CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC CASE STUDY

Strategic stage

ADVANCE MATERIAL AND EXAM DAY MATERIAL

07 September 2021

Time allowed: 3 Hours 30 minutes

All questions must be answered. The weightings for each question are indicated.

The examination has been prepared on the assumption that candidates will not have any detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded to those candidates displaying such knowledge.

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STRATEGIC CASE STUDY

Strategic Case

NOTES TO CANDIDATES

i) Answers to be prepared as on 7 September 2021 by Azmi Salik, an Accountant in Stanrock City Council's strategic projects team.

ii) All calculations and diagrams provided in source materials should be assumed to be arithmetically correct.

EXAM QUESTIONS

1	Prepare a briefing paper for the Senior Finance Director to assist with the council's Strategic Options Review in the context of the need to improve the council's financial position.	**60%**
2	Prepare a briefing paper for the Senior Finance Director focused on two particular initiatives for investment by the council in the most economically deprived areas of the city.	**40%**

Country of Linland

Linland is a wealthy, developed nation in the northern hemisphere, comprising 20 regions. In keeping with many modern economies, the economy is now dominated by the service industry which employs over two thirds of the working population. It is ranked highly in the global index for per capita income, economic freedoms, education, civil liberties and quality of life.

The country's government instituted a strict lockdown with tough border controls early in the COVID-19 pandemic in 2020, and its management of the disease has been highly praised for its efficacy. As a result, life for its citizens has now largely returned to normal, following a highly efficient vaccination programme, though significant international travel restrictions remain in place. However, the Linland economy suffered a severe contraction as a result of the pandemic. The country is now facing high levels of unemployment and business failures (especially in the hardest hit hospitality sector), and a large fiscal deficit, with almost all public services being subject to expenditure reductions in an effort to balance budgets. The currency in Linland is the Linland pound (£).

Government in Linland

Government structure

Linland has a federal government structure. The national government is responsible for areas such as foreign affairs, police, defence, the national transport infrastructure and telecommunications. The 20 regional authorities have independent responsibility for matters such as the provision of education and healthcare, environmental services and energy production. These regions are divided into multiple municipalities, each covering a specific town, city, or district. Each municipality is governed by a local council which is responsible for the provision of local services such as adult education, social housing, social care, homelessness services, local roads, refuse collection, parks and leisure, libraries and cultural provision, building control and public health messaging, the latter in collaboration with regional government authorities.

The national Green Agenda

The Linland government is now keen to return to promoting its national Green Agenda – a set of policies which was sidelined while it focused on its response to the pandemic. A key element of this agenda is reducing the pollution associated with transportation, particularly given recent figures which suggest that transport now accounts for 26% of Linland's output of greenhouse gases. The government has introduced tax incentives for electric vehicles and from January 2022 the punitive taxes levied on heavily polluting vehicles are to be extended from just being applicable to privately-owned vehicles to all road vehicles including buses and emergency service vehicles. It is actively promoting the use of public transport options and is encouraging larger cities to introduce congestion charging. The government has confirmed that it is considering offering specific financial incentives to regions and municipalities in its next annual budget to implement strategies in line with the government's Green Agenda.

Congestion charging has been implemented in a small number of large cities in Linland. A typical congestion charging system uses a physical infrastructure placed around the perimeter of the selected charging zone supported by sophisticated computer technology systems. Automatic number plate recognition cameras record vehicles entering and exiting the zone, and deliver the recorded number plates to the billing system. Numbers are compared with a list of those who have paid the charge via the city's website or an app on their phone and those who have not paid are then fined (whilst those who have paid but whose cars have not been identified are refunded).

Public financing

The Linland federal government remains committed, at least in the short term, to an expansionary monetary policy aimed at stimulating the post-pandemic economy. Interest rates and inflation rates in the country are currently both at historically low levels. In the past few months there are signs of an upturn in economic activity across the country.

The government raises taxes directly and indirectly from its citizenry and businesses operating within the country. These are collected by the Linland National Revenue Authority (LNRA). Each regional authority receives a proportion of the taxes raised in the form of an annual transfer payment to assist with the funding of services.

Regional authorities then obtain the additional funds needed to balance their budgets by requisitioning each of the municipal councils in their region. The amounts requisitioned are based on the population of the municipality, plus additional metrics such as levels of health, crime, employment and pollution in the municipality's area.

Municipal councils

Municipal council finances

Municipal councils raise the funds needed to pay the regional requisition and to deliver local services primarily from property taxes, levying a community tax based on property values on every homeowner and commercial business based in the local area. Councils are legally required to revalue properties at least every seven years, and none currently choose to do so more regularly. Municipalities determine annually how much revenue they need and deduct other known revenues to find the amount they will need to raise from property taxes. The tax rate is determined by dividing this revenue requirement by the 'assessment base' - the total value of all assessed properties within the municipality. The tax rate is then applied to the assessment value of each property, and a community tax bill is sent to each property owner.

In addition, municipalities charge a sales tax on transactions involving many classes of goods and services within their area, which must be collected and paid over by the business making the sale. Other income streams for municipal councils include property rents, motoring and parking charges and entry fees to cultural and leisure activities. The accounts of municipal councils must not go into deficit.

Service provision

In response to the continuing pressure on budgets, municipal councils in Linland no longer rely solely on in-house provision to deliver public services and use a variety of delivery models operating across almost all service areas. Some of the most common alternative delivery models include:

- Authority owned trading companies (AOTCs) – an independent company, wholly owned by the council and with a council appointed board, often financed substantially via council loans. AOTCs can choose to reinvest any profits into the company or pay them out as dividends to the council to provide an additional source of income to the council. AOTCs deliver most of their services on behalf of the council via service level agreements, although they are legally permitted to do work for other clients. Provided 80% or more of the revenue earned by an AOTC in a year is generated from providing services for the council, contracts can be awarded to the AOTC without the need for a procurement exercise. AOTCs are liable to pay business taxes to the LNRA.

- Public service delivery vehicles (PSDVs) – organisations which were previously under public sector control but which are now run independently (owned by either its employees, members of the local community, or a mix of the two) which continue to deliver primarily public services and aim to have a positive social impact. Many PSDVs are run as community service companies which reinvest profits back into the service and / or their local community. Commonly the constitution of a PSDV will contain an 'asset lock' which requires that specific nominated assets transferred to the PSDV by the council are used solely for community benefit. PSDVs are liable to pay business taxes to the LNRA.

- Outsourcing to an external provider with services delivered under contract.

Under Linland law, both AOTCs and PSDVs are permitted to alter existing staff employment contracts where it is in the interests of the business to do so.

Libraries in Linland

Originally set up by local municipal councils to provide citizens with open access to books and other media, the traditional role of libraries within Linland has changed significantly with the development of new technologies. In addition to promoting reading and literacy, some libraries are now starting to reinvent themselves as local community hubs, acting as vital sources of information, advice and support and offering local citizens cost-effective access to digital technologies. Many libraries have also begun working with other community providers to improve local citizens' skills and job prospects, and to develop other community initiatives, such as taking outreach programmes into schools and hosting workshops and support groups for people facing challenges ranging from substance abuse to bereavement. They are also discovering new ways to raise extra income in addition to room hire – such as integrating cafés, charging for services such as computer access and research assistance and running training courses in areas such as digital skills and basic accounting.

All councils in Linland have identified that the need for libraries to transform is becoming ever-more urgent. In the year to March 2020, the number of books borrowed from libraries across Linland fell by 9 million (with a similar fall in the previous year) and public funding for libraries fell by £20 million to £725 million. Councils were already squeezing library budgets before the pandemic but most library services have been warned to expect further reductions of up to 14% in their budgets for the coming year.

The city of Stanrock

Stanrock is a city of 700 000 people within the regional authority of Copsted. Despite its size, Stanrock is poorly served by public transport. It has no subway system, few local trains and a proposed plan to introduce a tram network to the city has been raised and shelved multiple times over the past two decades. The main form of public transport in the city is the bus service.

<u>Bus service</u>

The bus service in Stanrock is run by Stanbus, an AOTC owned by Stanrock City Council (SCC). In addition to providing the city's public bus service, Stanbus also runs regular private bus services for two specific client institutions. Firstly, it operates services for students attending Sophia Sogill University, a highly renowned campus university located on the southern outskirts of Stanrock. It is one of Linland's largest universities with 36 000 students and so provides regular income for Stanbus. Secondly, it operates services for supporters and clients attending events at Stanrock City Football Club at Ashville Green to the east of Stanrock. Given it is a successful football club and hosts a wide range of other

events, this also provides regular income for Stanbus. The management of Stanbus is, though, careful to ensure that at least 80% of its revenue in any year still comes from running council services for the public.

Stanbus suffered heavy financial losses during the COVID-19 pandemic, when travelling on public transport was discouraged. The company therefore rationalised its existing service, cutting some routes entirely and reducing the frequency of services on all retained routes, which led to even greater reductions in customer numbers. Bus travel has now regained some of its pre-pandemic popularity but the service is still not widely used. It is generally deemed to be inadequate as almost all the bus routes run from the outside of the city to the centre rather than linking the many districts located in a ring around it. Additionally, a lack of investment in the bus fleet means that many of the buses are old diesel models, which are significantly more polluting than the newer electric ones available.

Car use

Most residents of Stanrock therefore rely heavily on their cars to get around, although the location of the River Stanley in the centre of the city has restricted crossing points between north and south to just three bridges. This has led to widespread congestion, long delays and high levels of air pollution at peak times. Plans to construct a road tunnel under the river to reduce congestion are still under discussion but to date a lack of funds has prevented them being pursued further. Budget constraints have also meant that SCC has carried out only minimal repairs to the road network over the past few years, and many roads are now in desperate need of maintenance and resurfacing. The state of the roads, the high levels of pollution, and the paucity of bicycle lanes along major routes, has also discouraged the use of bicycles within the city – with reported bicycle journeys at far lower levels than in other Linland cities of comparable size.

Willan Park

Willan Park is a large inner-city suburb of Stanrock located south of the River Stanley. From the early nineteenth century, it was the site of several large factories and a major employment hub attracting workers from across the region and beyond. It was one of the first suburbs to be developed in the city and much of the housing in the area was built during the period to house factory workers. The area continued to thrive until the 1970s and as a result of large-scale immigration now has an ethnically diverse population and a strong community spirit.

However, in recent decades all of the factories have closed or re-located to industrial units on the edge of the city. With just over a third of the residents classed as economically inactive, Willan Park is now one of the most economically deprived suburbs in the country measured by levels of income, employment, education, health, crime, and barriers to housing. The area is poorly served by buses and, despite the short distance, heavy congestion means that journey times to the centre of Stanrock can take 50 minutes or more at peak times.

A number of community-led initiatives have been introduced to improve outcomes for local people including the development of a community website and a local newsletter – The Willan Word. Efforts are being made to help young people to develop skills such as gardening, furniture restoration and catering, and support clubs are being set up to improve adult literacy, digital skills and job applications. Such initiatives are enthusiastically supported by local people but funds are scarce and their scope is necessarily limited.

Willan Park Traders Association

One organisation working specifically to improve the outcomes for the residents of Willan Park is the Willan Park Traders Association (WPTA), which was formed in 2012 by Balwinder Atwal (who runs a busy local bakery) and Jaden Josephs (a butcher and restaurant owner). It is a community-led enterprise scheme working to confront the issues facing Willan Park and to '*create social, cultural and monetary value that stays in our neighbourhood and is invested here for the benefit of all'*. All WPTA's profits are invested in improving local buildings and outdoor spaces, using local people to carry out the work wherever possible.

The Willan Park Community Centre, once a busy social hub, is the administrative centre for many community initiatives. The building is owned by SCC, but since 2014 it has been leased by WPTA for a nominal rent. Overall, the building, constructed in the 1950s, is structurally sound, but it is run down and in need of expensive repairs. In particular the large upper storey is currently unused as the floor needs to be strengthened.

Over the years, other local food-based businesses have become involved in WPTA and they have worked together to supply businesses across the city and cater for events such as weddings. The aim of WPTA is to expand this initiative to other activities and services such as providing builders, electricians and plumbers for building contracts.

Stanrock City Council

Stanrock is governed by SCC. It has 78 elected councillors, 10 of whom sit on the executive cabinet. Key strategic decisions are researched and debated by sub-committees formed for the purpose, and their recommendations are then put to a vote of the executive cabinet. Council elections were last held in May 2019, with the next round of elections due in May 2022.

Mission and strategic objectives

SCC has traditionally had a progressive economic and social agenda with a focus on interventionist strategies aimed at improving outcomes for the region's poorest residents. In September 2019, before the COVID-19 pandemic, SCC set up a large-scale Strategic Options Review and developed a new mission statement, to '*guide the city towards success which can be shared by all'*. This mission was supported by strategic objectives based on:

- Community health and resilience
- Building connections across the city
- Economic growth to build economic and social equality for all
- Empowering people to live their best lives.

A wide range of potential strategies were discussed as part of this strategy review, including the possibility of SCC becoming a Keystone Institution (KI), and introducing a Zoned Regeneration Tax (ZRT) scheme. Further information on each of these initiatives is provided in Appendix A and B respectively.

During the COVID-19 pandemic, several districts in Linland, including the Stanrock suburb of Willan Park, experienced rates of hospitalisation and fatality levels which were much higher than the national and city averages. Research suggested a clear correlation between COVID-19 mortality and morbidity rates and poor health and fitness, lower level of education, cramped housing and low levels of household income.

In June 2021, in part as a response to these findings, and following discussions which had been taking place before the pandemic, the executive cabinet at SCC voted to approve its role as a KI in the city.

Finances

The council's attempts to achieve its strategic objectives have been hampered by its financial difficulties. These problems were in evidence even before the COVID-19 pandemic, and a recent internal audit report was critical of SCC's strategic financial management system (Appendix C contains a summary of the internal audit report). However, the council's financial difficulties were exacerbated further by the pandemic which led to:

- A reduction in council and business tax revenue flows arising from:
    - Government mandated delays to the payment of commercial property taxes as part of the national COVID-19 response
    - An increase in the rates of business failure and higher business trading losses reducing the levels of property and sales taxes collected
    - Job losses causing more household incomes to fall below the threshold for community tax liability.
- Lost income from property rents, parking charges, and payments for cultural and leisure activities due to government mandated temporary business closures during the pandemic.
- A decline in income from Stanbus as a result of reduced travelling and a move to private cars during the pandemic.
- An increase in unemployment and ill-health putting far greater strain on local public services such as housing, homelessness services, emergency support and ongoing social care.
- A rise in the level of the requisition levied by Copsted regional authority to pay for their increased costs of managing health care and education during the pandemic.

Over the past 12 months, the council has received some COVID-19 relief grant funding from the national government to help mitigate against the impact of the pandemic but it has been insufficient to cover the full financial impact of the pandemic. SCC is therefore using its reserves to cover the shortfall, and, as a result, its reserves are now down to one third of their pre-pandemic levels. The council is therefore considering a wide range of strategies and initiatives to improve its financial position.

One area put forward by some SCC councillors is to analyse the scope for financial savings to be made through streamlining council procurement practices. SCC's current procurement system is outlined in Appendix D.

A further way in which SCC is planning to improve its financial position is to speed up its plan for paperless service delivery. Its goal is to move all information provision online by 2023 and to introduce a 'self-service' approach, in which 75% of services are accessed, at least in the first instance, via online web-portals by 2025. This will be combined with a corresponding reduction in forms and information sent out by post and a limit placed on the availability of phone access and visits to council offices. The software systems needed to achieve this goal are available using a Software-as-a-Service (SaaS) model; further details of cloud computing models are provided in Appendix E.

Stanrock city centre

The centre of Stanrock is spread across the north and south banks of the River Stanley. The shopping district is located on the north bank, with the financial and business district located just across the bridges to the south. Once a thriving shopping centre, the shopping district lost 10% of its stores between 2013 and 2019, largely due to the increase in online shopping, and the popularity of the two relatively new shopping centres, to the east and west of the city, both offering under cover shopping and parking for thousands of cars. The forced temporary closures during the COVID-19 pandemic further damaged the

profitability of the remaining stores in the city centre, and the growing move towards home working has significantly reduced occupancy of city centre office blocks and further reduced footfall. Most retail outlets in the central shopping district that did not close as a result of the pandemic are now struggling to survive.

SCC's executive cabinet has been discussing ways to revive the city centre by providing jobs and new opportunities. Initial plans include funding a new cultural centre, developing high quality housing in the abandoned office buildings around the city centre, pedestrianising the main city centre shopping area and putting in more cycle lanes to improve accessibility. None of the projects has yet been given formal approval to start.

Council-owned buildings

SCCs offices are currently located in Stanrock City Hall – one of three iconic 'Albert Buildings' in the city designed by the renowned architect Aspen Albert in 1860 and owned by the council. The buildings are considered to be of great architectural merit but are extremely expensive to maintain although the council earns an additional revenue stream from hiring out rooms in the buildings for weddings and other events.

One of the Albert Buildings, located on the edge of Willan Park, near Willan Park Community Centre, currently functions as the Willan Park library. The library is part of the in-house library service run by SCC which incorporates 22 of the 23 public libraries in the city (the running of the large Central Library is outsourced to Sophia Sogill University). The Willan Park library is the only public library within a 20-minute drive of the Willan Park district.

The candidate

The candidate is Azmi Salik, a recently qualified accountant, who is employed in the finance department of SCC, working as part of the strategic projects team. Azmi reports to Cory Miller, the Senior Finance Director.

The Strategic Option Review, which had begun before the beginning of the pandemic, was put on hold whilst SCC focused on managing the immediate impact of the pandemic. Since the cost of managing the city's response to the pandemic worsened SCC's financial situation further, the need to make savings is now considered urgent and the strategic projects team has been charged with examining several of the proposed strategies.

Appendix A

Keystone Institutions

One innovation that is just starting to attract interest within Linland is the development of Keystone Institutions (KIs). Already popular in several neighbouring developed countries, organisations operating as KIs have three key features:

- Spatial immobility – KIs are rooted in the geographical area, with strong ties to the local community and are consequently unlikely to leave.
- Size – KIs are typically large employers with considerable purchasing power and often own large tracts of land or property in the area. This enables them to have a significant impact on the local economy.
- Not-for-profit – the majority of KIs are not-for-profit organisations such as municipal councils, universities, hospitals and housing associations, acting independently or in collaboration with each other. However, some for-profit organisations in neighbouring countries have taken on a keystone role - for example, regional airports.

KIs provide localised long-term investment, focused on making a significant contribution to the local economy and helping to generate wealth and wellbeing by:

- Improving opportunities for employment, education and training amongst local people
- Encouraging community businesses (see below) and facilitating their activities
- Procuring from community businesses wherever possible
- Improving community access to under-utilised assets and supporting fairer land development
- Acting as community ambassadors.

A recent Linland government report suggested that one of the best ways to improve future outcomes in deprived communities is for councils to become KIs. It argues that generating growth and prosperity in an area will in turn increase health outcomes, improve quality of life, reduce council spending in the area and generate greater levels of income for the city.

<u>Community businesses</u>

The aim of directing procurement towards community businesses is that it helps local people to become the creators of goods and services and earn the wealth which improves outcomes. A community business is defined as a socially motivated organisation which aims to impact its local economies through the means of production. A community business will be:

- Locally rooted and responding to local needs such as income deprivation
- Accountable to the local community, which has a genuine say in how it is run (whether through its ownership, membership or its management structure)
- Trading for the benefit of the local community – i.e., the way the business is run and the way its profits are directed must increase social value by contributing to the long-term wellbeing and resilience of the local community
- Designed to achieve broad community impact.

Examples of community businesses include limited companies, charities, cooperatives and housing associations.

Appendix B

Zoned Regeneration Tax schemes

A relatively new development being used by some municipalities in Linland to invest in deprived communities is the Zoned Regeneration Tax (ZRT) scheme. ZRT schemes are designed to finance investment which is specifically aimed at revitalising deprived communities, those which have been unable to attract private investment because of run-down infrastructure, high crime rates or poor economic conditions.

The first stage is the identification and agreement of the external boundary of the regeneration zone requiring investment. Funds are then raised via development bonds issued by the municipal council specifically for the purpose of investing in infrastructure and public space improvements within the regeneration zone. The improvements are designed to bring about economic growth, attract private businesses into the area and revitalise the community.

The economic regeneration that follows should lead to increased business activity, and therefore higher land and property values. This higher assessment base will in turn increase the community taxes earned by the municipality. The incremental taxes – those earned from the increase in the assessed value of properties in the ZRT zone after the start of the investment period - are separately identified. They are then ring-fenced and applied to repaying the costs of the redevelopment, over a period of ten to forty years, until the full cost has been repaid. Only after that has been achieved can any future revenues be directed to the municipality's general reserves. The aim of ZRT schemes is to ensure that the investment has no impact on other existing municipal taxpayers and that no taxes are taken away from services elsewhere.

Such schemes are being used or are being considered for usage elsewhere in Linland to improve public buildings, restore green spaces, clean up environmental damage, develop housing stock and set up libraries and similar community services.

SCC has been considering the use of such schemes but has not yet taken a decision to introduce one.

Appendix C

Excerpts from SCC internal audit report

Stanrock City Council Internal Audit Department
Internal Audit Summary Report 2021
Budgetary control and monitoring
Report issued: August 2021

Objectives
To review the strategic financial management system ('the system') over the period July 2020 to June 2021 from a corporate, management and user perspective, to identify weaknesses and strengths within the processes underpinning the system.

Audit opinion
The audit found evidence of good control in many areas (in particular over capital expenditure) but also control weaknesses (some significant) within the governance arrangements over operational spending that prevented a Satisfactory opinion.

Executive summary
Whilst recognising that the largely unpredictable shock of COVID-19 put enormous pressure on the system, we found that its main impact was to exacerbate existing weaknesses in governance. The key issues that prevent a Satisfactory opinion included:

- Budget monitoring and performance reviews were found to be carried out in order to meet monthly expectations rather than being understood as a control process to manage limited resources and deliver required outcomes.
- There was little evidence of formal budget or performance reviews at an overview or a detailed level, leading to a poor understanding of the impact of specific decisions.
- The value of those performance reports that were produced was often undermined by the repetitive nature of content, the delay to publication (often up to two months after the period end), and the absence of focus on actions needed or taken in response to the information contained in the reports.
- Evidence of forecasting was found across all services but it was also found to be unnecessarily complex and control weaknesses were found that reduced its effectiveness.
- These weaknesses were then compounded by a reluctance amongst senior managers to take the decisive action needed to remedy overspending or poor performance when it was identified.

Specific areas highlighted
- Some income budgets were found to be unachievable even before the impact of COVID-19 was accounted for; for example, venue hire and library income targets.
- Some services had noticeably weak controls over spending – in particular in the Information Technology (IT) and Human Resources functions. In the case of IT this appeared to be primarily due to a lack of understanding at senior management level of the different requirements of IT provision, especially with regard to the planned digital agenda.
- The council has entered into budget pooling partnerships with other social care providers. However, in most cases, there was little evidence that formal oversight or performance reviews of spending were ever subsequently carried out – indeed in the case of one pooled budget, several reports produced by the finance officer appointed by the partner organisation had not even been opened.

Appendix D

Stanrock City Council (SCC) procurement

In keeping with most municipal councils and other state-owned institutions in Linland, SCC currently operates a formal procurement system with the following key features:

- Wherever possible a single supplier is used for multiple categories of items, to minimise the number of suppliers used.
- Once suppliers have been approved, they are added to a preferred supplier list and all procurement needs must be met in the first instance by a preferred supplier. Only where suppliers from the list cannot fulfil an order can a new supplier be sought.
- For most contracts a restricted procedure is used. The council places an advert for the contract and respondents are then sent a contract-specific pre-qualification questionnaire (PQQ). The detailed responses to the PQQ are used to draw up a shortlist of suitable suppliers who are then invited to tender for the work.
- Contract specifications are drawn up which detail the council's requirements – these can often run to multiple pages.
- Contract conditions include penalties for non-compliance with various performance requirements which are considered to be very strict by industry standards.
- Tenders for amounts over £50 000 must be made through SCC's e-tender portal.
- Timeframes for responding to the adverts and PQQs are tight.
- Suppliers are evaluated using a point-scoring system in which different factors are weighted to reflect their importance to the council according to:
    - Price which is typically heavily weighted
    - Quality and technical performance.
- Contract negotiations are undertaken between SCC's procurement team and the supplier's sales teams.
- The standard payment period is 90 days.
- Contract monitoring involves carrying out regular performance reviews measured against pre-agreed targets.

Appendix E

Cloud computing models

Many organisations in Linland now make use of cloud computing solutions to meet their computing needs. Previously, organisations had to own or rent banks of physical servers to provide the processing power for their computer systems. Most state-owned organisations in Linland have purchased their own servers, taking advantage of the low interest rates on capital borrowing in recent years. Purchased servers would be kept either on an organisation's premises or in space rented from an external data centre. In the case of an external data centre, the provider supplies the power, connectivity, security and controlled environment that is needed to run the servers, whilst the business retains responsibility for maintaining and upgrading the machines as necessary. Alternatively, organisations can rent specific banks of servers directly from a data centre. Standards of security and resilience (the ability to continue operations in the case of disruption) vary between different data centres. At the lowest level, provision is little more than an off-site warehouse, while at the highest level, data centres can (for a high price) guarantee 99.995% uptime per year and unparalleled levels of security.

Two types of cloud computing provision are widely available in Linland.

<u>Infrastructure as a Service</u>

Infrastructure as a Service (IaaS) firms provide an alternative option to organisations purchasing or renting physical servers. By separating the applications (or programs) used by the organisation from the servers they run on (a process known as virtualisation), organisations no longer need to use specific identifiable servers. Instead, they can purchase the processing power they need from external IaaS providers, and run their applications on what are known as virtual machines. These virtual machines perform like traditional servers but may be run on multiple different physical servers owned, managed and run by the IaaS provider and located across the provider's data centres.

With an IaaS solution, server processing power is purchased on a pay-as-you-go basis and increased capacity can be purchased with just a few clicks of a mouse. A range of IaaS providers exist – from large global firms to smaller local companies; prices – and levels of service and resilience – vary depending on the provider selected.

<u>Software as a Service</u>

A further cloud development is Software as a Service (SaaS). Traditionally, organisations have needed to buy licences to run the programs or applications they needed (such as email, word processing and spreadsheet packages, payroll packages, employee management systems etc.), then install the applications onto the organisation's devices. The organisation's IT department would then need to ensure that the applications were kept up-to-date and that the server processing power to run them was available.

The development of SaaS allows organisations to instead select the applications they wish to run from suitable SaaS providers and pay a periodic subscription to have access to them. The programmes are not installed on the firm's devices but are instead accessed via a web browser over the internet. Users can use the full functionality of the application, but it is the SaaS provider which is responsible for managing, updating and upgrading the software and for ensuring the applications are supported by a robust infrastructure.

Not all of the applications run by organisations in Linland are available from SaaS providers and so many firms use a multi-cloud solution in which they use SaaS for many standard applications and IaaS to provide the server processing power for the applications they still need to run and manage themselves.

Question 1 Requirements (1/4)

The council's executive cabinet meets next week to discuss selected strategies originally put forward in the Strategic Options Review in September 2019. To assist with the review, and in the context of the need to improve the financial position of Stanrock City Council (SCC), prepare a briefing paper for the Senior Finance Director, which covers the following areas:

		Marks
i)	With regard to the potential introduction of congestion charging in Stanrock	
	a) Discuss the potential benefits and problems associated with setting up such a scheme in Stanrock and	11
	b) Critically evaluate the financial implications of the scheme for SCC, including the financial impact of the four options put forward for the level of the charge that is set.	14
ii)	With regard to the provision of a library service in Willan Park	
	a) Discuss the potential benefits of retaining a local library service in Willan Park	5
	and if SCC does decide to retain the library service in Willan Park, discuss the potential benefits and risks associated with:	
	b) Selling the existing library building and relocating the service to Willan Park Community Centre	6
	c) Continuing to provide the library service in-house compared with its provision via a Public Service Delivery Vehicle formed for the purpose.	14
iii)	Discuss the financial and business benefits and risks which SCC will need to consider if it proceeds with its plan to adopt cloud computing solutions for its IT needs.	10
Total		**60**

Question 1 (2/4)

Email

From: Cory Miller, Senior Finance Director, SCC

To: Azmi Salik, Strategic Projects Team, SCC

Date: 6 September 2021

Subject: Congestion charging

Azmi,

SCC is considering introducing a congestion charging system into the city centre. I have obtained the following information for your evaluation.

Projected costs and revenues - assumptions

The figures provided below are simple averages to allow for an initial evaluation of the concept. Data such as pricing for different types of vehicles and the impact of daily and wider seasonal factors will be made available for a more detailed analysis at a later date.

Costs

Initial estimates suggest that setting up such a scheme would cost SCC around £40 million with annual fixed operating costs of £24 million. SCC can borrow the capital sum needed, at a current interest rate of 3%. Typically, capital loans are made for a 30-year period.

	Year 30
3% cumulative present value factor	19.601

Revenues

It is estimated that an average of 11 500 vehicles currently pass through the planned congestion charging zone every day. Under the planned congestion charging scheme, private vehicles would be charged a daily rate, 365 days a year, to enter the charging zone. Council-owned vehicles, and those owned by residents living inside the charging zone would be exempt from the charge. Four possible charge levels have been put forward; these are shown below with the associated expected traffic volume, based on analysis of 2019 data from other Linland congestion charging schemes:

Average charge	£7.50	£10	£12.50	£15
Expected daily volume of vehicles liable for the charge passing through the planned congestion zone	9 000	7 750	5 250	4 800

Regards,

Cory

Question 1 (3/4)

Email

From: Cory Miller, Senior Finance Director, SCC

To: Azmi Salik, Strategic Projects Team, SCC

Date: 6 September 2021

Subject: Willan Park library

Azmi,

As part of its cost saving agenda, and in recognition of the fall in numbers of books being borrowed, SCC intends to rationalise library provision across the city. It plans to reduce the overall number of public libraries from 22 to 12, and retain Central Library. Willan Park is one of the libraries being considered for closure. SCC has already been approached by a property developer about acquiring the Willan Park library building for conversion into new homes. The chair of the Willan Park Traders Association has sent the following email to SCC. Please bear this in mind when preparing your briefing paper.

Regards,

Cory

Forwarded Email

From: Balwinder Atwal, Willan Park Traders Association Chair

To: Libraries and Archives service, SCC

Date: 5 September 2021

Subject: Saving the Willan Park library service

I am writing on behalf of the whole Willan Park community to request a meeting.

As with other SCC-run libraries, Willan Park library has suffered from a lack of investment in books and facilities in recent years, and it is perhaps not surprising that numbers of books borrowed have declined significantly. However, we believe that it is vital to retain a library service in Willan Park, and would urge you to reconsider your planned closure. If you are determined to sell the Willan Park library building, we believe the library service could be relocated to the first floor of our nearby Community Centre, provided the funds can be found to restore it.

We also believe that we can offer an alternative to the in-house model currently used to run the library. Running a library as a simple book-lending service is becoming increasingly irrelevant in the digital age. We have spoken to current library staff and, although currently demotivated, they are full of ideas about how to improve the service. They have indicated that, with our support, they would be willing to take over the provision of the library service by forming an employee-owned Public Service Delivery Vehicle.

I hope we can meet soon to explain our reasoning in detail.

Regards,

Balwinder Atwal

Question 1 (4/4)

Email

From: Cory Miller, Senior Finance Director, SCC

To: Azmi Salik, Strategic Projects Team, SCC

Date: 6 September 2021

Subject: IT plans

Azmi,

I have received a summary update on the cloud computing plans from our IT department. I am sure they understand the IT benefits of the planned move to cloud computing but I need you to advise me on the financial and business implications of the decision.

Current situation

To power its computer systems, SCC currently owns 200 servers which are stored in an offsite data centre owned by the company, Coloco, which was chosen as it offers high levels of security and resilience. The council rents the storage space from Coloco and the company provides the power, connectivity, security and controlled environment needed to run the servers. They are maintained and managed, and upgraded or replaced as necessary by SCCs in-house IT department. They are currently three years old and were due to be replaced in 2023.

However, we have just received notice from Coloco that it is changing its business model and will no longer be offering space in its data centres for rent. We have been given just 12 months to remove our servers from the premises.

Planned solution

We plan to move all our standard applications such as Human Resources and payroll to Software as a Service (SaaS) and additionally to use SaaS for the planned self-service delivery of council services.

However, we currently run several specialist applications for which either no appropriate SaaS alternative is available or which we consider to be too complex to migrate. Our preferred solution therefore is to use Infrastructure as a Service (IaaS) solutions to provide the processing power needed for these applications.

Given the wide range of projects currently being considered (from congestion charging to becoming a Keystone Institution), we are not yet sure what level of provision we will require.

Regards,

Cory

Question 2 Requirements (1/4)

Cory Miller, Senior Finance Director, is to produce a report for a meeting next month of Stanrock City Council's (SCC) City Revitalisation sub-committee to discuss ways in which the council can invest in the most economically deprived areas of the city and so improve outcomes for its residents. Their focus will be on two initiatives – SCCs actions as a Keystone Institution (KI) to improve city-wide outcomes and the potential use of Zoned Regeneration Tax (ZRT) schemes to revitalise specific zones within the city. To assist in writing the report, you should prepare a briefing paper for Cory covering the following matters:

		Marks
i)	In the context of SCC's decision to become a KI and, wherever possible, award future procurement contracts to community businesses such as Willan Park Traders Association (WPTA):	
	a) With reference to Cory Miller's email of 3 September on procurement, assess SCC's current procurement protocols and propose suitable changes to them in order to be consistent with SCC's aspirations to be a KI.	15
	b) Discuss briefly the issues that will need to be considered when deciding how to structure a future KI collaboration between SCC and partner organisations, and assess the advantages and disadvantages of the two collaboration options suggested by Cory Miller in his email of 6 September.	15
ii)	Discuss the risks of using a ZRT scheme to fund the revitalisation of the proposed South City Zone in Stanrock.	10
Total		**40**

Question 2 (2/4)

Email

From: Cory Miller, Senior Finance Director, SCC

To: Azmi Salik, Strategic Projects Team, SCC

Date 3 September 2021

Subject: Keystone Institution: Procurement

Azmi,

As part of the council's role as a KI in the city, the cabinet wants, wherever possible, to award future procurement contracts to organisations which share SCC's values and fulfil the definition of a community business.

One service area identified as potentially suitable is catering provision, particularly as most of the council's current catering contracts are due to end in six months - including those for tourist attraction cafes and restaurants, food delivery services for the housebound and catering provision to accompany room hire for events.

Given the uncertainty over the exact amount of catering provision needed in each area, our standard approach for catering contracts is to use a schedule of rates contract (where the nature of the service required is specified but suppliers have to quote rates, such as a cost per meal).

One of the organisations which has already expressed an interest in tendering for future catering contracts is WPTA. The profile of bidders such as WPTA is wholly unlike the usual national organisations with which we usually contract, so we will need to rethink our procurement processes to ensure that they can bid effectively. We will also need to incorporate social value metrics into our bid evaluation process to ensure applicants are trading for the benefit of the local community as required by the definition of a community business.

I therefore need you to review our current procurement protocols. Please identify the potential obstacles which community businesses such as WPTA are likely to face when tendering for procurement contracts and recommend how we can minimise them, including in your analysis a discussion of any capabilities they may need which we can help them to develop. Please also include suggestions for suitable social value metrics to incorporate into our evaluation process.

Regards,

Cory

Question 2 (3/4)

Email

From: Cory Miller, Senior Finance Director, SCC

To: Azmi Salik, Strategic Projects Team, SCC

Date: 6 September 2021

Subject Keystone Institution: Collaboration

Azmi,

Future proposed KI schemes under review by SCC include further procurement contracts, community education programmes, developing available land for community projects and mentoring schemes for new community businesses. We have been in talks with Sophia Sogill University (SSU) and Stanrock City Football Club (SCFC) about collaborating over future schemes to optimise our potential impact. Both bodies have agreed in principle to such a collaboration and next steps will be discussed soon.

SSU was established as a charity in 1870. It has a well-connected business school with faculties covering accounting and finance, economics, international business, management, and employment relations. The university's website lists its core values as including 'making a difference to society' and 'engaging with the local community'.

SCFC is a for-profit company formed in 1894. It has a 27 000-seat stadium and a state-of-the art conference and events centre, and over a hectare of formal gardens.

Although we often rely on informal arrangements when collaborating with other organisations in the city, the cabinet prefers that we formalise our KI arrangements. The two options I want you to consider for this are:

- A consortium approach in which each separate project is first discussed and agreed between the organisations involved, before a legally binding contract is drawn up between them to clarify roles and obligations. These terms will then form the basis of any contracts agreed with the external providers.

- The creation of an independent joint venture owned equally by all three institutions, which would take over responsibility for the operation of KI activities, and which would contract with external providers in its own name.

I should add that there has also been some discussion about approaching two other local organisations, the privately owned Aspen Airport and Stanrock Community Hospital, about joining the KI collaboration initiative in the longer term and this may impact any final decisions about structures.

Regards,

Cory

Question 2 (4/4)

Email

From: Cory Miller, Senior Finance Director, SCC

To: Azmi Salik, Strategic Projects Team, SCC

Date: 6 September 2021

Subject: Zoned Regeneration Tax

Azmi,

There appears to be widespread enthusiasm within the council for the use of a ZRT scheme to fund the planned revitalisation programme detailed below. However, ZRTs are new and therefore relatively untested schemes in Linland, so I need you to analyse the risks that should be taken into account before the proposal can be approved.

The South City Zone: summary proposal

The council is proposing the introduction of a new investment zone in Stanrock – working title the South City Zone. The proposed zone will cover the business and financial district to the south of the River Stanley and extend to include the three adjacent suburbs of Willan Park, Bishopscroft and Feltondown.

Development

Several regeneration projects are being considered for this zone, including the development of a major cultural centre and exhibition space by the river. It is hoped that such investments will attract restaurants, retailers, housing developers and other cultural organisations to the area, leading to a vibrant and thriving economy, which will in turn help to revitalise the shopping district on the north bank of the Stanley.

Funding

The investment will be funded by a bond issued by SCC, to be financed by the ZRT scheme. The planned economic growth within the South City Zone should lead to an increase in property values across the whole zone, and so increase the value of the assessment base used to calculate the community tax levied on property owners in the zone. The increase in council community tax income earned as a result of such higher property values must legally then be directed towards financing the debt and paying off the cost of the investment and cannot be used for other projects within the city.

Regards,

Cory