As set out in our Strategy and Business Plan consultation document, as an organisation we aim to remain able to respond to changes in the legal market and to changes in jurisdictional boundaries such as the proposed extension to cover Claims Management Companies. We continue to balance the requirement to deliver our service efficiently with the need to manage the risk of being unable to react quickly to external pressures. One of the hardest challenges for any Ombudsman scheme is to forecast demand. We also know from other Ombudsman schemes that the damage to service levels and reputation caused by under resourcing can be significant. We have therefore taken a prudent approach to resourcing the scheme for 2013-14. The addition of Claims Management to our jurisdiction is planned to increase overall cost efficiency, and reduce costs per case handled across the business as a whole as the forecast increased volume is expected to be handled with no additional fixed costs except those relating to staff. However, we are aware of the need to contain costs and maximise efficiency of resource use where possible, and to this end will be conducting a comprehensive costs review during the next financial year, both looking at the organisation with its current jurisdiction, and with the expected additional jurisdiction.

The budget and assumptions set out below provide a forecast of the expected costs of the operation of the Legal Ombudsman scheme for 2013-14 and the sources of income expected to be received from the operation of the scheme. We expect to deliver around 14% additional activity in 2013-14 and at the same time to operate with no increase in the overall budget compared to 2012-13. The expected increase in activity is based on modelling of past data used to inform the changes to the scheme rules. A key budget risk is whether these enhanced volumes will be

delivered, and this will be kept under close review by the OLC. Within this budget, the changes to our scheme rules are also expected to provide a reduction of around 3.5% in the budgeted levy charge to Approved Regulators compared to the forecast out-turn for 2012-13, due to the increased number of case fees expected to be charged.

### **1.1.1 Funding New Jurisdictions**

The Legal Ombudsman monitors resources used in researching and developing new jurisdictions. To date all of this activity has been resourced from the existing headcount and the resources required for the normal operation of the existing jurisdiction. No incremental costs have been incurred to date, and no material existing resources expended.

New jurisdictions will be financed by the stakeholders of those jurisdictions. As there remains uncertainty regarding the timing and exact mechanism for the implementation of Claims Management, this budget for 2013-14 does not include any additional costs or revenues associated with the development, implementation, or delivery of Claims Management, or any other additional jurisdictions.

All costs identified in 2013-14 for new jurisdictions (such as Claims Management), will be initially cross charged to the Ministry of Justice and subsequently recovered through the agreed funding mechanisms. No material costs will be incurred on such activities without appropriate agreement with the Ministry of Justice.

## 1.2 Summary Budget

The 2013-14 budget is detailed below alongside the 2012-13 budget and forecast 2012-13 out-turn. The 2013-14 budget reflects the increased volumes expected as a result of changes to our scheme rules and business process. This delivers appropriate resourcing and a reduced unit cost yet has some capacity available to allow for unexpected spikes in demand, should these arise.

		2012-13 Budget £'000	2012-13 Forecast £'000	2013-14 Budget £'000
Levy Income		16,785	16,165	15,584
Case Fee Income		212	320	1,400
Other Income		0	10	10
<b>Total Income</b>	2.1	<b>16,997</b>	<b>16,495</b>	<b>16,994</b>
Staff Costs	5.2	11,155	11,191	11,426
Travel & Subsistence		66	43	53
Fees & Research	5.3.2	535	384	510
IT & Telecoms		1,126	1,146	1,133
Premises & Facilities		1,638	1,769	1,784
Other Costs	5.3.3	54	103	316
Contingency	5.3.4	575	0	375
<b>Total Cash Expenditure</b>		<b>15,149</b>	<b>14,636</b>	<b>15,594</b>
Depreciation	5.3.5	1,848	1,859	1,400
<b>Total Revenue Expenditure</b>	2.2	<b>16,997</b>	<b>16,495</b>	<b>16,994</b>
Capital Expenditure	3.1	600	250	2,100

## 2 Income & Expenditure

### 2.1 Income

Our income is made up of two streams;

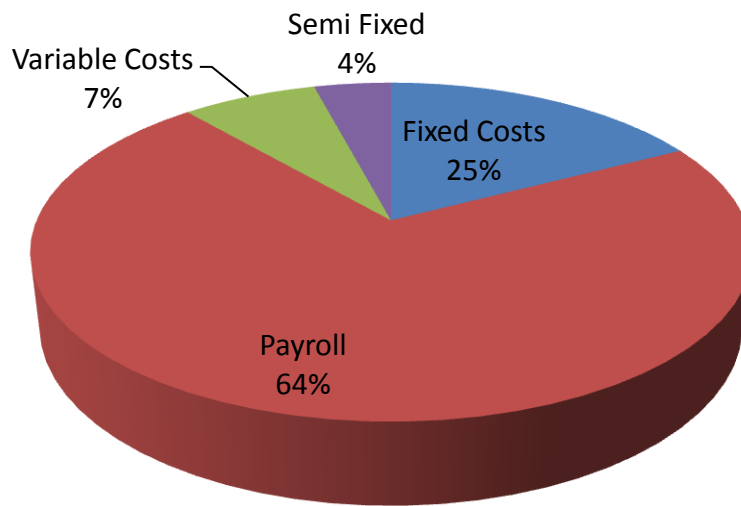
- The Levy – which is equal to the expenditure incurred by the Legal Ombudsman in delivering the Ombudsman scheme, less Case fees charged.
- Case Fee Income – This is expected to increase substantially due to changes to our Scheme Rules. Our scheme rules up to 31 March 2013 provide 2 free cases per annum for each lawyer. Our revised scheme rules require us to charge a case fee for every potentially chargeable case where it has been decided not to waive the fee. This is expected to increase case fee income to approx £1.4 million. This will result in a corresponding reduction of the levy charged to the profession.

## 2.2 Distribution of resources

### Expenditure by Category

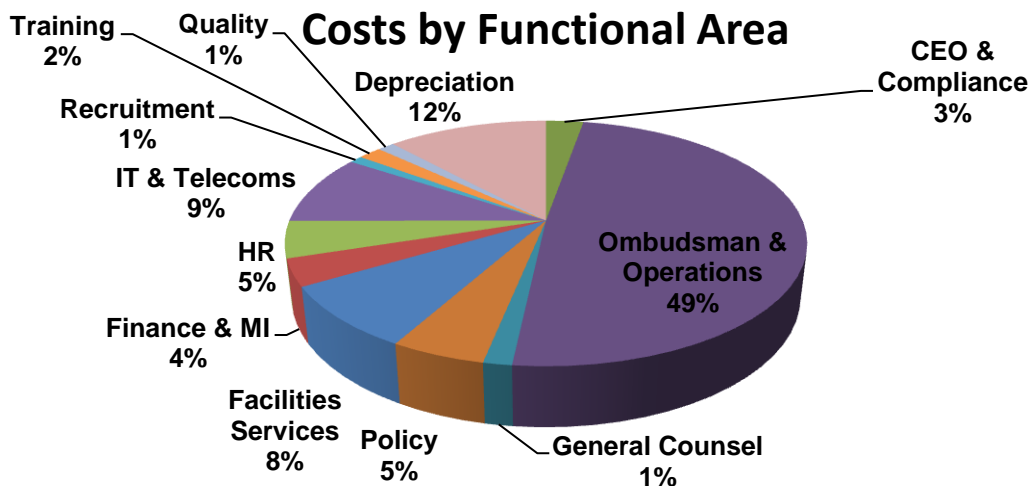
The following charts set out the breakdown of our costs by expenditure type. This shows that a significant proportion (25%) of our costs are fixed in nature (comprising depreciation and other expenditure committed on long term contracts) with a further 4% of expenditure relating to largely non discretionary purchases such as power, audit activity, scanning, printing and translation services. Most (64%) of our costs relate to our people, of which three quarters relates to our Operations and Ombudsman teams. This leaves only 7% of truly variable costs such as travel, research and stakeholder engagement, training, and recruitment.

### Expenditure by Category 2013/14 £17m



### Expenditure by functional Area

The following charts provide a breakdown of all budgeted expenditure by key functional areas;



## 3 Capital Expenditure & Cash flow

### 3.1 Capital Expenditure

We have budgeted for the refreshing of our IT infrastructure over the coming financial year. This is partly in response to the current risks caused by the failure of the existing outsourced IT provider, but also to ensure that our technology continues to enable us to deliver an efficient, quality, and accessible service. We have also allowed for limited additional IT desktop hardware to enable more flexible and home working by our employees. The flexibility provided through this technology remains part of our strategy to improve our workforce's ability to react to peaks and troughs in demand.

<b>Anticipated Capital expenditure</b>	<b>£'m</b>
IT Infrastructure	1.25
Desktop hardware	0.25
Other Minor IT	0.10
Office Facilities	0.50
<b>Total</b>	<b>2.10</b>

### 3.2 Cashflow

We have forecast levy receipts for 2012-13 of £15.8 million. We forecast an opening cash position of £18.3m at the start of 2013-14. Our planned expenditure before depreciation is budgeted as £15.6m, with cash collected from case fees of around £1.2 million during 2013-14 and Capital Expenditure of 2.1million. We would, therefore, expect a cash balance at the end of 2013-14 in the region of £1.4 million prior to receipt of 2013-14 levy funds. We do not, therefore, expect to require additional Grant in Aid during 2013-14.

## 4 Stakeholder consultation in respect of the Business Plan

A consultation event was held on 25 February 2012 at the OLC meeting. Around 30 stakeholders from a range of organisations including consumer bodies, professional associations, regulators and law firms attended. The structure of the meeting allowed discussion over the range of topics in the business plan, via break out groups. A note of the meeting was prepared and circulated to OLC members and attendees on 1 March 2013. This note re-affirmed the outcome of the session, which was that the session had been valuable in confirming the broad thrust and outputs outlined in the business plan, and also provided insight to assist the OLC and Legal Ombudsman consider in more detail how to go about delivering the key aspects of the plan.

This approach was supported by the six written responses to the business plan consultation. No stakeholder feedback either at the event or in writing has commented on the absolute level of budget for 2013-14. Those that commented on our financial management were supportive of our continued approach to driving down unit cost. The Bar Standards Board in particular welcomed our approach to value for money and continuous improvement. The responses were supportive of the OLC's approach to ring-fencing of CMC start up costs. We acknowledge the Law Society's response regarding our plans to upgrade our IT infrastructure, however we believe that our approach is prudent in the light of the risks to our existing IT provision.

Feedback from the MoJ was that they were content with the layout and assumptions of the draft budget paper provided to them.

## 5 Assumptions and sensitivity

### 5.1 Contact and Case volumes

The key measures for the organisation are set out below:

	<b>Actual 2011-12 Activity</b>	<b>Forecast 2012-13 Activity</b>	<b>Budget 2013-14 Activity</b>
Contacts	75,400	72,000	75,000
Conversion ratio (Cases Accepted ÷ Contacts)	11.2%	11.4%	12.9%
Expected Number of Cases accepted (approx.)	8,420	8,200	9,700
% Complaints accepted for investigation that are closed as not within our jurisdiction	13%	8.5%	12.2%
Expected Number of Cases resolved (external measure)	7,455	7,500	8,500
Unit Cost (Total Budget Expenditure divided by the No. of cases closed (external measure))	£2,281	2,140	1,999
% of Cases requiring Ombudsman Decisions (% of External Measure)	35%	39%	40%
Number of Ombudsman decisions required	2,696	2,990	3,400

#### Contact Volume

Contact volumes reflect the number of calls and enquiries received by our assessment centre each year. These are expected to increase by around 4% to 75,000 over the coming year, both as a result of the changes to the scheme rules extending our time limits leading to more inbound calls and enquiries and due to more proactive follow up of premature complaints generating more inbound call activity.



## Number of cases resolved (external measure)

We have planned for an increase in the number of cases based on the expectation that the number of cases resolved will rise by 13.3% from 7,500 to 8,500 in 2013-14 despite the modest increase in contacts. Changes to our Scheme Rules introduced on 1 February 2013 are expected to lead to an increase in case volume by around 10%, generating an additional 750 cases per annum (This is based on analysis of historic data on cases that had been rejected as out of time under the old scheme rules). More proactive follow up of premature complainants has also resulted in 4% more cases being accepted for resolution during the pilot which was run in October to December 2012. We have budgeted for this follow up activity to generate an additional 250 cases over the year.

## Number of cases accepted for investigation

We exclude from our external reporting measure those cases that, although we have accepted a complaint for investigation, we find on further investigation the complaint is not within our jurisdiction. This most often arises where the lawyer provides evidence during the investigation that the complaint is not within our jurisdiction, despite what the complainant had claimed. Over the last 12 months this has averaged around 8.5 % of cases accepted. Again since September we have seen an upward trend in the number of cases which we find to be outside of our jurisdiction. We therefore expect this to increase to approx 12.2% in 2013-14. We therefore expect to accept and investigate around 9,700 cases in 2013-14, although we make the assumption that only around 8,500 cases will count towards the calculation of our cost per case.

## 5.2 Assumptions for Organisation Structure, headcount and staff costs

We have explained above the assumptions concerning activity and its impact on staff requirements, and the effect of expected staff turnover. The figures below reflect the average headcount budgeted for the year. The 2012/13 budgeted figures and average forecast actuals are included for information.

Headcount plan (FTE)	Budget Average headcount 2012-13	Forecast Headcount March 2013	Average Budget Headcount 2013-14	Budget Pay Cost 2013-14 £'m
Ombudsmen, & General Counsel	11	12	11	1.4
Operational Management	8	7	7	0.5
Assessors & Team Leaders	36	45	41	1.2
Investigators & Team Leaders	135	146	135	5.0
Coordinators	8	9	12	0.2
Quality	5	5	5	0.4
Finance and Business Services	27	31	33	1.7
Policy and Communications	13	10	9	0.5
CEO, Compliance and Change	5	6	5	0.4
	248	271	258	11.0

## **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 remained fairly constant throughout 2012-13 at between 7 and 7.5 cases per month per active investigator. We have therefore planned to resource our operations based on an efficiency level of between 7 and 8 cases per month per active investigator in 2013-14, although we continue to review the business process to seek ways of improving investigator efficiency.

## **Co-ordinators**

Co-ordinator resource is planned to increase. By transferring administrative activities involved at the end of a case to specialist coordinator support staff and releasing investigators to focus on resolving cases this is designed to improve efficiency of the resolution centre as a whole. As a result Coordinator headcount is budgeted to increase by 3 FTE.

## **Finance and Business Services staff**

Finance and Business Services headcount is budgeted to increase to reflect increased billing volumes and credit control activity required as a result of the changes to our scheme rules. In addition there is one internal transfer of an assessor to regularise the specialised role that had evolved to support the planning and information needs of the assessment centre.

## **Staff Turnover**

The budget allows for a reduction in operational staffing of 1.9 FTE per month on average. Recruitment of replacement investigators and assessors to meet operational requirements has been allowed for in the budget, but will be undertaken only when required in order to ensure continued smooth operations.

## **Pay, Progression & Revalorisation:**

Existing staff have been recruited on the basis that they must demonstrate competence in their role as part of their probationary period and pass mandatory training and that thereafter they are expected to progress within the organization.

Our pay policy agreed with the MoJ allows us to reflect the increasing competence and effectiveness of our staff as the organisation matures and they become more experienced. We anticipate this will be recognised in the pay remit we agree with the MoJ in 2013-14 as it has been in previous years. The budget reflects the pay policy and the opportunity for performance reviews in October each year.

An average of 1% has been budgeted for revalorisation from July 2013.

The actual costs in this area will of course depend on both their affordability against this budget and compliance with the pay remit we will agree with the MoJ.

**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. For the first 257 staff the average Employee contribution to the LeO pension scheme is around 4%. LeO contributes twice the employee contribution up to a maximum of 10%. We currently have a high take up on the pension scheme at approx 92% of all employees, this is not expected to change in the future therefore, an average Employer's Pension contribution assumption of 8% has been used for 2013-14.

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

**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 has been budgeted in full as part of employee's total remuneration package.

## 5.3 Other Assumptions

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

### 5.3.1 Case Fees

Our recent experience is that around 20% of cases are withdrawn, abandoned or dismissed, and around 80% are potentially chargeable. However, we waive the case fee when the Ombudsman nothing more from the lawyer than what the lawyer had already offered during the 1<sup>st</sup> tier complaint handling process, and where 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 when determining the potential revenue due from case fees and rounded this to £1.4m to allow for the inherent uncertainty in this assumption.

### 5.3.2 Fees & research

This expenditure comprises mainly research costs, and expected legal and audit fees. The increase on 2012-13 expenditure reflects greater emphasis on research and external communication activities to support our plans for raising awareness and sharing evidence from complaints.

### 5.3.3 Bad Debts (included in "Other costs")

We have also experienced a significant proportion of unrecoverable amounts, normally where the law firm has gone out of business by the time the complaint is brought to us or by the time it has been resolved. We have included a reserve for these bad debts within our "Other costs", and this accounts for substantially all of the increase in "Other costs" from 2012-13. The amount budgeted is based on bad debt levels experienced to date. We have no better basis on which to assume that the bad debt levels suffered will improve or decline as a result of our scheme rules changes.

### 5.3.4 Contingency

We have allocated a contingency of just over 2% of budget to provide some cover for unexpected fluctuations in demand and the other risks outlined above, in particular the risk of having to defend a significant Judicial Review threat. We believe that this is prudent.

### 5.3.5 Depreciation

Our accounting policies estimate that the IT Infrastructure and Hardware installed in 2010 had a useful economic life of 3 years. This useful life is due to come to an end in July 2013. We had reviewed these lives during the year and concluded that while much of the physical hardware has a longer economic life, however it has become clear following the failure of the core hosting provider that the implementation costs of the IT infrastructure capitalised as part of the implementation have only a limited remaining useful life. We have budgeted for these to continue to be depreciated up until July 2013. This is also in line with our plans to start to replace and renew our IT infrastructure during 2013-14. As a result depreciation costs forecast for 2013-14 are budgeted to reduce as the depreciation of the initial set up implementation costs expire and as a result of the extension of physical hardware lives from 3 years to 4 years following consultation with our IT team.

## 5.4 Sensitivity analysis

The Assessment Centre is a high volume operation. LeO is able to absorb temporary spikes in activity through re-deploying investigator resource to assist in the Assessment Centre. The Call volumes average around 265 inbound calls per day and regularly fluctuate naturally in a range between 250 and 330 calls per day.

The key risk to the capacity of the organisation to deliver an effective service is how case volume and investigator efficiency changes impact on our investigator capacity. The 3 key measures are:

- **Contact Volume:** A 1% change in Contact Volume would generate a change of 750 contacts and around 96 cases per annum. This results in a medium to long term change in the requirement for investigators of +/- 1.1 FTE (+/-£42k per annum payroll costs plus recruitment and training costs).
- **Conversion Ratio:** A 1% change in the conversion ratio results in a change of 750 Cases per annum and a corresponding change in the number of investigators required of +/- 8.3FTE (+/-£320k per annum payroll costs plus recruitment and training costs)
- **Investigator efficiency:** A 0.25 cases per month change in investigator efficiency results in a corresponding change in the number of investigators required of +/-3.5 FTE Investigators over the medium to long term (+/-£134k per annum payroll costs plus recruitment and training costs)

Operational stepped costs 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 8 FTE investigators, and for 1 additional/fewer Operations Manager (+/-£57k per annum payroll costs plus recruitment and training costs) for each addition/reduction of 40 Investigators.

We have detailed plans in place that would allow us to respond to larger increases in demand of 10% to 40%. These plans will allow us to have additional staffing trained and active within 2 months, however they would require additional budget authority and possibly grant in aid cash flow support in year. These are summarised in Appendix I

## **6 Key risks and mitigating actions planned**

The key risks to the achievement of the budgeted expenditure are detailed below:

### **6.1 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 trained to work in the Assessment Centre and are rotated through the Assessment Centre periodically in order to ensure that their call handling skills remain practiced and are maintained. 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 planned for 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 flexitime 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. We have also put in place arrangements to enable us to quickly recruit quickly 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. Because it takes a substantial period to recruit and train an investigator, and then for them to become fully efficient, only once excess capacity had been established as likely to be long term would management take action to implement any redundancy plans.

## **6.2 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 taking 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 monthly to ensure efficiency levels are within the expected range.

We continually review our business process and the way that we perform our investigations in order to seek 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.

## **6.3 Staff turnover varies significantly from plan**

The budget allows for a natural turnover in operational staffing of 1.9 FTE per month on average. This is based on historic staff turnover trends experienced over the past 12 months. Should this rate of staff turnover alter then this will create pressure on the budget. If staff turnover decreases, this will result in headcount and costs running 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. Again the management team will review 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 are seeking to mitigate this risk further by reviewing the current approach of recruitment in large blocks of operational staff to one where investigator headcount can be recruited and trained in smaller numbers to enable us to more closely meet the demands of variations in activity more closely.

## **6.4 Large legal costs associated with judicial reviews**

To date we have had only one judicial review which has had a significant financial impact following a requirement to settle third party costs requiring settlement. However, the nature of these challenges means that should a significant challenge arise the costs of defending our position could at any time become significant and material. The OLC and management team manage this risk through regular discussion with General Counsel.

# **7 Approval**

The LSB board is requested to approve the Budget for the year 2011-12.

## 8 Appendix I

### Activities & timeframes

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

### DEMAND

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

Time  
trigger  
points

Time  
trigger  
points