CIPFA

Strategic Case Study Exam (June 2023)

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Question 1

Exam Day Materials - Question 1

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

Answers to be prepared as on 6 June 2023 by Rowan French, the Force Management Accountant of Montfordshire Police.

Requirement

The Chief Constable has asked for the Chief Officer Group (COG) to consider the options available to the Force when the contract with BlueLine expires on 30 June 2024. Write a briefing paper/report covering the following issues for the COG to consider:

Q1a) Critically evaluate the financial implications of the two options for the future delivery of the Force's support services. (20 marks)

Q1b) Use an environmental analysis tool to analyse the non-financial factors involved in a decision about how support services should be delivered in the future. (10 marks)

Q1c) Analyse stakeholders in terms of their power and interest and discuss potential strategies for managing each stakeholder group. (12 marks)

Q1d) Conclude on your analyses and make recommendations on your preferred option, including an outline of the steps towards implementation. (8 marks)

(Total: 50 marks)

Please enter your answer below.

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

Formats

Feedback:

Available Answers
- Question 1 (a) (20 Marks)

Available Answers
- Question 1 (b) (10 Marks)

Available Answers
- Question 1 (c) (12 Marks)

Available Answers
- Question 1 (d) (8 Marks)

The revised MTFS calculations for each option are in the Excel document.

- The calculations show that the insourced option is more expensive than re-procurement, but only by a small amount.
- The cumulative reduction (i.e. improvement) in the budget gap is £2.3m for option 1 and £2.7m for option 2.
- Therefore Option 2 is a little more attractive in purely financial terms, though any errors in estimates may mean that Option 1 would be preferred.
- Whilst reducing the gap is welcome, both options leave the Force still needing to find budget savings of over £11m over 3 years
- Police officer pay cannot easily be reduced (in fact ought to grow over time), and therefore any budget cuts have to come from less than half of the total expenditure.
- If the Force chooses not to make budget cuts, it would mean increases of circa 10% on local taxes in 2024. This would increase the baseline level of tax, and a further 5% would be needed in 2025 and 4% in 2026.
- It should be noted that the basis of the calculations may not be entirely robust, and the Force should exercise caution before drawing a firm conclusion solely on them. Some concerns include:
  - The arbitrary nature of some of the assumptions, such as reducing sub-contracting prices by 5% in Option 1. This is not likely to be possible across the board without extensive negotiation, which requires skill the Force may not have.
  - In Option 2, the CFO has assumed that the Force will be able to re-procure at a saving of 10% against BlueLine's costs, but it is not clear that any market research or enquiry has yet been done to confirm this is reasonable.
  - There is no information about how reliable the information from BlueLine is. It is "forecast" information, forecast presumably by BlueLine itself, and does not come with evidence of any independent scrutiny.
  - The Force should do some due diligence on the information received from BlueLine. Sensitivity analysis should be carried out on the various assumptions used in the financial calculations, particularly given the financial outcomes of the two options are fairly similar.
  - Limited up-front costs of making the change have been factored into each option. It may be that choosing one or the other will come with some costs or commitment, particularly in staff time to do the required work, and this may ultimately affect the savings.

Up to 12 marks for calculations (see Excel document for breakdown). Up to 10 marks for narrative analysis, with 1 mark per point well-made. Maximum of 20 marks in total.

SWOT analysis

For option 1: insourcing

Strengths

- There is a strong sense of the 'police family' amongst staff, which may help integrate former BlueLine staff and even improve performance.
- The existing staff in operational posts know the roles and the work involved and are experienced in its delivery.

Weaknesses

- The Force no longer has expertise in managing the services so may struggle, at least at first. Over time, this weakness would lessen as the Force gains knowledge and experience.

Opportunities

- Potential to save money as the complementary finance teams are combined (economies of scale might be available).
- No longer need the contracts and partnership team, which is a budget saving.
- The Force regains full, direct control of the performance of the services.
- Easier to make changes to service levels without a contract in place.
- Estimated to save money compared with current arrangement.

Threats

- A lot of management energy has to go into the insourcing project that could be spent on supporting frontline policing work.
- May fail to obtain the price reductions used in the financial evaluation, as they seem to have been fairly arbitrary estimates.
- All operational risks such as hiring staff, pay awards, etc become the Force's to manage, with the added difficulties of transition from BlueLine's terms to the Force's.

For option 2: re-procurement

Strengths

- Force is used to this as the current mode of operation, and has structures and systems in place to manage a contractor.
- It would avoid some of the additional risks such as recruitment, training and retention of staff.
- Private companies may be able to attract a wider range of skilled staff.

Weaknesses

- The Force has limited ability to make changes to service levels and quality through a contract.
- There is less flexibility to reduce cost of services once contract awarded because contractors want to protect their profit margins.
- Key support staff are not seen as being in the 'police family'.

Opportunities

- Contractor(s) are the experts in the services and the Force gets benefit of this. The contractor may be able to access new technology earlier or easier than the Force could if service in-sourced.
- Potential to reduce costs compared with the existing BlueLine contract.
- Competitive process may assist in reducing cost further than in-sourcing might.

Threats

- Performance in future could be below specification and/or difficult to enforce terms of the contract.
- May fail to obtain the price reductions used in the financial evaluation, as they appear to have been estimated on an arbitrary basis.

PEST/PESTLE analysis

Political

- There are Police Commissioner elections next year. The new Commissioner might have a different view about the future arrangements.
- This could also mean that the current Commissioner may be keen to have his preferred option pushed through without due process.

Economic

- Economic factors like inflation rates are uncertain, and could easily affect the financial outcome or the forecast difference between the two options.
- Future funding of the Force is uncertain, but likely to be even tighter than currently. Re-procurement and a fixed price contract might be more attractive as a result, but on the other hand, in-sourcing might bring with it the flexibility to cut spending further in the future.

Social

- From an external perspective, society/the public may look more favourably on in-sourcing for the local picture than they would on taking out a large contract with a new private sector body. The Chief Constable wants one "police family", and if this rhetoric is repeated outside the Force, society may be more in agreement with this approach.
- If the changes eventually impact council tax, the perception that this is paying for a private sector contract is likely to be viewed unfavourably by local taxpayers.
- All change can affect staff morale because of uncertainty, and both options mean changes for both BlueLine staff and existing police staff, in terms of culture, systems, identity.

Technology

- If insourced, there may be a need to develop or upgrade the Force's IT systems; it is not clear whether a technological comparison / assessment has been made.

- Re-procurement means exchange of data with a third party (as now) and this brings risks of data security, etc.
- However, technological advances are fast-moving, and re-procurement also offers potential to benefit from investment by the private sector in these advances.
- However, experience of BlueLine contract suggests this sort of benefit is hard to realise, as there has been limited technological advancement in the services provided since the beginning of the contract.

Legal

- The Employment Protection Act 2000 (EPA) applies to BlueLine staff and existing police staff in either option.
- Contract law will apply to re-procurement, and will govern enforcement measures against poor performance. The current BlueLine contract appears to be weak in this area, so lessons will need to be learnt to avoid taking out another contract that the Force will struggle to exercise sufficient control over.

Environmental

- The services in the scope of this question have limited impact on the environment. Potential for remote working is the same with both options.
- The Force may need to consider, if re-procuring, the distance of travel for contracted staff if working at Force buildings (for example if favouring a contractor whose employees live at a greater distance than BlueLine's staff do.

Candidates could do SWOT or PEST/PESTLE analysis, both of which are outlined below. 1 mark per point well-made, with a minimum of 1 mark for each of the component parts of the tool in either case.

Low power, low interest

- General public fall into this group because they are unlikely to react unless this is directly linked to an increase in local taxes. In that case they may become low power, high interest.
- Local media (newspapers, bloggers etc) will also likely have limited interest in the decision unless there are perceived to be significant injustices for the staff or increases to taxes as a result.

Management strategy:

- Initially do nothing on grounds that the project is an internal management issue. If at some point public sentiment moves from low interest to high interest, then a communication plan would need to be developed.

Low power, high interest

- Staff working in support services will individually have low power to affect the decision, but high interest as it directly affects their roles.
- Union leaders for police staff will likely also fall under this category. It is not clear whether police office workers can strike (officers cannot), but the decision is not likely to lead to balloting or extensive union involvement.
- Managers of BlueLine will undoubtedly have high interest in the decision, but limited ability to influence the Force's decision makers.
- Potential new suppliers of the contract will have significant interest in whether it will be available for bidding.

Management Strategy:

- Keep staff informed as far as possible within confidentiality limits, and be ready to respond with additional information if a significant issue arises. This could mean:
  - Staff being consulted in a sensitive and meaningful way
  - Setting up a channel for affected staff to ask questions about the future arrangements
  - Use existing communication channels such as internal newsletters and team briefing systems, as well as ad hoc meetings as appropriate.
- Potential suppliers will likely be aware of BlueLine contract expiry and may be scanning the media for notice of the procurement process, as they may not expect the Force to consider in-sourcing.
- They may seek informal contact with people connected with the Force and BlueLine to find out what is happening. Staff should be instructed to refer such enquiries to the project team.
- BlueLine's managers need to be aware of any procurement process because they will be asked to provide information for bidders to use in the process. They should be handled sensitively due to their personal stake in the decision.

High power, low interest

- Minister of Justice and their civil servants may have an eye on the process, but are unlikely to become directly involved as it will be considered a Force operational issue.

Management Strategy:

- Use existing contact with these stakeholders to ask them for any relevant guidance they may have, and what information or involvement they would like to ensure they are kept satisfied.

High power, high interest

- The Police Commissioner has the most decision-making power and has driven the options on the table for assessment.
- The Chief Constable's views are likely to be key in the decision-making process, and her interest will be very high as she will head up the resulting arrangement.

Management Strategy:

- Whilst this is a back office project, it is critical because of the number of people and amount of money involved. A system of briefing the CC should be set up. This could include regular face to face meetings between the CC and the project's SRO or could be sharing of project status reports or having a project update on the COG agenda. The frequency of these briefings could be as high as weekly, given the importance of the project.
- The CC would keep the Commissioner informed during their regular one to one meetings, with updates at least monthly and likely on an ad hoc basis.

1 mark per point well-made, with a minimum of 1 mark per matrix position, and 4 marks in total reserved for strategy to manage stakeholders in each group.

If recommending re-procurement:

- Based on the calculations performed, re-procurement is the most financially attractive option, which may appeal most to the Commissioner as he ruled out BlueLine's bid on the basis of value for money.
- Given the need for significant budget savings facing the Force, the most financially beneficial option is a prudent choice to make. It may be that competition between bidders could increase the savings further.
- In addition, the Force may not have the expertise to successfully in-source, and there are many complexities to be considered due to the increase in staff complement.
- However, the CC does have a preference for all the staff to be in the police family, so she is not likely to prefer this option.

An outline of the next steps is as follows:

- start as soon as possible because of the tight timescales
- set up a formal project team, including a senior responsible officer and a project manager
- establish a project board and project sponsor
- Draft a project initiation document, outlining roles, timescales etc.
- Allocate a project budget
- In order to implement procurement:
  - write specification of requirements
  - gather information about staff, assets, etc to inform bidders for the new contracts
  - advertise opportunity
  - receive and evaluate tenders
  - award contract (early enough to allow for mobilisation - perhaps 31 March 2024 at the latest)
- manage the exit of BlueLine through a series of meetings
- manage the process of services transitioning from BlueLine to new supplier(s)

If recommending in-sourcing:

- There is a lack of detailed finances and the gap between the savings on each option is relatively small.
- The CC would prefer in-sourcing due to the perceived cultural benefits of "one police family", and this might be considered to be worth the additional £300,000 a year in costs.
- In-sourcing may enable the Force to have more control over streamlining services in the future, and ensure flexibility should back office requirements change in what would have been the contract period.
- Longer term, savings may be made in not having to re-procure / re-negotiate with suppliers in future years.

An outline of the next steps is as follows:

- start as soon as possible because of the tight timescales
- set up a formal project team, including a senior responsible officer and a project manager
- establish a project board and project sponsor
- Draft a project initiation document, outlining roles, timescales etc.
- Allocate a project budget
- Design management structure to receive the services from BlueLine:
  - consider the need to recruit managers to do this
  - gather information about staff, assets, etc to inform staffing structures, operating procedures and budgets
  - consider possible excess staff in the Partnership and Contracts team: re-deploy some or all of the staff, or consider whether redundancies are necessary.
- manage the exit of BlueLine through a series of meetings
- manage the process of services transitioning from BlueLine to the Force

Up to 4 marks for well-reasoned conclusions and recommendations that flow from the candidate's analysis. The most likely recommendation is to re-procure the services, but the alternative argument is acceptable if supported. Up to 6 marks for logical steps towards implementation.

Question 2

Exam Day Materials - Question 2

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

Answers to be prepared as on 6 June 2023 by Rowan French, the Force Management Accountant of Montfordshire Police.

Requirement

Prepare a feasibility report for the Priority Budgeting Panel (PBP) about merging the Force and the Fire & Rescue Service's fleet management functions.

Q2a) Calculate the net present value, over 10 years, of going ahead with the proposals for a merged fleet management operation, and comment briefly on the results. (12 marks)

Q2b) Using appropriate criteria, evaluate possible sources of finance for the project and how the two clients should pay for their fleet management services. (17 marks)

Q2c) Discuss the benefits and risks of the proposed joint venture. (15 marks)

Q2d) Make a conclusion, with reasons, about whether the proposal is feasible. (6 marks)

(Total: 50 marks)

Please enter your answer below.

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

Formats

Feedback:

Available Answers
- Question 2 (a) (12 Marks)

Available Answers
- Question 2 (b) (17 Marks)

Available Answers
- Question 2 (c) (15 Marks)

Available Answers
- Question 2 (d) (6 Marks)

- The NPV is a positive net position of £402 000 after 10 years. This is based on capital outlay of £1.85m in 2023 (year 0) and real terms reduction in employee expenses of £277 000 in each of the ten years.
- From a financial perspective alone, the net present value suggests that this is a worthwhile project: the savings over time exceed the capital outlay reasonably comfortably after taking into account the time value of money.
- The Force would need to consider financing the initial outlay. The payback period is seven years, so any method of finance needs to be relatively long term to bridge the gap in the meantime.
- A standard discount rate has been used, but given economic uncertainty it would be appropriate to perform some sensitivity analysis using different discount rates. The project is worthwhile up to a discount rate of around 7 per cent.
- It is also worth noting that the savings would likely extend beyond the 10 years, should the arrangement remain the same, so the NPV would be more positive over a longer period.
- It should be noted that some estimates are rough and should be calculated in full before any decisions are made, such as for severance pay, which is currently included as a 'rule of thumb' average of £10k per post.

Up to 9 marks for calculations (see Excel spreadsheet), and up to 4 marks for commentary on the results.

Financing the investment

- Before considering how the Force should finance their part of the investment, an agreement would need to be reached on how the £1.85m investment should be shared between the organisations.
- Roughly speaking, the budgets of the two organisation are in proportion 80:20 (Police:Fire). Police investing £1.5m and Fire investing £350,000 may therefore constitute a reasonable split basis.
- However, the allocation could be different if connected with the shareholding in the joint venture company. Meetings will be required between the two services to ascertain a split all parties are comfortable with.
- There are several ways Montfordshire Police could finance its share of the total outlay (assuming it to be £1.5million).

Reserves

- The Force has sufficient reserves to cover the investment. The opening balance in 2023 is £6.4m with a plan to use £2.5m as budget support, leaving £3.9m available to cover £1.5m investment.
- However, if £1.5m were used for this investment, remaining reserves would be only £2.4m, which is barely 2% of total annual expenditure. This is arguably too low for the Force to be financially sustainable.
- The lost interest returns on this amount of reserves would affect the project's financial viability, and have not been factored into the NPV. *(There is no info on interest rates so only a comment like this is possible)*

Borrowing

- Borrowing is lawful but is constrained by the Prudential Code, and the Force would have to prove any borrowing is affordable.
- At an estimated interest rate of 5%, interest on the total £1.85m would be £93,000 per annum. This reduces the net savings from £277,000 a year to £184,000 a year.
- The effect of this would be to turn the negative NPV to a positive one. This makes the project unattractive in cash flow/value for money terms. (*There is no need for candidates to calculate the new NPV to get a mark but the calculation is shown in the Excel marking document. They could also address interest on just the Force's portion of the capital required.)*
- Specifically for the Force, the savings from the fleet management service could cover the loan interest dependent on prevailing interest rates, but the MTFS has significant cuts to be made in next three years, so proving that the borrowing by the Force is affordable will be difficult.
- Rather than the Force borrowing the money directly, the joint venture company could borrow it. However, it has no track record or credit rating so would need to have its loans guaranteed, which may mean this is still not a feasible option.
- It may be necessary to increase local tax in order to fund the interest repayments, which will be politically very unattractive and may cause backlash from residents and local businesses.

Capital receipts

- It is possible that capital receipts could be generated by selling off un-needed assets, and then used as capital financing for some or all of the project. No potential sites have been mentioned.
- The two fleet management teams would be vacated existing premises but they are at police HQ and a fire station, so the possibility of selling or even leasing to anyone may be limited.

Other potential sources of finance may be awarded credit if sensible and pertinent.

- It may be concluded from the above that none of the financing options are attractive to the Force, and it may be therefore that the project is simply not financially feasible given current pressures.

Allocating the annual expenses

- The joint service is planned to be a limited company. It needs to have some income to cover its costs if it is to be a going concern. Initially it will have two customers, the Police and the FRS, and it needs some basis for invoicing them. Options are as follows:
- Apportionment based on 2023 total budgets (roughly 80:20). A percentage split apportionment would be easy to understand and calculate for all parties, but may not accurately reflect the services used by each Force/Service.
- Apportionment of all fixed costs on the above basis, with variable costs such as fuel, tyres and consumables charged based on actual usage.
- Implement a system of time recording by the workshop staff and charge each client organisation on an hourly basis for work done (add staff time to variable costs).
- Negotiate a fixed price contract with each client organisation, to give the joint venture a set level of income and an incentive to manage its costs. The prices need to be acceptable, but this approach avoids the cost and administration involved in a time recording system.
- It is possible, in time and with spare capacity, that the joint venture could seek additional customers to generate a profit for its owners. All parties should understand the legal ramifications of doing so and ensure that the Force/FRS needs would still be fully met, without fail.

1 mark per point well-made up to 6 for how charges could be apportioned / allocated and up to 14 for evaluation of finance sources. The candidate may use the criteria for evaluating finance found in Strategic Public Finance, but this is not required – any pertinent criteria / analysis should be awarded credit.

Benefits

- According to the financial analysis, the proposed joint venture should generate recurring annual cost savings as identified in the previous section. These would extend beyond the 10-year time frame, and given the Force's financial position and economic outlook, this could make a significant positive difference.
- The joint arrangements would create standardised policies and procedures across both organisations, leading to economies of scale.
- The expertise available to both organisations would be maximised, and would lead to knowledge-sharing and hopefully up-skilling of existing staff.
- Increased resilience to staffing issues such as absence or turnover, due to pooling of personnel and skills.
- Both organisations will have an input into policies and procedures, which could enable best practice and streamlining of services for both.
- The joint venture would have increased bargaining power with fleet suppliers, maximising discounts on vehicles, vehicle parts and equipment.
- Linked to this, there should also be reduced procurement costs due to merging into one procurement department, and reduced staff time on purchasing and vehicle selection.
- The Vehicle Workshop equipment required should be streamlined, and any duplication of machines/tools eliminated. It may be possible to sell any surplus equipment.
- Staff training and development needs should also be streamlined with the possibility for knowledge sharing and saving on training.

Risks

- Both organisations may see this as a loss of control to themselves, as agreements and compromises will have to be reached on all policies and procedures.
- The calculations performed are fairly basic, and there may be unforeseen costs of integration/setting-up the new arrangement. There may not be any similar arrangements we can learn from or benchmark performance against.
- In order to merge the services and make the projected savings, it may be that functions or processes currently in operation at one or other of the forces are not able to be provided in future, if not useful to the other party. This may be more likely to functions on the Fire & Rescue side as they will be contributing less and have a much smaller fleet.
- Police Force and Fire & Rescue Service have some overlap but many differences, so are likely to have conflicting pressures (financial, operational, environmental, legal, etc.)
- There may be a loss of corporate identity for the staff. For example, if the Force is aiming to be one 'police family', this may be compromised or diluted by effectively working across both the Force and the F&R Service.
- Linked to this, the CC may not look favourably upon this proposal as it distances one section of staff from the Force family.
- Some of the benefits, such as economies of scale or lower prices on parts, may not be realised. The Force represents 80% of the final fleet numbers; it is very possible that the increase from combining with F&R Service will have no significant impact on prices to the company.

- There is a risk of one party taking control of the company to the detriment of the other. For example, the Police Force may dominate because it is the larger organisation and has most vehicles and contributes the majority of the budget.
- There are also risks dependent on the ownership of the communal assets, such as workshops, stores and equipment. If the company owns the assets, there could be a risk to the Force and FRS if the company goes bust.
- However, if the company does not own the assets, it is largely just providing labour, which may limit the potential benefits and economies of scale within the arrangement.
- There are also reputational risks to consider around the proposal, as the organisations could be seen to be risking public money in a commercial venture.
- There is a risk that, if the arrangement does not deliver the hoped-for benefits, the partners may effectively be tied in for a while as it may not be easy to dissolve the new arrangement, and re-insourcing could be costly.
- There is a risk that the PC elections next year may return a new PC who does not favour this arrangement, potentially incurring more costs to then reverse the decision.
- Lastly, there is a risk that the Force does not have the capacity to implement the changes at the same time as it is dealing with expiry of BlueLine contract etc.

1 mark per point well made up to a maximum of 10 for benefits and 10 for risks.

- The proposal could generate future savings if it can be combined on to a new site, but the overall conclusion is this is not feasible.
- The main reason for this conclusion is that the Force is unable to finance the capital investment required to release the savings in the future.
- In addition, the risks involved in such a proposal and identified above do seem to outweigh or negate many of the benefits, as there are a lot of unknowns and a range of detailed decisions have not yet been considered.
- Each partner is likely to lose some control over its fleet operations as a result of this proposal going ahead. For both partners, a fleet that is fully operational is absolutely critical to the service provided, and it can be argued that any loss of control is simply not acceptable.
- The significant risks outlined above include reputational risks to both organisations, both if there is any (even small) deterioration in service, and due to the perception of using public money to fund, and potentially transferring public assets to, a private sector body.
- Things like response times, for both police and fire services, will be key performance indicators. Doing anything that might negatively affect these is fraught with risk.

Any service failure or change in political priorities could lead to serious difficulties unpicking the joint arrangement, and doing so is again likely to be costly and time-consuming at a time when the Force is overstretched and running on very tight budgets.

1-2 marks for a clear conclusion on whether the merger is feasible, and 4-5 marks for summarising reasons that clearly support the conclusion.

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