CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC PUBLIC FINANCE

June 2020

Duration: 3 hours

Marking Scheme

There are **6** questions on this question paper.
Questions 1 and 2 are 30 marks each.
Questions 3 – 6 are 10 marks each.

Answer **all 6** questions

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication. Marks will also be awarded for appropriate examples drawn from real life that demonstrate understanding and application of theory.

1

Medium Term Financial Planning Case Study

If you tell an organisation it's treated unfairly and cannot cope with the resources it has, the organisation will surely follow your lead.

Morale is therefore higher in councils that, through the operation of a medium-term strategy, are systematically and successfully managing the tough job of balancing resources, than those where the plan is to chase the odd rainbow with plenty of fire-fighting along the way.

Last year, CIPFA introduced the Financial Management Code to promote good practice on medium term planning. Sometimes councils with higher reserves levels are at greater risk than those with lower reserves because they are not in control of events.

It's tough. Local government (in the UK) was cut hard over the last decade compared to other parts of the state, in part because of its track record in managing resources so well. There are statutory duties to provide services and also a statuary duty to deliver balanced budgets.

This places a unique requirement on the chief financial officer, as an individual, to freeze expenditure until plans are made that will balance the books.

This framework has placed councillors in the unenviable position of making cuts in 'non-statutory' areas like youth services and other sensible preventive programmes in order to fund the stark and acute pressures of children's and adult services.

But what if things are not going well? It can be difficult for elected members and officers to acknowledge hard truths, but if there is not a change of direction then matters may get worse.

In the case of Northamptonshire County Council, Max Caller's report was clear that earlier use of the Section 114 process may have prevented the subsequent financial collapse.

When s114s were occasionally used in the past, for example under Max Caller at Hackney or Steve Bundred at Camden, chief financial officers had the full support of the chief executive and the council's political masters to take this step towards regaining control.

In other words the s114 process was used as a tool to assert control and avoid failure – taking the step was not a failure in itself. This was not the case at Northamptonshire where every corporate effort was made to avoid the process until it was too late.

Source: Public Finance 27 Jan 2020 (extract)

- **Requirement for question 1**

a) For a public sector organisation of your choice, explain how its medium-term financial plan can be used to support delivery of other plans for that organisation, particularly in times of financial uncertainty.

(5 marks)

b) Discuss why effective management of reserves is a critical activity for any public service organisation. Use examples to illustrate your discussion.

(5 marks)

c) Imagine you are the Chief Finance Officer of a Council in the UK.
In the context of addressing potential financial issues before they become irrecoverable, provide the Leader of your Council with a briefing note that explains the terms:

- 'balanced budget' (include some simple figures to illustrate a balanced budget across a range of different income and expenditure).
- 'section 114 notice' in the context of the legal requirements for financial stewardship in local government in England and Wales.

(10 marks)

d) Discuss what range of activities the Chief Finance Officer should undertake to anticipate and manage fluctuations in funding, in order to maintain appropriate levels of service over the medium term in an environment where income sources are volatile.

(10 marks)
(30 marks)

2 Project Management and Business Cases

The UK Government's Major Projects Portfolio (MPP) has 133 projects with a value of £423 billion, and these are only a fraction of the projects delivered by Government. Major projects are the main mechanism by which the government invests in infrastructure, transforms services, and improves IT. The MPP includes high-profile projects such as Crossrail, Gov UK Verify, and the 30 hours free childcare programme. There are many examples of costly project management failures across Government and the National Audit Office (NAO) highlighted the same issues afflicting multiple projects leading to cost and time overruns and failure to achieve benefits. In March 2019, a NAO report on Verify stated that it was an 'example of many of the failings in major programmes that we often see, including optimism bias and failure to set clear objectives'.

The UK Public Administration and Constitutional Affairs Committee is holding an inquiry into how well such projects are managed by Government. The inquiry asks cross-cutting questions about how well the Government delivers projects, its ability to learn from mistakes, and the usefulness of published information for holding the Government to account.

Source: Parliament Committees website – Public Administration and Constitutional Affairs Committee

- **Requirement for question 2**

a) Describe the role of the UK Treasury’s Five Case Model for business case development and why they should be used for major projects. Include explanation of why full business cases might be less suitable for smaller, less complex projects.

(10 marks)

b) Robust business cases should be produced for major projects following the Treasury’s Five Case Model. Explain in detail what should be included in the Economic Case, and, with reference to examples, why these elements are important.

(10 marks)

c) Discuss the potential areas of project failure, and identify actions that might prevent a similar occurance for future projects, include reference to examples from your knowledge or experience.

(10 marks)
(30 marks)

3

Benchmarking is used widely in public service organisations, both within sectors and between other sectors.

- **Requirement for question 3**

Explain the objectives of benchmarking, and discuss the factors to consider when undertaking benchmarking.

(10 marks)

4

- **Requirement for question 4**

a) When designing a charging structure, what steps should be undertaken to establish fair and effective charging?

(4 Marks)

b) With reference to examples from organisations that you are familiar with, discuss the argument for and against charging for public services. Provide examples to illustrate your argument.

(6 marks)

(10 marks)

5

Aid is provided both within countries and from one country to another. The UK has specific stated objectives around why aid is given.

- **Requirement for question 5**

a) Explain the UK's stated objectives for giving aid.

(6 marks)

b) Discuss the moral arguments around why the UK provides aid to other countries.

(4 marks)

(10 marks)

6

Many local councils have moved away from grants to contracts in the past 15 years or so, which has impacted on the voluntary sector's ability to both bid for the work and have the capacity to monitor the contracts once they are in place.

- **Requirement for question 6**

Assume that your organisation is commissioning services from the voluntary sector to be delivered on its behalf.

Using examples to illustrate, discuss:

- differences between grants and contracts
- factors to be considered when giving grants
- reasons why grants might be chosen over awarding contracts when deciding on funding arrangements for delivering services

(10 marks)

Marking Scheme

Question 1
Workbook Syllabus ref B4

a) Medium term financial planning

Public sector organisations are usually involved in medium to long-term activities, or activities that repeat on a regular basis. The nature of their activities means that they are unlikely to cease to exist, and usually operate on the basis that they are a 'going concern'. It makes sense therefore to have a longer-term view on budgeting to ensure the future service needs are likely to be affordable, given some known costs, and making assumptions about other costs and income streams.

Some funding streams are time released over the life of a project or grant period, and other grants may be released in stages in accordance with project milestones so multi-year budgets may be needed to help identify where budget pressures will exist in future years.

Especially in times of uncertainty, financial planning is all about allocating finite resources over time, to reach the broad goals set out in an organisation's corporate or business plan. It is not enough for financial stewardship to demonstrate that the organisation is financially viable; it must go on to demonstrate that its activities are financially coherent.

Budgeting needs to be tied to organisational policy making and strategic planning. Otherwise there becomes a mismatch between what is promised through local and national strategy, and what can be delivered within the financial constraints.

It is necessary for organisations to look at 3-5 year budgeting, and sometimes up to 10 years or more to look at the longer-term impact that current spending plans may have on the organisation's reserves.

A Medium Term Financial Strategy (MTFS but sometimes referred to as Medium Term Financial Plan - MTFP) supports business planning through identification of key budgets and the assumptions for change in future years.

The MTFS should be used by the organisation to effect real change. For this reason, the financial plan cannot be allowed to become wholly a financial document; it must be linked with other service planning, risk management arrangements and asset management plans. Medium-term financial planning is not just about forecasting financial flows; it has an important role in integrating and harmonising financial and other corporate strategies.

1 mark per valid point relating to explanation of MTFS and how it links with other plans up to 5 marks

(Max 5 marks)

b)

Managing reserves

Managing reserves is a key activity for financial managers in all types of organsiations. Making decisions or recommendations regarding when to hold reserves (and where to invest them), and when to spend, are especially important when formulating strategies to cope with volatile funding.

A number of high profile articles have been written in recent years about the level of cash reserves being held by public service organisations – particularly local authorities and the NHS.

There are differing views on reserves and the levels being maintained by organisations. Prudent financial managers will argue that building reserves is critical to ensuring financial resilience is possible in times of austerity.

Finance managers will ear-mark reserves and ring-fence them for specific projects set aside monies to cope with a crisis, and undertake clever investment to generate income from interest wherever possible.

Organisations should also be investigating where investment in assets or projects should be undertaken to generate revenue income going forward.

Finance managers are responsible for ensuring 'appropriate' levels of reserves, and particularly in local government for producing a budget that is balanced and affordable in year – i.e. through income generated and use of reserves.

Requirement to take a long term view – reserves can be used as one-off. They are not a sustainable source of income. Northamptonshire County Council have relied too heavily on reserves over a number of years, and in 2018, effectively ran out of reserves.

Need to allow for contingencies such as unexpected demand for services. Might be as a result of a natural disaster, epidemic, or some other crisis.

Important to have the skills to identify what level of reserves is prudent, but not so cautious that the keeping of reserves reduces service provision to an unacceptable level. Having the financial skills to get the balance right is critical.

1 mark per valid point up to 5 marks

(Max 5 marks)

Syllabus ref B2

c)

Briefing Note

To: The Leader of the Council
From: CFO
Date: March 2019

Introduction

This Briefing note sets out the statutory duties of the CFO for a County Council in England, and explains the requirements for a balanced budget and the term 'Section 114 Notice'.

Financial Stewardship in Local Government

Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements.

The 2003 Local Government Act requires the CFO to report on the robustness of the budget and on the adequacy of the proposed level of financial reserves.

The CFO's duties in England and Wales were significantly extended by section 114 of the 1988 Act which requires a report to all the local authority's members to be made by that officer, in consultation with the monitoring officer and head of paid service, if there is or is likely to be unlawful expenditure or a budget that cannot be balanced with reserves, without leaving the organisation with inadequate reserves for future years.

This future years' part is really important. It is not sensible for the Council to wait until we are at the brink of bankruptcy – as was the case with Northamptonshire County Council. It is better to make a statement early if needed, acknowledge that there may be some difficult decisions ahead, and work together with all officers and Members to come to a structured and well managed, sustainable and balanced budget for services we can afford to deliver.

Example of balanced budget

A balanced budget is a budget that has been constructed to take account of the income expected to be received through grants and other income, matched to the expenditure required to deliver services at a level acceptable to tax payers. Reserves can be used to balance the budget, but as stated above, any use of balances should not jeopardise the ability of the Council to set a balanced budget in future.

A simplified example of a balanced budget for the County Council might look like this:

	2020/21	**2021/22**
Expenditure:	**£'000**	**£'000**
Adult services	150 000	145 000
Children & Young people services	180 000	160 000
Education	102 000	100 000
Environment & Highways	65 000	65 000
Finance and Resources	49 000	48 000
Communities & Well-being	37 000	34 000
Total Services Expenditure	497 000	486 000
Non- service expenditure	15 000	13 000
Total expenditure	**598 000**	**565 000**
Income:		
Central government settlement	(150 000)	(124 000)
Business rates	(5 000)	(5 000)
Local growth Business Rates	(2 000)	(3 000)
New homes Bonus	(3 000)	(3 000)
Adult Social Care	(30 000)	(30 000)
Other grants	(6 000)	(1 000)
Precept council Tax	(395 000)	(398 000)
Total income	**(591 000)**	**(564 000)**
(Surplus) / deficit	7 000	1 000
Efficiency savings already identified	(1 000)	(1 000)

Balance to be met from savings or reserves	6 000	0

Summary

Whilst the Council is planning to use some of its reserves to balance the budget for the current year, there is significant work being undertaken to find efficiency savings to help preserve the reserve balances for any future budget pressures.

(up to 3 marks for explanation of a Section 114 Notice. Up to 2 marks for explaining the term balanced budget. 2 marks for explaining that reserves cannot be used indefinitely, and that savings need to be found. Up to 2 marks for a decent example of a budget table to include at least different income and expenditure lines, totals and reserve contribution.
1 mark for briefing note format, to include summary)

Total 10 marks

Syllabus ref B5

d)

Short and long term strategic planning is affected by relying on volatile funding streams. Given the deficit reduction plans since 2015 by government in the UK, and other similar austerity measures in many other countries, most public sector organisations have felt the financial squeeze over the past 5 years and given global uncertainties that continue such as the economic impact of the pandemic of 2020, Central government grants can no longer be relied upon for many as ‘certain’. This is also the case for many charities and third sector organisations that rely on grants from local government.

Financial managers need to be:

- aware of conditions and performance targets attached to funding;
- confident that the risks are being managed around this; and
- informed if things are not on track

The ability to appropriately plan financially in the short and long term will rely on innovative financial leaders, capable of supporting the services delivery teams in their organisations.

To have any chance of managing volatile funding it is key to have good financial governance arrangements that include:

- Regular reporting to the managing body including detail of action planning and variance analysis.
- Actions taken to address key risk areas.
- The leadership ensure appropriate financial skills are in place across all levels of the organisation, for example a good understanding of unit costs and cost drivers.
- Internal and external audit recommendations are not overdue for implementation.

The above factors need to be considered within a medium term financial plan (MTFP) linked to medium term strategic plan (or medium term financial strategy (MTFS))

As well as good governance, one of the tools in the solutions box for volatile funding is to manage the risks as effectively as possible.

This includes:

- identifying the risky sources of funding
- assessing how likely they are to cease and what the impact of that would be (financially and operationally)
- managing the risks by putting appropriate controls in place to give early warning of potential problems
- mitigating the impact of risks through contingency planning
- monitoring and reporting on compliance with conditions of funding

Using long term agreements can help reduce the risk of volatile funding by building in some certainty to long term financial agreements such as minimum guaranteed funding, and time bound release of funding to match budget cycles.
Financial managers should also seek to influence payments to contractors that limit price rises through the life of the contract, thus reducing the volatility of spending, so that smoothing of budgets can take place where volatile funding is likely.
Financial strategy should ensure that a range of income sources is used wherever possible to help smooth peaks and troughs in funding needs, and spread risk of funding loss. Reliance on one source – be it central government or one main benefactor – places an organisation in a much more financially risky position than one that is able to obtain smaller amounts of funding from a range of funding streams.

The most successful organisations that rely on external funding sources are those who:

- keep aware of funding streams available
- have enough resources to seek funding (which can be time consuming)
- complete applications on time, as often the time frame for application can be tight

Examples of local authorities who have a dedicated officer for seeking grant funding from any source demonstrate that they are much more successful in obtaining funding, and obtain more funding than those councils who rely on officers applying for grants on a more ad-hoc basis as a small part of their day job. This has been seen in practice, where an external funding officer is employed and targets are usually set for generating grant income. Charities and third sector organisations employ dedicated staff to generate donations and fundraising and apply for grants.
This is an extensive model answer covering a wide range of activities and candidates may not cover all points. 1 mark per well made point across the activities to cover external funding and managing risky funding sources.

(Total 10 marks)

Question 2
Syllabus Ref C2 Workbook (11.2)
a)

For the UK public sector, the Treasury guidance provides a practical step by step guide to the development of business cases using the Five Case Model, using an approach which is both scalable and proportionate. It is recognised as best practice and is the Treasury's standard methodology.

Experience has demonstrated that when this guidance is embedded in public sector organisations, better more effective and efficient spending decisions and implementation plans are produced. When correctly understood and applied, the approach provides a more efficient planning and approval process saving between 30% and 40% in time taken and cost of production of business cases compared with unstructured approaches.

It provides a framework for thinking and a process for approval, which is flexible and scalable along with a range of tools that can be applied proportionately to provide clarity in the decision support process. For smaller projects the Business Justification Case can be used. The approach also provides a clear audit trail for purposes of public accountability.

The Treasury guidance claims that the application of the Five Case Model has been shown to:

- reduce the costs and timescales associated with producing business cases and to improve the efficiency and throughput of the spending approval process through clearer structure and presentation

- raise the quality of spending proposals, both in terms of their scoping and delivery and public value, as a result of the more effective comparison of alternative options for the achievement of objectives

- support the prioritisation of spending proposals and the management of spending portfolios through provision of standard information

Templates are available online for all of the stages of the Five Case Model.

It is important to remember though, that the full model is often not appropriate for small projects, and in practice many organisations develop business plans that do not use, or need to use, all the stages described for the model. They are costly to produce for all the stages and cases, and can therefore be over-prescriptive for smaller projects that could be managed more effectively following a locally established, but clear project plan.

A well prepared business case supports evidence-based decisions and can be used to provide a clear framework for thinking about spending proposals or transformation of services, and a structured process for appraising, developing and planning to deliver best public value.
1 mark per well made point, must also include reference to why the full business case might not be suitable for use.

(Total 10 marks)

b)

Syllabus Ref C3 Dec 18 WB 11

The main purpose of the Economic Case is to demonstrate that the spending proposal optimises **value for money** (for public services as a whole, rather than the individual organisation).

It explains how this is achieved by identifying and appraising a wide range of realistic and achievable options, known as the **long list**, in terms of how well they meet the spending objectives and critical success factors agreed for the scheme; and subjecting a reduced number of options, known as the **shortlist,** to cost benefit analysis (CBA).

The key to a well scoped and planned scheme is the identification of the right range of options, or choices, in the first instance; because if the wrong options are appraised the scheme will be sub-optimal from the outset.

The short list may include the '**do nothing'** and '**do minimum**'

options, to be subjected to cost benefit analysis (CBA). This is so it can be established whether it is better not to do anything.

The CBA quantifies in monetary terms as many of the costs and benefits to the organisation that might be achieved for each of the shortlisted options. The CBA effort should be proportionate to the scale and risk of the proposal. Further calculations of the costs and benefits are discounted and summed to produce a figure for the Net Present Value (NPV) of each option.

This analysis should also consider whether there are significant distributional effects on some groups within society and where relevant should quantify these. **Distributional** impacts relate to the extent to which there are differences in the way a proposal will affect different groups in society. For example, the noise impacts of a new high speed train line will affect different groups of households, with some experiencing increases, and others decreases. Depending on the geographical locations of different groups of people, these groups will each experience different impacts. Once this is known, decisions can be made about whether the desired outcomes and impacts will be achieved in the right places / for the right people.It should also identify unintended consequences for consideration in the decision making process.

Where benefits are not quantifiable but are clearly material to the decision process, then these qualitative costs, benefits and risks are also assessed and taken into consideration in identifying the **preferred option.**

This analysis enables the preferred option to be identified, which is generally the option with the best NPV; but may be another option where the qualitative costs and benefits are sufficient to justify the difference in the NPV.

The preferred option should then be subjected to sensitivity analysis in order to test its robustness. The output of the economic case should never be a one number answer.

The costs of scheme monitoring (subject to proportionality) during implementation of the proposal and of post implementation evaluation (also subject to proportionality) should be included.

The economic case should include the following:

Element to include	Why
critical success factors (the attributes essential to the successful delivery of the scheme, against which the available options are assessed)	So that the reasons for doing the project can be clearly established. Identifying the criteria by which success can be measured – Did we get what we wanted?
long listed options	To ensure the full range of options is at least considered in the first instance
short listed options (including do minimum. Three or four is the recommended number)	To enable useful comparison of the viable options
status quo; do nothing option (unless this is not credible)	So we can measure whether it is worth doing the project – will it be better than what we have now, this might be financial savings or improved quality, or both.
economic appraisals of costs and benefits with CBA	To fully understand the comparative costs, and identify the benefits
distributional analysis (where relevant)	To enable the comparisons and range of outcomes
optimism bias adjustment	To ensure that the the project is realistic
risk assessment	To ensure the risks are properly documented so they can be appropriately managed
sensitivity analysis	To establish the impact of changing some of the variables, so the variables with the most impact can be managed where possible
the preferred option	To give a clear indication of the best option based on all the analysis above to support a decision.

1 mark for defining the purpose of the Economic Case. ½ mark per element identified (left column) up to 4 marks that should be include in the case. Up to 5 further marks for explanation why these areas are important (right column). (Max 10 marks)

Syllabus ref C2 WB11

Example of failure below is from a learning material activity relating to the Siren project for Surrey Police. Other examples can be used and gain credit. Candidates should be able to identify typical project failings, even without specific examples.

The key areas of failure were:

1) The project was too ambitious for the organisation to handle. The enthusiasm displayed by staff needs to be backed up by an ability to deliver.
2) Established governance arrangements and internal controls existed but did not operate effectively. It is important to ensure that progress

reported in monitoring and managing projects is thorough and accurate.

3) The project was complex and the skill set for managing a large project over a significant time period is different to the majority of projects undertaken. This was discovered late in the life of the project and action taken much earlier would have been far more effective.
4) Risks associated with the project were either not fully recognised or were not acted upon in an effective way.
5) The chosen procurement path, to commission a 'tailored development system' rather than 'off the shelf' was taken as it provided all that the Force required. However, the increased riskiness of this route was not matched with the skills and expertise to deliver.
6) Mitigating actions were taken by the organisation but it was a case of too little too late to avert the need to terminate the project.
7) The project management approach was not fully understood. This weakened to customer side ability to control the project.
8) The scope of the project was not properly controlled as was the delivery and use of modules.
9) There were numerous changes in Senior Responsible Officer (SRO) and Project Manager roles. Other key roles were vacant for too long a period of time.
10) Benefits were overstated.
11) Failure to understand the controls, checks and balances required.
12) A lack of clarity on what constitutes an issue or risk.
13) Reporting was 'rose tinted' and did not always represent actual progress.

For many of the above failings the remedies are a mirror reflection of the failings. The essential task of the CFO and senior staff is to recognise the shortcomings in oder to act accordingly. In the event, for the Siren case almost £15m of expense had to be written off.

1 mark per point, does not have to be this example, but well made points for other examples from experience or learning attract marks.

(10 marks)

Question 3:
Workbook 13, Syllabus Reference C5

Benchmarking can be a key element of measuring performance and success. In some cases, you can only assess whether a project or service is successful if you can compare with others.

Benchmarking can be defined as:

'the measurement (of the quality / efficiency /effectiveness) of an organisation's policies, performance, strategies, costs, etc., and their comparison with standard measurements, or similar measurements of its peers'.

The objectives of benchmarking are:

- to determine what and where improvements are called for
- to analyse how other organisations achieve high performance levels
- to use this information to improve performance.

Who to benchmark with

When considering benchmarking, the choice of comparators is important and should be the organisations that will give the most informative and relevant comparison.

For example, many organisations in local government could benchmark with their geographical neighbours, when the demographics of those neighbours may be very different. A better comparison could be those local authorities with a similar demographic profile.

Factors to consider when choosing benchmarking 'families' are:

- organisation type / sector
- organisation size
- size and nature of the area covered by the organisation
- demographics
- geographical location
- strategic / policy approach

Looking at each of these factors in turn:

Organisation type / sector

Most organisations will wish to compare themselves with others who operate in the same sphere as themselves – housing, hospitals, police forces, etc.

The advantage of this approach is that there may already be contacts across that sector and there will be information readily available to be shared.

For example, for Police, Her Majesty's Inspectorate of Constabularies (HMIC) produce annual profiles which compare performance and data from all Police Forces in England & Wales. Similarly, CIPFA produce a wide range of statistics for public sector organisations, featuring all those who participate in the data collection exercises.

A disadvantage of these sector-specific comparisons is that if the sector as a whole is not performing as well as it should, the value of benchmarking for improvement will be limited. Consider whether your own organisation would want to promote itself as being 'one of the best of a bad bunch'? In these circumstances, some comparisons **outside** the sector – with other organisations that share similar characteristics – could be more useful.

Organisation size

Whilst many performance measures are taken as a unit cost or a cost per head of population, rather than absolute values, there may still be differences due to the size of an organisation. Factors such as economies of scale, purchasing power and influence may mean that comparisons between a small organisation and a much larger one are not valid.

When establishing a group of suitable peers to be in a benchmarking group it is advisable to look at the number of employees, overall budget and the population served.

Size / Nature of area covered by an organisation

Undertaking benchmarking comparisons between an organisation serving a large urban population and one serving a small, spread-out rural population would not give the best results – the needs of clients (and the ability to deliver services) will be very, very different.

Demographics

In a similar way, the needs of a population that is served by an organisation can be very different due to demographics. A well-off, wealthy but primarily elderly area will have a set of needs that do not match those of an area with more young people, with high levels of deprivation and poverty, and it follows that the organisations serving these areas will be different too.

Geographical location

For the same reasons as for demographics and size of area, geographic areas can be a factor to consider in benchmarking. In some cases, comparing performance with its nearest neighbours can be the best option for an organisation, especially if the geography does affect service levels, demand and cost. Clearly, this is also a factor when considering international or global comparisons.

Strategic / Policy approach

Organisations that take the same position on service delivery can make good and useful comparators. For example, looking at other organisations which have adopted an outsourcing approach for back-office services would be a suitable approach for an organisation which has contracted out its Finance, HR and ICT functions.

2 marks for benchmarking definition, 1-2 marks per factor discussed up to a maximum of 8, discussion should include reasoning.

(Max 10 marks)

Question 4:
Syllabus ref A6
a)
the basic steps that should be undertaken when designing a charging structure:

- Identify which charges should be reviewed and consider:
  - service user feedback
  - financial pressures and opportunities
  - alignment with corporate objectives.
- Assess constraints and understand the legislation considering:
  - national guidance
  - users' ability to pay
  - use of surpluses
  - target service user groups.
- Collect and analyse information and consider:
  - service uptake and user profile
  - customer satisfaction
  - other providers in the market
  - unit costs and cost recovery
  - impact of previous decisions.
- Examine options for charges and concessions by considering:
  - impact on service users including minority groups
  - forecast demand and income
  - concessions and exemptions
  - impact on other services and local businesses
  - consistency with corporate guidelines.
- Consult on proposals using:
  - workshops with service users
  - stakeholder surveys
  - sessions with decision makers
  - staff feedback.
- Revisit options as appropriate and:
  - adjust options as required
  - appraise all options
  - seek approval from decision makers.
- Implement the new charge and consider:
  - timing and phasing
  - communication of charges and the changes
  - monitoring arrangements and target setting.
- Monitor and review the impact by reviewing:
  - whether the intended aims met
  - the impact on uptake and income
  - any unintended consequences (good and bad).

½ mark per step described (max 4 marks). Candidates are not necessarily expected to describe the steps in this much detail to gain all four marks, but should describe the 8 different steps with emphasis on fair and effective design of charging structure.

Syllabus ref A6
b)

Arguments for charging

- Equity - relating payment to benefit
    - Eliminate hidden subsidies for service provision
    - Non-users of the services are not required to subsidise users. This occurs when taxation is used instead of charging - for example families with children who attend state schools are subsidised by tax payers who do not have children
    - Charge can reflect the scale of usage; for example, parking charges relate to the amount of time so occasional users are not subsidising frequent users.

There is evidence that even small charges can change behaviour. Consider that in Australia, charges to visit the doctor at the local surgery were introduced in 2014, not only to generate income for Medicare, but to help reduce the number of unnecessary visits that could be self-treated.

- Economy
    - Users are more likely to value and economise their use of something they have paid for than something they receive for free at the point of use
    - Promote competition and improve value for money where services can be provided by other suppliers
- Rationing / efficient use of resources
    - Where services attract a charge, users will only buy that service when the cost to them matches the value they will receive.
    - Where services are free at the point of use there is a risk of over-supply and waste of resources
- Accountability
    - Charging for services helps develop a relationship of accountability between provider and customer. Funding via taxation can reinforce anonymous bureaucratic service delivery
    - Service quality is usually under more scrutiny if the user has paid for the service rather than receiving it free at the point of use.

Arguments against charging

- Equity – relating payment to ability to pay
    - The major barrier against charging for public services is moral. The price people are prepared to pay reflects both the value and their ability to pay for the service.
    - Discounts to certain groups (benefits claimants and those on low incomes) can create stigma and potentially the exacerbation of a dependency culture
- Costs

    - Substantial resources may be required to implement effective charging mechanism
    - Administrative costs relating to and vouchers or discount schemes need to be calculated
- Managing expectations of stakeholders
    - Culturally, UK citizens are familiar with receiving public services free at the point of use and are less used to paying for them so have minimal knowledge of the true cost of some services

2 marks for each side of the argument for and against. Limit to 4 marks if no reference is made to any examples

(Max 6 marks).

Question 5

Syllabus ref A2

a)

The UK government policy is that international aid is a 'moral duty'. This is a political decision, and until there is a change in government, the policy is likely to remain.

Governments often face criticism from their citizens regarding giving aid to other countries, whilst cutting services domestically through reducing budgets. This has certainly been the case in the UK.

The UK government policy on aid was updated in 2015. The document 'UK Aid: Tackling global Challenges in the National Interest' outlines the UK approach to aid, and the purpose of aid provision.

…' our aid budget will be restructured to ensure that it is spent on tackling the great global challenges – from the root causes of mass migration and disease, to the threat of terrorism and global climate change
– all of which also directly threaten British interests.

We want to meet our promises to the world's poor and also put international development at the heart of our national security and foreign policy.'

In line with that principle, the policy goes on to describe how spending will be shaped according to four strategic objectives. They are:

1) Strengthening global peace, security and governance: the government will invest more to tackle the causes of instability, insecurity and conflict, and to tackle crime and corruption. This is fundamental to poverty reduction overseas, and will also strengthen our own national security at home.
2) Strengthening resilience and response to crises: this includes more support for ongoing crises including that in Syria and other countries in the Middle East and North Africa region, more science and technology spend on global public health risks such as antimicrobial resistance, and support for efforts to mitigate and adapt to climate change.
3) Promoting global prosperity: the government will use Official Development Assistance (ODA) to promote economic development and prosperity in the developing world. This will contribute to the reduction of poverty and also strengthen UK trade and investment opportunities around the world.
4) Tackling extreme poverty and helping the world's most vulnerable: the government will strive to eliminate extreme poverty by 2030, and support the world's poorest people to ensure that every person has access to basic needs, including prioritising the rights of girls and women. This will build security, stability and opportunity that will benefit us all.

By stating these objectives, the UK government has been transparent about why they give aid, and being clear about why it is good for the UK, as well as the recipients of the aid.

(b)Through these objectives too, we touch on what might be considered the main arguments for providing aid. There is some overlap in the objectives, but the **moral** argument is most clearly demonstrated in objectives 2 and 4.

The **self-interest** argument might be considered in two subsections:

- **Enlightened self-interest** – such as dealing with overseas problems to reduce the likelihood of them becoming problems at home. For example dealing with refugees or famine in situ to prevent unwanted immigration, or dealing with infections at source to prevent pandemic events – objectives 1 and 2
- **Naked self-interest** – using aid as a lever with which to secure economic, diplomatic, intelligence or military favour – objectives 1 and 3.

(2 marks per the 4 objectives explained, 2 marks for moral discussion)

(Max 10 marks)

Question 6:
Syllabus reference A4

Difference between a grant and a contract
A grant is a payment to help the recipient (e.g. charity). In return, the grant funder (a public body) gets no services delivered directly. A grant is usually provided subject to conditions that state how the grant must be used (for example to support the wider objectives of the public body in promoting the social, economic or environmental well being of their area).

Grant funding is usually preceded by a call for proposals. One example would be a grant to support a local community centre holding activities for children during the summer holidays. The grant offer letter will normally set out general instructions as to how this is to be achieved, for example, that children need to be kept entertained by taking them on excursions and have sporting activities, but not be overly specific, or require detailed reporting.

A 'contract' on the other hand is an agreement between two or more parties, which is intended to give rise to legal relations. Under a contract, payment is made in return for the delivery of goods or services. The agreement is defined by terms and conditions set out in the contract, which is different from the grant, as it involves a mutual bargain involving reciprocal obligations.

There are clear legal and procurement reasons why it is necessary to distinguish between a contract and a grant. Much will depend on the individual facts and circumstances surrounding the relationship. The lack of clear definitions means that the terms are sometimes used interchangeably, when they should not be.

The Public body must however decide which funding channel is the most suitable for their programme, service or intended outcome and is likely to provide the better value for money. There may also be scope and good reasons to use both in some situations especially in respect of Payment by Results contracts. Whether a service is delivered under contract or grant will depend on the nature of the services to be provided and the relationship the public body wishes to have with the service provider, and the level of control. For example, grant funding will not be appropriate if a public body requires a specific service to be delivered and wishes to specify, in detail, **how** the service should be delivered. Grant funding may, however, be appropriate if a public body wishes to provide financial support for a particular activity or project.

Factors to consider

- Legal Power – The public body must make sure that it has the legal powers to make a grant. The power to make grants may be in specific terms, such as 'a council may make grants for the improvement of its local environment'.
- Value for money – This allows for the inclusion, as appropriate, of wider environmental, social and economic objectives within the procurement process. It will not be possible to include detailed terms and conditions in a grant funding relationship to deliver social services as will be the case in a contract. In addition, whilst some monitoring arrangements can be put into place under a grant scheme, it will not be very extensive as will be the case in a contract. This may be a material factor as public bodies need to evidence clear accountability and transparency.
- Legal risks – A key question for the public body is whether the user/ authority needs/ requirements can be delivered and secured by a grant or a contract. Some service areas will include high legal risks as regards delivery and to mitigate any risks the public body will need to secure appropriate terms and conditions to protect it from potential eventualities (reputational risks, litigation, not complying with statutory duty etc). There are also EU procurement litigation risks in the event that an arrangement is treated as a grant when it should actually have been procured.
- Complexity of Service – The public authority is under a duty to ensure that the chosen supplier is providing best value for money, are technically and commercially capable of offering an acceptable quality of service, financially sound and likely to remain so over the duration of the term and whether it will be able to have a good working relationship. The more detailed and complex issues that arise, the greater the move towards a contractual relationship rather than a grant scheme.

- State Aid – Any award of grant funding should comply with the European Commission's rules on the provision of State aid to economic undertakings. As outlined in Article 107(1) of the Treaty on the Functioning of the European Union, grant funding may constitute State aid if it strengthens the position of the service provider relative to other competitors and therefore has the potential to distort competition.

This means that grant funding may not be the appropriate route for establishing and maintaining most social care services.

- Breach – The basic consequence of breaking a grant agreement is that the grant money becomes repayable. In practice, it may be difficult to recover monies paid out as grants and any recovery process will be timely and expensive. Breach of a contract provision means the service provider will be required to compensate for the loss caused under an action for damages. Any potential recovery may be higher than the mere repayment of invoices received.

- VAT Liability – There are different tax consequences for grants and contracts. A grant may be eligible for Gift Aid and VAT is not payable on the grant. Payments under a contract do not attract Gift Aid and are subject to VAT. If an agreement is documented as a grant when it is in fact a contract, it can result in an unplanned VAT liability for the charity and may result in risk to the future viability of the charity. If the contract does not state that VAT is payable in addition to the price then the service provider (usually the charity) will be liable to pay the VAT to HMRC and so will lose 20% of the income. Prices should be stated "exclusive of VAT" in all agreements. If VAT is payable then the charity will receive this in addition to the price.
- State of the market – The market for the service required may be highly competitive, with many potential service providers with high levels of capacity. Alternatively, there may be no real market, with perhaps a single organisation with limited capacity (or even no potential provider). Generally, the more competitive the market, the more likely it is that public bodies will choose a contractual relationship – as opposed to a grant – as the basis for receiving a service. An important factor is competition. In some cases, the 'market' may consist solely or largely of community or volunteer groups, for example bereavement support. In these cases, a competitive grant process may be appropriate rather than a procurement process.

One reason public bodies give grants to public service organisations is to build their capacity to deliver public services. Often, these services will be for people in great need and who are hard to reach. Sometimes, a particular public service organisation may be the only organisation that can reach the group. They may, however, lack capacity in areas such as governance, HR and premises. In such cases, the public body may decide on a capacity building grant.

(1 mark for describing grant, 1 mark for contract, 1 mark for distinguishing differences. 1 mark per factor to consider in decision – explained, other marks available for relevant examples up to maximum of 10)

(Max 10 marks)