CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC PUBLIC FINANCE

07 June 2017

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.

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1 Rumours of the UK's post-Brexit tax haven status have been exaggerated. But politicians must resist public pressure to make short-termist tax changes on other fronts.

Beyond the important administrative issue of customs duties, the overriding tax question to have caught the public's attention is whether the UK will become a 'tax haven' once it has left the EU. This notion has gained currency thanks to some pronouncements by the chancellor and the prime minister.

After Brexit, the UK will need to attract investment, and this does turn politicians' minds to low tax rates and other tax incentives. However, the need to pay for Brexit – on top of all the other existing commitments and debts, global constraints on governments in the area of taxation, and the need to reach trade agreements with other jurisdictions – makes a wholesale move towards tax haven status both inadvisable and unlikely. If anything, the new circumstances will make reductions in corporation tax more difficult than if we had remained in the EU.

There is little evidence that the larger businesses the UK wants to attract are overly influenced by corporation tax rates in deciding where to locate. Of course they will be concerned about tariffs, as the car industry has made clear, but stability, certainty and ease of administration may be more important than further tax cuts. Lurching towards unsustainable tax rates and tax giveaways could be less attractive and even counterproductive.

Source: PF Perspectives March 2017

UK Prime Minister [Theresa May] warned that the government would rather fail to reach an agreement than be pushed into an unfavourable one. 'No deal for Britain is better than a bad deal for Britain.'

May repeated the suggestion made by chancellor Philip Hammond at the weekend that the UK could seek to change its economic model, potentially slashing taxes and regulations, if the EU 27 are not co-operative.

'We would have the freedom to set the competitive tax rates and embrace the policies that would attract the world's best companies and biggest investors to Britain. And – if we were excluded from accessing the single market – we would be free to change the basis of Britain's economic model.'

Source: Public Finance 21 January 2017

Requirement

(a) Present reasoned arguments for and against any nation going down the route of becoming a 'tax haven'.
In your answer you should refer to publicised cases or examples from the latest thinking at a global level, or any situations from your own experience.

(12 marks)

(b) Discuss the potential (and actual) impacts on the way local services might be delivered when central government politics and decisions on rebalancing the finances of a country affect local budgets. Refer to relevant examples from your experience or learning (UK or other country).

(8 marks)

(c) Central government policies can have a significant effect on how local taxes are raised. Explain the role of local taxation in the financing of ***local government*** in the UK, and how it combines with both other sources of income and the gearing system in the UK.

(10 marks)

(30 marks)

2 The drivers for collaboration are to achieve greater efficiency and effectiveness. Further drivers for public services include political ideology and the perception that significant financial savings can be made. When done well, a successful collaboration should yield service improvement, minimise duplication of effort and present a more joined up approach for the service user. Any successful organisation is usually underpinned by good governance arrangements. Good governance arrangements in collaboration should be effective enough to ensure transparency in decision-making and actions taken, but not at the expense of interfering with delivery of the service.

A step on from collaboration through partnerships or other sharing models is the development of a mutual, or employee owned organisation, sometimes referred to as a 'spin-out' from a public sector organisation (PSO). This can often follow as a progression from a successful collaborative arrangement between a number of PSOs.

Requirement

(a) With reference to examples with which you are familiar, explain what 'good' governance looks like for collaborations, and in addition, the challenges that may arise in implementing sound governance arrangements.

(10 marks)

(b) Describe the expected characteristics of a mutual organisation and discuss the advantages and disadvantages of establishing this type of entity for delivering public services.

(10 marks)

(c) Discuss the role of the Chief Finance Officer in the planning and execution of setting up a mutual organisation and identify what skills the CFO could bring to the process.

(10 marks)

(30 marks)

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3 A survey of nearly 1,200 teachers, support staff and head-teachers carried out in March 2017(in the UK), found that 49% said their school has asked parents to pay for items to help their child's education.

Respondents claimed that parents were asked to pay to attend school concerts and sports events, to pay for text books (10%) and for art and design technology materials (12%).

Meanwhile, one in six said their school asks parents for money to help fund the school (17% of primary and 16% of secondary respondents).

One respondent, a teacher in a primary school in Essex, said: 'Over the last two years, the ethos of the school has changed from being based on a family atmosphere to being driven by cost-cutting'.

Requirement

The results of the survey indicate that charging for public services that have previously been free at the point of delivery is becoming more common.

(a) With reference to schools, or other examples that you are familiar with, discuss the argument for and against charging for public services.

(6 marks)

(b) When designing a charging structure, what steps in the cycle should be undertaken to establish fair and effective charging?

(4 marks)

(10 marks)

4 A 2013 survey of local authorities in the UK showed that 73% of the organisations providing social care, allocated contact time with clients in slots as short as 15 minutes. This aroused a storm of criticism from the media and charities, many stating that this was too short to meet the needs of vulnerable people.

Requirement

(a) Given that the time allocated for contact with a client can be seen as an input measure of performance, discuss the drawbacks of these kinds of measures. Make reference to social care, or other similar services with which you are familiar.
As part of your answer outline other, more appropriate indicators of performance that could be used to assess effectiveness and value-for-money, including outputs and outcomes.

(6 marks)

(b) Evaluate the trade-offs between good stewardship of limited resources and public (or customer) expectations and desires.

(4 marks)

(10 marks)

5 Countries across Asia and the Pacific need to spend $1.7tn on infrastructure every year until 2030 to maintain momentum on economic growth and tackle climate change, the Asian Development Bank (ADB) has said.

In a review of the region's infrastructure needs, the ADB estimated the total infrastructure bill for the region up to 2030 would be $22.6tn dollars, or $1.5tn annually. This figure rises to $26tn ($1.7tn annually) when climate change mitigation costs are included, more than double the bank's 2009 estimate of $750bn.

The ***Meeting Asia's Infrastructure Needs*** study considers the region's power, transport, telecoms and water sanitation infrastructure requirements for the next decade and a half. It analyses current infrastructure stock and future needs, and the financing tools available to serve this.

Many countries outside the UK often have very large sovereign wealth funds, which invest public monies to support national expenditure. These funds are significant purchasers of long-term assets like major infrastructure projects and property developments, and are of great importance to public finance in other countries as a result.

Requirement

(a) What steps can a Chief Finance Officer in any public sector organisation take to ensure that the financial consequences of any capital investment plans are fully taken into account over the medium term?

(4 marks)

(b) Describe, with examples from your experience or learning, the potential funding sources for capital spending on major infrastructure projects.

(6 marks)

(10 marks)

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6 A National Audit Office study reported that decisive action is needed after plans to upgrade England's roadways went £841m over budget. The report (March 2017), claims the speed at which Highways England's Road Investment Strategy was put together has created risks to deliverability, affordability and value for money. The £11.4bn programme already has 16 projects which could be scrapped because they do not provide value for taxpayers.

Requirement

(a) Discuss the advantages and disadvantages of establishing project budgets versus business as usual budgets.

(4 marks)

(b) Finance managers should be aware of project risks so they can help manage the financial impact of those risks on the delivery of the project, and their organisation as a whole. Identify the common risks to project delivery, and include actions that a finance manager might take to manage the risks. Refer to relevant examples from your experience or learning.

(6 marks)

(10 marks)