

# STRATEGIC PUBLIC FINANCE

## September 2020

Duration: 3 hours

### **Instructions to candidates**

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

## **Lockdown Legacy: Debt and Public Finance**

The Treasury predicted that the UK's deficit is likely to reach £337bn this year. This would be more than six times the £55bn predicted in the March Budget and the highest level since the Second World War. Officials believe the deficit could rise to £516bn in the worst scenario.

'As debt is likely to reach significantly higher levels after the crisis, it will be important to stabilise the debt-to-GDP ratio and prevent debt from continuing to grow on an unsustainable trajectory'.

With interest rates at a record low, some commentators have questioned the need to rush to repay Covid-19 debt. However, it is clear that the debts racked up pose tough questions for national and local government policymakers. According to the logic of austerity, such a large rise in debt is a disaster for the public purse.

But some experts warn that things might not be quite as simple as they first appear.

Peter Dixon, UK chief economist at Commerzbank, calculates that the average interest rate the government is paying on the £71.3bn of gilts it issued between 2 April and 20 May is just 1.26% – a level partly assisted by the Bank of England's swift decision to slash its base rate in response to the crisis.

If crudely applied to the £298bn the Office for Budget Responsibility estimates the government will borrow this year, this rate would result in additional annual interest payments of around £3.5bn a year – not insignificant, but only 0.4% of the £851bn government spent in 2018-19.

The government is further assisted by a new fiscal rule introduced in March by chancellor Rishi Sunak to reflect the enduring low interest rate environment. This shifted the emphasis away from total debt levels to total debt interest payments, committing the government to keeping interest payments below 6% of government spending.

One key metric long used to guide fiscal policy is the country's debt-to-GDP ratio. In February, the Office for National Statistics stated that this ratio currently stands at 79.1%.

The Office for Budget Responsibility predicted this figure would reach 112% next year. This is the highest level since the 1960s, as the country repaid its debt from the Second World War.

**Source: Public Finance 5 June 2020 (extract)**

### **Requirement for question 1**

- a) Many countries require economic help due to differing pressures at different times. During a global crisis, the role of the International Monetary Fund may be particularly important for some countries.  
Identify and explain all the main roles of the International Monetary Fund (IMF).  
*(5 marks)*
- b) The preparation of a medium-term fiscal framework at a macroeconomic level usually includes projections around a range of government policies.  
Describe the types of policies you would expect a government to have in place to manage its macroeconomic climate, and suggest examples of targets or specific policy objectives that may be in these policies.  
*(8 marks)*
- c) Just like many other countries, the UK government has announced a number of initiatives to promote an economic bounce-back, including investing in major building projects.  
Briefly list the four main methods of financing available for **national** governments such as the UK  
*(2 marks)*
- Describe the role of the Debt Management Office in the UK or equivalent organisations in another country.  
*(3 marks)*
- (5 marks)**
- d) In more detail, and with examples from your experience or learning, explain at least three potential sources of borrowing (either domestically or externally) that a country like the UK might utilise to help its economy recover from a major financial shock, and discuss the benefits or drawbacks of these different sources of borrowing.  
*(12 marks)*
- (30 marks)**

# 2

## **Keeping Public money flowing locally.**

UK Local Authority Case Study:

'The net financial gains we have been generating over the past four years from our commercial income have, in part, been invested in improving our service resilience. This assisted the council in taking a comprehensive and rapid response to the pandemic to support its vulnerable residents.

Each year, we have been putting money from our rental streams into sinking funds to cover potential void and rent-free periods, as well as future capital refurbishment of the assets. Last year, we set aside about £8m, bringing the total earmarked for this purpose to about £20m. This means we have a healthy cushion. Even if the worst-case scenario arises, we still have enough money in that sinking fund to prevent an impact on the council's revenue budget and council-tax payers.

In response to Covid-19, we have been doing some additional worst-case scenario projections of potential effects on our commercial rental streams to stress-test the adequacy of the sinking funds we have been setting aside, and looking at where the risks are to our tenants. One thing that helps us is that 40% of our rental income comes from a major international firm HQ within the borough, which we own. There is no expectation that they will be unable to pay, which gives us a firm foundation in terms of commercial rent.

For the March quarter, we have, to date, received 90% of our rents, and the remaining 10% is covered by deferral agreements. We are not writing the money off – the tenants just have longer to pay.

Our senior leadership team has been holding daily Covid-19 meetings to discuss all issues relating to the council's response. Issues covered include providing welfare, support and food parcels to shielded residents, and organising business support grants.'

2020-21 budget: £12.6m

Covid-19 expenditure: £1m

Loss of income: £3.3m

Government grant: £1m

Total shortfall: £3.3m

Biggest areas of spending rises: homelessness, food distribution

Biggest losses of income: Car parking charges, leisure centres, building control.

**Source: Public Finance 16 Jul 20**

## Requirement for question 2

- a) The CFO has a critical role in any organization, and particularly at times of crisis. Explain the key elements of the role, and the personal qualities you would expect an effective CFO to display.  
(5 marks)
- b) Explain why budget forecasting is a useful tool for basic financial planning.  
(5 marks)
- c) Discuss why scenario planning might be better than simple forecasting in times of extreme uncertainty, and how sensitivity analysis differs from scenario planning.  
(10 marks)
- d) CIPFA's Financial Resilience Index uses a number of indicators of financial stress to measure a council's financial resilience, some of which are listed below:
- Level of Reserves
  - Change in reserves
  - Interest payable / Net revenue expenditure
  - Gross external debt
  - Fees & Charges to service expenditure ratio

Since 2010 there have been repeated comments and articles relating to both building reserves and conversely the inappropriate reliance on reserves by councils. In the context of the FRI indicators, present ideas about how councils can innovate to survive financially and continue to deliver key services by managing reserves and income sources.

(10 marks)

**(30 marks)**

# 3

Whole Life Costing (WLC) is a way of looking at the costs of a project (or purchase of an asset or even the commissioning of a service) for the entire duration of that project's life cycle, such as the useful life of an asset, or the length of a contract. This is more than simply the purchase price of an asset.

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Requirement for question 3

- a) Clearly describe, with examples, the types of costs to be included when undertaking a WLC exercise. *(4 marks)*
  
  - b) Discuss the benefits and challenges of using the WLC approach when evaluating a project. *(6 marks)*
- (10 marks)**

# 4

You are the Finance Manager (A.N. Other) in charge of projects at your organisation.

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Requirement for question 4

With reference to implementing a new IT system for a back-office services for Finance, prepare a briefing note to the Board that includes an explanation of the term 'Benefits Realisation'. You should also refer to the types of benefits that may arise, and the potential barriers / blockages to realising the expected benefits for this type of IT system.

**Note: you should not use your real name in any answer**

**(10 marks)**

# 5

The UK Treasury's Five Case Model for business cases is widely used in the public sector for major projects with significant budgets.

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Requirement for question 5

- a) Describe the purpose of the Management Case within the Model, and the content you would expect to find in this section of the business case
- b) Using examples of activities, discuss the importance of the role of the CFO during the development of the management case.

*(7 marks)*

*(3 marks)*

**(10 marks)**

# 6

CIPFA has its own Standard of Professional Practice on Ethics for its students and members. It is considered good governance for any organisation to have a code of conduct covering all employees and activities.

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Requirement for question 6

Explain the purpose of a code of conduct, and present a draft outline of the headings (with a short explanation of each) that you would expect to find in an organisation's code. Draw on examples of codes of conduct from your own organisation, or from your research and learning.

**(10 marks)**

## Question 1

Syllabus Ref: **Workbook 1 Syllabus ref A1**

a)

The IMF website cites its roles as:

- **Surveillance** - involves the monitoring of economic and financial developments, and the provision of policy advice, aimed especially at crisis-prevention.
- **Lending** to countries with balance of payments difficulties, to provide temporary financing and to support policies aimed at correcting the underlying problems; loans to low-income countries are also aimed especially at poverty reduction.
- Third, the IMF provides countries with **technical assistance** and training in its areas of expertise.

Supporting all three of these activities is IMF work in **economic research and statistics**.

In recent years, as part of its efforts to strengthen the international financial system, and to enhance its effectiveness at preventing and resolving crises, the IMF has applied both its surveillance and technical assistance work to the development of standards and codes of good practice in its areas of responsibility, and to the strengthening of financial sectors.

The IMF also plays an important role in the fight against **money-laundering and terrorism**.

**1 mark per explained relevant point**

(5 marks)

## Syllabus Ref A1

b)

Macroeconomic projections are not simple forecasts of trends in macroeconomic variables. Projections are based on a definition of targets and instruments in policy areas such as:

- monetary policy – control over interest rates and money supply
- fiscal policy – levels of government taxation and spending
- exchange rate and trade policy
- external debt management
- regulation and promotion of private sector activities, and

- reform of public enterprises.

For example, the policy objective of reducing inflation normally corresponds to **targets** such as:

- the level of the deficit and
- the debt to GDP ratio.

While **specific instruments** can include:

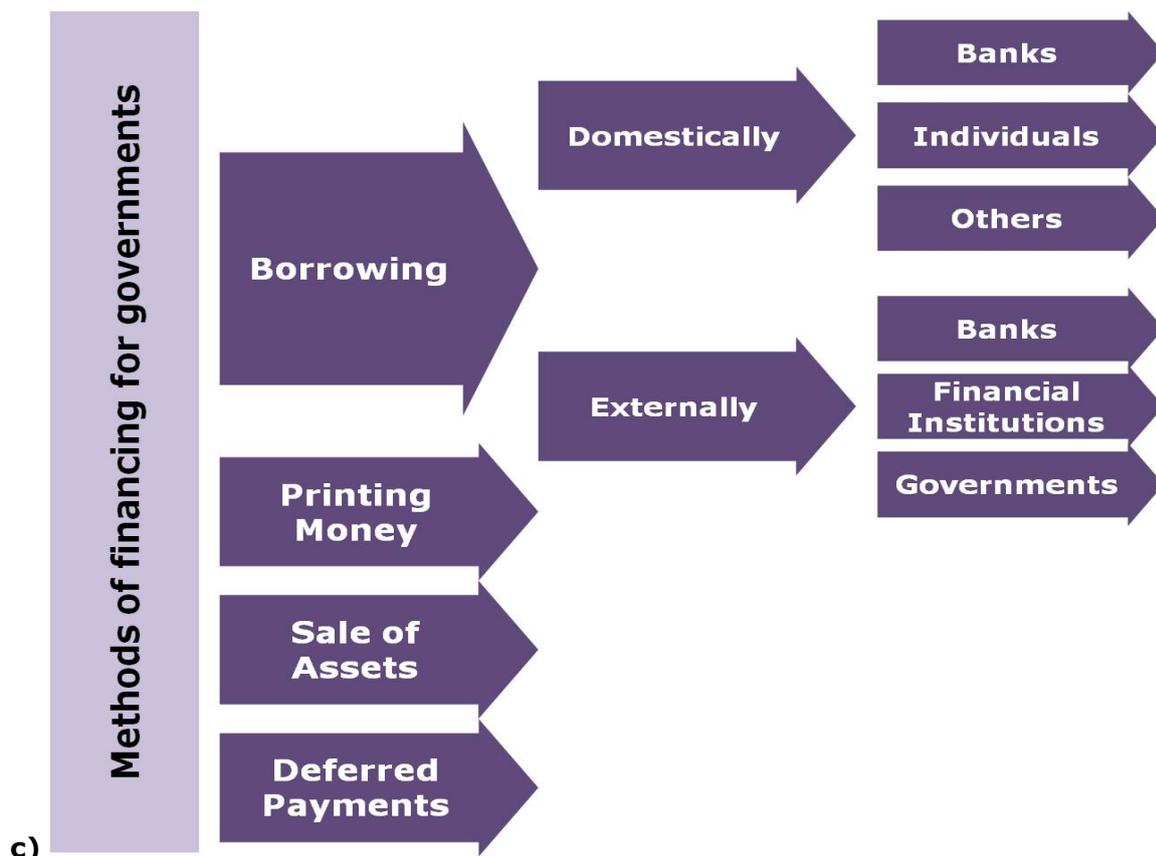
- changes in the balance of direct and indirect taxes, and
- credit policy measures.

A macroeconomic framework should include projections of the government accounts, which form a **medium term fiscal (or financial) framework** (MTFF). Projections should cover the current year and a forward period of 3 to 4 years. The MTFF should detail the broad economic categories of revenue and expenditure. Moreover, it should preferably be supplemented with expenditure estimates by main function or sector.

**1 mark per policy identified, up to 2 marks for suggested targets, up to 2 marks for instruments. Some flexibility in marking but should include policies and targets to gain full marks**

(8 marks)

Syllabus Ref A1



**½ mark per method identified – borrowing, printing money (or quantitative easing), sale of assets, deferred payments**

**does not need to be graphic but this is as it appears in the learning material**

*(2 marks)*

In the UK, the UK Debt Management Office (DMO) was established in 1998 and responsibility for government wholesale sterling debt issuance was transferred from the Bank of England to the DMO. This re-organisation followed the transfer of operational responsibility for setting official UK interest rates from HM Treasury to the Bank of England in May 1997.

The DMO's remit is to carry out the Government's debt management policy of minimising financing costs over the long term, taking account of risk, and to minimise the cost of offsetting the Government's net cash flows over time, while operating within a risk appetite approved by Ministers in both cases.

In institutional terms, the DMO is legally and constitutionally part of HM Treasury (HMT) and, as an executive agency, it operates at arm's length from Ministers. The Chancellor of the Exchequer determines the policy and financial framework within which the DMO operates, and delegates to the Chief Executive operational decisions on debt and cash management, and day-to-day management of the office.

The UK DMO has international equivalents and is a member of the World Association of Debt Management Offices.

**1 mark per explained point of the role of the DMO**

*(3 marks)*

**Total 5 marks**

**Syllabus Ref A1**

d) Sources of Government borrowing

**Treasury Bills**

Treasury bills are defined as government financial instruments that have a maturity period of less than a year. They are therefore used for short term financing.

Treasury bills are the shortest-term Treasury securities, those that mature within a year (from the time they are issued). The Treasury issues three- and six-month bills every week, and a one-year bill (the so-called 'yearbill') once a month. In the UK, the lowest denomination of Treasury bill is £500 000 - in the US, it is just \$1000.

Treasury bills are discount instruments. Rather than making interest payments, they are issued at a discount to face value and mature at face value. The interest rate is a function of the purchase price, the face value and the time remaining until maturity.

Bills are quoted in terms of their discount rate, or interest rate based on a 360-day year. As with bond yields, when the discount rate is going up, a bill is losing value. A 'bond-equivalent yield' can be calculated for a bill, to allow for a comparison with other debt instruments.

**Government Bonds**

Treasury bonds are financial instruments that have a maturity period of more than one year. They are also known as **gilts**, or gilt-edged securities, in the UK.

Gilts are, very simply, units of debt issued by the government. When buying them, you are effectively lending money to the government, which promises to pay back the amount in full (known as the principal) at a set date, along with interest (known as the coupon).

A conventional 'gilt-edged security' is the simplest and oldest form of government stock. The bond pays out half the annual coupon every six months until the maturity date, when the final coupon payment and principal (the initial investment) are paid to the holder in full.

Gilts are issued at par (UK£100), but are then traded on the open market. This means you can sell the gilt before its redemption date, in which case you might not recoup your initial investment. However it also means that you can buy gilts below

par and hold them until redemption to make a profit. Of course, if you buy them above par you can make a capital loss on redemption.

Gilt prices rise when the Bank of England cuts the base interest rate, and fall when the base rate goes up. So gilt yields rise and fall with interest rates. This is one of the great attractions of conventional gilts; you can lock into a high yields that will be maintained no matter how far rates subsequently fall.

Gilt prices are also affected by the market's perception of future interest rates, and this is reflected in the yield curve (see below). The longer a gilt has to maturity, the more sensitive it is to changes in interest rates – something known as **duration risk**.

For both bonds and treasury bills, these may be traded, but will only rarely be spent on goods and services. In this way, the expected increase in inflation due to the increase in national wealth is lower than if the government had simply printed the money and increased the more liquid forms of wealth (i.e., the money supply).

### **National savings**

A state bank is generally a financial institution that is chartered by a state. It differs from a reserve bank in that it does not necessarily control monetary policy (indeed, the state in question may have no legal capacity to create monetary policy), but instead usually offers only retail and commercial services. Here are a couple of examples:

#### **NS&I (UK)**

National savings and investments (NS&I) is the UK government agency that is responsible for managing and obtaining domestic investment. Formerly called the Post Office Savings Bank and National Savings, it is a state-owned savings bank in the United Kingdom. It is both a non-ministerial government department and an executive agency of the Chancellor of the Exchequer.

Historically, the aim of NS&I has been to attract funds from individual savers in the UK for the purpose of funding the government's net cash requirement (i.e., the funds in excess of taxation that the government requires to fund its expenditure). NS&I attracts savers through offering savings products with tax-free elements on some products and a 100% guarantee from H.M. Treasury on all deposits. However its interest rates are often low.

Premium Bonds can also be purchased from NS&I. These are personal investments in units of £1, for a minimum value of £100, with a maximum investment of £50 000. The investment is 100% guaranteed and can be withdrawn with no notice or penalty, but no interest is paid on the investment.

Instead, the Premium Bond numbers are entered into a monthly draw (like a lottery), and winners receive prizes ranging from £25 to £1 million – tax free. The chances of winning large prizes are very small (1 in 36 billion of winning £1 million

for each £1 stake), and statistically, the average pay-out is less than would be received if you left your money in a regular interest bearing account for a year.

They are recommended to individuals who wish to invest with no risk, and have reached their maximum deposits with other tax-free investments. They are however, a useful source of borrowing for the government, as mostly they are long-term deposits.

### **Sparkassen-Finanzgruppe (Germany)**

The German Savings Banks Finance Group (Sparkassen-Finanzgruppe) is the most numerous sub-sector with 431 savings banks using the Sparkasse brand, 8 Landesbanken (including the DekaBank) using separate brands and 10 real estate financing banks using the LBS brand. The Deutscher Sparkassen- und Giroverband (German Savings Banks Association, DSGV) represents the interests of the Sparkassen-Finanzgruppe on a national and international level concerning law and the financial services industry. It also coordinates, promotes and harmonises the interests of Sparkassen.

Based on OECD studies, the German public banking system had a share of 40% of total banking assets in Germany. This shows the important and significant role of this group of banks in Germany

### **Certificate of Tax Deposit Scheme**

In the UK, the Certificate of Tax Deposit (CTD) scheme allowed you to deposit money with HM Revenue and Customs (HMRC) and use it later to pay certain tax liabilities. Deposits with HMRC earned daily interest for up to 6 years. In this way, the government was effectively borrowing funds from the depositor and aiding the government's cash-flow, until the liabilities was paid.

From 23 November 2017 this scheme has been closed for new purchases but existing certificates will continue to be honoured until 23 November 2023.

Other sources include banks and financial institutions, international and domestic, borrowing from other governments.

**Up to 4 marks per borrowing source well explained to include reference to benefits, drawbacks or suitability of source. May also refer to banks and other financial institutions, and other governments. Not PWLB - this is for local authority borrowing not central government.**

*(12 marks)*

**Maximum 30 marks**

## Question 2

### Syllabus Ref B2 Workbook 8

a)

The CFO has a critical role for both for external stakeholders and within the Leadership Team. In the public service context, CFOs should:

- lead and direct financial strategy and operations
- meet the demands of openness and accountability in decision making
- balance competition for limited resources across a range of worthwhile objectives,
- deliver value for money
- safeguard taxpayers' money

Delivering these requires a range of personal qualities, as well as support from both the finance function and the organisation as a whole.

The CIPFA Statement lists the desirable qualities of a CFO under each of the five principles.

The main personal qualities can be summarised as:

- Robust and resilient leadership.
- Flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.
- Able to network and build robust relationships both internally and externally.
- Working effectively with other Leadership Team members with political awareness and sensitivity.
- Address and deal effectively with difficult situations and challenge effectively, to give and receive constructive feedback
- Implement best practice in change management and leadership.
- Balance conflicting pressures and needs, including short and longer term trade-offs.
- Innovative to add value and a good communicator.
- Maintain an appropriate balance between the deeper financial aspects of the CFO role and the need to develop and retain a broader focus on the environment and stakeholder expectations and needs.
- Act with integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour
- Develop and sustain partnerships, and engage effectively in collaboration

- Establish an open culture, built on effective coaching and a “no blame” approach
- Understand personal and professional strengths.

**½ mark per point made up to maximum of 5 marks - not expected to cover all points in the model answer but it must cover both role and qualities for full marks.**

(5 marks)

## **b) Syllabus Ref B4 Workbook 9**

### **The role of forecasting in the public sector**

Regardless of whether an organisation is in the private or the public sector, it is important to its ultimate survival to be able to predict future demand and resources and, therefore, to be able to modify organisational plans and behaviour so as to best meet future challenges.

Forecasting is an invaluable tool to aid decision-making and planning for the future. In the public services context, its use will extend to managing demand down for public services as well as considering the supply side factors (such as capacity and resource constraints).

The question should not be between forecasting and not forecasting; instead it should be, what kind of forecasting should we use in which situation? It is better to have an appreciation of any possible changes than no warning at all. Forecasts are made to:

- help management to determine a strategy
- make the best decisions in the context within which they operate.

Key variables can be difficult to discover and to measure and they may appear in all kinds of combinations and be constantly changing so that no clear trend emerges.

Successful forecasting requires expert blending of economic theory with significant statistical expertise and thorough familiarity with the relevant statistical data. Both qualitative and quantitative information must be utilised.

In public services, forecasts may cover two different but broad areas:

- demand side – identifying future demand for the organisation’s goods or services. This will impact on the organisation’s business planning to ensure it is able to manage and meet the demand.
- supply side – identifying resources and capability required to be able to meet the demand for organisational goods and services

**1 mark per explained point on forecasting**

(5 marks)

## Syllabus reference B4

c)

Traditional forecasting encourages organisations to focus on a narrow range of possibilities centred on a single view about the most likely future outcome.

In contrast, scenario planning, does not attempt to use a series of static assumptions to predict the future.

Scenario planning:

- generates a dynamic series of plausible outcomes that serve to challenge preconceptions
- uncovers blind spots
- helps align organisations around a commonly accepted sense of direction and action.

Scenario building is an alternative to conventional forecasting that is better suited to an environment with numerous uncertainties or imponderables.

Organisations must have robust medium-term financial strategies and these must take account of different potential scenarios. Beyond two to three years, prediction does become more difficult and consideration of more radical solutions comes strongly into play.

One reason for the failure of medium to longer-term forecasting is that the futures that it maps are based on a simple trend analysis. Often this assumed that what is happening today will continue in ever-increasing severity. In doing this they fail to acknowledge that decision makers will respond to the development of these adverse trends and take action that will invalidate them. It is here that scenario planning seizes the advantage, because it forces the public service organisation to consider whether the actions of decision makers in other organisations will be benign or challenging.

Unlike forecasting, which relies on the forward projection of existing trends, scenarios can explicitly recognise the discontinuities and abrupt changes that result from political change. At a local, national and, sometimes, a European level, significant changes in the balance of political control often represent important points of discontinuity in financial strategies that cannot be incorporated into planning based on conventional forecasts.

Another advantage of the scenario-based approach that makes it particularly relevant to the political environment is that it does not demand consensus. Scenario building can instead recognise different visions of the future and then define them more clearly in a range of internally consistent but still very different scenarios. Such an approach also allows an organisation to consider how it would respond to a wholesale revision of its previous assumptions in favour of a completely fresh set of parameters.

The distinction between sensitivity analysis and scenario building can usefully be linked to a corresponding distinction between risk and uncertainty. Risk is concerned with events that are possible to identify in advance; uncertainty is concerned with the completely unknown, with outcomes that were wholly unforeseen. This in turn exposes an important distinction between a medium-term financial plan dealing with risks and the longer-term financial strategy addressing uncertainty.

Sensitivity analysis remains a valuable technique for the short and medium term. Sensitivity analysis should be based on a sound understanding of how the drivers impact on the organisation's financial position. The management of strategic risk in the medium-term financial plan will be enhanced if the organisation maintains a register that identifies each strategic risk. This will contribute to the greater understanding of risk that will allow an organisation to apply a plausible and justified percentage variation to each assumption in the forecast. This is preferable to applying an arbitrary variation of, say, plus or minus 5% when carrying out sensitivity testing. The range used must represent a realistic assessment of the range of possibilities so the reasons for choosing them should be recorded.

It is useful to understand the differences between forecasting and scenario planning. Often public service organisations make reference to the use scenario planning, but the techniques they are actually using are more closely linked with sensitivity analysis and forecasting.

**1 mark per point, must discuss why scenario planning might be better than simple forecasting, the use of sensitivity analysis and make comparisons**

(10 marks)

#### Syllabus reference B5 WB10

d)

Managing reserves is a key activity for financial managers in all types of organisations. Making decisions or recommendations regarding when and if 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 or unforeseen crisis.

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.

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.

Investment in revenue-generating assets such as hotels, business parks and similar when borrowing costs are cheap.

Look at building on the resilient income streams, especially in light of the impact of the global pandemic, where income streams considered relatively safe and reliable have either completely evaporated, or heavily reduced or delayed. (car parking, leisure income)

**Candidates may come up with a range of suggestions not included above. Sensible suggestions with assumptions will gain credit.**

(10 marks)

**Maximum 30 marks**

### Question 3

#### Syllabus Ref C6 Workbook 13

a)

- initial capital costs - construction costs, professional fees, loan interest
- operating costs - energy use, water use, cleaning, maintenance, insurance
- major maintenance, repair or refurbishment costs - labour, materials, disruption costs
- disposal costs - resale value, demolition costs, site clean-up
- any revenue that the asset will generate during its life - offsetting costs.

There can also be extended costs and benefits to consider, which include:

- social impacts (and associated benefits and costs)
- environmental impacts
- economic impacts.

Whole life costing can be applied to high-value purchases, or smaller, high-volume purchases. It can also help identify the key drivers of operational costs that are linked to the original purchase decision.

At various stages during an asset's life, WLC can be revisited and updated as the information will still be useful. It can also be used to test the assumptions and decisions made when the asset was purchased – to learn lessons for future purchases.

**½ mark per cost described**

(4 marks)

b)

#### **Benefits of a WLC approach**

Users of the concept have cited the following benefits:

- Improved efficiency through a costing process that balances initial capital and running costs.
- A resulting reduction in cost for the owner of the asset.
- Recording actual performance and operation data and comparing this with predicted performance – which can be used in future planning and decision making.
- Supporting the recoding of information on materials and components.

- Encouraging discussion and review.
- Improving analysis of business needs and the communication of these to decision makers across various departments and teams.
- Joining up strategic planning and objectives with purchase and/or construction decisions on the ground.
- Assisting in managing potential risk and costs arising from poor performance due to failure or inappropriate maintenance.

### **Challenges with WLC**

WLC is not a panacea for assessing and estimating performance on its own, there are several challenges in applying a WLC approach:

- Making sure that the limitations of WLC are understood as well as its benefits
- Ensuring collaboration across departments (or partners) including those responsible for initial purchasing decisions and those responsible for operation and maintenance budgets
- Having access to reliable data, especially cost information
- Gaining / Having a long- term commitment to developing WLC skills and building up knowledge
- Identifying / Recognising the benefits from the use of WLC
- Maintaining a continued commitment to evaluation and feedback

**1 mark per point must cover both advs and disadvantages for full marks**

*(6 marks)*

***(Maximum 10 marks)***

## Question 4

Syllabus ref C5 Workbook 13

### **Briefing note: Benefits Realisation and the implementation of the Finance IT system**

**To: Board**

**Date: xx/09/2020**

**From: A.N. Other –Finance Manager - Projects**

#### **Introduction**

Benefits realisation is the process of managing and ensuring that all the anticipated and expected benefits (be that service improvements, outcomes or savings) do actually arise. Benefits Realisation (BR) is defined as:

'Measurable improvement resulting from an outcome which is perceived as an advantage by a stakeholder'

A more practical way to describe it might be:

'Why we are going through this process of change / project'

As a concept, BR arose from the growth in major change projects and the need for accountability / VFM. It provided a link to show results arising from change, although sometimes, the savings and benefits were not the ones planned – or 'one-offs' (e.g. vacant posts or windfall income from the sale of assets).

If an organisation is going to go through a process of change or embark on a major project, it needs to be **worth it**. BR allows you to show stakeholders **why** you've gone through the change, and can demonstrate that the project or change has succeeded in meeting its aims.

The advantage of BR is that it aids business decisions - so we know **where** to look for the benefits and can show that the organisation has achieved what it wanted (and has garnered the yields it wanted). BR can also show that the benefits were down to **our** actions, not external factors.

#### **New IT system for Finance – Self Service for budget holders and other features**

When establishing the benefits from introducing a 'self-service' style IT system for Finance tasks, we need to think about **what** the benefits would be, we should also think about **where** the benefits will arise and **who** they will affect.

**Benefits** might include:

- Better productivity through time saving– for both cost centre / budget managers and the Finance function itself
- Reduced errors as a result of better service knowledge and knowledge of individuals
- Quicker processing of expense claims, etc.
- Improved satisfaction for staff (and service managers)
- More immediate management information about budgets to budget holders and real time access to it
- Better incentive to improve budgetary control and authorisation of expenses with tighter preventative controls
- Better education of staff and service managers on requirements for processes and limits on remaining budgets for example.
- IT system can bring in tighter parameters (as opposed to subjective human approvals) such as automatic prompting for authorisation over certain spending limits, or preventing expenditure that exceeds budget limits.

### **Blockages / Barriers to realisation of benefits**

Though it may sound counter-intuitive, thinking about negative issues and problems can be useful, as it allows to consider what the solutions can be.

Potential issues that could acts as barriers to progress and success could include:

- Delays or removal of funding for the investment in the system
- Delays in processes from service manager being unavailable (sick or on leave... or they're 'too busy')
- Lack of engagement (or actual opposition) from service managers and/or staff
- Lack of training, awareness and issues with roll out of the new IT system
- Compatibility with other IT systems (interfaces for information)
- Opposition from the Finance team (feeling of a loss of control and/or workload – fear for their jobs)
- Major errors and/or fraud arising from poor implementation of the system
- Failure to implement appropriate controls associated with use of the new system
- Controls established cause significant delays rather than speeding up the process.

## Summary

Realisation of benefits has an important impact on the strategic financial planning for any organisation. Most benefits will have a financial cost (or saving) associated with them. The quantification and validation of the cashable benefits needs to be robust, so it can be reliably fed into the strategic financial plans in the short and medium term. By doing this, we can help predict whether a project is likely to have a positive effect, and we should also be able to measure whether the expected benefits have been achieved once the project is complete.

**Up to 1 mark for briefing note style and easy to understand language. Up to 2 marks for definition and explanation of Benefits Realisation, 1 mark per valid point for identifying potential benefits and blockages for the project.**

**(Maximum 10 marks)**

## Question 5

### Syllabus ref C3 Workbook 11

a)

#### Management case

The Management case demonstrates that the preferred option is capable of being delivered successfully, in accordance with recognised best practice.

This section of the business case requires the organisation to demonstrate that the spending proposal is being implemented in accordance with a recognised Programme and Project Management (PPM) methodology and that there are robust arrangements in place for:

- change management
- contract management
- the delivery of benefits
- the management and mitigation of risk.

It also requires the organisation to specify the arrangements for monitoring during implementation and for post implementation evaluation, as well as for Gateway reviews (if applicable), and the contingency plans for risk management of the scheme.

The Management case should include:

- programme and project management methodology (PPM) and structure - explain what sort of PPM might be used
- programme and project management plans - timelines and task lists
- use of specialist advisers - such as consultants in project management
- change and contract management arrangements - explaining how the contract will be managed and by whom, reporting lines etc
- benefits realisation – explaining what this is, and how it will be measured
- risk management - including a risk register for the project with controls and actions
- monitoring during implementation (proportionate) - explaining what the monitoring arrangements will be during the project
- post implementation evaluation arrangements – explaining how this would be done and how any lessons learned are captured
- contingency arrangements – what plans exist if things go wrong, or deviate from the project plan

**up to 3 marks for purpose of the management case, 1 mark per content point explained (should be explained beyond just a list)**

(7 marks)

#### **CFO Role**

The CFO should have a significant involvement in this part of the business case as a check and challenge, and especially with regard to benefits realisation; appropriate arrangements for contingencies should problems arise.

Management's view of the benefits that will be realised in terms of real cashable savings can often be more optimistic than can realistically be expected, and different to the view of the CFO who will often be more cautious and prudent with estimates of potential benefits. Contingencies should be sufficient to shield the rest of the organisation from significant financial impact if the project over-runs or fails. The CFO may be on the operational project management team, or at least be represented by a senior finance professional from their team.

**1 mark per point, particularly the challenge role**

(3 marks)

**(Maximum 10 marks)**

## Question 6

Syllabus ref B2

A good way of enabling leaders within the public sector to act ethically is for organisations to develop codes of conduct. These codes are usually available to staff to manage expectations around how you should treat people and how people can expect to be treated.

Codes of conduct typically include rules or guidance on:

- disclosure of information (expand each bullet with examples)
- relationships between politicians, managers and citizens
- employment matters
- hospitality and relationships with sub-contractors
- conflict of interest issues

There are a range of examples of codes of conduct in the learning material Basically looking for an outline draft of a code of conduct here covering and explaining the bullet points above. Reference to Standards in Public Life and ethical codes (IFAC CIPFA etc) will attract up to 4 marks but candidates should be able to give a reasonable structure of a code of conduct.

***Up to 1 mark for explaining what a code of conduct is. Five main areas (see above) – up to 2 marks available per area identified and for explaining with examples.***

***(Max 10 marks)***

An example for an Educational Trust is below.

Would not expect this level of detail from candidates in the time available but would expect some of these headings with a short explanation.

### **1. Scope and purpose:**

This Code of Conduct sets out the Trust's requirements of its employees. However, all those carrying out work for or on behalf of the Trust, including governors, temporary workers, interim staff, consultants, business partners and contractors are also required to adhere to the principles of the code.

The Code of Conduct is intended to ensure that all those working for the Trust are aware of standards expected of them and/or the Trust, specifically that they do not commit and are not open to allegations of inappropriate behavior, favouritism, abuse of authority or conflict of interest. The Code of Conduct and the associated guidelines should read in conjunction with the Guidance to Schools relating to acceptable use of School monies and the seven principles of Public Life, known as the Nolan Principles (See Appendix 5).

Governors/Trustees are expected to observe the requirements of the Scheme of Delegation in addition to the Code of Conduct. Teachers are also required to comply with the Personal and Professional Conduct requirements laid down in the Department for Education's most recent Teachers Standards document in addition to the Code of Conduct.

The Trust's disciplinary procedure aligns with this code of conduct. **Failure to observe any of the standards in the code of conduct may lead to disciplinary action which could result in dismissal.** Breaches of the code by workers who are not directly employed by the Trust may be referred to their employer and they may be stopped from working for the Trust with immediate effect. The Trust may reconsider its contractual relationship with contractors/agencies who do not take appropriate action in the event that their workers breach the standards expected in this code.

Breaches of the code by Governors will be dealt with in accordance with the Governance Regulations and advice sought from Governor Services.

***Please note that throughout this procedure the Head Teacher is defined as the officer to be notified. In cases where the Head Teacher is the "worker" then the person to be notified is the Chair of Governors/Trustees.***

## **2. Expectations**

Everyone who carries out work for the Trust in any role is the face of the Trust, be they a permanent or temporary member of staff, a contractor, one of our partners or a volunteer.

Everyone working for the Trust:

- ✓ is using Trust money and resources in their delivery or support of services to the Trust community;
- ✓ must display high standards of behaviour and conduct to instil public confidence in the integrity of the Trust as a whole;
- ✓ must act and be seen to act in accordance with the trust the public places in them;
- ✓ is expected to perform their duties with honesty, impartiality and objectivity and be held accountable for their actions;
- ✓ is expected to declare any direct or indirect personal interest which may create, or be seen to create, a conflict of interest with their Academy Trust duties;
- ✓ is expected to behave in a manner, at all times, that will not bring the Trust's reputation into disrepute.

**2.1** It is the duty of all those working for the Trust in any form to familiarise themselves with this code, seeking clarity if uncertain about any of its content.

**2.2** All workers have a responsibility to act in a way which ensures public confidence in their honesty and integrity. Public confidence can be affected by an individual's behaviour.

## **3. Respect for others**

Workers must at all times act with the respect that their colleagues, pupils and children are entitled to expect. To develop and maintain a positive, productive and embracing work environment it is important that colleagues treat each other and the children in their care well. Workers must treat others professionally and with respect at all times and unlawful discrimination will not be tolerated.

#### **4. Declaration of interests**

By declaring interests, workers help maintain public confidence, avoid any suspicion of impropriety and protect themselves against allegations of wrongdoing. Declarations should be made no matter how remote the interest is or if considered by the worker to be insignificant.

Any workers who are in a position to influence decisions which taken by, or on behalf of, the Trust and have any interest in that decision must declare it to Head Teacher. Examples of interests where declarations will be needed include where a worker, their family or household members:

#### **5. Reporting responsibilities**

**5.1** Workers must ensure that they act at all times within their delegated authority as set out within the Trust's schemes of management and scheme of financial delegation. Workers must not make decisions (financial or non-financial) where they have no delegated authority to do so.

**5.2** In addition to declaring interests all workers **must** immediately inform the Head Teacher/Line Manager (or Chair of Governors if it is the Head Teacher that is the worker) in writing of all police cautions, warnings, reprimands, arrests and/or convictions received during their period of employment/engagement with the Trust.

**5.3** All workers have a duty to report any suspicion of fraud, theft, corruption, bribery or other wrongdoing by members of the public or Trust workers including colleagues, managers, governors, contractors, volunteers or partnership workers. Suspicions should be reported to the Head Teacher/Line Manager, the Chair of Governors/Trustees, or in absolute confidence by following the Trust's whistleblowing procedure.

**5.4** The Trust will not treat anyone less favourably because they have reported or intend to report wrongdoing, unless the complaint is malicious. Workers treating colleagues unfavourably in such circumstances will be liable to disciplinary action which could result in dismissal, as will workers who make malicious allegations. Non-Academy employees will be referred to their employer and/or their services stopped.

#### **6. Political neutrality and activity**

**6.1** Personal political views must not be promoted in the teaching of any subject in the school and must not interfere with providing balanced professional advice by/to Managers/Governors. Trustees/Governors/Workers must not allow their political views to influence service delivery, nor must they impose those views on students or colleagues. Where political issues are brought to the attention of the pupils, practical steps must be taken to offer a balanced presentation of opposing views to pupils while in attendance at school, while taking part in extra-curricular activities which are provided or organized by or on behalf of an Academy, and in the promotion at the Trust, including through the distribution of promotional material, of extra-curricular activities taking place at or elsewhere.

**6.2** Trustees/Governors/ Workers who intend to undertake political activities should ensure that they are not in a role which forbids their proposed activities. If in doubt about the status of their role or about whether an activity is restricted, workers should seek written confirmation (email is considered sufficient) from their Head Teacher/Chair of Governors/Chair of Trustees.

**6.3** If a Trustee, governor or member of staff intends to stand for election as a member of parliament or a Councillor for any authority they should advise their Chair of Governors/Chair of Trustees\* in writing. Failure to inform the Chair may lead to disciplinary action being taken, which could result in dismissal.

*\* If Chair of Governors intends to stand they should inform the Council's Governor Services.*

## **7. Membership of other bodies**

Workers are expected to consider carefully whether membership of, or association with, clubs, societies and other organisations such as lobbying groups and voluntary bodies could lead to the impression that their official position might be used to promote a private or personal interest or undermine equalities. If there is a chance that it could, they should declare it.

## **8. Misuse of position**

All workers must maintain the highest standard of integrity in all relationships both inside and outside the Trust.

## **9. Safeguarding**

The Trust is committed to safeguarding children and vulnerable adults and expects exemplary behaviour and work in relation to safeguarding. All workers have a duty to safeguard and promote the welfare of children, young people and adults at risk.

## **10. Finances and the use of the Trust and other public resources**

Workers must use Trust funds responsibly and lawfully and only for their designated purposes.

## **11. Confidentiality and data protection**

The definition of what constitutes a confidential document is wide. Workers are required to take their duty of confidentiality seriously and ensure the confidentiality of all information. All workers need to be mindful of the requirements of the Data Protection Act and should familiarise themselves with the Trust's policies in this regard which are available on request.

## **11. Gifts and hospitality**

To maintain integrity, reduce vulnerability and comply with the Bribery Act 2010 the Trust will not tolerate any form of bribery by, or of, its workers or anybody acting on behalf of the Trust.