

STRATEGIC CASE STUDY

1 December 2020

MARKING SCHEME

The answers detailed below show some but not all possible answers that were accepted by the marking team. Marks were awarded for other valid answers that might not be included in this document.

Key to marks:

Calculations or the manipulation of numerical data

Most calculations will be straightforward such as the creation of accounting ratios to interpret financial performance, or assessment of the sensitivity of particular estimates.

Some specific calculation marks may be allocated but candidates should not be judged solely on whether figures are 'correct', but on how they reached their figures and the reasonableness of their assumptions and approach.

Narrative

The candidate will be required to demonstrate in their narrative responses, an assessment of the impact and implications of the analysis performed and application of appropriate elements of the syllabus as part of further critical evaluation. Narrative responses should demonstrably inform decisions being faced within the case scenario.

Marks will be awarded for the evaluation of the information given in the context of the specific issues raised by the case scenario. It should demonstrate consideration of an appropriate breadth of issues, such as financial and non-financial perspectives, stakeholder considerations, ethical considerations, strategic risks and the strategic objectives and environmental context of the organisation. Candidates will be expected to demonstrate professional judgement in drawing from this evaluation appropriate conclusions, making practical and relevant recommendations and focusing their answer to suit the user(s).

The allocated marks should again be seen as a guide. Some additional credit may be awarded (within the total marks available for the section concerned and subject to the requirement for appropriate coverage of a breadth of relevant issues) for points which have been developed with particular insight or cogency.

The marking scheme will identify (in bold) points of particular significance for which marks will be ring-fenced. This will limit the marks awarded to candidates who miss the most salient issues.

Reasonable credit may also be given for any points which have not been included in the marking scheme but are clearly valid in the context of the candidate's own calculations or preceding analysis.

General comments:

It is essential that candidates answer all the questions as set and meet the requirement to achieve a minimum of 25% of the marks available for each question.

Any attempt to evade the terms of the question on the grounds that the situation depicted in the examination scenario is unlikely to have arisen or occurred, or is improbable in concept, should not be awarded any credit.

Question 1 (60 marks)

Q1	Response points	Marks	Syllabus content	App'p Std
i)	<p><i>With reference to the existing arrangements, explain why the successful management of the council reorganisation requires that it should instead be run as a formal programme and discuss the implications of doing so.</i></p> <p>1 mark per developed point to a maximum of 12</p> <p>The purpose of a programme</p> <ul style="list-style-type: none"> • The current MEMB focus appears to be on simply delivering distinct project outputs (designing a new organisation structure, implementing a new IT system etc.) from each of the six project streams. It is not therefore surprising that it has already run into difficulties. A programme is more than just a collection of unrelated projects – it is about combining and integrating the outputs from different project streams so that a new way of doing business and delivering services can be achieved and strategic objectives can be met. In the case of ARC this involves the provision of better quality, more integrated, more responsive council services. • Running the reorganisation as a programme, would mean shifting the MEMB's focus to delivery of outcomes (e.g. reducing staff costs, improving the speed with which issues are processed) in order to realise benefits (e.g. cash savings, quicker delivery of services to residents) and ultimately to ensuring delivery of the MEMBs objectives for the reorganisation (financial savings and higher quality service delivery). • In programme management this aim is described as realising the programme vision – the high-level picture of the better future that the programme will deliver. The current vision statement developed by the MEMB now needs to be refined – it is currently too broad, offering only a general wish to be better - but does not yet contain a description of the new services, specific improvements or innovative ways of working which it hopes to deliver. • Refining the programme vision statement will provide several benefits: <ul style="list-style-type: none"> ○ The process of developing the detailed vision statement should help the MEMB to identify the wide range of potential 	12	BCM B1, B2, C1	K.ARC, BA, LSP, SBMG; S.BI, PSDM; B. AV, PS

Q1	Response points	Marks	Syllabus content	App'p Std
	<p>benefits of the merger – the quantifiable, measurable improvements in organisational performance – that the programme should be designed to achieve. Currently it appears that many of the potential benefits that the two councils could gain from working as one have not been identified and so the opportunity to achieve them could be lost.</p> <ul style="list-style-type: none"> ○ This vision statement can then be used by the ME to communicate the planned future to stakeholders. With a wide range of different demographics likely to be affected by the change, and in particular the potential increase in CTPs which may arise as a result of the tax harmonisation process, gaining the buy-in of Austland residents will be an important part of the programme. The councillors on the ME will be up for re-election once the ARC has been formally set up and will want to be sure that they are carrying voters with them. ○ Project teams working on the different project streams are working to deliver specific outputs and may have insufficient understanding of how their outputs will enhance the performance of the council overall. They may be unclear about what they are trying to achieve and how they fit in to the new structure. The vision statement should help the project teams to see the 'bigger picture' they are working towards and to understand how their tasks and activities will fit together to achieve it. <p>Interdependencies</p> <ul style="list-style-type: none"> • Because the different project streams that need to be combined to create the ARC are currently being run separately, the coordination and control of the programme is likely to be poor. A key feature of the management of a programme is the way in which the different projects within the project portfolio are carefully managed to ensure that their interdependencies are taken into account. Recognising these interrelationships should ensure that the tasks and activities carried out by the project teams are integrated. • In practice there are many ways in which the six project streams are interlinked, and thus will need to be coordinated. For example: 			

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	<ul style="list-style-type: none"> ○ Redesigning processes to produce greater efficiencies generally involves the use of IT, and it is likely that many of the changes planned to streamline processes will need to be incorporated into the new IT system. It will therefore be important for the two project teams concerned to work together while the two council systems are being integrated. ○ Introducing process efficiencies may also lead to the selection of new or different suppliers which will have a direct impact on the renegotiation of supplier contracts, but currently these are activities being focused upon in separate projects. ○ The achievement of staffing efficiencies is expected to result in a reduction in headcount. This will have a direct impact on the amount of office space required and therefore on the property rationalisation project. It will be essential that the project teams focused on these issues liaise over the specific requirements. ○ To integrate the IT systems effectively will require a detailed knowledge of the number and location of the staff that will be using the system. This will therefore involve coordination between the IT project, the staff efficiencies project and the property rationalisation project. <p>Achieving key milestones</p> <ul style="list-style-type: none"> ● The MEMB has effectively got four key milestones – points at which there should be a step change in the capabilities of the organisation: <ul style="list-style-type: none"> ○ creation of ARC ○ taking over of business as usual ○ winding down of the existing councils ○ the commissioning of additional services. ● However, it appears that all six project streams were started at the same time. No attempt appears to have been made to consider the overall time frame for the programme, and to ensure that the work required is timed to achieve the specific milestones required. This could cause serious difficulties for example: <ul style="list-style-type: none"> ○ Premises owned by the council could be sold before the staff reorganisation has 			

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	<p>reached the stage where staff can be efficiently moved out of the building.</p> <ul style="list-style-type: none"> ○ Staff with vital knowledge of how processes can be improved may be made redundant before their knowledge can be harnessed. ○ Aspects of the existing councils' 'business as usual' activities could be wound down before the new system is operational, creating gaps in service delivery. ○ New services may be commissioned before the new council is established and able to coordinate them. <ul style="list-style-type: none"> ● Running the reorganisation as a programme will involve dividing the detailed projects in each stream into tranches – each corresponding with the achievement of a key milestone – and then coordinating the timing and activities performed in each of the multiple different projects required. This will ensure that each tranche is delivered on time, and that council activities can continue to run smoothly throughout the transition. <p>Managing the transition</p> <ul style="list-style-type: none"> ● Once the capabilities from each tranche have been delivered, one or more business change managers – appointees focused on coordinating the change itself – should be actively managing the transition from the old ways of working to the new and ensure the outcomes from the tranche are achieved. ● However, it appears that the need for such change agents has currently not been recognised. The failure to bring staff along – key stakeholders in the process - is already leading to communication breakdowns and localised rivalries, increasing the risk of project failures. ● It will be vital to ensure that all council staff remain motivated and engaged and are able to do their jobs. They must understand their role in the new structure, learn how to use the new IT system and any new ways of working, build relationships with staff they don't know from the other council and with new suppliers, and perhaps move buildings. It will take a concerted effort to ensure that they are fully informed, properly trained and motivated during such upheaval in order that the hoped-for benefits actually emerge. 			

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	<ul style="list-style-type: none"> • Running a formal programme with a designated programme structure will highlight the importance of the business change manager role and encourage the MEMB to appoint them. They would then be responsible for leading and coordinating the change, delivering the programme benefits and ensuring the new capabilities are embedded. <p>Programme organisation structure</p> <ul style="list-style-type: none"> • The ME will have a clearer understanding of their role. The current cost estimates may be over-optimistic and yet despite the risk of rising costs being identified by the MEMB, Jamil Hadi, chair of the ME has asked for extensions to the IT project. This suggests a failure to understand the important role of the ME in ensuring the success of the programme. They are the sponsoring group behind it and, as well as providing high-level support, they are responsible for approving investment decisions and should have a clear understanding of the resources needed to complete it. • Rea Shilton is acting as the senior responsible owner (SRO) of the programme. It is therefore her role to take responsibility for ensuring the benefits are delivered and the objectives are met. However, she is also CEO of RCC and will therefore presumably have a large number of other responsibilities in ensuring the 'business as usual' work of RCC continues unaffected. A clearer understanding of this potential conflict should highlight the necessity of reassigning some of her existing work in order to ensure she has the time needed to fulfil her obligations under the programme. • The programme lacks a programme board. This is a key part of the programme structure and should consist of key stakeholders working with the SRO to ensure delivery of the programme. This may include community representatives, senior members of each existing council, and potentially key members of those other services which coordinate service delivery with the council (for example, representatives from the fields of health, education, business etc.) Two vital roles are that of the programme manager (finally now appointed in the person of Jann Jamieson), and the business change manager(s) which should be appointed without delay. 			

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	<ul style="list-style-type: none"> • Finally, the vital role of the programme office will be properly considered. It should be providing support in the form of information, resource management and budgeting and risk analysis and acting as the centre of governance and control. • At present the projects department at RCC appears to have been given the role of programme office. However, given it is also currently running a range of 'business as usual' projects, it is not clear how it will find the resources needed for the programme office – either the existing projects or the programme will be in danger of being under resourced. There are already signs that the level of risk associated with the programme has been underestimated and without sufficient resources available this can only get worse. 			
ii)	<p><i>In preparation for the development of the programme blueprint and benefits realisation plan, discuss the potential benefits which the creation of the ARC should generate in addition to those already listed in the financial benefits budget.</i></p> <p>1 mark per developed point to a maximum of 7</p> <ul style="list-style-type: none"> • The current financial benefits budget identifies only purchasing and process efficiencies, reduction in head count and property savings as likely to arise from the reorganisation. However, there are many other potential synergy gains which should be explored. <p>Transport</p> <ul style="list-style-type: none"> • Transport infrastructure appears to have developed piecemeal so that rural areas are not well linked to each other or Renmouth. Improvements in the bus network, for example, would improve employment options in the rural areas as residents could access work opportunities in the city. There is also clearly a need for a joined-up transport policy around The Strand. As one council, ARC will be able to look at the area holistically, and develop an integrated network of roads, buses and rail links across the county. <p>Finance</p> <ul style="list-style-type: none"> • Where both councils are currently applying independently for similar grants, there will in future be one larger body applying for the whole 	7	BCM B1, B2 SPD B3	K.ARC, BA, SBMG; S.BI, PSDM; B.AV, PS

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	<p>sum. This single more focused voice may have an improved chance of winning the award.</p> <ul style="list-style-type: none"> • The pooling of grant income from the two existing councils may help to counter the financial impact of migration out of rural BC towards the city of Renmouth. The overall number of residents paying CTPs should be relatively stable, allowing a more equitable distribution of spending. • The savings generated from the planned efficiencies could be passed on to businesses in the form of lower business rates. This should help to revitalise the town and city centres and as they recover, businesses may return, increasing the footfall, and attracting yet more firms to the region. This virtuous circle will lead in time to a larger tax base and the potential for higher council revenues. • Assuming the CTP harmonisation process involves moving all rates up to the RCC level, this will create additional income for the ARC, (although this could be unpopular with the existing BC councillors who may fear that an increase will jeopardise their chances of election to ARC in the forthcoming election). <p>Housing</p> <ul style="list-style-type: none"> • The opportunity to develop Heimdell Felt will be a much simpler prospect once the proposal is entirely within the remit of one council. To ensure delivery of a full range of services for the residents and expansion of the transport network to provide access to the site would have required significant coordination from both councils to ensure that issues surrounding environmental protection, transport, utilities, health and education services etc. were properly managed. It is also likely that there would have been additional conflicts over allocation of CTPs and business rates in the area, which will now be avoided. Being able to go ahead with such a potentially worthwhile development, which should attract additional businesses and with it jobs to the region, is a major benefit of the council reorganisation. <p>Service delivery</p> <ul style="list-style-type: none"> • Some specific services are clearly vital in both the city and rural areas; for example, both regions are struggling with drug and alcohol abuse. The combined power of ARC should allow it to develop 			

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	<p>a more coordinated response to the problem and so help to improve outcomes for all its residents.</p> <ul style="list-style-type: none"> The rural areas of the county are struggling with the closure of local schools. If the new housing development on Heimdell Felt goes ahead it, and with it the construction of a new primary school, this should lead, in time, to a corresponding demand for more secondary school places. Acting as a single council, ARC would be better able to rationalise the provision of school places – perhaps locating the new school in the north of the county so that those students currently taking long bus journeys to reach the school could attend locally, freeing up the existing schools in the south of the county for those living near the new development. <p>Tourism</p> <ul style="list-style-type: none"> The county is currently failing to capitalise on the tourist potential in the region. In addition to improving the transport network it will also be simpler for ARC to coordinate other developments such as the introduction of a tourist tax across the county and provide a comprehensive range of accommodation options for tourists. It should also be simpler to develop and coordinate a range of tourist attractions across the region to provide visitors to The Strand with a series of rainy-day options. 			
iii)	<p><i>Evaluate whether the programme will meet its financial objectives, and assess the financial and other risks that must be controlled during its management if the Mirror Executive's objectives are to be achieved.</i></p> <p>1 mark per developed point to a maximum of 17 and up to 3 marks for supporting calculations (see Excel sheets): 2 for targets; 1 for reserves.</p> <p>Financial risks</p> <p>Achievement of existing targets</p> <ul style="list-style-type: none"> The ME has set two specific targets for the reorganisation and initial calculations based on the figures provided (and before taking account of any likely inaccuracies in the estimates) suggest that both are within reach. <ul style="list-style-type: none"> The payback period of 2 years post reorganisation should be achieved, with a 	20	BCM A1, A3, B2, C1; FM B2; SPD B2; D3; SPF B1, B5	K.ARC, BA, FI, LSP, SBMG; S.BI, EI, PSDM; B.AV, PS

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	<p>cumulative cash flow of £573k by December 2024.</p> <ul style="list-style-type: none"> o There is though, very little margin for achievement of the payback target and so small adverse changes in the financial assumptions would mean that this target is not achieved. o The net savings budgeted to be 4.83% of the budgeted joint council spending for the year to December 2021 and so exceed the 4.5% target, albeit again by a small margin. <p>Problems with the estimates</p> <ul style="list-style-type: none"> • It is prudent in the above analysis to have not built in the impact of the LRG given it is uncertain whether it will be received, however calculations show that there would be a significant impact on reserves if the grant is not forthcoming. Even if there is no reduction in reserves as a result of business as usual activities, they are already low and will be depleted to £2 205k by the end of 2023 for the two councils combined due to the phasing of cash flows for the reorganisation. • However, usable reserves have been falling over the past few years. Though the councils have set budgets for 2021 which seek to maintain reserves at their current level, this is reliant on making significant cuts in expenditure. However, it may be imprudent to assume that this will be achievable given the pressures being faced by the council, the scale of cuts already made, the potential for being distracted by the reorganisation programme, and evidence that RCC at least has a recent history of weak expenditure controls and overspending against budget. If business as usual activities cause reserves to continue to fall at the same kind of rate as in recent years, reserves would be precariously low during the reorganisation period and would seriously question the financial case for the reorganisation programme as it is currently set up. • The council is also anticipating receiving another smaller grant for the IT system project. Although this is less critical to the council's finances, the additional risk of not receiving it does exacerbate the existing financial difficulties. • Savings are shown as starting to emerge in the first year of the new council (by December 2023) 			

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	<p>but this may be unrealistic. The previous reorganisation of the two Bagwold councils failed to deliver the expected savings and unless lessons have been learnt the same problem could arise again. If savings are delayed or overestimated, the required payback period will not be achieved.</p> <ul style="list-style-type: none"> • For the first three years the net cash flow position is negative. Even if the grant is awarded, it is not clear whether the grant is to be paid in a single lump sum or in instalments and this will have a significant impact on cash flow. • Inadequate budgeting is a common problem in programme planning and can lead to extensive financial overruns. If cash flows are restricted this could lead to some key later projects being halted as too expensive, or the entire programme scope being restricted at a late stage. • The existing project portfolio should be reviewed and an alternative portfolio should be agreed if the LRG is not approved and alternative funding cannot be obtained, or the grant cash flows do not match the pattern anticipated. <p>Controls over spending</p> <ul style="list-style-type: none"> • One issue specifically picked up by the internal audit summary at RCC was the poor controls over spending operating in a number of different council departments. The programme will require huge sums of money to be expended over an extended period and this represents a significant financial risk. It will be vital that robust controls to prevent, and to detect and correct, any careless or fraudulent misuse of funds are introduced. <p>Assessment of the specific reorganisation costs</p> <p>Transition team</p> <ul style="list-style-type: none"> • The existing intention is to use existing council staff to do much of the reorganisation work, for example to redesign processes, but they are currently overworked and demotivated and they are therefore unlikely to have the time or the mindset needed to carry out the work. • Additionally, current council directors appointed to the MEMB will presumably be busy in that function and have reduced time available to fulfil their 'business as usual' roles. This will put 			

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	<p>pressure on all the staff around them who will have to pick up the slack and will therefore have even less time available.</p> <ul style="list-style-type: none"> • It is likely that it will be necessary to recruit additional resources - either to cover the work of existing staff to free them up to do the work needed, or to carry out the programme work that is required. This will require a budget which does not appear to have been included in the estimates. <p>Pay inequalities</p> <ul style="list-style-type: none"> • No allowance appears to have been made in the estimates for the impact of the national policy change on pay and pensions. Neither council has yet brought salaries into alignment but if the law is in force by March 2022 this could significantly increase the final cost of laying off staff in the reorganisation as severance payments have to be based on existing salaries. • The changes will also affect existing salary bills, and, since enrolment into a workplace pension is a legal right in Fianfora, it will also affect the amount to be paid into the pension schemes being run by the councils. These costs are likely to be significant and as they will also negatively affect reserves, could seriously impact the affordability of the programme. <p>The IT system project</p> <p>i) Inaccurate estimates</p> <ul style="list-style-type: none"> • The IT system project should be planned with an awareness that the LDF grant may not emerge. If this isn't done during the planning stage, later changes to the proposed systems will be forced and may render the delivered system unworkable. • Such projects will be extremely difficult to price in advance, particularly since the MEMB wants to use existing legacy systems combined with new tax billing and supply chain management systems which will need to be integrated with the financial system. This is likely to be more complex to quote for than the design of an entirely new system. • This difficulty will be exacerbated by the pressure to appoint the IT contractor on a fixed price contract. If the council is not completely clear 			

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	<p>about what is required from the new system, there is a risk that the tender bid will be unintentionally low and that in practice the supplier will not be able to deliver all that is needed for the agreed price. This can lead to the provision of a system which is inadequate and poorly supported and which fails to do what was expected of it.</p> <ul style="list-style-type: none"> • Additionally, costs such as system redesign, handover, staff training and post-implementation support are often underestimated. The costs are likely to be higher than if a new system were being introduced into an existing council as with so much change happening at once it will be difficult to plan effectively. • The final budget should also incorporate an additional contingency to cover unexpected costs. IT projects are notoriously hard to predict with accuracy and it is usually recommended that a contingency of up to 20-25% of the initial cost should be included to prevent unexpected costs derailing the whole project. It is not clear whether this has been taken into account in the existing estimates <p>ii) Scope creep</p> <ul style="list-style-type: none"> • Even where existing plans have been accurately estimated, scope creep is a common problem; for example, the ME's desire to introduce electronic tax billing and a supply chain management system while the finance systems are being integrated. • These additional requirements are not necessarily needed as part of the reorganisation and should be seen as separate projects. While they may bring benefits, introducing additional unnecessary scope into the IT project risks increasing costs, delaying completion, and by adding complexity, may make it less likely that the transition to the new system will go smoothly. <p>iii) Staff involvement in system design</p> <ul style="list-style-type: none"> • It will be vital that the staff who use the current system and will be operating the new one should be involved in the system design. Without their input there is a far greater chance that the system will not work as intended and so fail to deliver the functionality sought. If changes are needed to the system after it has been delivered, they will be far 			

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	<p>more expensive than if they had been incorporated at the development stage.</p> <ul style="list-style-type: none"> Given that staff are currently overworked, and the headcount is expected to reduce further during the reorganisation, to ensure the input of staff can be obtained, additional resources are likely to need to be made available – perhaps recruiting temporary staff to carry out the routine work whilst employees consult on the project. A proper project plan should be drawn up, naming key project stakeholders and timetabling their involvement and how their work will be covered during that time. <p>Missing costs</p> <ul style="list-style-type: none"> The predicted costs do not include any costs for managing change or integrating cultures between the two organisations. However, this will be a vital element of any programme and is particularly important given the political and policy differences between the two councils and the level of worry and uncertainty currently displayed. Even after taking account of the inaccuracies surrounding the IT project estimate, an additional overall contingency in the order of 10% would usually be added to the cost estimate for such a programme. This may have been included – but if not, it should be. <p>Other issues</p> <p>Taxation</p> <ul style="list-style-type: none"> In practice it may be politically difficult to harmonise the 30% difference in local tax rates. Councillors on the ME are likely to be very aware of the risk of losing their jobs, with the BC councillors reluctant to see CTPs increase, as it conflicts with the political agenda on which they were elected. These problems, along with slow decision-making historically seen within both councils, mean it may be difficult for the MEMB to reach agreement on which way to move. It is not clear what assumptions have been made in the existing budgets about harmonising tax rates but if they do not rise as much as anticipated, the net savings will be yet harder to achieve. 			

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	<p>Political differences</p> <ul style="list-style-type: none"> • Political differences between the two existing councils may make decision making over some aspects of the ARC very difficult – all the councillors are facing re-election and will want to ensure the interests of their constituents are reflected in the new priorities. This could lead to delays in decision making with a knock-on impact on time frames and costs. <p>Culture and change</p> <ul style="list-style-type: none"> • All the existing executive directors are currently still employed by the ME, although only some of them have been appointed to the MEMB, with the rest continuing with business as usual work. This may have caused some resentment and bad feeling amongst those who were not selected, which is likely to be exacerbated by the fact that they will have to apply for jobs in the new structure. This could lead to unwanted resignations, as it did during the Bagwold reorganisation, when the staff that left the organisation were those the council may have preferred to retain. • There is also evidence that staff across the council are already concerned about their job security and their role within the new ARC. This is likely to only get worse over the coming weeks as the staffing and process efficiencies projects get underway and the prospect of further job cuts emerges. • The flow of communication between staff at all levels and the MEMB must be carefully managed to minimise the damage that this uncertainty could cause. This will be one of the key roles of the business change managers that should be appointed under the programme and so is at risk if such appointments are not made. • Additionally, there is a cultural mismatch between the two councils – one formal and bureaucratic, the other decentralised and hands-off. Whichever culture prevails in the new ARC, it is likely that there will be pockets of suspicion and antagonism between the two groups – something that has already been identified by Jann Jamieson. It will be vital for that this antagonism is managed and a new common culture built that will work for all staff. 			

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	<p>Implementation issues</p> <ul style="list-style-type: none"> One of the roles of the programme manager is to consistently review the project portfolio included in the programme plan. Given the number of potential risks it is clear that the current programme is hugely ambitious and there will be an ongoing risk that some projects will fail, run late or cease to be worthwhile. Monitoring of all such risks, and the consistent amending of the workstreams to ensure the overall programme is delivered, will be a vital process over the coming months. 			
iv)	<p><i>With reference to the development of a new organisation structure for ARC, assess the suitability of the differing models for allocating responsibility and decision-making currently adopted by RC and BCC.</i></p> <p>1 mark per developed point to a maximum of 9</p> <p>Formal structure</p> <ul style="list-style-type: none"> The standard organisation of RAs in Fianfora appears to be based on a formal divisional / functional structure, with the council executive above a management board staffed by executive directors and below them a series of departmental heads each heading up a specialist function. When considering the delivery of services by ARC there are several arguments in favour of this structure, including: <ul style="list-style-type: none"> RAs deliver a wide range of services – from housing and health through to transport and education. The development of specialist skills and knowledge specific to each of the different functions is essential to ensure that services can be developed and delivered as efficiently as possible. In large and growing organisations, such as the newly formed ARC, informal systems of control may not be able to be scaled up effectively. To manage and control an organisation which will be the size of the two existing councils combined will probably require a formal and defined system of delegation and decision making, consistent with a functional organisation. 	9	SPD D1, D2	K.ARC, BA, LSP, SBMG; S.BI, PSDM; B.AV

Q1	Response points	Marks	Syllabus content	App'p Std
	<p data-bbox="261 264 767 293">Decision-making and decentralisation</p> <ul style="list-style-type: none"> <li data-bbox="261 327 979 546">• A separate consideration is the extent to which decision-making power is devolved throughout the organisation. The expressed wish is for flexible, responsive decision-making and this would argue in favour of a heavily decentralised structure, such as that currently in operation in BC. <li data-bbox="261 584 979 875">• However, the existing two councils have very different approaches to decision-making, and it is perhaps not surprising that RCC, as the larger council with a more interventionist approach (delivering services to a larger number of people), operates a more centralised system, with less flexibility. There are a number of reasons why this overall approach would also be suitable for ARC, including: <ul style="list-style-type: none"> <li data-bbox="357 909 979 1223">○ One of the drivers of the reorganisation is the need for efficiency in processes, staffing etc. This is usually achieved by standardising the approach taken to performing the tasks carried out by staff. This goes counter to decentralising decisions which could lead to a variety of approaches – instead a single approach is agreed and then disseminated to all staff to follow. <li data-bbox="357 1261 979 1480">○ The sheer number of different tasks being performed within a council, and the importance of ensuring that nothing is forgotten, emphasises the importance of clarity over job roles – this again suggests a more mechanistic structure will be needed. <li data-bbox="357 1518 979 1809">○ The overriding principle of equity in the delivery of services in the public service arena is a strong argument in favour of standardising the process of decision-making within the council. To allow staff freedom to decide could lead to different residents being treated differently depending on which member of council staff was dealing with their query. <li data-bbox="261 1848 979 1966">• However, if such a mechanistic structure is to be preferred over a more organic approach then there are a number of problems that will need to be overcome: 			

Q1	Response points	Marks	Syllabus content	App'p Std
	<ul style="list-style-type: none"> o Slow decision-making; this already appears to be a problem within both existing councils. The process of deciding to form ARC appears to have taken many months and the internal audit report included a section on multiple meetings which failed to lead to action. Hierarchical, bureaucratic structures are more susceptible to slow decision-making and if a mechanistic approach is taken, this issue will need to be addressed. Possible solutions to this problem include: <ul style="list-style-type: none"> ▪ having wide spans of control (i.e. higher numbers of individuals reporting to a single manager) as this shortens the overall chain of command, and so that fewer layers of management will need to be negotiated to gain approval for decisions. ▪ standardising protocols wherever possible to minimise the need for higher level decision making in the first place (which will fit well with the process efficiency project). o High staff costs – too many expensive senior staff driving up the salary bill is one of the specific issues driving the staffing efficiencies project, yet mechanistic structures tend towards multiple layers of management. Once again, wider spans of control and the standardisation of processes will help to reduce the need for high numbers of senior managers. o Lack of agility – standardisation and a mechanistic approach to decision making will make it difficult for ARC to respond quickly to changing circumstances. One way to counter this is to improve information flows and develop a system of key performance indicators which flag up when a situation changes and a new response is needed. The MEMB should therefore ensure that the management information system being set up for the new council captures, analyses and reports environmental data flows efficiently and that senior management are specifically charged with reviewing it and taking action as needed. o Lack of career progression – a flat structure offers fewer prospects for 			

Q1	Response points	Marks	Syllabus content	App'p Std
	<p>promotion and staff in BC are already concerned about the lack of career progression. However, a newly enlarged council, one commissioning new services, may offer new opportunities for those staff wishing to progress.</p> <ul style="list-style-type: none"> o Lack of job satisfaction owing to lack of decision-making freedoms – it is not clear that this will be an immediate problem for the new ARC. Although staff are demotivated, the primary problem appears to be overwork rather than a desire for more flexibility in their roles. Although the staff at BC are currently used to a more flexible approach, if the efficiencies that come from standardisation reduce their workload, they may be less likely to resist the change of culture. It will also be a key part of the role of the business change managers to bring staff onside and convince them of the advantages of the more formal structure. o However, as the efficiencies project gets underway and workloads settle (assuming the project is successful) this lack of decision-making power may re-emerge as an issue. The council will have to look to other methods of increasing job satisfaction such as: <ul style="list-style-type: none"> ▪ team building activities to build cohesion and ▪ job rotation to develop a wider understanding of the council's work. 			
v)	<p><i>Discuss the impact that the problems identified in Renmouth City Council's Internal Audit Summary are likely to be having on the council's capacity to deliver value for money in council services.</i></p> <p>1 mark per developed point to a maximum of 7, with a minimum of 1 mark reserved for each of the elements of VFM</p> <p>Economy</p> <ul style="list-style-type: none"> • Poor internal controls over spending were identified in several departments. This has several important consequences: <ul style="list-style-type: none"> o There is a greater potential for undetected fraud which could result in the loss of 	7	AA C2, F2; BCM A4; SPD B3; SPF C5	K.ARC, BA, LSP, SBMG; S.BI, PSDM; B.AV, PS

Q1	Response points	Marks	Syllabus content	App'p Std
	<p>significant sums of money, impacting the potential to deliver key services.</p> <ul style="list-style-type: none"> ○ The council is not legally allowed to go into deficit but if individual departments are able to consistently overspend this could further impact reserves and put the council's legal position at risk. ○ A failure to control a matter as vital as spending suggests an overall culture of poor risk management which could have far reaching impacts across all departments. <p>Efficiency</p> <ul style="list-style-type: none"> • The issues identified by the Internal Audit department at RCC demonstrate a worrying level of waste and inefficiency within the council, which will inevitably lead to a failure to deliver strategic outcomes. • One way to evaluate the impact of inefficiency is to consider the activities of the council using the concept of lean thinking. This is about achieving greater efficiency and service levels by eliminating waste (any activity that does not add value). • The Internal Audit department has identified the following examples of waste within RCC: <ul style="list-style-type: none"> ○ Unnecessary movements – staff across many departments are wasting time searching for documents that have been misfiled. With staff currently overworked and on an overtime ban, this will be exacerbating the existing difficulties being faced by the council. ○ Waiting – long delays have currently been identified across the council specifically: <ul style="list-style-type: none"> ▪ residents are unable to get hold of staff working in council departments (either on the phone and by email). This may be leading to the delay in the delivery of essential services as residents cannot ask for help or log their need. ▪ the delivery of documents needed for council decision-making (such as the plans for the sewerage network) is being held up. This is having a knock-on effect on the work of other 			

Q1	Response points	Marks	Syllabus content	App'p Std
	<p>departments leading to unacceptable delays in the delivery of services.</p> <ul style="list-style-type: none"> ▪ points raised in meetings are not being actioned. This will not only lead to further backlogs and delays, but hints at a failure of controls within the council and therefore at a systemic problem with management. If there are no consequences for failing to take action, staff have little reason to follow instructions in the first place. ○ Processing – council staff are spending time holding numerous meetings that are not needed and do not result in action points. This will be contributing to the low levels of motivation being experienced by council staff and the increasing uncertainty about job roles and the purpose of the work being carried out. ○ Inventory - almost all applications to the council require multiple copies of paper documents. This creates problems such as the need for physical filing space, adds to the existing filing burden, and makes applications more complex and expensive for residents. ○ However, this failure to instigate the planned 'paperless office' initiative also highlights a potentially broader issue – the failure of council departments to align behaviour with the planned strategic direction of senior management. This suggests that business change managers will have to work hard to overcome initial staff resistance to change. ○ Correction – once lost records have been found they will presumably need to be renumbered and re-filed. This creates extra unnecessary work for staff. ○ Overburdened staff – where staff are overworked it tends to lead to ineffective working practices and greater delays arising from sickness or high turnover. Reducing headcount still further will be an unpopular move and will need to be carefully managed. <p>Effectiveness</p> <ul style="list-style-type: none"> • In addition to the potential problems discussed above, the audit summary gives two specific examples where outcomes have been impacted by the failure of efficiency within RCC: 			

Q1	Response points	Marks	Syllabus content	App'p Std
	<ul style="list-style-type: none"> ○ The delay to the road system repairs to the road to Ibsen airport goes counter to the council's existing priority to improve the city's transport network. ○ The failure to act on the previous internal audit reports (three of the five findings have been raised before), in particular, Finding 5, that there were poor controls over spending, suggests a disregard for financial probity at a time when the Fianfora government is making cuts in spending. This will inevitably have led to unnecessary cuts in service delivery. 			
vi)	<p><i>Discuss the ethical issues arising from the potential errors in the Local Digital Fund grant applications and suggest the appropriate actions that should be take.</i></p> <p>1 mark per developed point to a maximum of 5, with a maximum of 3 for analysis of issues and a maximum of 3 for appropriate actions</p> <p>Integrity</p> <ul style="list-style-type: none"> • IFAC members must be trustworthy, truthful and honest. This means that now the potential error has been identified, the previous incorrect claim cannot be overlooked or ignored even if no one has noticed to date. <p>Objectivity</p> <ul style="list-style-type: none"> • Members must maintain professional independence and not allow prejudice, bias, conflict of interest or influence of others to influence or override their professional judgement. This means that if an error does exist, it must be treated appropriately regardless of any instructions from Kris to do otherwise. <p>Professional behaviour</p> <ul style="list-style-type: none"> • Members must act in a manner consistent with the good reputation of the profession and IFAC. Hali must determine how to proceed to avoid causing problems - as Kris Anker's standing with the CEO and the CFO may be damaged as a result of the error. Her unwillingness to acknowledge the error also casts doubt over her integrity. So, it will be important not to act until certain of the facts involved. 	5	CGL H4	K.ARC, BA, LSP, SBMG; S.BI, EI, PSDM; B.AV, PS

Q1	Response points	Marks	Syllabus content	App'p Std
	<p>Suggested actions to be taken:</p> <p>Check</p> <ul style="list-style-type: none"> Review the figures identified by Eli to confirm whether or not the error(s) do exist. <p>Report</p> <ul style="list-style-type: none"> If the application(s) do contain an error, talk to Kris and attempt to persuade her to remedy the problem personally. If Kris refuses to acknowledge the problem then the matter may be reported to Jiang Li, CFO of the MEMB. If Jiang fails to respond, the matter should then be reported to the Audit Committee – assuming one has been created. <p>Correct</p> <p>If an error is shown to have been made in the original BC application:</p> <ul style="list-style-type: none"> Declare the overpayment to the relevant authorities, but appeal to have the overclaim treated sympathetically given its historic nature. Identify the financial consequences for the council's budget if repayment (and potentially a penalty for an incorrect claim) is required and arrange a repayment plan with the relevant authority and update future cash flow forecasts to take account of any repayments. <p>If an error exists in the current claim:</p> <ul style="list-style-type: none"> Notify the authority of the need to amend the current claim immediately, amend the paperwork to be sent in support to reflect the correct amount and adjust the budget to reduce the expected grant income. <p>Prevent</p> <ul style="list-style-type: none"> An internal audit review of the processes applied when making grant applications should be carried out and any flaws corrected. If problems do exist in the way applications are completed or checked, this could have also impacted large applications like that for the LRG, which would have serious ramifications for the budgeted reorganisation costs. 			

Question 2 (40 marks)

Q2	Response points	Marks	Syllabus content	App'p Std
i)	<p><i>Discuss suitable strategic outcomes for Austland Regional Council's (ARC) tourism promotion project.</i></p> <p>1 mark per developed point to a maximum of 5</p> <ul style="list-style-type: none"> • The stated aims of the two existing councils with regard to tourism are to increase the number of visitors to Austland (RCC) and to extend the length of the tourist season in the region (BC). These primary objectives could be seen as part of a larger drive to achieve the outcomes below. • Economic regeneration – increasing tourism will provide growth opportunities for the large number of industries which support it, such as accommodation providers, cafes and restaurants, outside activity providers, local shops, the local transport network etc. Specifically, this should result in: <ul style="list-style-type: none"> ○ Job creation – as well as increasing the number of jobs during the current season, extending the season should lead to the creation of many more permanent jobs. New and better jobs should then have a knock-on effect on longer term outcomes such as the reduction in crime, homelessness and substance abuse. ○ Improved transport network – as well as improving conditions for tourists, investment in the transport infrastructure will provide Austland residents with better access to the rest of the county, making it simpler to work further from home, improving access to the towns and cities for shopping and leisure, opening up opportunities for international travel via Ibsen airport etc. ○ Regeneration of the city centres – improved access and greater economic prosperity for locals, plus greater numbers of visitors should bring shoppers back to the town and city centres. This should help to support existing businesses and attract more businesses into area and careful siting of suitable 'rainy-day' visitor attractions, as suggested by the tourist report, could further increase footfall. 	5	SPD A1, B2; B3; SPF C5	K.BA, SBMG; S.BI, PSDM; B.AV

Q2	Response points	Marks	Syllabus content	App'p Std
	<ul style="list-style-type: none"> ○ Regeneration of rural areas – better road access and local job opportunities in the sports and leisure industries should improve the prospects for those living in rural areas. This might therefore help to stem the tide of youth migration to the cities and encourage movement back to the country, revitalising local businesses. It would also help with issues such as rural loneliness and isolation. ○ Increase council income streams: <ul style="list-style-type: none"> ▪ Improving the prospects of businesses in the region should in time result in additional business rates and potentially rental income for ARC. ▪ Improved job prospects may result in increased migration into Austland (rural and urban, as it is likely many jobs will be located near the areas of natural beauty). This should lead to greater numbers of people paying CTPs. ▪ Introduction of the suggested tourist tax may not produce a net income stream, but should at least help to offset the costs of the planned investment in tourism. ● Minimising environmental impact – large scale developments of the types being considered by ARC can have a significant negative impact on landscapes, biodiversity, pollution etc. Both existing councils have expressed concern for protecting the environment and this must be given a high strategic priority as the planned economic regeneration is being pursued. In addition to protecting the environment for its own sake, protection of the landscape is vital for the development of tourism as it is that natural beauty that will attract tourists in the first place. ● Perhaps a less immediate outcome, but one that should not be neglected as the initiative gets underway, is that of encouraging local people to access the activities on offer. Improving the health of the population can in part be achieved by encouraging more exercise, and initiatives such as locals' prices or loyalty cards, could work to get more involved in the activities on offer. 			

Q2	Response points	Marks	Syllabus content	App'p Std
ii)	<p><i>To inform the development of the Tourism Commissioning Strategy (TCS), discuss the purpose and scope of the analysis stage of the commissioning cycle, and identify the quantitative and qualitative information that will need to be collected for it.</i></p> <p>1 mark per developed point to a maximum of 9 Up to a maximum of 3 for the analysis stage, and up to 7 for the information to collect (with a maximum of 4 for each element, with 1 per element reserved for each of qualitative and quantitative sources) Students should be restricted to 2 marks in total if their answers do not specifically apply to commissioning tourism.</p> <p>Purpose of the analysis stage</p> <ul style="list-style-type: none"> • The purpose of the analysis stage of the TCS will be to gain an understanding of the issues facing tourists in the region and the possible solutions available to meet their needs. • To undertake the analysis will require two pieces of research: <ul style="list-style-type: none"> ○ a strategic needs and demands assessment – to identify what is lacking in the current provision of tourist services, ARC must first understand: <ul style="list-style-type: none"> ▪ the profile of recent visitors to Austland (and those who could be attracted to the region in future) bearing in mind that the data that exists relates to 2019 ▪ what it is that tourists need from tourist services now (and what they might want in the future) taking into account that needs may have changed considerably as a result of the impact of the pandemic ▪ the main factors that are contributing to those needs ○ a service provision review – to evaluate the existing tourist provision in the region and the capacity it has to expand in the future, in order that the council can work out how best to fill the gaps. 	9	BCM D1	K.BA, SBMG; S.BI, PSDM; B.AV

Q2	Response points	Marks	Syllabus content	App'p Std
	<p>Required information</p> <p><u>Needs and demands</u></p> <p>Quantitative data</p> <ul style="list-style-type: none"> • To determine the extent of the need now and in the future will require information such as: <ul style="list-style-type: none"> ○ recent visitor figures in absolute numbers and trends over time ○ average length of stay ○ average spend per head ○ where visitors travelled from ○ how visitors travelled to the county ○ demographic breakdown of travellers ○ the activities they got involved in. <p>Qualitative data</p> <ul style="list-style-type: none"> • This should be designed to understand visitor preferences and cover areas such as: <ul style="list-style-type: none"> ○ Transport and accessibility - Ensuring that areas that are currently poorly served by the transport network can be readily accessed will be a key issue. This will require an understanding of: <ul style="list-style-type: none"> ▪ Where people actually want to go – i.e. the popularity of the different sites across the region - how demand is broken down across the region will help ARC to identify how best to direct development resources. It is likely that the most sought-after areas may also be the most remote ▪ Which methods of transport they would prefer to use and how much they would be willing to pay ▪ When they prefer to travel. ○ Accommodation needs including <ul style="list-style-type: none"> ▪ Types of accommodation desired ▪ Price sensitivity of different demographic groups. ○ A judgement will be needed on how reliable the information collated in the 2019 study is likely to be – how much might pre-pandemic behaviours be relevant as a guide to post-pandemic behaviours despite Fianfora’s relatively strong record at containing its impact. If feasible, it may be necessary to conduct 			

Q2	Response points	Marks	Syllabus content	App'p Std
	<p>a follow-up survey with the 2019 respondents.</p> <ul style="list-style-type: none"> o Entertainment preferences o Potential impact of imposing a tourist tax on choices. <p><u>Service provision</u></p> <p>Quantitative data</p> <ul style="list-style-type: none"> • A breakdown of all the available tourist accommodation broken down by type (from basic to high-end), including occupancy rates, prices charged etc. • Details of locations of existing supporting industries such as cafes, restaurants, shops, entertainment venues etc., plus any planning or licensing applications currently under consideration. • Labour supply to support the growth of the tourist industry – the amount and quality of the labour available will vary according to proximity of tourist accommodation, visitor attractions etc. to existing towns and villages. ARC will need to know: <ul style="list-style-type: none"> o The number of people in the region currently employed in the tourist industry, including existing skillsets and current rates of pay, broken down by region and type of work o Levels of unemployment in the region and skillsets of the unemployed. • Details of the existing transport network in the county (road layout, rail network, bus service etc.) including any developments already in the pipeline. This should include: <ul style="list-style-type: none"> o A breakdown of costs, regularity of service, transport hubs etc o The potential increases in journeys that are likely to result from anticipated changes such as the expansion of Renmouth into Heimdell Felt, plus the areas most likely to be developed for visitor accommodation, rainy-day tourist venues etc., as this will help the council to develop joined up transport options 			

Q2	Response points	Marks	Syllabus content	App'p Std
	<ul style="list-style-type: none"> ○ The potential capacity of Ibsen Airport and the likely impact increased capacity would have on the rest of the transport network. <p>Qualitative data</p> <ul style="list-style-type: none"> ● In addition to the data listed above, ARC will need to understand how tourists feel about the quality, usefulness, attractiveness etc of the existing services. It will be important to gather this information for all the areas listed – accommodation, food and entertainment venues, travel network etc. This may need to focus on potential tourists rather than past visitors to the region. 			
iii)	<p><i>Discuss ways in which ARC can facilitate the market to ensure there is sufficient appropriate accommodation in the region to meet the needs of tourists.</i></p> <p>1 mark per developed point to a maximum of 6</p> <ul style="list-style-type: none"> ● In order to determine what will attract accommodation providers it will be vital to talk to both existing and potential accommodation providers (from backpacker hostels to high-end hoteliers) to determine what they require to enter into or remain in the market. Their input should drive the final decision, but solutions could include: <ul style="list-style-type: none"> ○ Simplifying the planning process to allow easier conversion of existing properties into suitable accommodation, and to encourage the building of appropriate new properties in the area. ○ By identifying the most appropriate locations, ARC can ensure that the infrastructure is in place to encourage accommodation developments. This can be through appropriate roads, water and other basic services. ○ Extend planning permissions to ensure that a range of supporting businesses - restaurants, shops etc - are also established within reach of the accommodation to provide tourists with all they will need and so encourage them to stay. 	6	BCM D1	K.BA, SBMG; S.BI, PSDM; B.AV

Q2	Response points	Marks	Syllabus content	App'p Std
	<ul style="list-style-type: none"> ○ Provide grants for hospitality training for local people to gain the skills needed to work in the industry so that those providing the accommodation can employ suitable staff. ○ Put local people who are interested in entering the market in touch with each other to allow them to work together – to, for example, build and run hotels, develop group loyalty schemes etc. ○ Introduce inspections (or ensure existing regulatory inspections are enforced) to ensure that poor quality providers cannot operate, and undercut legitimate providers. ○ Provide links to a council approved system for booking accommodation so that providers have reassurance they will have sufficient custom to remain profitable. ○ Introducing a tourist tax to be collected per tourist per night and allowing accommodation providers to retain some proportion of it as direct income. ○ Reducing business rates for those providing tourist accommodation. 			
iv)	<p><i>Evaluate the two options being considered for developing sustainable accommodation for The Strand, identifying the additional information that would be needed in order to make a final decision between them.</i></p> <p>1 mark per developed point to a maximum of 13. A maximum of 9 marks per option, with a balanced discussion expected for each option, and a minimum of 2 marks per option is reserved for identifying additional information needed.</p> <p>Note: There is no suggestion that the council is considering a third alternative in addition to the two mentioned – i.e. it is not also contemplating developing the accommodation alone – so the advantages and disadvantages of the two options discussed below relate to how they compare with each other.</p>	13	FM A3, B2; SPD D3; SPF A5, B3, C4	K.ARC, BA, LSP, SBMG; S.BI, PSDM; B.AV

Q2	Response points	Marks	Syllabus content	App'p Std
	<p>PPP with Teltco</p> <p>Advantages</p> <ul style="list-style-type: none"> • Since Teltco is already up and running, the council can start the development process at soon as a contract has been agreed. • Once the contract has been negotiated, ARC will incur no further set up costs. • There is no need for ARC to acquire or develop any specific skills, knowledge and expertise as this is being purchased outright from Teltco. • Risk is being transferred from ARC to Teltco as it is the company that will incur the full development costs and rely on the resulting revenue stream. <p>Disadvantages</p> <ul style="list-style-type: none"> • Teltco is a large international company and may have significant bargaining power compared to ARC. It will therefore be vital for the council's procurement team to negotiate a good deal at the start, as once agreed the contract will then be in place for 15 years. • ARC will have less day to day control over the development than under the joint venture option. This could lead to: <ul style="list-style-type: none"> ○ Later conflicts over matters such as sustainability, quality standards, environmental protection, marketing etc. ○ Difficulties in determining legal responsibilities, for example, in the case of accidents and injuries occurring at the sites. <p>It will therefore be important to agree specific standards at the outset and develop a robust contract management process with clear mechanisms in place for monitoring Teltco's performance and established protocols for the action to be taken if standards are not met.</p> <ul style="list-style-type: none"> • There is also a risk that if Teltco do not plan to renew the contract at the end of the 15 years, they may start running down the sites towards the end of the period. Specific conditions concerning the maintenance of standards over 			

Q2	Response points	Marks	Syllabus content	App'p Std
	<p>the entire period will therefore need to be built into the contract.</p> <ul style="list-style-type: none"> • If Teltco choose not to renew, ARC will then need to start a retendering process for the sites. <p>Conclusion</p> <p>This option is quick, simple, and provided the contract is well negotiated from the outset, relatively low risk. Ongoing contract management will be required but this should be a core skill within the council and therefore straightforward to implement.</p> <p>Joint Venture with CF</p> <p>Advantages</p> <ul style="list-style-type: none"> • As with the PPP option, ARC gets access to the skills, assets, knowledge of CF, which will assist with the development process. Unlike the PPP they will have to contribute administrative and financial capability, but these competencies should be within the normal skill set of the council. • The council will be able to share directly in the financial benefits which may accrue from the development. This profit sharing could potentially take two forms: <ul style="list-style-type: none"> ○ Benefitting directly from sharing in the income stream generated from campsite bookings. ○ 'Value capture' as if the venture is successful the investment in the partnership increases in value, and therefore represents a saleable asset. • As a partner in the business the council will have more control over the development day to day and will be able ensure ongoing maintenance of quality standards, environmental protections etc. <p>Disadvantages</p> <ul style="list-style-type: none"> • The profit split between the two partners has not yet been agreed. Both partners would be contributing a mix of finance and expertise. To determine a suitable ratio for profit allocation will require a subjective valuation to be placed on the expertise being offered by both partners and for both parties to agree. This is likely to be a 			

Q2	Response points	Marks	Syllabus content	App'p Std
	<p>complex process and if agreement cannot be reached it could result in the potential partnership failing before it even begins.</p> <ul style="list-style-type: none"> • The council will be required to inject capital with 30% of the finance to be put up by ARC. This is to be raised by a bond issue and the need to meet the interest payments will increase gearing and put increasing pressure on council spending. This option therefore increases the council's financial risk profile. • The council will also be taking on the risk associated with the variability of the income stream to be earned from the accommodation. Uncertainty over cash inflows will make budgeting more difficult. • More active involvement in the development means greater demands on the resources of ARC which may be better focused on the delivery of core services. ARC has ambitious plans to improve services across the region and can/should not place its capacity to deliver other services at risk as a result of financial loss or stretched resources. • Disagreements will arise if there is a failure to develop a clear shared vision. The development will need to be in keeping with the tourism plan for ARC as a whole, which may not accord with the intentions of CF. • Disputes may arise between the partners over how the business should be run, costs incurred, management charges allocated etc. As with the PPP the solution is to spend sufficient time developing the details of the contract before the development begins. • The process will take longer to get underway as the partnership would first need to be established. • The running costs of the JV must be controlled to avoid them eating into the profits. The council does not have a great record with cost control and will be heavily reliant on the management skills of CF. • If the JV breaks down it may be difficult to later extricate the council from the arrangement. 			

Q2	Response points	Marks	Syllabus content	App'p Std
	<ul style="list-style-type: none"> • Running campsites is not the business the council is in. It is questionable whether it is an appropriate activity for the council to move into. <p>Conclusion</p> <ul style="list-style-type: none"> • The JV offers more potential upside but also far more potential downside. At a time when reserves are challenged and the council is focussed on improving its delivery of core services, the lower risk option, the PPP with Teltco, appears, at first analysis, to be the better one. <p>Additional information</p> <ul style="list-style-type: none"> • The key information needed to evaluate the two options is a financial evaluation. Specifically: <ul style="list-style-type: none"> ○ Estimated cash flows over the fifteen-year period ○ A net present value for each option discounted at an appropriate discount rate ○ Details of all existing assets including locations, initial costs and market values ○ Due diligence reviews of Teltco and CF. 			
v)	<p><i>Use weighted benefit scoring to evaluate the licensing options for the town of Knarravik and discuss the other issues that should be considered before a decision is taken.</i></p> <p>1 mark per developed point to a maximum of 5 and up to 2 marks for supporting calculations (see Excel sheet).</p> <ul style="list-style-type: none"> • Based on the weighted benefit scoring calculations the FLA option scores lower than the LLA (5.65 compared to 6.05) and so only an LLA should be granted. • However, the staff in BC's planning department selected only the concerns from the Fianfora Tourism Study that they believed were relevant to the licensing decision. It is not clear how they chose which concerns to include nor how they went about scoring the two licensing options against them. The validity of the weighted benefit scoring calculation depends entirely on the subjective choices of the staff in the department and therefore may not stand up to detailed scrutiny. 	7	FM C1; SPF C3	K.ARC, BA, FI, SBMG; S.BI, PSDM; B.AV, PS

Q2	Response points	Marks	Syllabus content	App'p Std
	<ul style="list-style-type: none"> • Additionally, the Fianfora Tourism Study is based on the general concerns of tourists to coastal towns across the country. It is not clear how well it reflects the specific concerns of visitors to the town of Knarravik. The reputation of the town as a centre for beach parties and late-night gatherings suggests that its young visitors would be more interested in access to bars and clubs than the elegance of the seafront. <p>In addition, a range of other factors need to be considered:</p> <ul style="list-style-type: none"> • The current calculation ignores the financial implications of each option – i.e. how much net revenue will each bring in (taking account of any additional costs associated with each as a result of increased policing, greater levels of street cleaning etc.). This can be calculated in one of two ways: <ul style="list-style-type: none"> ○ Revenue earned can be added as another factor to be considered, weighted relative to the others and then each option could be scored. ○ The net cost could be compared with the weighted score to find a cost per weighted score. Given the importance of maintaining budgets within the council, this method, which takes more account of the net income stream, would probably be preferred. • ARC is keen to increase tourism in the region and, based on the research conducted by Fianfora State University, this will mean encouraging a range of businesses to establish themselves in the area including restaurants and cafes and wet weather entertainment (such as velodromes and aquatic centres). Additionally, Knarravik is the nearest town to both The Strand and (potentially) the Heimdell Felt development. To provide adequate shopping and leisure opportunities for both would suggest that all development should be encouraged. This would suggest an FLA may be more suitable. • The provision of business licences is not just about improving the location for tourists. It should also be about providing economic and leisure opportunities for local people. Establishing Krystby Sands as a late-night party venue may not accord with the concerns listed in the tourist survey, but could attract large numbers of local people and high visitor 			

Q2	Response points	Marks	Syllabus content	App'p Std
	<p>numbers, extend the tourist season and provide permanent work for local residents. Before any decision is taken the concerns and interests of those living in and around Krystby Sands should be taken into account.</p> <ul style="list-style-type: none"> • The decision in part depends on whether the new council has a preference for devolved or centralised decision-making: <ul style="list-style-type: none"> ○ RCC staff are likely to be inherently biased towards the option where they retain most control which would suggest a preference for an LLA ○ On the other hand, staff at BC, used to decentralised decision making, may be inclined to give the region the maximum level of power by issuing an FLA. <p>It is not yet clear how this a tension between the way the two existing councils operate is to be resolved.</p> <ul style="list-style-type: none"> • A related factor is the level of trust the council has in the decision-makers within Knarravik MC. The MC is a formal administrative hub for the larger RA and would therefore be expected to act in accordance with the wider wishes of the RA. This would include taking account of the broader tourism strategy being developed within Austland as a whole. • However, local MCs have a strong incentive to issue licences as they are entitled to keep the revenue raised – this may lead them to focus on the short-term benefits to the town rather than the wider impact on the region as a whole. 			