

Strategic Public Finance Exam (June 2023)

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Exam Exhibit - Question 1



Please click the Exam Exhibit above which provides further information to assist with answering the below questions.

Requirement

1a) Explain the moral duty and ethical issues around giving international aid. Using two relevant examples, discuss the positive and negative consequences of giving international aid.

(10 marks)

1b)

- Explain the difficulties experienced when measuring the effectiveness of international aid. (3 marks)
- Define how corruption risk can be minimised when delivering international aid and apply this to an actual example. (7 marks)

(10 Marks)

1c) Domestic aid given to third or voluntary sectors in the UK is often in the form of grants from central or local government.

In the context of paying money to the voluntary sector to deliver services, discuss:

- differences between grants and contracts. (3 marks)
- factors to be considered when giving grants as a public body to other organisations. (7 marks)

(10 Marks)

Total 30 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.

Feedback:

Available Answers

- Q1 (a) (10 Marks)

Available Answers

- Q1 (b) (10 Marks)

Available Answers

- Q1 (c) (10 Marks)

Q1a Complexities of Issues in international aid (moral duties and ethical issues and positive/negative consequences of giving international aid)

Ethics relates to the morality of behaviour at an individual or organisational level. The CIPFA Standard of Professional Practice on Ethics (available on the CIPFA website), sets out the principles with which CIPFA members are expected to comply in relation to ethical behaviour.

The ethical issues of international aid are complex and can come from different perspectives. Firstly, there is the argument that international development aid should be provided simply because it is a **moral duty** to help those in need. There is also the issue of whether the actual **impact of the aid** – whether intended or unintended - is ethical. Other issues include the **motives for giving aid** and whether the actual process of providing the aid is ethical.

Since aid was first given, it has been argued that there is a **strong moral case for providing aid**. Individuals, organisations and governments continue to state that aid should be provided for moral reasons. Indeed most governments claim that there is a moral reason for them to provide aid with many official donors stating that they have a responsibility to provide such aid. However, there are related questions as to whether aid is given as charity because people are kind and want to help or whether there is actually a moral duty or responsibility. As Riddell (2008) explains, these are complex questions which academics continue to debate. Both Sweden and the UK are examples of countries whose governments have stated that official aid should be provided as a moral duty.

Facts which are central to the moral case for providing aid include:

- Extreme poverty and human suffering
- Enormous wealth contrasting with poverty
- Ever-widening gap between rich and poor

, the moral case for providing aid is not only based on the existence of poverty and human suffering and the ability of wealthier donors to assist. Some argue that the moral case for providing aid is tied up with the ability of the aid to be effective in reducing the poverty and alleviating the human suffering. It must be noted that some aid may have an unintended impact – the question is whether that impact remains ethical.

Ethics and morals may also consider the self-interest argument.

- **Enlightened self-interest** – such as dealing with overseas problems to reduce the likelihood of them becoming problems at home. For example dealing with refugees or famine in situ to prevent unwanted immigration, or dealing with infections at source to prevent pandemic events – objectives 1 and 2
- **Naked self-interest** – using aid as a lever with which to secure economic, diplomatic, intelligence or military favour – objectives 1 and 3

Example – Narmada Dam Project

The Narmada Dam Project is India's most controversial dam project. It was first envisaged in the 1940s by the country's first prime minister, Jawaharlal Nehru, as part of a vision of development. However, various legal and logistical arguments between various Indian states delayed the announcement of the project until 1979. The multi-billion dollar project, funded in part by the World Bank, involved the construction of some 3 200 small, medium and large dams along the 1 200 km length of the Narmada River to supply irrigation waters and

hydroelectric power. Specifically, the project aims to supply water to 30 million people and irrigate crops over areas totalling 18000 km² to feed another 20 million people, benefiting the drought prone states of Gujarat, Madhya Pradesh, Maharashtra and Rajasthan.

The Sardar Sarovar is the biggest dam on the river and its construction has been fiercely opposed. The Narmada Bachao Andolan (NBA, Save the Narmada Movement) spearheaded protests, supported by the famous Indian author Arundhati Roy. It is claimed that the project will displace more than 200 000 people and damage the ecology of the region. NBA activists claimed that the dams would submerge forest farmland, disrupt downstream fisheries and possibly inundate and salinate land along the canals, increasing the prospect of insect-borne diseases.

Following a high profile campaign against the World Bank's involvement, and in an unprecedented move, the World Bank appointed an Independent Commission to review the project. This review resulted in the World Bank, along with several other international financial institutions, withdrawing from the project.

This is a high profile example of where a development aid project aims to have significant development benefits, such as the provision of water and power. However, the project also has other consequences such as displacing local villages and negatively impacting the environment. The ethics of this particular project resulted in the international aid funding being withdrawn but questions remain as to whether the aid finance should have been provided by the World Bank in the first place.

Example Scenario – Convoy Bribe

An international aid convoy is travelling through a remote part of a developing country that is suffering from civil war and drought, to deliver supplies to some of the poorest people. The aid being carried is funded by another country's central government's Department of International Development Aid. The aid convoy is stopped by the local war lord demanding money for safe passage.

Ethical issues the aid convoy may need to consider include:

- Is it worth paying the bribe to the war lord in order to get the aid through to those in need?
- What are the consequences if the convoy gives money or aid supplies to the local war lord?
- How will the donor (and the donor's stakeholders) feel if they know their donations are being given to war lords?

Example - 'Tied' aid

Often international development aid is given in conjunction with conditionalities or the aid being **tied**. Tied aid is defined by the OECD as '...offering aid on the condition that it be used to procure goods or services from the provider of the aid.' Proponents of conditionalities believe that the imposition of rules by donors to govern how aid is distributed can dictate the aid's success or failure. The condition of tied aid that the recipient countries have to spend the aid on specific goods or services, originating from the donor country may be extended to employ staff from the donor countries rather than using suitably qualified and experienced candidates from the recipient country.

Mark scheme:

1 mark per valid point made

Up to 6 marks for ethics and moral duty explanation. 2 marks per example given, expect 2 .

Up to a maximum of 10 marks

Model answer is precise for ethical considerations and students are expected to include detail outlined however examples given can be specific to their location.

Q1 b)

Effectiveness of international aid

Measuring effectiveness of aid can be difficult and there can be unintended consequences of providing international aid.

The **focus on results comes with some risks** that will be familiar from debates around results-based management in any public services, and whether **quantitative targets can have unhelpful** unintended consequences.

In the context of aid, there is a **risk of projects being chosen because it will be easy to demonstrate impact**, as opposed to doing what is best to promote development. The **cost of monitoring and evaluating the effects of aid** can result in **difficult trade-offs** for donors.

Oversight can be expensive, and cause aid workers to be behind a computer screen filling out forms when they should be out in the field.

Corruption risk minimisation when delivering international aid

It could be argued that aid is 'useless' if the government of the recipient is corrupt. No-one denies that corruption in developing countries can sometimes lead to **aid money or resources going missing due to levels of corruption.** But the answer is not giving less, but giving smarter.

One way of reducing the danger of corruption is to **donate to programmes that do not deal in valuable goods that officials could divert**. Another is to **give to charities with strict distribution controls and robust impact assessments**, ensuring that their work is actually **making a difference rather than simply lining a few pockets**.

Example: Against Malaria Foundation (AMF) is particularly careful to avoid and discourage corruption while carrying out its distributions. AMF does this by:

- Receiving and reviewing requests for mosquito nets from local ministries of
- Carrying out pre-distribution surveys to establish the number of nets
- Working with local health leaders to educate populations on all elements of malaria prevention, including the correct use of malaria nets
- Purchasing the nets and delivers them (through its distribution partners). It also provides independent supervisors to ensure that the nets are not misappropriated, and go to the people who need
- Monitoring local malaria rates, and carries out post-distribution surveys to monitor the use and condition of the
- (Depending on the outcomes of these surveys) providing further malaria education and additional nets as
- Publishing its pre- and post-distribution reports on its [website](#).

Mark scheme:

3 marks for effectiveness of international aid

7 marks for corruption risk minimisation delivering international aid (3 marks for risk minimisation explained and 4 marks for relevant example given and explained)

1 mark per valid point raised, up to a maximum of 10 marks. Bold words above must be included in answer. 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 precise and students are expected to include all of the detail included for factual aspects of the answer whilst examples given can be specific to students location.

Q1 c)

Difference between a grant and a contract

A grant is a payment to help the recipient (e.g. charity). In return, the grant funder (a public body) gets no services delivered directly. A grant is usually provided subject to conditions that state how the grant must be used (for example to support the wider objectives of the public body in promoting the social, economic, or environmental well-being of their area).

Grant funding is usually preceded by a call for proposals. One example would be a grant to support a local community centre holding activities for children during the summer holidays. The grant offer letter will normally set out general instructions as to how this is to be achieved, for example, that children need to be kept entertained by taking them on excursions and have sporting activities, but not be overly specific, or require detailed reporting.

A 'contract' on the other hand is an agreement between two or more parties, which is intended to give rise to legal relations. Under a contract, payment is made in return for the delivery of goods or services. The agreement is defined by terms and conditions set out in the contract, which is different from the grant, as it involves a mutual bargain involving reciprocal obligations.

There are clear legal and procurement reasons why it is necessary to distinguish between a contract and a grant. Much will depend on the individual facts and circumstances surrounding the relationship. The lack of clear definitions means that the terms are sometimes used interchangeably, when they should not be.

The Public body must however decide which funding channel is the most suitable for their programme, service or intended outcome and is likely to provide the better value for money. There may also be scope and good reasons to use both in some situations especially in respect of Payment by Results contracts.

Whether a service is delivered under contract or grant will depend on the nature of the services to be provided and the relationship the public body wishes to have with the service provider, and the level of control. For example, grant funding will not be appropriate if a public body requires a specific service to be delivered and wishes to specify, in detail, how the service should be delivered. Grant funding may, however, be appropriate if a public body wishes to provide financial support for a particular activity or project.

Factors to consider

- **Legal Power** – The public body must make sure that it has the legal powers to make a grant. The power to make grants may be in specific terms, such as 'a council may make grants for the improvement of its local environment'.
- **Value for money** – This allows for the inclusion, as appropriate, of wider environmental, social and economic objectives within the procurement process. It will not be possible to include detailed terms and conditions in a grant funding relationship to deliver social services as will be the case in a contract. In addition, whilst some monitoring arrangements can be put into place under a grant scheme, it will not be very extensive as will be the case in a contract. This may be a material factor as public bodies need to evidence clear accountability and transparency.

- **Legal risks** – A key question for the public body is whether the user/ authority needs/ requirements can be delivered and secured by a grant or a contract. Some service areas will include high legal risks as regards delivery and to mitigate any risks the public body will need to secure appropriate terms and conditions to protect it from potential eventualities (reputational risks, litigation, not complying with statutory duty etc). In the past there have been EU procurement litigation risks if an arrangement is treated as a grant when it should have been procured. Post Brexit, this risk may be different in the UK.
- **Complexity of Service** – The public authority is under a duty to ensure that the chosen supplier is providing best value for money, are technically and commercially capable of offering an acceptable quality of service, financially sound and likely to remain so over the duration of the term and whether it will be able to have a good working relationship. The more detailed and complex issues that arise, the greater the move towards a contractual relationship rather than a grant scheme.
- **State Aid** – Any award of grant funding should comply with the European Commission’s rules on the provision of State aid to economic undertakings. As outlined in Article 107(1) of the Treaty on the Functioning of the European Union, grant funding may constitute State aid if it strengthens the position of the service provider relative to other competitors and therefore has the potential to distort competition. This means that grant funding may not be the appropriate route for establishing and maintaining most social care services.
- **Breach** – The basic consequence of breaking a grant agreement is that the grant money becomes repayable. In practice, it may be difficult to recover monies paid out as grants and any recovery process will be timely and expensive. Breach of a contract provision means the service provider will be required to compensate for the loss caused under an action for damages. Any potential recovery may be higher than the mere repayment of invoices received.
- **VAT Liability** – There are different tax consequences for grants and contracts. A grant may be eligible for Gift Aid and VAT is not payable on the grant. Payments under a contract do not attract Gift Aid and are subject to VAT. If an agreement is documented as a grant when it is in fact a contract, it can result in an unplanned VAT liability for the charity and may result in risk to the future viability of the charity. If the contract does not state that VAT is payable in addition to the price then the service provider (usually the charity) will be liable to pay the VAT to HMRC and so will lose 20% of the income. Prices should be stated “exclusive of VAT” in all agreements. If VAT is payable then the charity will receive this in addition to the price.
- **State of the market** – The market for the service required may be highly competitive, with many potential service providers with high levels of capacity. Alternatively, there may be no real market, with perhaps a single organisation with limited capacity (or even no potential provider). Generally, the more competitive the market, the more likely it is that public bodies will choose a contractual relationship – as opposed to a grant – as the basis for receiving a service. An important factor is competition. In some cases, the ‘market’ may consist solely or largely of community or volunteer groups, for example bereavement support. In these cases, a competitive grant process may be appropriate rather than a procurement process.

One reason public bodies give grants to public service organisations is to build their capacity to deliver public services. Often, these services will be for people in great need and who are hard to reach. Sometimes, a particular public service organisation may be the only organisation that can reach the group. They may, however, lack capacity in areas such as governance, HR and premises. In such cases, the public body may decide on a capacity building grant.

There has been a long standing move away from grants to contracts in the past 15 years or so, which has impacted on voluntary sector organisations ability to both bid for the work and have the capacity to monitor the contract once in place. The austerity era has further compounded this phenomenon, as local authorities have come under financial pressure and reduced the grants they award.

Mark Scheme:

1 mark for describing grant

1 mark for describing contract

1 mark for distinguishing differences

1 mark per factor to consider in decision – well explained up to a total of 7 marks.

This is a full and comprehensive example, candidates are not expected to cover all areas.

Exam Exhibit - Question 2



Please click the Exam Exhibit above which provides further information to assist with answering the below questions.

Requirement

2a) Engagement is different to consultation. The above article extract highlights the importance of consultation and 'engagement' when developing financial strategies.

- Provide definitions of consultation and engagement in this context. (2 marks)
- Explain **why** public service organisations should consult and engage with their stakeholders, and **how** it can be done effectively to help shape financial strategy. (8 marks)

(10 marks)

2b) As well as listening to what stakeholders desire, the Chief Finance Officer has to balance other factors when aligning financial strategy with public service objectives.

Discuss what the CFO must consider when developing an organisation's strategic plan over the short and longer term to achieve balance and alignment.

(10 marks)

2c) Stakeholders sometimes have to work together to deliver strategic aims, especially where infrastructure spans across different geographical areas. This can be done by agreeing to pooling of budgets from different organisations.

Provide a definition of 'pooled budget' and explain the principles of good governance that should be in place to manage the pooled budget agreement.

(10 marks)

(Total 30 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.

Feedback:

Available Answers

- Q2 (a) (10 Marks)

Available Answers

- Q2 (b) (10 Marks)

Available Answers

- Q2 (c) (10 Marks)

Model Answer Q2a)

Consultation for public service organisations

Consultation is where we **consciously invite** views from interested parties and **take their views into consideration** when forming policies and making decisions.

The public sector **consults with its stakeholders to help shape its services and influence its strategy**. Some public services do this more than others but there is ample evidence that **consultation is a regular feature**. Most consultation by public service organisations is **voluntary**.

Anyone who undertakes consultation must let people know **what they are proposing and why, give them a chance to comment and conscientiously take into account their responses with an open mind before deciding whether or not to do what was proposed**.

The basic rule is that, whether or not a public body was required to consult, if it does so then it **must comply with the following overarching obligations** (unless detailed statutory rules supplant these):

- Consultation must be at a time when proposals are at a **formative stage**
- The proposer must give **sufficient reasons** for its proposals to allow consultees to understand them and respond to them properly
- Consulters must give **sufficient time for responses** to be made and considered
- **Responses must be conscientiously taken into account** in finalising the decision.

Examples of consultation

Local Authorities normally consult with residents on which services they think should be prioritised in their budgets for future years as well as what residents think about outline plans for how future year budgets should be spent. Within the consultation document the councils outline how the council is funded, how taxpayers money is spent and ask residents to give their views using either an online survey and completing a return for submission by a set date. All feedback given is considered and the findings are used to help the council to develop the draft budget further.

Other examples can include consultations on increasing household recycling centres or waste strategy options on waste collection and street cleansing which would have financial implications for residents and the council. The consultation outcomes would feed into the long term financial strategy for a council. Such consultations assist a council in assessing its financial needs and the resources required to support and meet its objectives and to fulfil the organisation's overarching objective as well as plan for continued growth to enable value for money and financial sustainability.

Engagement with stakeholders

Engagement is more about providing clear and quality information, and providing the opportunity to ask questions.

Engagement is **important**, especially when **changes to services** are taking place, as this helps customers **understand why things** are happening. Engaging with customers can be done through

- **press releases**
- **web articles**
- **poster campaigns and**
- **mail shots**
- **face-to-face presentations to community and customer groups**

All these methods allow us to **communicate information about changes and can enable questions to be answered directly**.

Stakeholder consultation and **engagement in relation to financial strategy is less regulated** but, in recent years, there have been examples of stakeholder consultation and engagement about public spending, particularly so in the UK, in response to the difficult financial climate.

An Example of these are outlined below:

In the UK, the [Localism Act 2011](#) provides local residents with the power to approve or veto excessive council tax rises. This replaced the previous power of the Secretary of State for Communities and Local Government to set limits for council tax increases. The legislation states that the Secretary of State for the Department of Communities and Local Government may set a limit on increases in council tax. If a local authority wishes to raise council tax above this limit then it must hold a referendum. For 2018/19, any increase of 3% or above was deemed to be excessive and therefore required a referendum.

Mark scheme:

1 mark for each definition for consultation and engagement

4 marks for explanation of consultation (how and why)

4 marks for explanation of engagement (how and why)

Marks can be awarded for relevant examples but are not required for full marks.

Also be prepared for some candidates to present stakeholder mapping as part of the engagement process – marks can be awarded for this

Maximum 10 marks

Model answer is precise and includes example. Students must demonstrate an understanding of engagement and consultation with stakeholders and demonstrate this with an adequately worded example.

Consider allowing up to 4 alternative marks for well explained stakeholder mapping.

Model Answer Q 2b)

How a Chief Finance Officer must align financial strategy with objectives

All activities of an organisation will cost money to deliver. The **financial professional must be involved at all stages of developing the organisation's plan** to ensure it:

- is **affordable** in the short term
- is **sustainable** in future years if it is an ongoing activity or service
- **balances the affordability of all competing activities in line with the organisation's overall objectives**
- has **strategic fit with central government objectives** and targets and the political environment
- **meets legal requirements or funding criteria** where grant conditions may apply to short or long term funding streams

The **financial strategist must also ensure that the decision-making bodies understand the financial implications of their decisions in the short and long term and the internal and external financial constraints.**

Even when expenditure reductions are the primary focus of an organisation's corporate plan, it is important that the reductions have to be considered using a thorough understanding of their implications for the services and the wider community that the organisation serves.

As a result, an **organisation's financial strategy and operational objectives must be developed in tandem**, often with iterative adjustments over time to bring them into alignment. **Maintaining a match between the capabilities of an organisation and its external opportunities and threats is the primary goal of successful financial strategy development.**

If it is to be successful **strategic financial planning has to be embedded in a broader corporate or business planning process. Thinking about the organisation's long-term health, capacity and capability is critical.** The financial strategy should support the organisation in being **fit for purpose and well equipped to fulfil its long-term role successfully.**

The long term financial planning difficulties are further exacerbated in some public service organisations for a number of reasons.

Economic cycles – some grants or awarded funds are annually agreed and are not confirmed until late in the budgeting year

Political cycles – where politics (central government) influence funding decisions, there can be fundamental short-termism as newly elected governments want to deliver their manifesto promises. They may be unwilling to take unpopular decisions that may benefit the long term, such as tax increases or investment in infrastructure, but might affect their chances of being re-elected in the next

cycle which is usually 4-5 years in most countries.

Good policy decisions should take account of long-term benefits to stakeholders. For example:

- Building a new road today will deliver economic and social benefits to people for decades in the future
- Early years funding can give high returns in tackling child poverty and the associated social and economic costs later in life of a poor start
- Investment in education for good nutrition, active lifestyle and good dietary habits should reduce the chance of chronic conditions like Type 2 diabetes and heart disease
- Investment in anti-smoking and drug and alcohol abuse prevention has wide reaching and cross cutting benefits relating to reduced pressure on healthcare and emergency services (police and ambulance)
- Spending on long term aid programmes (rather than just reacting to disasters) such as building schools, providing clean water and immunisation for childhood diseases should deliver longer lasting Aid that enables recipients to eventually improve their own lives is often required over a number of years and the benefits may take longer to be visible than the instant results of providing food and shelter.

Mark scheme:

1 mark for every valid point raised, in particular bold items in model answer

Maximum 10 marks

Model answer is precise and students are expected to include most of the detail shown for aligning financial strategy with public sector objectives.

A **pooled budget** (or fund) is an arrangement where two or more partners make financial contributions to a single fund to achieve specified and mutually agreed aims. It is a single budget, managed by a single host with a formal partnership or joint funding agreement that sets out aims, accountabilities and responsibilities.

Governance arrangements for pooled budgets

It is important for governance standards in all parts of the public services to be high – good governance leads to good management, good performance, good stewardship, good public management and ultimately good outcomes. Each partner organisation has its own governance and accountability structure, its own code of conduct and risk management arrangements. A 'one size fits all', prescribed solution to governance in partnerships is not appropriate as it is unlikely to cater effectively for the myriad of different issues and types of partnerships.

Governance arrangements must be proportionate to the risks and responsibilities involved. One specific challenge is that different partners will bring different governance models and expectations to the table.

Partnerships can assess and evaluate their performance against six core principles of good governance taken from the Good Governance Standard for Public Services.

Good Governance - six core principles

1. Focusing on the purpose of the partnership and on outcomes for service users and the partnership vision:
 - The function of governance here is to ensure that organisations or connected partnerships fulfil their purpose and achieve their intended outcomes for citizens and service users and operate in an effective, efficient, economic and ethical manner
 - The overarching reason for the existence of the partnership should be clear and its purpose should be defined in terms of the impact it is intended to have on and service users
2. Working effectively together with clearly defined roles and responsibilities:
 - Governance involves ensuring clear leadership, objectives and effective performance.
 - This principle requires that all partner organisations work effectively in pursuit of the partnership's vision, objectives and actions with clear roles and responsibilities
 - Formal relationships - between individuals and organisations, for example - are carefully defined and less formal relationships are constructive and supportive of the purpose of the partnership
3. Promoting values for the partnership and demonstrating the values of good governance through high standards of conduct and behaviour:
 - A partnership should develop, maintain, promote and demonstrate adherence to a consistent set of values, which incorporates high ethical standards that translates into behaviour
4. Developing the capacity and capabilities of the members and officers of the partnership to be effective:
 - This principle requires that the members of the partnership, whether elected, nominated or appointed, have the skills and support necessary to carry out their role effectively both individually and as a group, and that their skills are developed on a continuing basis
5. Taking informed and transparent decisions which are subject to scrutiny and managing risk:
 - This principle seeks open decision-making, taken objectively, on the best possible information, after careful scrutiny of that information and consideration of associated risks

6. Engaging with stakeholders to ensure robust accountability:

- Real accountability requires a relationship and a dialogue
- Accountability is the process by which a partnership gives an account of its actions and is held to account
- It is also concerned with engaging with stakeholders to understand and respond to their views as the partnership plans and carries out its activities.

2 marks for definition of Pooled budget. Must cover single fund for mutually agreed aims, and refer to a formal joint funding agreement.

1 mark per valid point across the 6 principles of good governance, appropriately applied to pooled budgets. Should cover at least 4 of the principles well explained to gain 8 marks available. Candidates not expected to cover all the points in the model answer.

Exam Exhibit - Question 3



Please click the Exam Exhibit above which provides further information to assist with answering the below questions.

Requirement

Cost Benefit Analysis (CBA) is an important tool in planning, is closely linked to the process of Options Appraisal and can help project managers and their teams decide whether a particular course of action is worth pursuing.

3a) Briefly explain the process of undertaking a CBA exercise. Your answer must include a list of the 8 steps that comprise a generic cost-benefit analysis. (5 marks)

3b) Using the data from the exam exhibit above, perform the CBA and give an opinion on which contractor you would recommend. (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.

Feedback:

Available Answers

- Q3 (a) (5 Marks)

Available Answers

- Q3 (b) (5 Marks)

Cost Benefit Analysis steps and usefulness

CBA can be a very useful exercise in deciding whether it is worth the effort of doing something in the first place – **before you start**. To undertake this analysis, you will need to know the detailed costs of your inputs (for each alternative or option). You will also need a valid assessment of the expected outputs and outcomes.

In its simplest terms, cost benefit analysis is measuring the expected benefits and subtracting the costs of achieving those benefits.

List of steps that comprise a generic cost-benefit analysis:

- List alternative projects/programs/options.
- List
- Select measurement(s) and measure all cost/benefit

- Predict the outcome of costs and benefits in a common currency (including assigning a value to all costs and benefits).
- Apply the discount
- Calculate the Net Present Value (NPV) of the
- Perform sensitivity analysis.
- Adopt the recommended

Students should apply their knowledge to the **Borsetshire County Council** example given in the question:

Use of CBA in options appraisal

Cost-benefit analysis is also a crucial factor in any options appraisal, together with an assessment of each option against a consistent set of criteria.

The benefits arising from any project (or options) can be weighted, to reflect the importance of particular aspects and their alignment with your priorities and objectives.

This would mean that Company A would score:

Price	£300 000 (£100 000 more)	5 points x 60% = 3.0 points
Experience		8 points x 20% = 1.6 points
Quality		9 points x 20% = 1.8 points
TOTAL		6.4 points

Company B would score:

Price	£240 000 (£40 000 more)	8 points x 60% = 4.8 points
Experience		2 points x 20% = 0.4 points
Quality		5 points x 20% = 1.0 points
TOTAL		6.2 points

So, whilst Company B had a tender price £60 000 lower than Company A, Company A still win, due to weighted benefits of the criteria. In cost benefit terms, Company A could be seen as a better choice because although it is a higher initial cost, the quality of service (and hence the benefits) are likely to be much higher than Company B.

For any Cost Benefit Analysis, a crucial element will be the **cost** and it is important to get costs as accurate as possible. One way of doing this is Activity Based Costing.

Mark Scheme:

6 marks: 2 marks for cost benefits analysis usefulness, 1/2 mark per step

4 marks: for calculation and opinion of use of CBA in options appraisal in the public sector (1 mark per valid point)

Maximum 10 marks

Model answer is more precise than comprehensive and students are expected to include *most* of the detail shown with respect to cost benefits analysis. For the example, marks are discretionary depending on how well the detail is articulated by the student.



Value for Money (VfM) is often regarded as being at the core of public services. There are three constituent elements to VfM which are known as 'the 3 Es'.

Requirement

4a) State what these elements are and how they contribute to achieving VfM. (6 marks)

4b) Demonstrate how to look at each element of VfM when undertaking strategic financial planning and assessing current services. (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.

Feedback:

Available Answers

- Q4 (a) (6 Marks)

Available Answers

- Q4 (b) (4 Marks)

Elements of Value for Money – Efficiency, Effectiveness, Economy

Value for Money (VfM) is often seen as the being at the core of public services. How can we deliver the best services and outcomes with the resources and funding available? There are three constituent elements to VfM:

- **Economy** - minimising the cost of resources used or required (inputs) – **spending less**
- **Efficiency** - the relationship between the output from goods or services and the resources (inputs) to produce them – **spending well**
- **Effectiveness** - the relationship between the intended and actual results of public spending (outcomes) – **spending wisely**.

These are known as 'the 3 E's' and can help assess the performance and success of an organisation, its services and its objectives. In recent years, additional elements have been added to the VfM concept, including 'Environmental' (the impact on the environment and sustainability), 'Equity' (spending fairly) and 'Social'.

Mark scheme:

6 marks – up to 2 marks per each 'E' identified and explained to demonstrate understanding up to a total of 6 marks. Additional marks can be given for the other E, E and S (being Environmental, Equity and Social) but maximum 6 marks for this part.

Model answer is precise and students are expected to include all of the detail shown.

VfM and Strategic Financial Planning

Consideration of VfM should therefore be a central plank of any strategic financial planning. After all, for any public sector organisation (or indeed, any organisation) resources (inputs) will be limited and there will be clear objectives to achieve.

When undertaking financial planning and assessing current services, it is important to look at each aspect of VfM:

- Economy - Are we paying the best price for our resources (people, equipment, services)? Is our spending within budget?
- Efficiency - Have we looked at what others do and learnt from best practice? Are we getting the outputs we want from the inputs we are putting in?
- Effectiveness - Are our objectives being met? Will outcomes improve from our plans?
- Equity - What are the impacts on stakeholders? Are they all affected the same?

4 marks – for demonstration of how each element of VfM is applied in strategic financial planning and current services

Model answer is precise and students are expected to include all of the detail shown.



After Stages 0 to 3 of business case development, 'Stage 4 – Implementation' and 'Stage 5 – Evaluation' remain with the important role for implementation of a project.

Requirement

5a) Outline what the business case is used for during stages 4 and 5 of the Model and how they impact project outcomes. (5 marks)

5b) Present an explanation of the term 'optimism bias' in business case appraisal and explain how it can be managed. (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.

Feedback:

Available Answers

- Q5 (a) (5 Marks)

Available Answers

- Q5 (b) (5 Marks)

Business case review

Outcomes

The stages for the development of the proposal and production of the business case are completed in Stages 1-3. The business case, however, continues to play an important role in the remaining stages of implementing the project.

Stage 4 – Implementation

The business case should be used during the implementation stage as a reference point for **monitoring implementation and for logging any material changes** that are required on the part of the procuring authority or the service supplier in respect of services and products.

The **management tools developed** in accordance with the development framework for the business case – **the implementation plan, benefits register and risk register, etc.** – **should be used in delivery of the scheme** and they provide the **basis for reporting back regularly to the Project Board**.

This stage of the project aligns with Gateway Review point 4 (readiness for service).

Stage 5 - Evaluation

The **business case and its supporting products should be used as the starting point for post implementation evaluation**, both in terms of **how well the project was delivered** (project evaluation review) and **whether it has delivered its projected benefits as planned** (post implementation review).

This stage of the project aligns with Gateway Review point 5 (benefits).

Mark scheme:

3marks: Stage 4 – Implementation - 1 mark for each valid point raised but up to a total of 3

2marks: Stage 5 – Evaluation – 1 mark for each valid point raised but up to a total of 2 marks

Marks allocated above are specifically for explaining each element in full. No marks to be given in this first part if students just list but don't explain each element specified in the question.

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

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.

Adjustments for optimism bias is designed to complement, rather than replace, existing good practice in terms of calculating project specific risk. It is also designed to encourage more accurate costing. Accordingly adjustments for optimism bias **may be reduced as more reliable estimates of relevant costs are built up and project specific risk work is undertaken**.

Adjustments should be empirically based – for example, using data from past projects or similar projects elsewhere, **and adjusted for the unique characteristics** of the project. Guidance for generic projects is available in the 'Public Sector Business Cases Using The Five Case Model' guidance, and should be used in the absence of more specific evidence.

Project appraisers should review all the contributory factors that lead to a cost and time over-run, as identified by the research. The **main strategies for reducing the bias are:**

- Full identification of stakeholder requirements (including consultation)
- Accurate costing
- Effective project management and risk management

Mark scheme:

5 marks: Optimism bias – 1 mark for each valid point raised but up to a total of 5 marks

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



Porter's five forces framework analyses an organisation's industry in terms of the five competitive forces and is used as a tool to assess and indicate how competitive or attractive a particular industry is. In the public sector, this is becoming more so for some services that can be readily provided by the private sector.

Requirement

Describe how Porter's framework applies in a public sector context and give a relevant example within the public sector for each force:

- Threat of entry (2 marks)
- Threat of substitutes (2 marks)
- Power of buyers (2 marks)
- Power of suppliers (2 marks)
- Extent of rivalry between competitors (2 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.

Feedback:**Available Answers**

- Q6 (10 Marks)

Q6) Description of Porter's five forces framework and examples within the public sector

Porter's five forces framework analyses an organisation's industry in terms of the following five competitive forces and is used as a tool to assess and indicate how competitive or attractive a particular industry is in terms of the:

- Threat of entry
- Threat of substitutes
- Power of buyers
- Power of suppliers
- Extent of rivalry between competitors

Relevance for the public sector

In a public services context, the application of the competitive advantage framework is still relevant in some parts, and is becoming more so for some services that can be readily provided by the private sector. To cope with increasing demand for some services, it is likely that the forces relating to competitive advantage will be more important in the public sector than they have been in the past. The core theory (models and concepts) on strategy are built around the notion of developing and maintaining competitive advantage in order to maximise long term financial returns for an organisation. While the principles and techniques are not irrelevant to most public sector organisations, there are inherent complexities in applying them. A key element is that for the most part a corporate body wants to grow profitable demand and is largely free to pursue strategies to do so, whereas for many public service organisations this is not the case, and sometimes will be the reverse, as funding constraints mean that the demand cannot be satisfied while maintaining appropriate quality standards.

Threat of entry

Public sector bodies have the competitive advantage over the private sector for many services, simply because **they have scale and experience in delivering healthcare, education, prisons and so on**. For some services, such as the courts, police forces, there is **legislation that protects their monopoly**. There is, however, a **shift towards private sector contractors delivering services on behalf of public service organisations**, and as this increases, the dynamics around entry to the market will change.

For other services, such as hospitals and schools the **high fixed costs might be prohibitive for new suppliers**. However, the changes to methods of funding, has resulted in heavy investment by the private sector in many areas. **Examples** in the UK include academies and free schools, community healthcare delivery (via community interest companies) and building of prisons and hospitals through the private finance initiative (PFI) and public private partnerships (PPP).

In the difficult economic climate, if demand for services is high, and fixed costs are low (or manageable) then where there is no legislation to prevent competition, it is likely that new organisations will enter the market.

Threat of substitutes

The threat of substitution – where customers switch to a competitor or to a different activity instead – is relevant for public services where choices exist. A straight forward **example** is public leisure centres competing with private gyms for customers, but equally the leisure centres are competing for the disposable income and time of customers with other leisure activities that are available. The choice might be at the macro level, where grant providers can give money to an alternative providers, or at the micro level, where end users can choose where and how that service is provided. **If switching providers is inexpensive, and similar service level (or better) is available, then customers will readily use a substitute instead.**

Power of buyers

There are **two sides to the buyer power role in this context**. **Customers of public services are buyers, and the public service organisations themselves are also powerful buyers.**

Consumers of public services are not always paying directly for services, so may not be particularly influential in this context. Where they do pay, for example for collection of commercial waste, then their **behaviour can influence the pricing strategy of the organisation, as it must be competitive enough to maintain a viable customer base.**

The **public sector is a huge consumer and therefore can have a major influence on establishing competitive pricing as a buyer of goods and services from the private sector and when commissioning services from the third sector**. The **third sector bodies relying on grants from the public sector must strive to offer the best service or outcomes in order to avoid their 'buyers' (granting bodies) going elsewhere.**

The Power of suppliers

The **range and depth of suppliers used by public sector and third sector organisations has the potential to influence the organisations they supply**. Where the suppliers' goods or services are central to the mission or vision of the organisation they serve, then they are able to **gain power and competitive advantage**. In the healthcare sector for **example**, the power of pharmaceutical suppliers can be significant. The stockpiling of particular drugs by the government, such as Tamiflu, provided massive profits to some pharmaceutical companies. They also wield power if they are the only supplier of a particular drug and therefore dominate the market and determine the price.

The Extent of rivalry between competitors

Public sector and third sector organisations are becoming more competitive with each other. **Local councils operate competitively with the private sector for some of the services they provide on a commercial basis such as trade waste collection, building control services**. Due to location, there is **limited competition between local authorities, but that can occur for neighbouring councils, especially near borders**. **Many charities operate in the same spheres and are therefore competing with each other for limited resources from donors and granting bodies**. For **example**, national and local homeless charities are competing for limited resources from both corporate and individual donors.

Mark scheme:

2 marks each for Porter's 5 forces framework with examples for public sector.

1 mark per Force properly explained, 1 mark for each explained example that is relevant for that Force.

Maximum 10 marks

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

Students may give relevant public sector examples specific to their location.