

STRATEGIC PUBLIC FINANCE

March 2023

Duration: 3 hours
6 questions, 100 marks

Question 1

Government pledges grant increases in line with CPI

Ministers are set to raise the revenue support grant for local authorities in line with inflation next year, as part of the upcoming local government settlement.

A [finance policy statement](#) published in advance of settlement revealed the grant would be raised in line with Consumer Price Index for 2023-24 [sic].

The new funding announced during [the Autumn Statement](#) will include £1.6bn through the Better Care Fund over the 2023-24 and 2024-25, to get people out of hospital on time and into care.

Councils will also receive a further £1bn up to 2025 to help build care home capacity and to provide fairer costs to care providers, the statement said.

A government source said the additional funding and council tax flexibilities will give authorities an extra £5bn in 2023-24, equal to a 9% rise. These are challenging times for local authorities across the country, but councils have long called for greater clarity over their finances.

The government also confirmed it will extend the statutory override for the dedicated schools grant that allows councils to carry over grant deficits into future years, until 2025-26.

Ministers however said the long-awaited fair funding review and business rates reset has been postponed until the new parliament is elected.

Source: Public Finance: Gove Pledges Grant Increases in Line with CPI - 13 December 2022

Question Q1 a)

Question type: Knowledge and Application

Central Government can provide funding to the public sector, however local taxation and other local revenue systems also contribute towards achieving a balanced budget for the public sector. You are the Management Accountant (Terrie Marques) of a public sector organisation. In a report to the senior leadership team:

- i) Identify the characteristics of local sources of income. (2 marks)
- ii) Discuss the range of different sources of revenue for funding public services that may be

available to the organisation. (8 marks)

(10 marks)

Question Q1 b)

Question type: Knowledge and Analysis

- i) Budget and policy are linked in medium term frameworks for methods of government borrowing. Explain how the budget preparation process in government is a powerful tool for achieving policy coherence. (5 marks)
- ii) Describe how the Medium Term Expenditure Framework (MTEF) is built. (5 marks)

(10 marks)

Question Q1 c)

Question type: Knowledge and Analysis

Should taxes be used by public sector organisations to alter behaviour of the communities they serve? Discuss this statement, and with examples, refer to Pigouvian taxes, and the circumstances where taxation is considered the most appropriate solution for funding public services.

(10 marks)

Model Answer Q1 a)

Syllabus reference: Workbook 4 / A3

Report format:

Prepared for: Senior Leadership Team

Prepared by: Terrie Marques, Management Accountant, Finance Department

Report Title: Title

Date: dd/mm/yyyy

Characteristics of local taxes and other local revenue systems

Given the local nature of the jurisdictions, the local taxes base should be relatively immobile, otherwise taxes can be escaped simply by moving to another local authority.

However, if the taxes or income are immobile this method of avoidance can be minimised or counteracted.

Various sources of revenue available to public service organisations:

Local sources of income

Property taxes:

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

User charges/fees:

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

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

License fees:

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

Levies on properties for infrastructure improvement:

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

National taxes:

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

It is argued that the larger the proportion of spending financed by own source revenue, the greater sense of ownership and responsibility felt by the local population. The level of centrally provided grants is also an important factor therefore.

An Additional Detailed Example of location taxation:

Systems of local taxation in the UK – the Rates

Local taxes have developed through a number of manifestations since the first rates were introduced under the Poor Law Act of 1752 to pay for relief for the poor at the parish level.

Over the next few centuries systems evolved and methods of valuation were standardised. In 1967 the General Rate Act introduced a system of rates on domestic and non-domestic property.

This system of local taxation was known simply as ‘the Rates’. There were in fact two parallel systems – domestic and business rates – but they were essentially run along the same lines.

The Rates were a property tax paid by the owner of the property where the annual amount payable was a function of two values:

- The rateable value of property: an assessment of its imputed annual rented value – what the owner might expect to get if they rented it out; and
- ‘Poundage’ expressed as ‘x pence in the pound’, which was set by each local authority to reflect the total amount to be raised from local taxes. Different poundages would be set for domestic and business properties.

Mark scheme:

2 marks for report format, with introduction and conclusion (1 mark) as well as characteristics of local sources of income (1 mark)

2 marks for any 4 of the following sources of revenue given as follows:

- **property taxes**
- **user charges/ fees**
- **license fees**
- **levies on properties for infrastructure improvement**
- **national taxes**

Up to a maximum of 10 marks

Model answer is precise and students are expected to include all 4 of the 5 sources of revenue, with examples given which can be specific to their location.

Model Answer Q1 b)

Syllabus reference: Workbook 1/ A1

Part b i) The link between budget and policy in medium term frameworks for methods of government

borrowing

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 actors 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 as 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.

Part b ii) How to build the Medium Term Expenditure Framework

When considering government borrowing, it must be remembered that it is linked to the Medium Term Expenditure Frameworks (MTEFs) of that government (in the UK this is the Comprehensive Spending Review (CSR)). MTEFs are aimed at allowing the linking of a government's budget with economic projections over a 3 -5 year period.

Within an MTEF, to assess the impact of budget choices, we need:

- The main macro-economic indicators
- Government Operations Table (GOT)
- Summarised balance of payments
- A monetary survey (banking sector)
- A forward analysis of the public debt.

Expenditure ceilings will then be set to fit within an overall spending ceiling determined by:

- sustainable resource availability;
- macroeconomic policy objectives;
- capacity constraints;
- public service provision needs; and
- overall governance factors.

It is the final element of financing that is the result of the spending and revenue plans. For global budgetary discipline and determining the totals it will be necessary to establish the macroeconomic context including:

- define the global totals and the budgetary goals (e.g. deficit)
- examine the sustainability of the budgetary policy.

Mark scheme:

½ mark for every valid point made; up to 5 marks for part i) and up to 5 marks for part ii).

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

Maximum 10 marks

Model Answer Q1 c)

Syllabus reference: Workbook 1 / A3

Should taxes be used to alter behaviour?

There could be two reasons why taxes may be used to alter behaviour. One is about allocative efficiency in economic terms as discussed by Arthur Pigou in 1925 and has become known as **Pigouvian taxes**.

This is where the **externalities** of an activity are internalised. The main aim is to include the social cost in the price of a product. If we think of environmental taxes, for example, it links to the concept of 'polluter pays' whereby the cost of cleaning up pollution that is borne by others is included in the cost of the product via a levy on the company producing the goods or services which create the pollution.

An externality is where there is a spill over to others from the economic transaction. So for example, smoking can have an impact that is not reflected in the price of producing the cigarettes due to social and health impacts. This creates allocative inefficiencies in the economy where price does not reflect the true cost of a good. This can be rectified by taxation.

It is important to remember that a Pigouvian tax is about reflecting true economic/social cost. There may be taxation systems to encourage social or public policy changes that may increase (or reduce) the taxes levied, such as tax relief on children's clothing.

Notice this is about correcting the market in terms of cost, so that the cost of making good the externalities falls on the consumer/producer rather than being subsidised by the tax payer.

The other approach would be to use taxes to protect domestic interests such as key or strategic industries, or to meet social policy such as the taxing of luxury goods.

Taxes may be used by governments in a variety of situations collectively known as market failure.

Market failure

The term market failure refers to situations where, left to its own devices, the market would supply certain goods in quantities and/or at prices the government would consider undesirable (too much, too little, not at all, or too expensive/cheap).

The main examples of market failure are related to:

- **Public goods** – the key features of public goods are that they are:
 - non-excludable - you cannot exclude people using them if they have not paid for them
 - non-depletable - they are not used up through their use. Good examples of public goods are street lighting and common land.

It is not possible to charge for public goods, so the market will not provide them. Non-paying individuals cannot be excluded from their use and neither would the free use of these services deplete the benefit others receive: this is known as the 'free-rider' problem.

It is argued that they must be funded via taxation:

- because they will not be supplied by the market and
 - so that all potential users pay their share.
- **Externalities** – these are the side effects of economic activity:
 - costs which are not borne by the supplier and thus not charged to the consumer (negative externalities) or
 - benefits which are not enjoyed by the purchaser (positive externalities)

Examples of negative externalities are:

- pollution
- the health effects of smoking.

Examples of positive externalities could be:

- training
- education.

Taxation is used as a way of placing the full costs of negative externalities onto the supplier and therefore the consumer, to discourage consumption and therefore reduce their damaging effects.

Taxation is also used to subsidise the provision of goods with positive externalities (or to fund them completely) to encourage their wider consumption and to place the cost of their provision on the wider community who benefit from them.

For instance, we all benefit from the training of doctors, so we all contribute to the costs of their training via taxation, rather than the cost falling on trainee doctors themselves -

which might limit their supply. Similarly, employers often receive subsidies, or tax rebates, in connection with providing training schemes for young people or retraining the long-term unemployed.

- **Merit goods** – those goods which, left to their own devices and at market prices, people would consume less of than the government considers desirable. Good examples are education and pensions. Related to these are **demerit goods**, which are those that people (if left to their own devices) would consume more of at market prices than the government considers desirable. Good examples are alcohol, cigarettes and petrol.

Taxation can be used to subsidise the provision of merit goods to encourage consumption, or to increase the market price of demerit goods to discourage consumption. Many merit and demerit goods also have positive and negative externalities, but the rationale for the use of taxation in respect of each are different, so should not be confused with each other.

- **Natural monopoly** – The provision of large-scale infrastructure such as railways, electricity and gas grids and sewerage systems is so expensive that it is only financially viable if provided by a monopoly supplier. In these situations, effective market competition is not possible because of:
 - the barriers to entry to the market presented by the infrastructure costs
 - the difficulties in recovering those costs from charges in a fragmented market.

Therefore, government must regulate provision of such services by a monopoly supplier - in order to protect the public interest - and this regulation is funded via taxation. Previously, it was normal for the provision of such services to be organised via a publicly-owned company, with prices subsidised through taxation revenues

Mark scheme:

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, but they should still be given marks for correct information.

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

Question Q2

Council reserve balances rise to mitigate financial risk

Local authority reserves collectively rose again last year, as many councils diverted funding to build up their buffers in the absence of a long-term funding settlement, CIPFA has said.

The overall reserve balance held by local authorities rose to £31bn at the end of 2021-22 – a 7% rise from the £29bn recorded at the end of the previous year, according to the CIPFA Resilience Index.

Some 163 councils added to their balances last year, while 143 ate into their reserves to help meet financial pressures.

A large part of these increased reserves will have been earmarked for spending this year and beyond as part of plans for an “increasingly uncertain future”, CIPFA said.

It is likely that many councils will use reserves this year to fund the unexpected costs of inflation, energy increases and greater service demand compared to what was initially budgeted for in March.

Continued delays and unknowns around the implementation of the government’s reforms to fair funding, business rates and social care increase the need for local authorities to keep reserves to strengthen their financial resilience.

In the long run they need the security of longer-term funding so they can plan effectively.

CIPFA said it is still concerned about the high level of debt in the sector, continuing to place pressure on revenue budgets that have become even more constrained.

Source: Public Finance: Council Reserve Balances Rise to Mitigate Financial Risk - 21 December 2022

Question Q2a) Question type: Knowledge

Outline five different ways of managing volatile funding that financial managers in the public sector should adopt.

(10 marks)

Question Q2b) Question type: Knowledge and Analysis

Reserves can be used by public sector organisations to help mitigate risk. Risk needs to be managed rather than avoided and consideration of risk should not stifle innovation. Risk management is a tool for exploiting opportunities as well as safeguarding against potential threats. Discuss the public sector’s traditional attitude to risk, and how this attitude may

change when the economic environment changes.

(10 marks)

Question Q2 c) Question type: Knowledge and Analysis

Pooling budgets can offer good value for money and better outcomes to taxpayers and the local community.

Define pooled budgets and describe the four main types of budget sharing mechanisms that provide the basis for financial management solutions in the public sector.

(10 marks)

Model Answer Q2

Model Answer Q2a)

Syllabus reference: Workbook 9/ B5

Short and long term strategic planning is affected by relying on volatile funding streams. Given the deficit reduction plans of the 2015 government in the UK, and other similar austerity measures in many other countries, most public sector organisations have felt the financial squeeze over the following years. Central government grants can no longer be relied upon for many as 'certain'. This is also the case for many charities and third sector organisations that rely on grants from local government.

Financial managers need to be:

- aware of conditions and performance targets attached to funding;
- confident that the risks are being managed around this; and
- informed if things are not on track

The ability to appropriately plan financially in the short and long term will rely on innovative financial leaders, capable of supporting the services delivery teams in their organisations.

Good financial governance

To have any chance of managing volatile funding it is key to have good financial governance arrangements. The publication by Grant Thornton 'Towards the Tipping Point' refers to the risks around volatile funding and states that good financial governance can help mitigate those risks.

The following points are from the Grant Thornton thought-piece and provide a sound reminder

list of what good governance looks like across any organisation:

- Regular reporting to the managing body including detail of action planning and variance analysis.
- Actions have been taken to address key risk areas.
- The CFO is a key member of the leadership team.
- Officers and managers across the authority understand the financial implications of current and alternative policies, programmes and activities.
- The leadership ensure appropriate financial skills are in place across all levels of the organisation, for example a good understanding of unit costs and cost drivers.
- The leadership foster an open environment of open challenge to financial assumptions and performance.
- There is an effective scheme of delegation, ensuring clarity of financial responsibilities and accountabilities.
- There is engagement with stakeholders, including budget consultations.
- There are comprehensive policies and procedures in place for members, officers and budget holders which clearly outline responsibilities.
- Internal and external audit recommendations are not overdue for implementation.

As well as good governance, there are some specific activities that help financial managers develop solutions to volatile funding.

Managing the risks

As identified above, one of the tools in the solutions box for volatile funding is to manage the risks as effectively as possible. This includes:

- identifying the risky sources of funding
- assessing how likely they are to cease and what the impact of that would be (financially and operationally)
- managing the risks by putting appropriate controls in place to give early warning of potential problems
- mitigating the impact of risks through contingency planning
- monitoring and reporting on compliance with conditions of funding

Long-term agreements

Using long term agreements can help reduce the risk of volatile funding by building in some certainty to long term financial agreements such as minimum guaranteed funding, and time bound release of funding to match budget cycles.

Financial managers should also seek to influence payments to contractors that limit price rises through the life of the contract, thus reducing the volatility of spending, so that smoothing of budgets can take place where volatile funding is likely.

Diverse sources of income

Financial strategy should ensure that a range of income sources is used wherever possible to help smooth peaks and troughs in funding needs, and spread risk of funding loss. Reliance on one source – be it central government or one main benefactor – places an organisation in a much more financially risky position than one that is able to obtain smaller amounts of funding from a range of funding streams.

Seeking opportunities

The most successful organisations that rely on external funding sources are those who:

- keep aware of funding streams available
- have enough resources to seek funding (which can be time consuming)
- complete applications on time, as often the time frame for application can be tight

Examples of local authorities who have a dedicated officer for seeking grant funding from any source demonstrate that they are much more successful in obtaining funding, and obtain more funding than those councils who rely on officers applying for grants on a more ad-hoc basis as a small part of their day job. This has been seen in practice, where an external funding officer is employed and targets are usually set for generating grant income. Charities and third sector organisations employ dedicated staff to generate donations and fundraising and apply for grants.

www.grantfinder.co.uk is a useful resource for identifying the types of grants available across sectors.

Managing reserves

The classification of reserves and the distinction between usable and non-usable reserves, revenue and capital reserves as well as general and specific reserves.

Managing reserves is a key activity for financial managers in all types of organisations. Making decisions or recommendations regarding when to hold reserves (and where to invest them), and when to spend, are especially important when formulating strategies to cope with volatile funding.

Prudent financial managers will argue that building reserves is critical to ensuring financial resilience is possible in times of austerity.

Finance managers will ear-mark reserves and ring-fence them for specific projects, set aside monies to cope with a crisis, and undertake clever investment to generate income from interest wherever possible. Organisations should also be investigating where investment in assets or projects should be undertaken to generate revenue income going forward.

Mark scheme:

Any of the options below can be explained with marks up to a maximum of 2 marks per option and 10 marks overall:

2 marks for good financial governance explanation

2 marks for managing the risks explanation

2 marks for long term agreements explanation

2 marks for diverse sources of income explanation

2 marks for seeking opportunities explanation

2 marks for managing reserves

Maximum 10 marks

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

Model Answer Q 2b)

Syllabus reference: Workbook 7/ B1

Public Sector Attitude to Risk

Risk Appetite

Historically, public service organisations have been naturally risk averse. There are rules and regulations about how public money is raised and spent. Most decisions and consequences of those decisions become published for scrutiny by regulators or members of the public. In general the appetite for taking risk with public money is low.

Risk appetite is the term commonly used to describe where an organisation considers itself to be on the spectrum ranging from willingness to take or accept risk through to an unwillingness or aversion to taking some risks.

It is based on the level of unmitigated or residual risk that an organisation is prepared to tolerate or, in other words, the level at which no further action will be taken to reduce the risk.

Risk appetite will vary according to the nature of the business and the type of service provided. Investment, trading or physical delivery of services will focus more on opportunities and their consequent risk than services whose prime purpose is stewardship of public funds or protecting the public; for example, a local authority supply trading

organisation will have a different risk appetite to child protection services.

Risk appetite may also vary within the organisation if it has a number of discrete functions; for example, risk appetite around a major construction project in a local authority may differ from risk appetite in relation to treasury management or archiving services.

As public service organisations face reducing financial resources at a time when the demand for public services is increasing, governing bodies need to ensure that their risk appetite is still appropriate to make the most of opportunities as well as to guard against threats.

It is important that the organisation has a clear idea of its risk profile. This is the selection of risks that the organisation is prepared to tolerate or manage; depending on its risk appetite, it may include some higher-scored risks. The organisation needs to understand the strategic risks to the achievement of its objectives, how these risks are scored and graded in terms of likelihood and impact, which of these risks it is prepared to tolerate and which it is not, and how these many change.

Changing times

CIPFA's publication 'Leading in Hard Times' (2011) identified effective financial and risk management as one of the ten key actions for leaders to take in response to the challenging climate of austerity. The following quote underpins the concept that budget pressures are driving public service organisations to be more entrepreneurial and that organisations need to use risk creatively to support innovation.

'Risk needs to be managed rather than avoided, and consideration of risk should not stifle innovation. The Council delivers services in an increasingly litigious and risk averse society and believes that risk management is a tool for exploiting opportunities as well as safeguarding against potential threats. LBBB uses the discipline of risk management to promote innovation in support of the council's strategic objectives as detailed in the CorporatePlan.'

Source: London Borough of Barking and Dagenham

It is widely recognised that there is a need for a change in attitude to risk as a result of the economic climate. Public service organisations need to do different things or do things differently to cope with the reduction in financial resources.

Financial managers and CFOs must be ready to advise on the financial risks and be ready to encourage calculated risk taking in order to facilitate delivery of services.

Mark scheme:

5 marks for discussion on risk appetite with examples from the public sector

5 marks for discussion on changing times with examples from the public sector

Maximum 10 marks

Model answer is broad and includes examples. Students must demonstrate an understanding of risk appetite in the public sector, the impact of changing times and may give examples specific to their own locations.

Model Answer Q 2c)

Syllabus reference: Workbook 9 / B4

Definition of Pooled Budgets

Pooled budgets means those that are shared between and usually contributed by, more than one organisation. This will usually be done for partnership working or where joint service delivery is needed.

The term 'Pooled Budget' in the UK is often used in the public sector to specifically refer to the integration of some areas of healthcare budgets by local authorities and health care providers.

There are four main types of budget sharing mechanisms that provide the basis for the financial management solution:

Aligned Budget Arrangements

Under these arrangements budgets remain with the individual organisation but a joint board comes together to agree joint objectives and how individual organisations activities can be aligned to maximise the synergies between them. This is the loosest form of shared budgeting, as it is not a single pool controlled by one organisation.

Lead Body Arrangements

One of the organisations takes on a lead body role and administers a total budget on behalf of the individual organisations to achieve jointly agreed objectives. Expenditure may be controlled by a joint board but day to day financial management will be undertaken by the lead body.

Joint Commissioning Arrangements

The individual organisations come together to commission a third party to provide a service on their behalf. A joint board will usually set the objectives and contract terms but delivery will be down to the third party at a cost set out in the contract.

Joint Venture Arrangements

This is where a separate entity is established by the individual organisations to deliver the activity or function. A joint board will set objectives and key activities for the organisation which may either be free standing or controlled by the individual parties.

Variations of these four pooled budget sharing mechanisms may be developed but the solution

to their financial management challenges will come from a variation of the solutions put forward for the four mechanisms.

Mark scheme:

2 marks for definition of pooled budgets

2 marks for aligned budget arrangements with adequate explanation demonstrating understanding

2 marks for lead body arrangements with adequate explanation demonstrating understanding

2 marks for joint commissioning arrangements with adequate explanation demonstrating understanding

2 marks for joint venture arrangements with adequate explanation of demonstrating understanding

Maximum 10 marks

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

Question Q3

Question type: Application and Analysis

Q3a). Explain the purpose of effective scenario planning in public sector organisations, and the characteristics of the range of scenarios that might be explored. (5 marks)

Q3b) Collaboration drives an organisation to achieve greater efficiency and effectiveness.

Outline the key risks of collaboration for public sector organisations. (5 marks)

(10 marks)

Model Answer Q3

Syllabus reference: Workbook 12/ C4 and Workbook 9 / B4

3a) Effective scenario planning in a public sector organisation (Workbook 9/ B4)

For scenarios to be effective they need to be plausible but also challenging in forcing the organisation to consider possibly 'uncomfortable' situations.

Scenarios invite people to explore what might happen, rather than what people want to happen.

For effective decision making, organisations should not just use the best case/worst case scenario around the status quo (as they might for sensitivity analysis) but should explore a range of scenarios, each of which has the following characteristics:

- represents a plausible future operating environment
- represent a possible steady state
- contains both positive and negative aspects – it is not simply an aggregation of worst or best case assumptions
- does not assume that major stakeholders take positions that they would not accept (and are in a position to change).
- be an archetypal scenario, in the sense that scenarios should describe generically distinct futures rather than variations on a single theme.
- not be selected on the basis of probability since scenarios are not intended to be predictions but indicators of a range of possibilities.
- involve a range of drivers and explore and develop the interaction of external events.

- draws attention to the major technical, economic and political uncertainties upon which the success of each option depends.

Scenario planning is most effective when a broad coalition of stakeholders and partners is involved. Engaging diverse stakeholders in the creation of scenarios, rather than delivering forecasts to them, represents a key difference between scenario planning and traditional forecasting methods; scenario planning can generate a level of buy-in and alignment that is lacking in a traditional planning process.

For some sectors there are already some scenarios available. For instance, the Rural Futures Project was commissioned by Defra to build scenarios for English rural life for 20 and 50 years into the future. The Libraries of the Future Project was established to help those running academic libraries to plan for the future.

In using these resources it will still be necessary to tailor the scenarios to reflect the distinctive features of the organisation using them.

When undertaking scenario planning it is useful to remember that:

- The past is not a good predictor of the future. To respond to uncertainty, finance managers can use scenario planning to help managers better understand the threats and opportunities they face.
- Scenario planning is largely focused on answering three questions:
 - (1) What could happen?
 - (2) What would be the impact on our strategies, plans and budgets? And
 - (3) How should we respond?
- It is essential to be clear about the issue you want to address before embarking on a scenario planning exercise, and then to define the appropriate scope and time horizon for the scenarios to be constructed.

3b) Key risks of collaboration for public sector organisations (Workbook 12/ C4)

The key risk of collaboration – in whatever form it takes – is a lack of common goals and values.

There are risks of failure, for example, around costs of implementation, or failure to realise potential benefits (financial or service quality). However, in most efforts to create new and shared services, the financial and strategic considerations, along with economies of scale and availability of partners, dominate opportunity selection.

This often overrides the really important ‘soft’ issues such as people and cultural fit.

Where service sharing or collaborations fail, there has usually been a failure to gain full engagement of the people affected. This leads to the initiative starting with a negative feel that is difficult to dispel.

A study by CIMA on Collaboration and Control identified a variety of people risks associated with unsuccessful collaborations. Examples of these are:

- underestimating cultural differences between partners
- skills gaps and problems with transferring skills

- demotivation of employees
- loss of key staff
- spending too much money maintaining the status-quo
- lack of clarity around roles and responsibilities leading to conflict and gaps
- loss of focus on outcomes for customer while adjusting to internal operational changes
- poor leadership and unclear governance and reporting lines leading to paralysis around decision making.

Mark Scheme:

5 marks: for explaining effective scenario planning (1/2 mark per valid point)

5 marks: for outlining key risks of collaboration in the public sector (1/2 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 for key risks of collaboration and *most* of the detail for scenario planning.

Question Q4

Question type: Knowledge and Application

4). The Government Gateway Review process provides assurance to both the organisation (business processes), and the project and programme management, that business cases have been developed appropriately.

- Identify the six stages or Gates
- explain the purpose of the review process
- describe how the process is carried out to provide appropriate levels of assurance.

(10 marks)

Model Answer Q4

Syllabus reference: Workbook 11 / C2

How the Government Gateway Review Process is carried out to provide appropriate levels of assurance

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

- **Business Assurance - doing the right things at the right time**, and is the process of scoping, planning and procuring investment programmes and projects and providing assurance to the Accounting Officer responsible for the spend.
- **Programme and Project Management Assurance (PPM) - doing things right** and is the process of delivering the programmes and projects and providing assurance to the Senior Responsible Owner (SRO) leading the delivery of the scheme.

Best practice PPM Assurance tools include **Gateway Reviews** and health checks for programme and project assurance – to provide an assessment of the health of a policy, programme or project at key stages of development from inception to reviewing benefits that are being realised. Other PPM Assurance tools are Managing Successful Programmes (MSP) and PRINCE2.

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

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

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

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

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

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

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

The **six stages, or Gates, are:**

Gate 0 - Strategic Assessment

Gate 1 - Business Justification

Gate 2 - Delivery Strategy

Gate 3 - Investment Decision

Gate 4 - Readiness For Service

Gate 5 - Operations Review and Benefits Evaluation

Mark scheme:

½ mark per Gate identified to a total of 3 marks

2 marks for assurance points

Up to 5 marks for explanation of Government Gateway Review Process.

Maximum 10 marks. Model answer is precise and students are expected to include most of the detail shown.

Question Q5

Question Type: Knowledge and Application

Most performance indicators can be categorised as either 'leading' or 'lagging' indicators.

Given the above:

Q5). Giving examples for each indicator, explain what 'leading' and 'lagging' indicators are, and outline the challenges with each kind of indicator.

(10 marks)

Model Answer Q5

Syllabus reference: Workbook 13/ C5

Explanation of leading and lagging indicators with examples

A '**lagging**' indicator is one which typically focuses on outputs, and will normally be:

- easy to measure, but
- hard to influence and
- hard to improve

Lagging indicators are backward-focused or 'trailing'—they measure performance data already captured.

They are measures that focus on results at the end of a time period, normally characterising historical performance. These can also be referred to as Key Results Indicators (KRI).

A '**leading**' indicator is one that typically focuses on inputs, and will normally be:

- much harder to measure, but
- easier to influence

They are measures that 'drive' or lead to the performance of lag measures; normally measuring intermediate processes and activities.

Leading indicators tend to change quickly and are generally seen as a precursor to the direction something is going. Because leading indicators come before a trend, they are considered business drivers. Identifying specific, focused leading indicators should be a part of an organisation's strategic planning.

It is useful to always monitor an organisation's lagging indicators – they will continue to provide insight into service delivery and achievement of objectives. Poor lagging indicators generally translate into poor leading indicators.

Choose your leading indicators carefully - they should be unique to your organisation's environment or sector, originate from your strategic objectives and work elements, and ultimately be used to drive the effectiveness of your service delivery. Try not to be too ambitious. Keep focused on key objectives represented in your strategic plan.

When considering indicators you should:

- Identify what you are already measuring and determine if it provides value to your organisation in your backward and forward thinking.
- Identify the indicators that will tell you whether you have achieved your desired outcome(s) (lagging), as well as the indicators that tell you the direction of your sector and where you should focus (leading). Be specific. Review your plans and strategic 'roadmaps'.
- Step outside your core senior management team and get additional leadership and external business stakeholders involved. An outside perspective can often help you determine what your lagging and leading indicators are, as well as help in recognising the key leading indicators for your sector that will help you achieve your objectives.

Examples

As an example, consider a service level agreement for an ICT contractor and the required response time for incidents.

The contract requires that 90% of Class II incidents are resolved within 24 hours. An output (lagging indicator) would be the % of incidents resolved within 24 hours. This is easy to measure, but it is far more difficult to influence the achievement of the target.

However, it would be possible to break down the activities that will contribute to good performance - making sure staff start working on incidents immediately as they occur, ensuring that incidents are assigned to the right people with the right skill-set and that this person isn't already overloaded with other work.

This could then be translated into the following leading indicators

- percentage of incidents not worked on for 2 hours
- percentage of open incidents older than 12 hours
- percentage of incidents dispatched more than 3 times
- the average backlog of incidents per agent

By managing performance through these indicators, the output can be better influenced.

Challenges

There are disadvantages or challenges with each kind of indicator.

Lagging indicators are historical in nature and do not reflect current activities; they can also lack predictive power.

Leading indicators are often new measures with no history within the organisation.

When we are talking about leading indicators, we are really talking about performance indicators. When we are talking about lagging indicators, we are really talking about Key Results Indicators (KRIs). It is important to emphasise that goals and objectives should be based on lagging indicators whenever possible.

When setting goals, be aware that goals will drive behaviours. Think of how you want to drive those desired behaviours. When you develop the processes and the metrics that will help to measure their success, also develop a list of behaviours that you want to exhibit. If you identify and document the desired behaviour, it becomes the basis for the behaviour.

Quotas or goals should only be placed on lagging indicators and never on leading indicators. Placing a goal on a leading indicator can result in 'gaming' and generate the wrong results.

Mark scheme:

6 marks: Explaining what leading and lagging indicators are and for examples given – ½ mark per valid point – up to 3 marks per explanation of indicator with examples ; ½ mark for each valid point raised but up to a total of 6

4 marks: Challenges with leading and lagging indicators – ½ a mark for each valid point raised but up to a total of 4 marks

Maximum 10 marks

Model answer is comprehensive and students are not expected to include all of the detail shown above

Question 6

Question type: Knowledge, Application and Analysis

Managing resources to meet demand, within restricted resources, is a fundamental problem for public service organisations. Runaway demand-led spending can lead to destabilised public finances and can impact other services negatively. Public sector organisations can use practical applications of demand management to reduce this risk.

Describe how public sector organisations can use the following practical applications to manage demand:

- disinvestment (5 marks)
- invest to save (3 marks)
- influencing behaviour (2 marks)

(10 marks)

Model Answer Q6

Syllabus reference: Workbook 10/ C1

Q6) Description of practical applications used in public sector to manage demand

Disinvestment

Disinvestment in services can be at a range of levels. At the national level, central government may decide to disinvest in publicly owned companies. This was prevalent in the late 1980's when the government sold off to private ownership the major utilities (British Gas, British Telecom, regional electricity and water boards and so on). More recently, Royal Mail is an example. The drivers for disinvestment by the state were to:

- encourage competition
- improve efficiency
- increase investment in service quality that was not affordable for the public sector

The disadvantages that may occur as a result of this scale of disinvestment has been:

- loss of public confidence in key services
- loss of control over activities, and potential control being taken outside of the country
- profit needs of the private sector influencing service quality, especially in relation to assistance with costs for the most vulnerable and needy
- resistance by the workforce to the changes and potential job reductions

The disadvantages have been controlled to some extent by legislation and the powers of the watchdog organisations established to protect customers' interests.

Some disinvestment decisions have been reversed where the government has re-nationalised failing services for periods such as parts of the railway network.

At a more local level, decisions to cease some services and allow the private sector to pick up customers has grown over recent years to stimulate investment and improve or at least prevent a fall in service quality.

There are many examples of service delivery in local government where the private sector delivers services via contracts for statutory services such as:

- waste collection and disposal
- maintenance of public open spaces
- care home provision (including where nursing care is required)

- maintenance of highways
- planning and building control services
- social housing and provision for homeless.

Most NHS trusts have contract arrangements with the private sector for delivering routine support services such as:

- hospital cleaning
- provision of meals
- laundry services
- building maintenance.

There are also examples of using private sector companies to deliver surgical and medical procedures to assist with reducing waiting lists for certain types of operation such as hip replacements and cataract surgery.

Further disinvestment by the public sector for the non-statutory services is almost inevitable in times of austerity and funding cuts. Where the law allows, public sector organisations will simply stop delivering some activities or services. There are examples of where the public sector has encouraged volunteers or the third sector to take on the activity or service instead. Some examples of the most vulnerable services are:

- community health projects
- libraries
- cultural services such as theatres
- leisure and sports services.

A research paper was written in 2011 regarding reducing demand for some services in the NHS in the UK by disinvestment. For a programme of such disinvestments to succeed, it is necessary to focus attention on a selected number of changes which are likely to have the greatest impact on releasing resources, and that will cause the least harm to the health of the population.

Other disinvestment through selling off property is likely to take place. Sometimes purely to create capital receipts for investing in different services, or to reduce revenue spending on property, or to incentivise the third sector to deliver services by selling off or transferring assets to them so they can be owned and maintained by community groups instead.

Invest to save

Examples of investing in projects to provide a longer term saving can come in the form of capital investment projects, or early intervention activities that will demonstrate savings in the future.

Some other examples are:

- Healthcare – preventative activities such as no smoking help, healthy lifestyle campaigns
- Building affordable homes to ease pressure on housing benefits systems
- Building infrastructure to generate revenue income – e.g. business parks
- Digital by default – designing access to services via internet as a first option through investment in appropriate websites and secure online receipting / payment systems. The .gov website has been developed to have everything in one place and directs all straight forward applications for everything from passports to TV licences to corporation tax to be dealt with online, and by self- service, reducing the need for high staff costs.

Some invest to save projects can carry huge risks, can be very long term before benefits can be measured, and may never realise the benefits expected. The projects for centralised computer systems for benefits and health information were invest to save projects, and are both examples of major failures in the UK.

Influencing behaviour

Some behaviour is difficult or impossible to control, especially for things like emergency healthcare or crisis management such as pandemic flu or flooding.

Pricing policies for certain services can be used to manage demand by dis-incentivising use. One example is the availability of cemetery space. Some local authorities are using high pricing strategy to minimise demand for this finite resource and encourage cremation instead. Some are using differential pricing to ensure local people receive more favourable prices.

There are opportunities for trading and charging as well as financial and political decisions that support charging and price setting.

Mark scheme:

5 marks for disinvestment detailed explanation with examples

3 marks for invest to save detailed explanation with examples

2 marks for influencing behaviour detailed explanation with examples

½ mark for every valid point raise in each of the above descriptions

Maximum 10 marks

Model answer is comprehensive and students are not expected to include all of the detail included. Students may give examples specific to their location and that reflect understanding of each type of practical application to manage demand

