The Chartered Institute of Public Finance & Accountancy

STRATEGIC PUBLIC FINANCE

March 2022

Duration: 3 hours

Marking Scheme
There are **6** questions on this question paper. Questions 1 and 2 are 30 marks each. Questions 3 – 6 are 10 marks each. Answer **all 6** questions

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication. Marks will also be awarded for appropriate examples drawn from real life that demonstrate understanding and application of theory.

1

Fraud and corruption at a State level

The EU spends about one-third of its budget (€390bn from 2014 to 2020) on policies aimed at reducing development disparities between its member countries and regions, and the Commission estimates the level of irregularity each year.

This estimate is the subject of the European Court of Auditors' latest report, which found the figure is likely to underestimate the level of fraud and error because of "shortcomings" in the Commission's methodology.

Risk of fraud in cohesion spending is high, the ECA said, because the rules governing it are complex and because much of the spending is in the form of reimbursements of declared costs. The report said the Commission over-relies on desk review audits that are "not designed to detect additional ineligible expenditure", rather than compliance audits.

Bulgarian prime minister Kiril Petkov told the Bulgarian National Television news programme that Sotir Tsatsarov, who heads the Commission for Combating Corruption and Confiscation of Illegally Acquired Property, no longer has access to classified information.

The new coalition government, agreed in December, has said it wants to tackle endemic corruption in the eastern European country.

Bulgaria was ranked as the joint-most corrupt country in Europe in the most recent Corruption Perceptions Index report from global pressure group Transparency International, released in January 2021, alongside Romania and Hungary.

"The coalition recognises that the systemic erosion of the law in the country is due to the building of oligarchic dependencies on institutions and the lack of adequate investigation by the Bulgarian prosecutor's office," the agency quoted We Continue the Change party chairman Andrei Gyurov as saying in parliament.

Petkov in a separate television interview said "everyone understands that there used to be people with untouchability status; that's over".

Source: Public Finance Focus November 2021 and January 2022

Requirement for question 1

(a) For a public sector organisation of your choice, briefly identify the role of external auditors in countering fraud.

Present the expected questions the external auditors might ask of management, and the likely evidence that would be collected, when auditors are testing the effectiveness of the PSO's counter fraud arrangements.

(12 marks)

(b) In the context of safeguarding public money, explain the role and responsibilities of the CFO in the public sector for counter fraud arrangements. Discuss how procurement fraud might be prevented or detected.

(8 marks)

(c) Taking action to tackle corruption that is heavily embedded can be challenging. Utilizing a marketing strategy for the implementation of such changes could help to ensure they are effective.

Discuss what should be considered when drawing up a marketing strategy to ensure messaging is aligned to the policy of tackling corruption, and what the messages should aim to achieve.

(10 marks)

(30 marks)

2

Majority of PFI projects are not prepared for expiry

Up to 80% of private finance initiatives contracts set to expire by 2028 are not covered by a solid plan for the return to the public sector, according to government's infrastructure body - Infrastructure and Projects Authority.

It added that more than half of the projects reviewed (55%) did not have adequate governance and resourcing plans for expiry.

The report said: "Expiry is a complex process and this is not always recognised by contracting authorities. Expiry was not consistently captured and prioritised in business and resourcing plans."

In October 2018, the government announced it would no longer use PFIs, with around 700 contracts still active in the public sector - around 80% of which are managed by local authorities.

The IPA said that contracting authorities should start the planning and preparation at least seven years before expiry, and they need to put in place clear governance and leadership to manage expiries. Additionally, the IPA found that in almost two-thirds of contracts (65%), authorities did not have a sufficient team to manage the expiry, including a lack of commercial skills and a focus on future services.

It recommended that authorities acquire more data to support asset condition, and engage earlier with the private sector to clarify asset condition requirements at expiry.

In March, Parliament's Public Accounts Committee criticised the government's support to local authorities to ensure that PFI infrastructure returns to the public sector in a useable condition. The committee warned that a lack of preparation for the transfer of assets, combined with insufficient data and skills, could lead to major disruptions in public services.

Source: Public Finance Dec 2021

Requirement for question 2

(a) The Private Finance Initiative in the UK is part of a broader and internationally used approach called Public Private Partnerships (PPPs).

- Provide a definition of PPPs and explain the role of PPPs in financing public service projects.
- The UK Government published "Public Private Partnerships – the Government's Approach" which defined PPPs into three categories. Explain each of the categories defined in that publication.

(10 marks)

(b) Explain how a project budget should be established, and the links to medium and long term financial planning.

(10 marks)

(c) Discuss what should be considered when forward planning for the financial impact of cessation of PFI arrangements and resulting asset transfer as referred to in the article.

(5 marks)

(d) The Management Case of the Treasury's Five Case Model for business cases should include a section on post- implementation evaluation (PIE) and measuring benefits realisation (BR) of any project.

Briefly describe the purpose of the Management case, and discuss the role of the CFO in the Management Case, including particular reference to PIE and BR.

(5 marks)

(30 marks)

3

A country's national budget should reflect the policies of the government.

Requirement for question 3

Making reference to examples from you learning or experience, discuss how the relationship between budget setting and the role that strategic planning plays in policy making, must be balanced to enable realistic and deliverable policies at a national government level.

(10 marks)

4

Variance analysis is used commonly in financial terms for monitoring divergence from budgets. It can also be usefully applied to non-financial performance measurement. Variance analysis refers to how much actual performance differs from what was planned and analysing why there is a difference (variance).

Requirement for question 4

Explain, for **non-financial** measures:

- how we can use variance analysis to ascertain the reasons why variances identified have occurred
- Why tolerances are useful in performance reporting
- The limitations of variance analysis as a performance management tool

(10 marks)

5

There are a range of different methods employed for calculating appropriate charges for public services. Not all methods are appropriate for all chargeable activities.

Requirement for question 5

Identify at least five different charging methods. For each method identified, provide an example of a chargeable public service, and evaluate why the suggested method of pricing might be most appropriate for that particular service.

(10 marks)

6

Requirement for question 6

With reference to examples, present a definition of a ‘Merger’ in a public sector setting and discuss the purpose, advantages and disadvantages of merging two or more public sector organisations.

(10 marks)

Question 1

Workbook 7 Syllabus ref B1

a)

Auditors in the public sector and private sector both perform a regulatory role in accordance with relevant laws. Auditors are not responsible for preventing fraud, but should, construct testing that is alert to identifying the potential for fraud and corruption, and pursue questions and evidence gathering that identifies actual fraudulent or corrupt behaviours.

External auditor questions for testing effectiveness of counter fraud measures	**Potential evidence to demonstrate effectiveness**
What are management's processes in relation to: • Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments) • Identifying and responding to risks of fraud in the organisation, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist • Communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)	Management review process of past incidents to inform risk scoring Counter fraud reporting arrangements and records Evidence of action taken by management and referrals to police or other investigators Evidence of reported incidents Evidence of changes to procedures to tighten controls and reduce risk of repeat Examples of presentations and documented updates / bulletins to staff Evidence of staff attending training / awareness sessions Record keeping of breaches of code of conduct, including remedial activity or sanctions against employees in breach. Number of records of reported fraud concern, with analysis of year on year trends. Results of staff survey about knowledge of counter fraud policy

External auditor questions for testing effectiveness of counter fraud measures	**Potential evidence to demonstrate effectiveness**
• Encouraging employees to report their concerns about fraud • Communicating to the Authority and the Audit Committee the processes for identifying and responding to fraud or error	and staff confidence in reporting a suspected incident Evidence of audit committee members attendance at training on processes
What are Management's views about whether there are areas within the organisation that are at risk of fraud?	Management meeting minutes evidencing these risks being discussed Risk register
Does Management have knowledge of any actual or suspected instances of fraud?	Evidence via direct questioning to management. This may be face to face or via a questionnaire
Is management satisfied that internal controls to prevent and detect fraud, including segregation of duties, exist and work effectively?	Annual declaration on risk management arrangements and internal control framework (or similar) might be in place. Job descriptions for specific roles Observation of internal controls might be undertaken independently, internal audit reports may provide assurance.
Are there any deficiencies in internal control?	Internal audit reports and recommendations should help identify weaknesses.

External auditor questions for testing effectiveness of counter fraud measures	**Potential evidence to demonstrate effectiveness**
Are you aware of any instances where controls have been overridden?	Evidence via direct questioning to management. This may be face to face or via a questionnaire. Internal audit reports may identify weaknesses.
Is there any organisational or management pressure to meet financial or operating targets?	Evidence via direct questioning to management. This may be face to face or via a questionnaire. Performance criteria and performance related pay policies
Are there any particular areas of the accounts that are more susceptible to false entries or omissions or other forms of manipulation? Are management aware of any manipulation having occurred?	Evidence via direct questioning to management. This may be face to face or via a questionnaire.
How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during the period of account?	Evidence of training, and processes followed by legal team to ensure compliance – committee report template may have a 'legal implications' section. Evidence of the scrutiny process of decision reports prior to publishing, for example, some organisations require sign-off from the CFO and the Head of Legal (or equivalent) of all committee reports before they are sent to Members for a decision. Evidence of non-compliance by recording the incident and the relevant legislation.

External auditor questions for testing effectiveness of counter fraud measures	Potential evidence to demonstrate effectiveness
Are there any actual or potential litigation or claims that would affect the financial statements?	Evidence via direct questioning to management.
How does management satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	Review of minutes of meetings after the financial year-end to see if any material incidents have occurred that might affect the financial statements, or the financial stability of the organisation.

1 mark for identifying role of external auditors in countering fraud.

1 mark per question and one mark per evidence presented. ½ mark only per point for sub-categories and evidence relating to processes – as per first cell of table, and limit to 5 marks if ONLY management processes are referred to. Total 12 marks

Syllabus Ref B1 Workbook 7

b) Roles and responsibilities for counter fraud

All officers and **decision makers** in an organisation have some responsibility for preventing and detecting fraud. The culture of the organisation should encourage reporting of suspicious behaviour and provide confidence that reporting will be investigated in a confidential and professional manner.

CFO Role

Whilst fraud and the responsibility for developing counter fraud arrangements may not be explicit in the job description of the chief finance officer, the impact of fraud on the financial stability of an organisation can be significant and needs to be managed.

The CFO in a public service organisation has specific responsibilities for **safeguarding public money**. Under that umbrella, the CIPFA statement on the role of the CFO in public service organisations states that the CFO must:

- lead the implementation and maintenance of a **framework of financial controls** and procedures for managing financial risks
- determine accounting **processes** and oversee financial management procedures that **enable the** organisation to budget and manage within its overall resources
- ensure **robust systems** of risk management and internal control
- ensure financial control is **exercised consistently**
- implement appropriate measures to **protect its assets** from fraud and loss

In practical terms the CFO must ensure the internal control framework is established to (as far as possible) prevent internal fraud through separation of duties and authorisation or access controls that will prevent or detect irregularities.

The control framework should extend to appropriate arrangements to effectively detect potential fraud, especially from external sources. One of the largest areas of non-tax or non-benefit fraud in the public sector is procurement fraud.

Procurement fraud is most successful where organisations **fail to perform due diligence** in the initial procurement process or fail to **spot collusion** and **anti-competitive behaviour** between suppliers.

Once goods or services have been procured, fraud occurs most regularly where organisations fail to manage contracts properly or where controls around **authorisation of orders** and payment of invoices are weak.

Unscrupulous contractors submit **inflated or fictitious invoices** which are paid without sufficient scrutiny by contract managers or finance teams.

Bogus suppliers submit fictitious invoices and rely on weak systems of controls to obtain payment. This is often done by impersonating a real supplier to the organisation and then submitting invoices with ‘new’ payment details.

I mark per well-made point up to 8 marks

c)

Syllabus ref C1 WB10

What needs to be considered	What needs to be achieved
What are the leadership goals? What are the needs and interests of the stakeholders in this instance? How well do leaders believe they are doing in the eyes of stakeholders?	Ensure that all messages align with previous communications.
What are the perceptions concerns or demands of stakeholders?	Consider the status of existing stakeholders.
What happened: facts, figures, locations, and times?	Objective and non ambiguous messages, and above all clear and truthful.
What is being done to correct or alleviate the situation?	Explain in clear terms and in plain language.
How did the organisation attempt to mitigate or prevent risk or injury, to solve the problem or to prevent the problem in the future?	Demonstrate organisational accountability such as processes, procedures, safeguards, best practice or commitments.
What are the relevant issues in the bigger environment? Is something similar happening elsewhere? Was this something you caused to happen or as a result of external forces? Is there a track record of problems in this area?	Outline the context of the communication, and as necessary remind people of what relevant activity has gone on before.
What is the level of risk or severity? Could it trigger other issues? Is it of concern to a number of stakeholders?	Properly analyse the potential for risk, manage it and plan contingencies.
What are the opportunities for or impacts on people, the environment or overall reputation?	Identify the potential impacts, and work on damage limitation if necessary.

What needs to be considered	What needs to be achieved
Who needs to be communicated with and in what order?	Prioritise, preserve and create or maintain stakeholder relationships.
When should you communicate? What is the opposition doing? Should there be an official embargo?	Earn trust through a timely response.
What do stakeholders need to know? How much can you share and with whom? How will they respond?	Anticipate and prepare.
Who thinks differently? How will the detractors respond? Is there common ground to be found?	Acknowledge differing views.
How should the message be aligned to the strategy?	Remind stakeholders what was promised and why they should care.
Who are the subject matter experts? Who has credibility with stakeholders? Should you include the views of a third party to add credibility?	Use experts in the presentation or to contribute to it and ensure that they are credible.

Would not expect to cover all these points. 1 mark per well-made point linked to ensuring the marketing of the changes are aligned to the policy, should cover the types of questions to consider and what needs to be achieved, otherwise cap at 6. (max 10 marks)

Question 2

Syllabus Ref A5 Workbook 5

a)

Typically a PPP is a long-term contract between a private party and a government entity for providing a public asset or service, in which the private party bears significant risk and management responsibility.

The role of a PPP is to combine the respective strengths of the public and private sector in the delivery of public infrastructure and services. Simply put the public sector is seeking to invest in public services for a social return whereas the private sector is seeking a commercial return on its investment. Recognising that parties in both the public and private sector have a joint interest in investment and return through the managed transfer of risk, the combined approach has the potential to enable a much higher level of public service and level of value for money.

In 2000, the UK Government published "Public Private Partnerships – the Government's Approach" which defined PPPs into three categories:

1. The introduction of private sector ownership into state-owned businesses, using the full range of possible structures (whether by flotation or the introduction of a strategic partner), with sales of either a majority or a minority stake. This will include a number of PPP models characterised by joint working and risk sharing between the public and private sector that are non-PFI. For example Joint Ventures.
2. PFI and other arrangements where the public sector contracts to purchase quality services on a long-term basis. This includes concessions and franchises, where a private sector partner takes on the responsibility for providing a public service, including maintaining, enhancing or constructing the necessary infrastructure.
3. Selling Government services into wider markets and other partnership arrangements to exploit the commercial potential of Government assets. From 1 April 2016 this function was taken over by the newly created UK Government Investment (UKGI), a company wholly owned by the Treasury with the objectives of:

- preparing and executing all significant corporate asset sales by the UK Government;
- advising on other major corporate finance matters, including all major UK Government financial interventions into corporate structures and on major UK government corporate finance negotiations; and

- acting as shareholder for, and lead establishment of, UK Government arm's length bodies, as required and in line with HMT priorities.

There is some variation in the use of terms as in some countries what would be defined as PFI in the UK would be called PPP elsewhere (e.g. South Africa) so it is important to be clear on the actual meaning of the terms used.

(Total 10, 3 marks for definitions - first part, 7 marks for second part)

b) Syllabus Ref B4 Workbook 9

Project budgets

A project is an activity that has defined outcomes and a time frame for delivery of the outcome(s). It should have a clear start and finish, and be time limited, otherwise it is not a project.

The links between individual projects, their cost and income profiles, and the MTFS need to be clear. This is particularly the case with significant projects, maybe associated with a transformation programme, that have an impact on levels of organisation affordability for future service provision. The timing of projects must be prioritised to ensure that any interdependencies or competing elements are identified. This should ensure that the impact on the financial resilience and sustainability of the organisation are not unduly compromised.

It usually makes sense for projects to have a specific budget that is devised and monitored in a way that aids the project delivery, and at time intervals that are meaningful for the project team. This may differ from the timetable for budget reporting and monitoring for the 'business as usual' budgets.

For short projects, or high-risk projects, it is likely that reporting and monitoring of budgets will be more frequent; weekly updates might be required to ensure any problems are identified and responded to quickly.

A project budget should be established by:

- Identifying the costs of delivering the project: equipment, raw materials, office space, plus officer and consultant's hours (converted to cost).

- Estimating costs of any additional activities that might take place that ensure the project succeeds such as meetings, system testing, quality assurance work, stakeholder consultation.
- Identifying and estimating the costs of any additional activities that may arise that are not included in the project specification. This will require using experience of similar projects, where add-ons are likely.
- Identifying risks around each element of the budget. This means looking at the identified activities, and assigning a risk factor or percentage to apply to the budget relating to that activity. Some projects, or activities within them, are riskier than others. It is important to identify where potential risks might significantly affect the budget. For example, building or renovation might include risks around additional ground works or removal of hazardous materials that are not known about at the outset.
- Recording any conditions that apply to spending money from the budget. This may be important where grant funding has been received for a specific project, and must be spent within a certain time frame or on particular items.
- Recording a budget based on all the above in a format that is accessible to all those involved in the project. This might be as spreadsheet, or by using a shared database.

The key people involved in delivering or overseeing the project should always be involved in developing a project budget. A lone individual should not devise it as it is unlikely they will be experienced enough to cover all aspects of costs that may arise.

A project budget should remain as an estimate until it is agreed or approved by the relevant management body or committee.

Project budgets are particularly important to finance managers of public service organisations because if they are not properly managed, they can have a significant impact on the delivery of services and potentially the financial stability of the organisation. This is true of both the public and private sector, however, the ramifications may be more wide ranging in the public sector, due the limited flexibility in raising additional funds to cover project over-spends. Private sector companies also have the option to stop doing something that is proving too expensive or not sufficiently profitable. This option is often not available to public service providers, especially if it forms part of the statutory services.

1 mark per explained point up to 10, Total 10 marks

c)

A range of answers could attract marks here. Looking for some strategic thinking on asset management, alternative sources of funding to bring assets up to standard (if needed), answers may include new collaborative arrangements to get commercial skills not available internally, insourcing or outsourcing the management of the asset, borrowing, transferring assets to community and offering grants.

Candidates are being asked to link back to the article. 1 mark per well developed relevant point. Total 5 marks

d) Syllabus ref C2 Workbook 11

Management case

The Management case demonstrates that the preferred option is **capable of being delivered successfully**, in accordance with recognised best practice.

It also requires the organisation to specify the arrangements for **monitoring during implementation** and for **post implementation evaluatio**n, as well as for Gateway reviews (if applicable), and the **contingency plans for risk management** of the scheme.

CFO Role

The CFO should have a significant involvement in this part of the business case as a check and challenge, and especially with regard to: benefits realisation; appropriate arrangements for contingencies should problems arise. The CFO should ensure that the end of project life implications have been properly costed and that the arrangements for managing and maintaining any assets includes expected standards and conditions of assets being returned.

Management's view of the benefits that will be realised in terms of real cashable savings can often be more optimistic than can realistically be expected, and different to the view of the CFO who will often be more cautious and prudent with estimates of potential benefits. Contingencies should be sufficient to shield the rest of the organisation from significant financial impact if the project over-runs or fails. The CFO may be on the operational project management team, or at least be represented by a senior finance professional from their team.

Up to 2 marks for purpose of management case, up to 3 marks for CFO role. Must cover both aspects to gain full marks.

(5 marks total)

Question 3

Syllabus ref A1 Workbook 1

The budget preparation process is a powerful tool for achieving policy coherence. The budget is both an instrument of economic and financial management and an implicit policy statement, as it sets relative levels of spending for different programmes and activities. Policy decision- making is complex and involves different factors inside and outside the government. It is a mistake to attempt to combine all the procedures of policy formulation and the budget process itself.

However, a coherent relationship needs to be established between the policy-making agenda, which should take into account economic and fiscal realities and the budget, which should accurately reflect the government's policy priorities.

The budget process should both take into account policies already formulated and be the main instrument to make them explicit and 'operational'. However, policy proposals should be developed and reviewed outside of the pressured environment of the budget process itself. Making policy through the annual budget would give undue prominence to short-term issues, rather than longer-term, strategic issues, since the policy debate would be invariably dominated by immediate financial considerations.

An overall strategic framework should underpin the formulation of sectoral policies, provided that it is a genuine and concrete strategy, based on a thorough analysis. Within this framework, line ministries and agencies should prepare their own strategic plans that include:

- their mandate, consistent with statutory requirements
- a set of desired policy goals (outcomes and objectives)
- the broad approaches to achieving these policy goals
- a description of the concrete policy measures that will be used to achieve these goals
- a broad cost estimate.

Expenditure programmes and performance plans can be derived for these strategic plans, once the allocation of resources between different sectors has been determined.

This strategic planning is not a static or occasional event, but a dynamic and inclusive process. If done well it is continuous and provides the basis for the day-to-day operations of the organisations that manage the different expenditure programmes.

Unfortunately, in many cases, this exercise degenerates into bureaucracy, where a long-term perspective, unrealistic assumptions and logical frameworks are used a substitute for clear thinking about realistic policy options and instruments. A good practical rule for preparing and evaluating a strategic framework is to keep it simple.

To ensure that policy- making is not just creating a 'wish-list', the link between policy and the budget process is essential and at least two clear rules should be established:

- The resource implications of a policy change should be identified, before a policy decision is taken. Any entity proposing new policies should quantify their effects on public expenditure including both the impact on its own spending and on the spending of other government departments.
- The ministry of finance (such as the Treasury in the UK) should be consulted in good time about all proposals involving expenditure before they are reviewed by ministers (or a ministerial committee) and certainly before any public announcements are made.

1 mark per well-made point up to 10 marks

(maximum 10 marks)

Question 4

Syllabus ref C5 Workbook 13

If actual performance falls short of the targets that have been set, then it is important to fully understand the reasons for missing the target.

Learning from analysis

Looking at the reasons why a service or programme failed to perform can be important in terms of learning lessons for the future, from several perspectives:

- Whether estimates for service demand were accurate enough
- Whether the planning for a particular strategy was robust and effective enough
- Whether cost estimates (for equipment, staff time, etc.) were robust enough
- Other reasons, specific problems that have been encountered (legal wrangles, technical difficulties)

Tolerances

When looking at variances, it is important to think about tolerance. Some performance indicators and measures will be black or white (e.g. whether a particular service has been introduced or not) whereas others will be less clear to define success or failure.

For these measures, failing to meet a target by, say, 3% could still be considered a success (or at least a significant improvement), even though the target was not achieved.

Similarly, an organisation needs to think about the tolerances to set for financial variances, and whether these should be absolute or a particular percentage (e.g. £1 000 variance or +/- 5%).

Factors to influence these decisions could include:

financial amounts being considered (size of budget)

importance of that budget to corporate priorities

any contractual or legislative parameters (e.g. tolerances relating to whether grant funding will be approved and paid out).

Limitations

Whilst variance analysis can be of great use to managers and stakeholders, its value decreases over time. If it is a long and laborious process to analyse variances for an organisation, the delay in reporting the reasons for variances in performance may mean that there is not time to take corrective action and improve performance from this position.

However, with systems for analysis in place and working effectively, and with monitoring taking place regularly throughout the year (or the lifecycle of a project), variance analysis can aid decision making and management action to ensure that things get back on track, so services can be delivered effectively.

1 mark per point, up to 3 to 4 marks per bullet point to a maximum of 10. Must answer across all three bullets to gain full marks.10 marks total

Question 5

Syllabus Ref A6 Workbook 6

The following list of charging methods that may be used in public services is not exclusive and there will often be some overlaps between the methods being described.

Variable costing

Only charging clients with the variable/incremental costs of the services rendered. This is best used for services where costs need to be recovered, and where variable costs are a significant part of the overall cost.

Partial overhead charging

All variable/incremental costs are recovered, but only a proportion of fixed costs. The same proportion of overheads could be applied to chargeable services or could differ in relation to the services being provided.

Full cost charging

All costs incurred in the provision of a service should be charged in this instance. Thus no subsidy will be required. This would be most suitable for non-statutory services that the organization does not necessarily wish to influence the level of use (either encourage or discourage).

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 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.

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.

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.

Charges dependent on service need

In developing charging policies and choosing methods of pricing, organisations will need to consider the impact of their charges on the outcomes they are trying to achieve for their communities. This is particularly the case with social care charges which have a direct impact on vulnerable members of society. Another example would be the use of free swimming to try and encourage children to be more active and reduce obesity.

Minimum standards

Minimum standards could be set and provided free for the public. If individuals wished a higher level of service they could pay some form of charge for this. Charges could therefore be used to finance discretionary increases in service provision. Many local authorities apply this principle to domestic refuse collection: normal household refuse is collected free of charge, but bulky items require a special collection for which there is a charge.

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 for corresponding gold/silver/bronze prices or charges.

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.

Penalty pricing

Higher prices may be set in order to reduce the number of people using a facility. The London congestion charge illustrates this idea.

Subsidised pricing

This could be used where the public sector body wishes to promote a service and encourage users of the service. An example of this may be the charges set for recreational facilities in a bid to promote good health.

½ mark per pricing method identified. ½ mark per appropriate service identified for that kind of pricing method, 1 mark per reason why the method is appropriate for that service to gain full marks. (maximum 10 marks)

Question 6

Syllabus reference C4 Workbook 12

Mergers

Mergers are characterised as the coming together of two or more organisations to form a **new one, with the old organisations ceasing to exist.**

In the past there have been many instances of public sector organisations being merged together for a variety of reasons. Some examples of such mergers include:-

Health - mergers of several primary care trusts and of several NHS Trusts

Education – mergers of several further education colleges and several universities and also mixed mergers of FE and HE institutions

Local government – merger of several local authorities as a result of local government restructuring

Central Government – mergers of several government departments and of government agencies (e.g. Job Centre and the Benefits Agency to create Job Centre+)

Mergers are usually undertaken to reduce costs and improve benefits. It is anticipated that mergers will reduce costs by:

- elimination of duplication
- rationalisation of activities

It should also produce benefits in terms of additional revenues and better and more responsive services.

Public sector mergers are again becoming increasingly topical as a consequence of austerity. Mergers are being considered in the NHS as a means of dealing with overspending NHS Trusts and NHS Trusts with legacy PFI problems. However, mergers should not be considered a panacea for solving these types of problems. Simon Stevens – Chief Executive of NHS England stated: "Merging two leaky buckets will not give you a watertight solution".

In local government, although full mergers of local authorities are difficult to achieve, not least because of changes to local political areas (council wards) are normally required, there are several mergers being planned of specific services with one local authority taking over operational management of services such as social care, or schools support on behalf of several neighbouring authorities.

Advantages	Disadvantages
Greater economies of scale and purchasing power drives down costs	Can import the failures on one organisation into another by merging and failing to address problems
Improved customer experience as less organisations to deal with to obtain a range of related services	Cultural differences may be difficult to overcome
	Merger activities can take over and impact front line service provision

Devolution of powers legislation has led to new types of mergers in public sector organisations. The Greater Manchester Combined Authority is a topical example whereby significant funding has been devolved from central government to a newly established legal entity made up of ten metropolitan boroughs is working with the health services to deliver integrated health care.

Manchester example

More than 2.5 million people live within the ten local authorities of the Greater Manchester area and devolution gives their councils more freedom. In terms of noticeable outcomes, devolution will bring more localised control and an elected Mayor who represents the entire city region. The areas covered by Manchester's devolution agreement include Health, Social Care and Welfare, Employment, Housing, Land, Planning, Children's Services, Community Care, Fire, Policing and Transport.

The ten authorities that make up the Greater Manchester Combined Authority (GMCA) include Bolton, Bury, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford, Wigan and Manchester City councils.

The devolution of Great Manchester's £6bn Health and Social Care budget is not only one of the biggest steps but one of the first, as it is already underway. The NHS and GMCA have published a Memorandum of Understanding about their plans, but the further integration of services, information and IT systems will require strong leadership and support from regional business. New local autonomy will undoubtedly influence investments across all of the affected sectors, but some of the biggest changes will be those that affect health and social care.

For devolution to work effectively, accountability is crucial and this will delivered by strengthened governance in the form of a directly-elected Mayor.

Up to 2 marks for purpose, 1 mark per advantage/disadvantage up to total of 5, 1 mark per relevant example *(max 10 marks)*