Advanced Material

This Advanced Material contains a pre-seen case study provided to students prior to the exam date. Students should familiarise themselves with the Advanced Material before they sit the exam. The Advanced Material provides key information and forms the basis of the requirements set out in the exam day materials.

Exam: Strategic Case Study (SCS)

Exam Sitting: June 2023

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The country of Carnelia

Carnelia is a wealthy, developed country in northern Europe. It has a population of about 25 million people and ranks highly in terms of income per capita, economic freedoms, education, civil liberties and quality of life. The country comprises 18 regions and each region's population has a separate cultural and social identity.

The currency in Carnelia is the pound (£). Consumer price inflation and interest rates in Carnelia have been very low over the past decade but both began to rise in 2021 and increased still further in 2022. The rate of inflation has now fallen to 6 per cent and is forecast to be around 5 per cent through 2024 before dropping to 3 per cent in 2025 and 2026.

In 2022 the national government took action to increase its revenues and reduce its ongoing deficit. There has been a short-term boost to revenues through a windfall tax on the profits of companies selling the fuels used to create energy. There was also an increase in the employer's contribution to the National Social Insurance Fund (NSIF) to 13 per cent of all employees' salaries.

The NSIF is a social insurance scheme designed to provide pensions to people over the age of 68, and to provide financial benefits to people who suffer other contingencies that limit their incomes. These contingencies may be long-term illness or disability, death of spouse and death of parents of children under 18. Both employees and employers make contributions to the fund each month. Employees' contributions vary according to salary level, but there is a fixed contribution rate for employers.

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Local government in Carnelia

Carnelia's government is unitary with a tiered structure encompassing national, regional and local governments. The national government is responsible for areas such as foreign affairs, police, defence, the national transport infrastructure and telecommunications.

There are 18 regional councils that are responsible in their regions for education, healthcare, social care, local highways and fire and rescue services. At the bottom level of government there are 93 local councils (either city or district councils) that are responsible for delivery of local services such as housing, refuse collection and disposal, tourism and public transport.

All of the councils are funded from a mix of local sales and property taxes, direct grants from national government and a range of fees and charges for services they provide.

The Minister of Finance has recently made several public statements about the need for cuts in public spending over the medium term, in order to avoid an unaffordable increase in the government's total debt. The national budget for 2024 (the public sector financial year matches the calendar year) is widely expected to require spending cuts in real terms. The outlook for the national budget in 2025 and 2026 is equally pessimistic.

Policing in Carnelia

Policing is organised into 18 forces that align with the boundaries of the 18 regional governments. At the national level, the Minister of Justice is responsible for policing, and also for the courts, prisons and probation services. The Minister of Justice sets performance standards and targets for all police forces.

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There is an elected Police Commissioner for each region whose responsibilities include appointing (in consultation with the Minister of Justice) their Chief Constable, approving the annual budget for the Force and holding the Chief Constable to account for the delivery of policing in the region.

The term of election is four years and there is no limit on how many terms an individual can serve as a Police Commissioner. The next set of Police Commissioner elections will take place in 2024.

A Chief Constable has overall responsibility for leading a police force. They have command of their force's response to crime and critical incidents within their region, and they are directly accountable for this to the Police Commissioner.

Chief Constables are appointed on fixed-term contracts of three years. It is rare for a Chief Constable to serve more than one term of three years. Sometimes this is because the Police Commissioner wants to make a change. Often, however, it is a consequence of the Chief Constables being close to retirement age by the time they reach the top of their profession.

Police officers have unique employment terms and conditions within Carnelia. They do not have the right to strike, and they cannot be dismissed from their jobs without cause (that is, they cannot be made redundant). Police forces can, however, have a policy requiring their officers to retire on completion of 30 years' service.

Not everyone who works for a police force is a police officer with the power of arrest. There are many jobs in a police force that do not require the power of arrest and these can be carried out by civilians, who are referred to as "police staff".

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Police funding

The Ministry of Justice provides the main funding source for all 18 police forces through the payment of the Police Grant. The amount varies amongst forces, and is in the range of 45 per cent to 55 per cent of the force's annual revenue spending.

Each force's Police Grant is calculated by the Ministry of Justice using a formula that takes into account a number of factors, including:

- population numbers
- population density
- crime levels
- the level of economic deprivation in the region.

Real terms cuts to the Ministry of Justice's budget, if they materialise in 2024 and beyond, will certainly lead to cuts in the Police Grant paid to the nation's police forces because it is one of the Ministry's largest budget lines.

Aside from the Police Grant, the balance of funding for police forces comes from the following sources:

- a share of local tax income (collected on behalf of each force by its local councils);
- direct grants (usually with conditions and/or restrictions attached) from other government bodies to fund, in part or full, specified schemes or projects;
- fees and charges for supplying police officers to profit-seeking events (such as professional sports events and music festivals);
- contributions from one force to another for shared services;

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- income from fixed penalty notices (fines) paid by offenders for minor traffic offences; and
- a share of money or goods forfeited by convicted criminals under the Proceeds of Crime Act. Any such income can only be used to fund crime prevention activities.

Police forces have the power to borrow to finance capital expenditure but this is constrained by the *Prudential Code for Public Sector Borrowing*. This is a Ministry of Finance document that must be followed by all of the sub-national public bodies in Carnelia that have the power to use borrowing to finance their expenditure. In practice, this means a Police Commissioner can only approve borrowing up to a level that they can prove their force can afford to repay.

Montfordshire Police

Montfordshire Police has 1,188 full-time equivalent (FTE) police officers and 397 FTE police staff. This makes it one of the smallest forces in Carnelia.

Montfordshire is a large region, the second largest in Carnelia by area, with a population of about 550,000 (the average population in a region is 1.4 million). Most of Montfordshire is either in a national park or used for agriculture. Agriculture is the largest sector of the region's economy, followed by services connected with tourism.

There are a few small market towns and one city, Montford, with a population of 125,000. The city has a rich history and is a tourist attraction in its own right. This means hotels, restaurants and bars make up a substantial element of the local economy. About 20 years ago, a university was established there and it has been successful in growing to more than 5,000 students.

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The Police Commissioner is John Stone. He was first elected as Police Commissioner in 2016, was re-elected in 2020 and is intending to stand again at the election in the spring of 2024. He is a member of the conservative National Party, which argues for high levels of freedom for individuals and businesses, limited regulations, low taxes and small government.

The Chief Constable is Priya Ponnappa. She took up the post on 1 January 2023 following the retirement of her predecessor. She spent most of her police career working through the ranks of a force in one of the country's metropolitan city regions, before becoming the Deputy Chief Constable in Montfordshire from 2019 to 2022.

The Chief Constable is supported by a senior leadership team referred to as the Chief Officer Group (COG). The members of COG are the Deputy Chief Constable (DCC), two Assistant Chief Constables (ACCs), the Director of Resources and the Chief Finance Officer (CFO).

The DCC's role concentrates on the operational management of the force. Each ACC leads the force within a district, one for the east of the region and the one for the west.

Anna Lambert is the Director of Resources. She is responsible for all the business support services in the Force including finance, human resources (HR), ICT, estates, facilities management, fleet management, press and communications and performance management. Anna has a small Contracts and Partnerships team that manages all the significant contracts including, most importantly, the contract for the force's business support services.

The contract with BlueLine Services

Montfordshire Police has outsourced some of its support services to a company called BlueLine Services Limited (BlueLine). BlueLine was created by a multinational

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outsourcing company specifically to win contracts from Carnelia's emergency services (police, fire, ambulance, coastguard). The Montfordshire Police contract was its first and remains its largest in terms of annual revenue.

The Force's contract with BlueLine was awarded following an open procurement process that took 14 months to complete. The contract has a ten-year term and commenced on 1 July 2014. The scope of the contract covers:

- transactional **financial services** including finance business partners, financial accounting, procurement, accounts payable and accounts receivable;
- operational **human resources** services including recruitment, payroll, and employee training; and
- the full range of **ICT services** including data centres, communications, system administration, and the helpdesk.

When the contract was awarded to BlueLine, it reduced the Force's annual spending on these three support services by an average of 12 per cent. However, BlueLine's performance over the nine years since 2014 has been, in general, worse than was promised but not so bad that the Force sought to terminate the contract.

The Force's leaders had hoped that BlueLine would identify opportunities to improve the police service and bring ideas from outside of policing into the force. However, there has been very little, if any, innovation in ICT, the way that budgets are managed in finance, the way recruitment is done in HR, or the rationalisation of the force's premises.

The contract with BlueLine includes a clause to allow it to be extended for three more years (that is, until 30 June 2027). The process of awarding an extension requires BlueLine to submit a proposal (the equivalent of a tender) outlining its proposals for

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service delivery during the extension period and the associated contract prices. The Force can either accept or reject any such proposal.

Montfordshire Police triggered this process in 2022 and received BlueLine's proposals in December 2022. As part of the process, the Force asked for proposals that would make a significant contribution towards meeting the financial challenges inherent in the medium-term financial strategy (see Appendix 1). In response, BlueLine's proposals set out a plan for the three years where the service performance levels and standards would remain as they are (and have been since 2014) and the prices would roll forward with annual increases linked to the Consumer Price Index.

The proposals were evaluated by a project team and their findings were discussed by the Chief Officer Group in January 2023. The members of the group were divided in their views but the Director of Resources strongly encouraged the Chief Constable at the time to accept the proposals, and ultimately that was the Chief Constable's recommendation to the Police Commissioner. The Chief Constable had a strong preference for everything to be insourced because she takes the view that all the staff who work for the police should be treated as 'family'.

The Police Commissioner has the final decision on the award of contracts of such a high value. The Police Commissioner's priority is value for money rather than a strong preference either for or against private sector delivery of support services, and it was on the basis of value for money that, in February 2023, the Police Commissioner rejected BlueLine's proposal.

BlueLine were informed in March that they would not receive a contract extension and that they need to prepare for the orderly exit from the contract in June 2024. This will mean (amongst many other things) that any of BlueLine's employees who are assigned to deliver the contracted services to Montfordshire Police will transfer their employment

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to Montfordshire Police on 1 July 2024. The reason for this is the Employment Protection Act 2000 (EPA). One section of the EPA was drafted to cover the situation where one business takes over another and prevents the former from using the situation as grounds for firing some or all of the latter's employees. This law was needed because in the 1990s there were some hostile takeovers that resulted in thousands of employees being fired and then re-hired on contracts with worse pay and conditions.

Whilst the EPA was conceived with private sector mergers and acquisitions in mind, it was drafted more broadly and therefore also applies to situations where service contracts are awarded if there are employees whose jobs are wholly or substantively allocated to the contract. Subsequent case law has resulted in "substantively allocated" being interpreted to mean more than 50 per cent of a worker's time. Where there are workers wholly or substantively allocated to a contract, their employment is protected by the EPA. This means that:

- their employment must be transferred to the new contractor on terms and conditions, including pay but not their pension provision, that is at least as good as their prior employment;
- the employees should be consulted about any proposed changes to their contracts and work methods prior to the transfer; and
- any dismissal of an employee as a result of a transfer will be, by definition, an "unfair dismissal" and the new employer will be liable for compensation.

Financial management arrangements

The Force's CFO is Peter Stanbridge. The CFO reports directly to Anna Lambert, the Director of Resources, but has a seat at COG alongside Anna because of the importance of financial issues in decision-making.

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The CFO has a team of three staff outside of those currently employed by BlueLine. Rowan French is the Management Accountant. The CFO and the Management Accountant are the only qualified accountants employed by the Force. They are assisted by a part-qualified trainee accountant and an apprentice.

The CFO is responsible for all financial management in the Force but the majority of the work is done by BlueLine under the terms of the contract. The CFO's finance team therefore focuses on strategic financial management work and managing BlueLine's delivery of operational financial activities. BlueLine, in turn, employs 15 finance staff to deliver the day-to-day finance service to the Force.

Budget control is vested in budget holders. In most cases these are the Force's Chief Inspectors, who rank just below the ACCs. The budget holder for the BlueLine contract is the Contracts and Partnerships Manager, Charlie Dawson. She has the largest budget of all the budget holders. Charlie's counterpart in BlueLine is their Partnership Director, Caitlin Lee.

The Force does not employ staff in an internal audit team. Instead it has a contract with Montfordshire Regional Council for their internal audit team to plan and carry out the necessary programme of internal audit assignments.

Priority-based budget process

Montfordshire Police is under financial pressure in part because it is a relatively small force serving a sparsely-populated region. This means it gets a relatively poor grant settlement from the national government and local taxes are relatively high. At the same time, the Minister of Justice and the Prime Minister want to increase the number of police officers all across the country and these two things together mean the Force has to look for ways to improve the efficiency of all its back office functions.

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Force strategy over recent years has included:

- holding the increases in local taxes to the prevailing consumer price inflation rate, because the Police Commissioner was unwilling to ask for more from local people; and
- using reserves to finance the budget shortfall (the previous Chief Constable was insistent on investment in mobile technology and projects focused on improving staff wellbeing, such as gymnasiums at police stations).

As of 31 December 2022 the level of reserves was £6,426,325.

Each year, as part of the budget preparation and approval process, the Force updates its medium term financial strategy (MTFS) that covers the three years following the budget year. A summary of the most recent MTFS, covering the years 2024 to 2026, that was approved in December 2022, is at appendix 1.

The MTFS illustrates an expected squeeze of the Force's finances over the next three years. The CFO proposed to the Commissioner and COG that the Force should implement a priority-driven budget process in place of the conventional incremental budgeting approach. This has been adopted, beginning with the budget for 2024.

The work on the priority-driven budget process is being done by the respective budget holders and finance business partners (FBPs). The documents they produce are presented, in person, to the Priority Budgeting Panel (PBP). The PBP comprises the DCC, the CFO and the Head of Performance Management, and it reports to the COG.

There are several decision units in support services functions that have included proposals for sharing with other organisations, as a way of dealing with a budget

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reduction without having a negative impact on results. Some of these are sharing with other police forces, some with the regional council.

One of these proposals is to combine the Force's vehicle fleet management function with the regional Fire & Rescue Service's fleet management unit (see appendix 2). In theory either the Force or the Fire & Rescue Service could employ all the fleet management staff and provide a fleet management service to the other party under a contract or service level agreement. The preferred route proposed to the PBP was for both organisations to co-own a joint venture company, transfer their staff into it and award contracts for their fleet management.

There has also been a suggestion that some or all of the business support services currently delivered by BlueLine should be re-procured from the private sector rather than insourced in order to reduce costs. This is because the Head of People Services believes that the Force pays higher salaries and pensions than the private sector (the Police Staff Pension Scheme is a defined benefit scheme and the Force's current contribution rate is 23 per cent of salary).

Candidate's role

The candidate is Rowan French, the Force Management Accountant. You were a trainee accountant with Montfordshire Regional Council and qualified with CIPFA last year. You have been seconded by the Council to Montfordshire Police to take up the role of Management Accountant because there were no suitable posts available within the Council's finance team.

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Appendix 1: Medium term financial strategy

This is a summarised version of the Force's 2023 operating budget and medium term financial strategy covering 2024 to 2026. It was approved by the Police Commissioner in December 2022. It has not been updated to reflect the possible real terms reduction in Police Grant that has been hinted at by the Minister of Finance.

Table 1. Montfordshire Police MTFS 2023 to 2026

	2023 budget	**2024 estimate**	**2025 estimate**	**2026 estimate**
	£'000	*£'000*	*£'000*	*£'000*
Police officer pay & pensions	59,234	60,003	60,715	61,315
Police staff pay & pensions	19,917	20,315	20,722	21,136
Training	455	500	500	500
Premises	2,983	2,894	3,020	3,147
Fleet management	2,311	2,391	2,471	2,551
BlueLine contract	10,475	10,975	11,475	11,930
Other operating budgets	14,245	14,672	15,112	15,565
Capital financing charges	3,539	4,302	4,878	4,878
Total expenditure	**113,159**	**116,052**	**118,893**	**121,022**
Funded from:				
Police Grant	57,907	57,907	57,907	57,907
Local taxation	52,341	53,922	55,551	57,217
Income from other forces	330	330	330	330
Proceeds of crime income	120	120	120	120
Use of reserves	2,461			
Total funding	**113,159**	**112,279**	**113,908**	**115,574**
Budget savings to be identified	-	3,773	4,985	5,448

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Appendix 2: Fleet management information

Fleet management includes:

- Routine servicing and repair of vehicles
- Acquisition and disposal of vehicles
- Commissioning and de-commissioning of vehicles (such as applying official liveries and installing specialist communication equipment)
- Accident damage repair and management
- Supply and management of vehicle parts stores
- Fuel administration
- Insurance administration
- Vehicle hire (short- and long-term hire of additional vehicles)

The 2023 operating budgets for the two fleet management organisations are:

	Police	Fire & Rescue
	£'000	*£'000*
Employees		
Salaries	465	288
National Social Insurance	60	37
Pension contribution	95	54
Premises		
Energy & water	96	22
Repairs and maintenance	29	9
Cleaning	44	9
Transport		
Vehicle fuel	1,688	261
Tyres	200	61
Other transport expenses	561	157
Supplies and Services		
Telecoms	27	13
Miscellaneous	10	2
Total expenditure	**3,275**	**913**

The police's function employs 15 full-time equivalents (FTEs), and the Fire & Rescue Service employs 12.2 FTEs.

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Acronyms

ACC	Assistant Chief Constable
CFO	Chief Finance Officer
COG	Chief Officer Group
DCC	Deputy Chief Constable
FBP	Finance Business Partner
FTE	Full-Time Equivalent
NSI(F)	National Social Insurance (Fund)
PBP	Priority Budgeting Panel

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