CIPFA

Strategic Case Study Exam (December 2023)

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Question 1

Exam Day Materials - Question 1

Exam Day Materials are available in the question exhibit above, there is more than one tab to this exhibit. The Exam Day Materials cover necessary information to answer the question. You can also find the Advanced Materials attached below.

Answers to be prepared as on 5 December 2023 by Blake Simpson, Finance Manager at Headstart Academy.

Requirement

Write a briefing paper to the Director of Resources giving advice on some of the issues raised by the impending merger of the two schools.

1a) Assess the advantages and disadvantages of the options available for preparing Headstart Academy's 2024/25 operating budget, and make a recommendation on which approach should be adopted. *(23 marks)*

1b) Advise the Director of Resources on the cultural change work needed to achieve a single finance team in the expanded Headstart Academy. *(17 marks)*

1c) Evaluate the headteacher's idea to change the school's financial year to end on 31 August. *(10 marks)*

(Total: 50 marks)

Please enter your answer below.

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

Formats

Feedback:

Available Answers
- Question 1a) (23 Marks)

Available Answers
- Question 1b) (17 Marks)

Available Answers
- Question 1c) (10 Marks)

Assess the advantages and disadvantages of the options available for preparing Headstart Academy's 2024/25 operating budget and make a recommendation on which approach should be adopted.

1 mark for reasonable definition of each of the 3 approaches; 1 mark for each point well-made on pros and cons, subject to a maximum of 6 marks on each of the 3 approaches; up to 2 marks for a recommendation that is reasonable in the light of the points identified by the student in their answer.

Different approaches to budgeting

- Incremental budgeting: an approach where the new year's budget is based on the current year's budget, adjusted for known changes in policy, pay and price inflation.
- Zero-based: an approach where the organisation is divided into decision units and the budget for each unit is developed from scratch based on what is required for the unit to deliver its objectives.
- Activity-based: an approach where the budget allocation is based on estimated unit-cost of activities multiplied by estimated volume (e.g. cost per student to teach maths times number of number of maths students).

Advantages and disadvantages

Incremental budgeting

The advantages include:

- Both schools are familiar with this approach (both the finance staff and the budget-holders).
- Incremental budgeting is stable, resulting in budgets that are not much changed from prior years.
- Incremental budgeting is easy to understand. It is perhaps easier to explain where the figures come from by referring back to previous budgets.
- Can be done from bottom up or top down.

The disadvantages include:

- Incremental budgeting does not challenge the assumptions in the base budgets. The merger is likely to make many changes in how things are done and incremental budgeting may not reflect those in financial terms as well as other approaches.
- The lack of challenge of base budget may result in areas where budget is too generous continuing into the future. Ditto for areas where budget is insufficient.
- Incremental budgeting is based on inputs rather that outputs and outcomes. It will identify, for example, the estimated cost of all the salaries of teachers and other staff, but does not reflect their productivity.
- There can be incentives to overstate budgets. For example, if each school's existing finance teams prepare budgets for their school, each might overstate the budget in first draft in hope that it will result in a bigger overall budget.

Zero-based budgeting

The advantages include:

- Zero-based budgeting is arguably more logical than incremental budgeting.
- It is by definition very challenging of the base budget because it ignores it.
- Zero-based budgeting could be particularly suitable for 2024/25 where so many aspects of the merged organisation will be different from the current arrangements. It could enable staff to be innovative about how they will work in the future.
- It could be an opportunity for the finance team to get a better knowledge of how the merged school will operate, as they will have to return to first principles.

The disadvantages include:

- Zero-based budgeting will take longer to do. Not only is this using up the finance team's resources but also the teachers and other staff who will have to be part of the process. This is a particular problem given that the merger probably means lots of staff already have more work to do than they would in a normal year.
- Whilst it might be a good approach for 24/25, it may be desirable to then change again to a different one from 25/26 onwards.
- There will be winners and losers. The total resources available for 24/25 are limited, and if some units demonstrate they should have an increase in budget compared with 23/24 then some other unit(s) will have a smaller budget. This may cause further bad feeling towards the merger and between departments.
- The end result might not be very different from the budget that incremental budgeting would produce. For example, budgets for premises expenses such as energy use are driven by contracts, and there is little that can be changed in the short/medium term.
- There is also the challenge of thinking differently. It is very hard to think of alternative ways that the school could deliver its objectives, and this will mean the budget tends to reflect how things are currently done.

Activity-based budgeting

The advantages include:

- Potentially more accurate as budgets are based on cost drivers (predominantly pupil numbers, but also could incorporate other factors like number of staff).
- Increased focus on overheads and support services costs.
- It is a form of performance budgeting and offers the potential for improving the school's performance.
- There is potential for the budget to change quickly between departments in response to changes in cost drivers (e.g. pupil numbers for each subject).

The disadvantages include:

- There needs to be a costing system (or some other way) of establishing the unit costs of activities.
- Likely to take more time and resources to prepare the budgets.
- May need a more lasting process and culture change in the school to adopt it.

Recommendation

Any recommendation is acceptable, provided it is reasoned and based in the candidate's analysis above.

Advise the Director of Resources on the cultural change work needed to achieve a single finance team in the expanded Headstart Academy.

One mark for each point well made, subject to a maximum of 17 marks. Likely more points to be made about diagnosing the culture than the plan for changing it.

Where are we:

There are many cultural differences between the organisations:

- HA is more modern
- HA has qualified finance staff
- HA has empowered budget-holders
- HA is more business-like in its processes, reflecting background of Director

- NTS is more centralised
- NTS financial power concentrated in deputy headteacher
- It is not clear what (if any) there is training and development offered in NTS
- NTS underspends may be a result of vacancies and poor processes rather than good management
- There are 4 posts across the two finance teams but only 3 postholders
- NTS is relying on regional authority for some of its financial management work
- HA trustees have delegated more to the headteacher and Dir of Resources than NTS
- HA's headteacher has enormous amount of power over staffing budgets
- NTS headteacher has no interest or involvement in financial matters

Student may try to frame their analysis in the cultural web tool. ***Award marks for identifying the tool*** but recognise that they may not produce complete analysis because of a lack of information in case study about, for example, rituals

Where do we want to be:

- A fully integrated and effective culture across the new organisation.
- Which of the current practices should be kept and which dropped in order to achieve this?
- Likely that NTS will have to fit into HA's finance processes but:
  - Need to be mindful of the allegation that it is a takeover rather than a merger
  - There will be training needs such as teachers from NTS who become budget-holders after the merger will need to learn their new role
  - And governors from NTS may need support to understand the financial information they will receive each month
- Need to identify staffing requirement, which depends in part on the processes to be adopted

How to get there:

- Analysis of the extent of change and speed of change gives four possibilities
  - Adaption
  - Evolution
  - Reconstruction
  - Revolution
- Given there are only a few months, and there is a need for a paradigm change (for NTS at least) suggests Revolution would be most appropriate, although a case could be made for any of the four options
- Lewin's model of unfreeze, change, freeze may be employed
- Can the existing staff be appointed to new roles directly or does there need to be some sort of recruitment process?
- Do the existing staff have the skills and competencies to do the jobs?
- Communication with stakeholders about the changes that are upcoming

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Evaluate the headteacher's idea to change the school's financial year to end on 31 August.

Align center

One mark for each reasonable, relevant point well-made, to a maximum of 10 marks. The classification of points into positive, negative and instructive should be reasonable.

- It would be easier to synchronise all of the school's academic year planning with its budgets and financial statements.
- The 31 March/1 April year end could result in unintended and potentially unhelpful behaviour, with budget-holders who have spent up their budget deferring spending from March into the new financial year and vice versa.
- Moving that to August might reduce the issue, as the budget for a whole school year is known at the start of the school year (as opposed to knowing only what 7 months of budget is, and hoping there will be enough in the remaining 5 months to complete plans).
- There would be a 17-month "financial year" in the changeover, which would make comparisons over time difficult.
- The budget process would be affected when planning for the changeover year.
- There would need to be a project put in place to manage the change.
- As well as technical financial aspects of the project, there would need to be some internal communication with staff, trustees, etc.
- Potential need for external communication with stakeholders, particularly those with a financial relationship with the school.
- Training of budget-holders about what to do during the 17-month year.

Some things that might be classified as **other factors to consider** are:

- Whether other schools choose to follow Headstart's innovation, meaning we might be an example of best practice going forward.
- The response of the Ministry of Education and the regional authority.
- Does this change make the issue of a year-end rush of spending more or less likely to happen?

Question 2

Exam Day Materials - Question 2

Exam Day Materials are available in the question exhibit above, there is more than one tab to this exhibit. The Exam Day Materials cover necessary information to answer the question. You can also find the Advanced Materials attached below.

Answers to be prepared as on 5 December 2023 by Blake Simpson, Finance Manager at Headstart Academy.

Requirement

Prepare a business case for the proposal for the new sports facility to generate income for the school.

2a) Evaluate the proposal's financial implications, including its payback period, accounting rate of return and net present value. *(22 marks)*

2b) Describe the major risks in the construction and operating phases of the project and how they could be managed, using the 4Ts risk management model. *(15 marks)*

2c) Discuss the other non-financial factors that need to be considered in evaluating the proposal. *(8 marks)*

2d) Use your analyses above to draw conclusions and make recommendations on whether to proceed with the proposal. *(5 marks)*

(Total: 50 marks)

Please enter your answer below.

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

Formats

Feedback:

Available Answers
- Question 2a) (22 Marks)

Available Answers
- Question 2b) (15 Marks)

Available Answers
- Question 2c) (8 Marks)

Available Answers

- Question 2d) (5 Marks)

Evaluate the proposal's financial implications including its payback period, accounting rate of return and net present value.

Up to 14 marks for the calculations as shown in the spreadsheet.

One mark for each reasonable evaluation point made in the narrative, up to a maximum of 10 marks.

Evaluation points that might be made include:

- The payback period is 8 years. This is rather a long time, particularly in times of dwindling resources.
- The accounting rate of return of >11% is higher than the bank base rate and the coupon (interest rate) that could be earned by investing the reserves in federal school investment bonds.
- The NPV over ten years (using the 6% discount rate implied by the federal investment bonds) is negative (£54,000), suggesting it is an unattractive investment in NPV terms. (*Note calculation can be done using factors from table or +NPV function, but latter needs care to get the £54000 value.)*
- NPV is a better evaluation tool than payback because it takes into account the time value of money.
- There will be the lost interest income from the £788,000 of reserves that will be invested in the project.
- Sensitivity analysis could be done both on the assumptions made about costs and income. ***(Sensitivity analysis carried out could be awarded up to 2 of the narrative marks, subject to the overall maximum.)***
- If the facility was operated at full capacity, it could generate gross income.
- The proposal can only be financed from reserves, and it would use 68% of the forecast reserves at 31 March 2024 (£1.164M).
- This would leave only £376,000 in reserves, which is approximately 2% of the annual budget of the merged school.
- This is within the Ministry of Education's guidance level but does not leave much room for overspending on the project or underachieving on the income levels.

Describe the major risks in the construction and operating phases of the project and how they could be managed, using the 4Ts risk management model.

Up to 2 marks for explaining what the 4Ts model is (i.e. that risks can be terminated, transferred, treated or tolerated).

2 marks (to a maximum of 13 marks in total) for each reasonable risk item that is identified, classified into one of the 4Ts, with an appropriate description of the countermeasures that would be taken.

Possible risk items include:

- Fail to find contractors to do work at affordable price — TOLERATE (market conditions out of school control)
- Overspending of capital budget — TREAT (tight budget control, include contingency in budget)
- Poor specification/design of the facility — TRANSFER (use agents to design and build facility)
- Poor quality in installation of pitch or construction of the building — TREAT
- Construction company fails to complete the project because of bankruptcy etc — TRANSFER (insurance) or TREAT (hold some or all payments until project complete)
- Construction company fails to return to repair snags at the end of the construction phase —TREAT (retain 10% or more of payments until snags are repaired and project signed off)
- Bad weather over summer delays the project — TOLERATE (weather is uncontrollable)
- Late completion of the project so not ready from Sept 2024 — TREAT (penalty/liquidated damages due from contractor if late, perhaps as a £ for each week delayed)
- Lack of customers — TREAT (ensure resources allocated for marketing/promotion, regular review of prices and demand at different times of day/week)

- Non-payment of fees by users — TERMINATE (payment made in advance only), TRANSFER (use a factor) or TREAT (tight credit control)
- Serious injury to someone using the facility — TRANSFER (insurance)
- Operating budget inadequate — TREAT (base budget on best possible data, budget control processes)
- Building and/or pitch damaged by users — TRANSFER (insurance) or TREAT (require deposit from users)
- Complaints from parents or others that the facility should be built at Northbank site since the reserves came from NTS — TREAT (prepare a comms plan for answering such criticism) or TOLERATE (hope no one says anything!)
- Health crisis (such as epidemic or pandemic) causes closure of facility for long period — TRANSFER (business continuity insurance)

Discuss the other non-financial factors that need to be considered in evaluating the proposal.

1 mark for each point made (to a maximum of 8 marks) in describing the non-financial factors other than risk management.

Possible points that could be made include:

- There are political issues between the HCT trustees and Northbank governors about the merger that could play into this decision. The politics should not be ignored.
- What are the views of the Ministry of Education and Regional Authority representatives? Would they prefer something more educational.
- HCT has a majority on the steering group.
- The reserves used to finance it come mostly from Northbank but the beneficiaries will include HCT pupils, who outnumber Northbank 3 to 2.
- Are there any competing projects that could be financed from reserves that would offer better value for money and/or benefit from broader support amongst stakeholders?
- Who wants this facility? Is it something that is actually demanded in the community or something that the school thinks it can deliver? Is it a “build it and they will come” situation?
- There may be safeguarding issues around opening up the campus to outside groups; additional security measures may be required.
- Market research should be conducted before we build, to assess/confirm the types of facilities that might be attractive to the community.
- The facility will need to be carefully managed as its reputation and that of Headstart will be closely interlinked.

Use your analyses above to draw conclusions and make recommendations on whether to proceed with the proposal.

Up to 3 marks for well-reasoned conclusions that flow from the candidate’s analysis. Up to 2 marks for logical recommendations.

The analysis probably leans towards not building the facility.

The NPV is negative and the payback is quite long at 8 years.

However, the ARR is much higher than the return available from banks and the Director of Resources has a business background and may put more emphasis on this.

There will be the lost interest income from the £788,000 of reserves that will be invested in the project.

There may be a sense that something has to be done because GEG is reducing.

The risk appetite of the trustees, as opposed to the headteacher and Dir of Resources, may have an influence on final outcome. If they are risk-averse, they may choose not to do this project.

The non-financial factors might reinforce the financial evaluation or sway the decision the opposite way.

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