Strategic Public Finance Exam (December 2023)

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Question 1

Thurrock Section 114 notice 'necessary' for exceptional support

Thurrock Council's decision to issue a section 114 notice (a report issued by the chief finance officer which states that they believe that the authority is about to incur expenditure that is unlawful - where the expenditure it proposes to incur in a financial year is likely to exceed the resources including sums borrowed - according to the Local Government Finance Act 1988). This is a necessary step to ensuring exceptional government support, commissioners appointed to turn around the authority have said.

The acting section 151 officer (and Chief Finance Officer) at the authority issued the notice on Monday, amid a £452m projected deficit in 2022-23, equal to treble the council's £153m budget.

The section 114 report confirmed the statutory notice will carry over to 2023-24, and it is likely that spending restrictions will be in place until at least March 2024. The council has already applied for capitalisation directions, allowing the authority to use capital resources for revenue spending, to help bridge the budget gaps, but more support is needed. The notice has frozen all non-essential spending until the full council meets on 9 January to discuss the report.

"Indications are that Thurrock Council will need to seek extraordinary support beyond capitalisation directions and dialogue has commenced with DLUHC."

In September, the Department for Levelling up, Housing and Communities appointed Essex County Council as commissioners, amid concerns over the authority's high level of debt.

An interim report published last month uncovered the "shocking gap" at the council that was mainly attributed to the impairment of four investment assets, and the failure to adequately charge Minimum Revenue Provision on purchases.

Last month, the commissioners told PF the council's investment strategy was unusual due to its heavy reliance on solar purchases and lack of diversity. They also warned the council's problems would not be solved quickly.

A spokesperson for the commissioners said: "The issuing of a section 114 notice is a necessary next step for Thurrock Council to take to address its overall financial position, alongside seeking further financial support from the government."

Source: https://www.publicfinance.co.uk/news/2022/12/thurrock-section-114-notice-necessary-exceptional-support - 19 December 2022

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Formats

Feedback:

Available Answers

- Q1a)i) (12 Marks)

Available Answers

- Q1a)ii) (5 Marks)

Available Answers

- Q1a)iii) (3 Marks)

Available Answers

- Q1b)i) (5 Marks)

Available Answers

- Q1b)ii) (5 Marks)

Model Answer Q1

Syllabus reference: Workbook 8/ B2 and Workbook 9 / B4

Q1a)i) Personal qualities of an effective Chief Finance Officer and Leadership and Negotiation Skills

Personal qualities of an effective CFO

The CFO, as the organisation's most senior executive role **charged with leading and directing financial strategy and operations**, occupies a **pivotal role, both for external stakeholders and within the Leadership Team.** In the public service context, CFOs must also meet the demands of **openness and accountability in decision making, balance competition for limited resources** across a range of worthwhile objectives, **deliver value for money and safeguard taxpayers' money.** Delivering these requires a range of personal qualities, as well as support from both the finance function and the organisation as a whole.

The **CIPFA Statement** lists the desirable qualities of a CFO.

The **main personal qualities can be summarised as:**

- **Robust and resilient leadership.**
- **Flexible leadership style**, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.
- **Able to network and build robust relationships** both internally and externally.
- **Working effectively with other Leadership Team members with political awareness and sensitivity.**
- **Address and deal effectively with difficult situations and challenge** to give and receive constructive feedback.
- **Implement best practice in change management and leadership.**
- **Balance conflicting pressures and needs**, including short and longer term trade-offs.
- **Innovative to add value and a good communicator.**

- **Maintain an appropriate balance between the deeper financial aspects of the CFO role and the need to develop** and retain a broader focus on the environment and stakeholder expectations and needs.
- **Act with integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.**
- **Develop and sustain partnerships, and engage effectively in collaboration.**
- **Establish an open culture, built on effective coaching and a 'no blame' approach.**
- **Understand personal and professional strengths.**

Note that more and more in public service organisations, there is collaborative working and financial managers **must be aware of the financial and governance risks and opportunities** that may arise that could affect the financial sustainability of the organisation.

CFOs must develop skills and expertise in shared working to ensure their organisation has access to suitable financial information and are aware of the budgetary commitments of any partnerships and the financial implications of decisions made by collaborative bodies that they are involved with. CFOs must:

- **ensure that medium term business and financial planning systems along with ongoing performance monitoring cover the services provided through partnerships and alternative delivery models.**
- **ensure that the Prudential Financial framework accurately reflects the commitments and potential future impact of contracted future services.**
- **be aware of alternative service delivery models and commercial opportunities for their organisation.**

<u>Mark scheme:</u>

12 marks for the personal qualities of an effective CFO. Answer is comprehensive and not all points need to be included in student responses. 1 mark per valid point raised.

Marks can be awarded for students linking points made to the article.

Maximum 20 marks for Question 1a).

Model Answer Q1

Syllabus reference: Workbook 8/ B2 and Workbook 9 / B4

Q1a)ii) Leadership and negotiating skills

Note that both the list of personal qualities and the principles for the roles in both the private and the public sector refer regularly to the importance of **strong leadership** by CFOs. The CFO must also have **access to and be part of the leadership team that is responsible for making decisions at the highest level.**

CFOs are under increasing pressure following the global financial downturn and face making difficult financial decisions and balancing the needs of services within reduced budgets.

Strong leadership and negotiating skills are required of the modern CFO to resist short-term pressures, especially where there are political or social agendas as the CFO has responsibilities to ensure financial viability and stability longer term. This is especially true in local government, where the fiduciary duty is written in statute, and there is **no option to allow the organisation to fail financially.**

The CFO must demonstrate significant strength of leadership where the **board members and/or management team need to be persuaded to make brave or unpopular strategic decisions**. The CFO must, however, **demonstrate political awareness and be sensitive to what will and will not be acceptable to the decision-making body that they serve.**

The CFO must also **adhere to the ethical and professional standards** as stipulated by the relevant professional bodies. These standards must be maintained even if the organisational desires are in conflict with those ethical standards.

<u>Mark scheme:</u>

5 marks for why leadership and negotiation skills are critical for a CFO. 1 mark per valid point raised

Marks can be awarded for students linking points made to the article.

Maximum 20 marks for Question 1a).

Model Answer Q1

Syllabus reference: Workbook 8/ B2 and Workbook 9 / B4

Q1a)iii) Value for money and the CFO

Finance must shift from its traditional stewardship role to that of **delivering value for money and advisory services**. In order to add value to the organisation, the balance between activities should be shifted from predominantly transaction processing to a more advisory role, whilst reducing the overall cost to the organisation.

The **finance function leads on efficiency and value for money for the organisation**. In managing public money, accounting officers are **formally accountable for the value for money and probity of spend, for producing the resource accounts and living within budget allocations, based on the principle of keeping accountability where spending decisions are made.**

<u>Mark scheme:</u>

3 marks for how value for money is critical for a CFO. 1 mark per valid point raised.

Marks can be awarded for students linking points made to the article.

Maximum 20 marks for Question 1a).

Model Answer Q1

Syllabus reference: Workbook 8/ B2 and Workbook 9 / B4

Forecasting for public service organisations

Forecasting uses

Forecasting is **required for longer term financial planning to help finance managers identify problem areas in advance, and develop strategies that help plan for and accommodate the uncertainties.**

It is the **term given to a wide range of techniques and approaches designed to identify potential future outcomes.**

Forecasting has a key role to play in decision-making in public service organisations in a wide variety of contexts including policy making, demand forecasting, financial resource forecasting, strategy development, service reconfiguration and budget management.

Forecasting has a key contribution to make to the practice of effective public financial management as a key discipline for finance managers.

Role of forecasting in the public sector

Regardless of whether an organisation is in the private or the public sector, it is **important to its ultimate survival to be able to predict future demand and resources and, therefore, to be able to modify organisational plans and behaviour so as to best meet future challenges.**

Forecasting is an **invaluable tool to aid decision-making and planning for the future**. In the public services context, **its use will extend to managing demand down for public services as well as considering the supply side factors (such as capacity and resource constraints).**

The question should not be between forecasting and not forecasting; instead it should be, what kind of forecasting should we use in which situation? It is better to have an appreciation of any possible changes than no warning at all. **Forecasts are made to:**

- **help management to determine a strategy.**
- **make the best decisions in the context within with they operate.**

Key variables can be difficult to discover and to measure and they may appear in all kinds of combinations and be constantly changing so that no clear trend emerges.

Successful forecasting requires expert blending of economic theory with significant statistical expertise and thorough familiarity with the relevant statistical data. Both qualitative and quantitative information must be utilised.

In public services, forecasts may cover two different but broad areas:

- **demand side** – identifying future demand for the organisation's goods or services. This will impact on the organisation's business planning to ensure it is able to manage and meet the demand.
- **supply side** – identifying resources and capability required to be able to meet the demand for organisational goods and services.

<u>Mark scheme:</u>

5 marks for forecasting uses or roles (1 mark for each valid point made).

Maximum 10 marks for Question 1b).

Model answer is precise and students are expected to include most of the detail shown. Bold text included in answers are the key points to be made.

Model Answer Q1

Syllabus reference: Workbook 8/ B2 and Workbook 9 / B4

Question 1b)ii)

Qualitative forecasting

In general, qualitative methods will be used in circumstances where hard data is difficult to collect, or there is no right or wrong way of delivering a service. It involves using soft data and finding out what is going on by asking people, and evaluating their responses.

These are subjective, based on the opinion and judgment of consumers and experts, and are appropriate when past data is not available. They are usually applied to intermediate to long-range decisions. A qualitative forecasting method is an estimating method that relies on expert human judgment combined with a rating scale, instead of on hard (measurable and verifiable) data. Some qualitative methods include:

- Simple questionnaire - care must be taken to ensure unambiguous wording, no bias.
- The structured interview – clarity about the subject, consistency in interview, accurate recording, confidentiality.
- Open conversations – where all contributors have their views recorded.
- Scenario building – using role play to simulate different scenarios.
- Delphi - Delphi is based on the principle that forecasts (or decisions) from a structured group of individuals are more accurate than those from unstructured groups. Thus it is often described by the term 'collective intelligence'.
- Guided discussions – round table exercises where problems are discussed and expert opinions are recorded and analysed.

<u>Mark scheme:</u>

1 mark for definition of qualitative forecasting, 1 mark per method described (1 mark for each valid point made)

Maximum 10 marks for Question 1b).

Model answer is precise and students are expected to include most of the detail shown. Bold text included in answers are the key points to be made.

Question 2

Kent Implements Savings Plan Amid 'Significant' Budget Gap and Depleting Reserves

Kent County Council has set out a savings plan and reduced non-essential spending amid an almost £44m budget gap and depleting reserves.

A council report has revealed that Kent is forecasting an overspend of its 2023/24 budget by £43.7m, with the majority coming from adult social care and children's services. The report also set out measures to recover Kent's immediate financial challenges and medium-term sustainability. It detailed that the council must make savings of £17m this year, £10m in adult social care and £7m in capital programme financing, to reduce the overall overspend to £26.7m.

"The forecast overspend represents over 3% of the revenue budget and presents a serious and significant risk to the council's financial viability if it is not addressed as a matter of urgency," the report said.

"Given the size of the forecast overspend and the budgets in question, it is important to focus on these budgets in adult social care and children's services."

"Spending growth in these areas is unsustainable and needs to be brought back to a level that can be afforded within the overall resources available to the council from local taxation and central government grants."

Kent County Council's report also outlined that the council faced a similar budget gap for the previous financial year of £47.1m, which had to be plugged using the authority's risk reserve of £25m, with the remaining £22.1m being drawn from its General Fund reserve.

Source: https://www.room151.co.uk/151-news/kent-implements-savings-plan-amid-significant-budget-gap-and-depleting-reserves/ - 16 August 2023

<u>**Requirement**</u>

Q2a) Considering the case study reference to the council's spend needing to be brought in line with its local taxation income:

Evaluate the options for local taxation and income generation that the council could invoke to help address the spending pressures it is facing.

(10 marks)

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Formats

Feedback:

Available Answers
- Q2a) (10 Marks)

Available Answers
- Q2b)i) (4 Marks)

Available Answers
- Q2c)i) (2 Marks)

Available Answers
- Q2b)ii) (6 Marks)

Available Answers
- Question 2c)ii) (2 Marks)

Available Answers
- Q2c)iii) (2 Marks)

Available Answers
- Q2c)iv) (2 Marks)

Available Answers
- Q2v) (2 Marks)

Model Answer Q2

Syllabus reference: Workbook 4 / A3 and A4 and Workbook 6 / A6

Q2a) Options for local taxation and income that could be consider for increase in the future

Property taxes:

Property is the classic immobile asset and most local taxation authorities will use property taxes as a key element in their revenue portfolio. Whilst the asset is not portable, where people choose to live is discretionary. The level of taxes levied on property therefore will potentially have an impact on the price of the asset. Put simply, higher property taxes will reduce house prices in an area provided all other factors are equal.

User charges/fees:

Beneficiaries of delivered services pay directly for them (not necessarily full cost).

Examples of this approach are numerous including sports facilities, utility consumption, waste collection, crematoria, car parking and social housing. These are clearly located in a community setting and are therefore not mobile. There is an advantage also that where non-residents can use the facilities it reduces the impact on residents of neighbouring authorities free riding on the facilities. This can often be a problem of urban authorities with a large population which provide services in towns and cities that surrounding, less populous, rural authorities may not be able to provide cost effectively.

License fees:

These are primarily intended to contribute towards the administration of such regulatory activities as business & driving licences, registration fees and drink or entertainment licences. For example if, for public health reasons, food establishments have to be inspected then a licence fee is a useful method to ensure that the premises are registered, that they are inspected regularly and if health dangers are found they can be corrected or the business closed down. The licence fee is again immobile.

Levies on properties for infrastructure improvement:

This is similar to the levying of property taxes and can be on households or businesses. The money raised is usually ring-fenced to finance improvements in such things as public transport systems, broadband access or off-street parking in shopping areas.

National taxes:

In many countries there is a tax sharing system whereby a certain proportion of national taxes, for example VAT, are retained locally. This has the advantage that local economic activity is rewarded with a share of revenue thereby encouraging the local authority to develop the local economy more effectively. It can of course sometimes lead to tax competition, for example, out of town shopping malls being located on the border of a neighbouring local authority.

<u>Mark scheme:</u>

2 marks per local taxation and income source named and explained adequately.

Up to a maximum of 10 marks.

Model answer is precise and students are expected to include most of the detail outlined.

Model Answer Q2

Syllabus reference: Workbook 4 / A3 and A4 and Workbook 6 / A6

Q2b)i) Spending Review and Formula Grant

Spending Review

Since 2016 the Chancellor of the Exchequer has made a **Spring Statement setting out the UK Spending Review**. This, **together with the Autumn Statement and Budget, forms the basis of the government's plans for public finances at a national level.**

The **Spending Review sets out the Government's plans for revenue and capital funding for each Government department over the next four years,** so-called Departmental Expenditure Limits (DELs). The **Office for Budget Responsibility (OBR) also publishes its forecast, the Economic and Fiscal Outlook (EFO) on the same day.** The EFO sets out the OBR's forecasts for the economy and the public finances and an assessment of whether the Government is likely to achieve its fiscal mandate and supplementary targets.

As Government Funding often accounts for a significant proportion of income for public sector bodies it is important that the Chief Finance Officer and senior staff have an understanding of the forecast level of government grant. The assumptions underpinning the forecast level of grant in the medium-term financial strategy can then be better understood and communicated both within the employing organisation and to the wider public.

The Spending Review and Budget are therefore useful reference points for forecasting the scale of government support to public sector organisations over a five-year period.

The actual cash grant allocated by central government to local authorities is through a mixture of methods; principally by 'formula' or a specific allocation.

<u>Mark scheme:</u>

1 mark for each point raised per mark scheme, up to 10 marks for Question 2b).

Students who include bold words indicated in model answer within their response can get up to 10 marks if their explanations are clear; if bold words are not included in answer, marks given will depend on how much their response matches the model answer or provides valid explanations, but they should still be given marks for correct information.

Model answer is detailed and students are not expected to include all of the detail.

Q2 c) Methods of Charging for Public Services

Differential pricing

This is similar to the private sector where different prices are set for different customers. For example, peak/off peak, adult/child, disadvantaged/advantaged.

Mark Scheme:

2 marks for each charging method – explanation (1 mark) and example (1 mark)

This is a precise answer and students are expected to include most of what is shown in mark scheme.

Model Answer Q2

Syllabus reference: Workbook 4 / A3 and A4 and Workbook 6 / A6

Q2b)ii) Spending Review and Formula Grant

Formula Grant

The **revenue support grant (RSG)** is an amount of money given by central government to local authorities each year. It is one of the three components of Formula Grant but is often incorrectly used as a synonym for Formula Grant. In part, this reflects the long history of RSG as the acronym that represented central Government's core funding for local authorities; not only has Revenue Support Grant been in use as a term since 1990 but its predecessor (Rate Support Grant) abbreviated to the same three letters.

Formula Grant is the general term given to the main sources of general Government funding for English local authorities. Formula Grant consists of three main components:

- A share of funding from the **Non-Domestic Rates (NDR)** pool (the 'Distributable Amount')
- **Principal Formula Police Grant** (for Police and Crime Commissioners and authorities)
- A top-up grant called the **Revenue Support Grant (RSG)**

The only reason that three separate components continue to exist is to comply with the underlying legislation. When the national non-domestic rating system was introduced in 1990 the enabling legislation made it a requirement that the subsequent re-allocation to local authorities be identifiable.

Similarly, the Principal Formula Police Grant has to be disclosed separately because it is allocated under powers that refer to both England and Wales, rather than to England alone. For all practical purposes, these three components form a single source of finance for English local government.

From 2006-07 Formula Grant has been distributed using a system referred to as the '**four-block model.**' The four blocks are:

- **Relative Needs Amount** (intended to compensate for differences in needs of each local authority area)
- **Relative Resources Amount** (intend to compensate for differences in the relative strength of the Council Tax tax-base in different areas)

- **Central Allocation** (a common allocation per head to all authorities with the same responsibilities)
- **Grant Floor Adjustment** (a net nil re-allocation of grant between local authorities to ensure that every local authority receives a minimum annual increase in funding, regardless of the outcome of the preceding three blocks).

The Ministry of Housing, Communities & Local Government allocates formula Grant in the UK and issues a Guide to Local Government Finance Settlement.

The UK government is moving away from this model, although the Fair Funding review and the Spending review has been delayed due to Parliament focus with issues relating to Brexit.

<u>Mark scheme:</u>

1 mark for each point raised per mark scheme, up to 10 marks for Question 2b).

Students who include bold words indicated in model answer within their response can get up to 10 marks if their explanations are clear; if bold words are not included in answer, marks given will depend on how much their response matches the model answer or provides valid explanations, but they should still be given marks for correct information.

Model answer is detailed and students are not expected to include all of the detail.

Methods of Charging for Public Services

Customised value added model

This could be applied where there is substantial discretion shown by service users in deciding how they wish their service to be provided. An organisation could for example provide 'gold/silver/bronze' levels of service with corresponding gold/silver/bronze prices or charges.

<u>Mark Scheme:</u>

2 marks for each charging method – explanation (1 mark) and example (1 mark)

This is a precise answer and students are expected to include most of what is shown in mark scheme.

Methods of Charging for Public Services

Full cost plus a profit margin

A charge is set in order to create a surplus that will subsidise other services. This could be used for peripheral services that occur as a side issue in an organisation's service provision. For example, the pricing-out of a University's halls of residences during student vacations.

However, there may be an argument for charging these on a marginal cost-plus basis. This would gain competitive advantage and recognise that colleges need to have the residences regardless of vacation use, so any extra contribution which can be earned is a bonus.

<u>Mark Scheme:</u>

2 marks for each charging method – explanation (1 mark) and example (1 mark)

This is a precise answer and students are expected to include most of what is shown in mark scheme.

Methods of Charging for Public Services

Going rate charges

This rate would reflect that set by other public sector service providers in other localities. It ignores any differences in service and the specific cost structures of the different localities.

It may be based on the idea of inter-jurisdictional equity, meaning that the public should be able to receive the same service as is available in other similar locations, at the same charge.

<u>Mark Scheme:</u>

2 marks for each charging method – explanation (1 mark) and example (1 mark)

This is a precise answer and students are expected to include most of what is shown in mark scheme.

Methods of Charging for Public Services

Demand - orientated charging

At its simplest this is where charges will link to levels of demand. If an organisation had a policy of recovering full costs – then very high demand would enable low charges to be set. If demand was low then higher charges would be needed to recover costs.

<u>Mark Scheme:</u>

2 marks for each charging method – explanation (1 mark) and example (1 mark)

This is a precise answer and students are expected to include most of what is shown in mark scheme.

Question 3

Requirement

Q3a) A public service organisation has capital investment plans which require debt funding of £15m, £25m and £17m over the next three financial years.

What key questions should the Chief Finance Officer ask regarding the proposed borrowing, in order to ensure appropriate treasury management arrangements and to achieve a balanced budget. *(5 marks)*

Q3b) Public service organisations are taking shared services in bold directions that promise significant savings and improved efficiency.

Using an example in a public sector organisation, identify the advantages and disadvantages of shared services. *(5 marks)*

(Total: 10 Marks)

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

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Feedback:

Available Answers
- Q3a) (5 Marks)

Available Answers
- Q3b) (5 Marks)

Model Answer Q3a)

Syllabus reference: Workbook 3 / B3 and Workbook 12 / C4

Key questions from CFO with respect to borrowing and achieving a balanced budget (WB3/B3)

The need to borrow to finance capital investment plans is a common requirement but arguably the current day context means that decisions will be far more sensitive to the resources available, interest rate impacts and ensuing performance.

The **annual cost of borrowing, the summation of Minimum Revenue Provision and interest payable, is a revenue charge. In the context of the Medium-Term Financial Strategy, additional cost of borrowing has a direct effect on any budget savings required to achieve a balanced budget. This emphasises the overarching need to align use of resources to service objectives.**

The CFO must ask the following questions of the capital investment plans which require debt funding:

1. What is the **operational benefit of the capital investment plans** that arrive at the loan debt required?
2. **How can the cost of capital investment be minimised to reduce the burden on the revenue account without impairing service benefits or opportunities?**
3. **To what extent can the cost of borrowing be sensitive to financial pressures having an impact on any one financial year?**

Borrowing peaks will need to be carefully planned for by the organisation to ensure that it **retains operational viability whilst the benefits of the capital investment are realised.**

<u>Mark Scheme</u>:

5 marks: Key questions from CFO with respect to borrowing and achieving a balanced budget - 1 mark per valid point raised – answer must cover bold points indicated in model answer.

Model answer gives specific examples for local authorities, NHS and other public sector variations and is therefore comprehensive and students are not expected to include *all* of the detail shown with respect to shared services and key questions from CFO. For the example given, marks are discretionary depending on how well the detail is articulated by the student. Students can also provide an example specific to their geographical location for part b. Examples should be well explained.

Model answer is comprehensive and students are not expected to include all detail shown.

Model Answer Q3b)

Syllabus reference: Workbook 3 / B3 and Workbook 12 / C4

Advantages and Disadvantages of Shared Services in a Public Service Organisation

Shared services have the potential to offer a locally-responsive and flexible way of working with neighbouring organisations in order to become more efficient. Sharing of services can deliver efficiency by disregarding arbitrary administrative boundaries and bureaucracy. In local government, a survey by the LGA found that some 96% of councils were involved in some kind of shared service agreement, and that such agreements were estimated to have saved councils around £357m over 2013.

Councils are taking shared services in bold directions that promise significant savings and improved efficiency. Kensington & Chelsea, Westminster City, and Hammersmith & Fulham Councils have been sharing adult care, children's services, and library services since 2011 as part of their tri-borough agreement.

Shared service governance arrangements are fairly straightforward if they are covered by a documented shared service agreement (SSA). Shared services usually have one of the partners as the lead organisation but may have other partners with key roles such as performance champion or governance champion.

Advantages	Disadvantages
Better cost efficiency potential	Partners may have different ways of operating so cultural conflicts may arise
Stronger resilience in relation to: • Staff turnover • continued service delivery	Mistrust can occur if sharing of competitive or sensitive information is required
Sharing of expertise that is not economic to employ individually	Short term dip in service quality may arise during adjustment period

Able to offer better quality and range of services	Inequitable treatment of partners if lead organisation is too dominant

Examples

There are hundreds of examples of shared services in the public sector. A few examples are listed below:

NHS example

ELFS Shared Services was established on the 1st April 2002 and is now in its fourteenth year of operation providing business shared services to 24 NHS client organisations from its offices located at Viscount House just off the M65 at Junction 4, Blackburn with Darwen Services. ELFS Shared Services is a business division of Calderstones Partnership NHS Foundation Trust. www.elfsnhs.co.uk

Central government examples

arvato has been providing back-office services for the Department for Transport (DfT) since June 2013. It now provides HR, payroll, finance and procurement services to the DfT and its executive agencies.

Government's first Independent Shared Service Centre (ISSC1) is expected to improve service quality and deliver significant savings through a new operating model for back-office functions.

Under the framework contract arvato is able to expand business by taking on additional outsourced government business, as well as competing for new work. arvato currently employs more than 200 people at the site in Swansea, South Wales.

When the Home Office (HO) made the decision to utilise the existing HM Prison Service (HMPS) Shared Service Centre (SSC) and asked HMPS to expand its services to all HO and UK Border Agency (UKBA) staff, external advisors were used to manage the transformation of the services and organisation of the HMPS SSC.

Quickly after the decision was made by the Home Office, work was done to determine the operating model for the enlarged SSC. The model adopted was more 'co-location' than 'convergence', resulting in the need to considerably increase the complexity of the organisational delivery model in the HMPS SSC. Co-location meaning that the organisations shared the premises, but not necessarily implemented any other meaningful changes to working methods. This meant an increase in headcount of approximately 100 with the associated organisational design, staffing requirements, recruitment and training also needing to be considered.

Police authority example

Surrey Police and Sussex Police have been working together since 2011 in order to meet funding challenges and improve service delivery.

Local authority example

Tamworth Borough Council (TBC) and Lichfield District Council (LDC) joined together in 2010 to deliver a shared waste and recycling service to their communities. LDC needed to considerably cut the cost of providing a waste and recycling service, while maintaining its high standard of service for residents. As TBC was preparing to re-tender for its outsourced waste and recycling service, it was a great opportunity to see if, by joining forces, both local authorities could not only make savings, but offer an improved service. An administrative arrangement was the preferred model.

The move would save both local authorities money. LDC will save around £250,000 and TBC was expected to save around £450,000 each year. In preparation for the joint service, both local authorities launched fortnightly wheelie bin recycling collections delivering the additional benefit of a considerable reduction in carbon emissions, while saving on the cost of fuel. As a bigger customer the authorities are also able to negotiate better value from suppliers, and better placed to test out new recycling methods more quickly.

There are hundreds of examples of shared service agreements in local government, especially for this kind of service, and almost everywhere for at least some back office services such as HR, finance, procurement, legal services, internal audit and IT.

<u>Mark Scheme</u>:

5 marks: Advantages and Disadvantages of Shared Services in a Public Service Organisation (4 marks) and example (1 mark).

Model answer gives specific examples for local authorities, NHS and other public sector variations and is therefore comprehensive and students are not expected to include *all* of the detail shown with respect to shared services and key questions from CFO. For the example given, marks are discretionary depending on how well the detail is articulated by the student. Students can also provide an example specific to their geographical location for part b. Examples should be well explained.

Model answer is comprehensive and students are not expected to include all detail shown.

Question 4

Risk assessments should be undertaken at various stages in the business case development for a project and typically 20% of risks account for 80% of the risk value in terms of monetary impact if the risk should materialise.

Requirement

Q4a) Name and describe each risk category that should be assessed. *(6 marks)*

Q4b) Briefly outline how optimism bias and risk premium should be considered in the business case. *(4 marks)*

(Total: 10 Marks)

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

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Feedback:

Available Answers

- Q4a) (6 Marks)

Available Answers

- Q4b) (4 Marks)

Model Answer Q4a)

Syllabus reference: Workbook 13 / C3

Risk categories – list and descriptions

Risk assessments will likely fall into the following categories:

Risk categories	Description
Business risks	Strategic risks which remain (100%) with the public sector organisation regardless of the sourcing method for the proposed spending. They include political risks.

Service risks	Risks associated with the design, build, financing and operational (DBFO) phases of the proposed spending. They can be shared with business partners and service providers. The service risks associated with a significant proposal or scheme should be measured and quantified in monetary terms as early as possible in the business planning process.
External environmental risks	Risks that affect all organisations regardless of whether they are public or private sector. They include secondary legislation and general inflation.

Mark scheme:

6 marks – 2 marks for each risk category named and described adequately

Question 4: Maximum 10 marks. Model answer is precise for risk assessments and more detailed for optimism bias and risk premiums. Students are expected to include most of the detail for the first 6 marks and some of the detail for the 4 marks part. Use bold highlight as a guide for marks.

Model Answer Q4b)

Syllabus reference: Workbook 13 / C3

Optimism Bias and Risk Premium considerations

Optimism Bias

Within both the public and private sectors, there is tendency for project appraisers to be **overly optimistic, whereby appraisers tend to overstate benefits and understate timings and costs, both capital and operational.**

To redress this tendency, appraisers should make explicit adjustments for this bias. These will take the form of **increasing estimates of the costs and decreasing and delaying the receipt of estimated benefits.**

Sensitivity analysis should be used to test assumptions about operating costs and expected benefits.

Adjusting for optimism provides a better and earlier estimate of key project parameters and should be empirically based.

Risk Premium

It is good practice to **quantify the cost of risk through a 'risk premium' which is added to the costs of the proposal to provide the full expected value of the options.** As the appraisal proceeds, more specific risks will be identified, thus reducing the more general optimism bias.

An 'expected value' provides a single value for the expected impact of all risks. It is calculated by multiplying the likelihood of the risk occurring (probability) by the size of the outcome (impact) as quantified in financial terms and summing the results for all risks and outcomes. **It is therefore best used when both the likelihood and outcome can be estimated reasonably well.**

Mark scheme:

4 marks – 2 marks each for optimism bias and risk premium outlines.

Maximum 10 marks. Model answer is precise for risk assessments and more detailed for optimism bias and risk premiums. Students are expected to include most of the detail for the first 6 marks and some of the detail for the 4 marks part. Use bold highlight as a guide for marks.

Question 5

Requirement

Q5a) The interaction between the business case and the Government Gateway review process can vary depending on the specific context but involves some key aspects.

Briefly describe the purpose of:

i. Business Assurance *(2 marks)*

ii. Programme and Project Management Assurance *(2 marks)*

Q5b) Outline what the Gateway Project Review Process is and what it involves, and then list the 6 key stages of a project or programme that are subject to Gateway reviews. *(6 marks)*

(Total: 10 Marks)

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Formats

Feedback:

Available Answers
- Q5a)i) (2 Marks)

Available Answers
- Q5b) (6 Marks)

Available Answers
- Q5a)ii) (2 Marks)

Model Answer Q5a)i)

Syllabus reference: Workbook 11 / C2

5a) Name and briefly describe two key aspects critical to ensuring that objectives can be met and transparent information is available

To ensure that objectives can be met within diminishing resources in public service organisations, and that transparent information is available to stakeholders, the following two aspects are critical:

- **Business Assurance - doing the right things at the right time,** and is the process of scoping, planning and procuring investment programmes and projects and providing assurance to the Accounting Officer responsible for the

- **Programme and Project Management Assurance (PPM) - doing things right** and is the process of delivering the programmes and projects and providing assurance to the Senior Responsible Owner (SRO) leading the delivery of the Best practice PPM Assurance tools include **Gateway Reviews** and health checks for programme and project assurance – to provide an assessment of the health of a policy, programme or project at key stages of development from inception to reviewing benefits that are being realised. Other PPM Assurance tools are Managing Successful Programmes (MSP) and PRINCE2.

<u>Mark scheme:</u>

4 marks: 2 marks for Business Assurance and Programme & Project Management Assurance (PPM) correctly named and explained.

Model answer is comprehensive and students are not expected to include all of the detail shown above. Bold highlighted content is critical for inclusion.

5b) Outline of Gateway Project Review Process, what it involves and the 6 key stages

The then Office of Government Commerce (OGC) developed the Gateway Project Review Process and introduced it across Central Civil Government as part of the Modernisation Agenda, to support the delivery of improved public services. The process has been operating since January 2001.

The Gateway review process is a **series of short, focused, independent peer reviews at key stages of a project or programme.** The **reviews highlight risks and issues, which if not addressed would threaten successful delivery.**

The **reviews can be applied to all programmes and projects** such as:

- Change programmes, including service and health economy reconfigurations, both at consultation and implementation stages, mergers and major internal change programmes.
- Procurement projects, including those that procure services, property, construction, IT-enabled business change and procurements using framework contracts.
- Policy development and implementation programmes.

The **reviews are carried out by a team of experienced people, independent of the project or programme team and chosen for their relevant skills;** they are selected from a pool of over 300 accredited reviewers from within health and independent specialists. All reviewers have to go through an accreditation process and training.

Reviews can take between 2 and 4 days and are usually undertaken by a team of 3 or 4 people, but each team is chosen to meet the requirements of the project or programme. The **review team produces a report giving an overall assessment, summarised findings and recommendations.** This is left with the senior responsible owner (SRO) of the programme or project at the end of the review before the team leaves.

The Gateway Project Review Process looks at a project or programme at six key stages in the life of the project and considers the readiness to progress to the next phase.

The six stages, or Gates, which were referred to earlier in this workbook are:

Gate 0 - Strategic Assessment

Gate 1 - Business Justification

Gate 2 - Delivery Strategy

Gate 3 - Investment Decision

Gate 4 - Readiness For Service

Gate 5 - Operations Review and Benefits Evaluation

From 2010, in the UK, the OCG responsibilities were taken over by the Efficiency and Reform Group as part of the Cabinet Office. The Major Projects Assurance Toolkit continues to refer to the Government Gateway Reviews as assurance tools for major projects.

Mark scheme:

6 marks: Outline of what Gateway Project Review Process and what it involves (3 marks) and list of 6 key stages (3 marks)

Model answer is comprehensive and students are not expected to include all of the detail shown above. Bold highlighted content is critical for inclusion.

Question 6

Performance management is important in communicating to an organisation's stakeholders whether it is meeting its objectives or not.

Requirement

Q6a) Describe and explain performance measures. Refer to **SMART** and other key points. *(5 marks)*

Q6b) Describe and explain how performance indicators **differ** from performance measures. Give examples where appropriate. *(5 marks)*

(Total: 10 Marks)

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Formats

Feedback:

Available Answers

- Q6a) (5 Marks)

Available Answers

- Q6b) (5 Marks)

Model Answer Q6

Syllabus reference: Workbook W13 / C5

Description and explanation of Performance Measures

Measures of performance are specific. A measure would be the exact cost of a service or project, or the number of workshop sessions delivered. Such measures need to be 'SMART', that is:

- **S**pecific – a clear definition, including where the data comes from
- **M**easurable – data must be available to measure progress
- **A**chievable – in terms of available resource, costs and practicality
- **R**elevant – measures should relate to what is being measured
- **T**ime bound – there should be a deadline

They also need to be:

- **Understandable** – they must make sense to their audiences
- **Defendable** – the quality of data and its sources must be assured
- **Traceable** – you need to show where the data comes from
- **Reported**

How Performance Indicators are Different from Performance Measures

Performance indicators are different from performance measures in two aspects:

- **Performance indicators do not have to be exact.**
- **They look at performance in context (and often, in relation to others).**

Performance indicators tend to be favoured by public services organisations, as they can:

- be **easily understood by their stakeholders** (they can provide context)
- be **more easily reported** (there is less need for exact values and are often an average over a set time period)
- **have a better 'shelf-life'** - meaning they can relate to a longer timescale or trend.

Examples

Take an example of expenditure on a smoking cessation programme run by a local health body. A **performance measure example** would be the actual amount spent in a year (say, £350 000).

A **performance indicator example** would be spend per 1 000 population in the area served by that health body (for a population of 700 000 people the indicator would be £500 per 1 000 population). This is an indicator of the programme's performance and can be compared to performance of other health bodies. This is an average figure rather than an exact spend figure but adds some context to the performance information.

<u>Mark scheme:</u>

5 marks for Performance Measures description and explanation (including 1 mark for example)

5 marks each for how Performance Indicators are different from Performance Measures (including 1 mark for example)

1 mark per valid description and explanation and, where appropriate, a mark for an example. Up to 2 marks for each example (Performance Measure and Performance Indicator)

Maximum 10 marks

Model answer is concise and students are expected to include most of the detail in mark scheme. Bold highlighted content is critical for inclusion.