

STRATEGIC FINANCIAL MANAGEMENT

02 June 2015

PRE-SEEN MATERIAL

Pre-seen material for Strategic Financial Management is dispatched four weeks in advance of each examination sitting.

You should note that the purpose of this pre-seen material is simply to allow you to familiarise yourself with the case scenario, i.e. the organisation contained in the case and its regulatory background.

You are not expected to undertake any work on the pre-seen material prior to the examination and you will not be allowed to take in any notes to the examination. The pre-seen material will be provided again on the day of the examination itself.

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

Candidates should submit all papers produced during the examination, but they should distinguish clearly between formal answers (including appendices) and working papers.

MILKWOOD

National Context

The country of Laugharne is an independent island state situated off the west coast of the continent of Euravia. The Laugharne pound (£) is equivalent to the United Kingdom Pound.

Laugharne is a member of the Euravian Union, which consists of twenty six countries that have come together to form a trading block. To facilitate this they share legislation on employment practises, health and safety standards, and the free movement of labour.

Laugharne has a socially mixed population of 60 million people with the main areas of prosperity being centred on the capital of Ogmores and the other main conurbations surrounding it. The remainder of the country is formed by smaller cities, towns and villages and large areas of sparsely populated countryside, 80% of which is used for agriculture.

The country has a well-developed culture of public service provision in relation to health and social care, education, housing and leisure services with a wide ranging structure of welfare benefits.

The government raises the majority of its funding through a combination of income, employment and corporation taxes, with the income tax levied at 27% and corporation tax at 25%. Laugharne does not levy value added tax on retail goods or services.

Since 2012, Laugharne has been governed by a coalition of the Democratic Alliance and Laugharne Unity Parties. The coalition government is fiscally conservative and its economic policy has focussed on reducing the significant budget deficit built up by the previous administration following the recession of 2008. It was elected with a promise to achieve this within its five year fixed term of office.

The government's strategy is to cut the deficit by reducing public spending. It has imposed cuts of 15% on local council budgets over the last three successive years.

The coalition is also ideologically committed to shrinking the scale of state provision at both national and local levels, believing that there is still significant waste and inefficiency within the public sector. It is determined to continue to reduce the resources available to the sector and is projecting a further 10% real terms reduction in the level of government grant in its remaining period of office.

The coalition would like all local authorities to reduce direct service provision and operate instead as commissioners of local services, assessing need, procuring services and monitoring quality and value for money. However, it is wary of clashing with the public sector unions before the next general election. It has therefore announced that it will legislate for councils to become commissioning organisations should it be re-elected, but will allow councils to retain the direct provision of certain statutory services such as social care.

A further priority for the national government is education. Despite the ongoing deficit, it has announced a capital investment programme entitled "Schools for the 21st Century" through which local authorities will be enabled to replace their existing school stock.

Milkwood

Milkwood is one of 40 county councils in Laugharne. Located in the largely rural western area of the country it has a population of 203,125. The town of Milton has a population of 96,000 and is the largest centre of population in the county. There are a further 11 small market towns with the remainder of the population being centred in villages and small settlements.

The county is heavily dependent on the public sector for employment with 24% of its working population being employed by central or local government agencies. The other major factor in the local economy is agriculture and though only 4% of the population is directly employed in the industry it has a much more significant influence in the culture and politics of the area than this would suggest.

Other traditional industries such as fishing have been in decline during recent years and as a consequence Milkwood has been recognised as an area requiring economic regeneration and has benefited from government regeneration grant support. There has been a significant growth in tourism linked businesses and the council is keen to see Milkwood established as a destination of choice.

Milkwood Local Service Board

Since 2010 the county council, the clinical commissioning groups responsible for health care, the police and crime commissioner and the local branch of Laugharne Association of Voluntary Organisations (LAVO) have come together in a partnership known as the Milkwood Local Service Board (MLSB).

The original aim of the partnership was to improve the way public service organisations work together to tackle challenging issues, thereby improving services to citizens. MLSB has agreed a strategic vision for the county and a set of joint strategic priorities. To underpin this, all constituent organisations have aligned their strategic planning processes and set their priorities to support this vision.

MLSB's vision is to "Deliver efficient services for the green heart of Laugharne".

MLSB's joint strategic priorities are to:

- remodel and integrate services to maximise efficiency
- support people in the community to live fulfilled lives
- develop the local economy
- improve learner outcomes for all, minimising disadvantage.

These priorities have been brought together in the Milkwood One Plan (MOP).

More recently, MLSB has started to explore the possibility of integrated commissioning and the pooling of budgets across the public sector landscape in anticipation of legislation requiring local authorities to become commissioning organisations. The three public bodies represented on the MLSB are each facing significant budget pressures with efficiencies totalling £75m per annum required by the three organisations for the five year period to 2020/21.

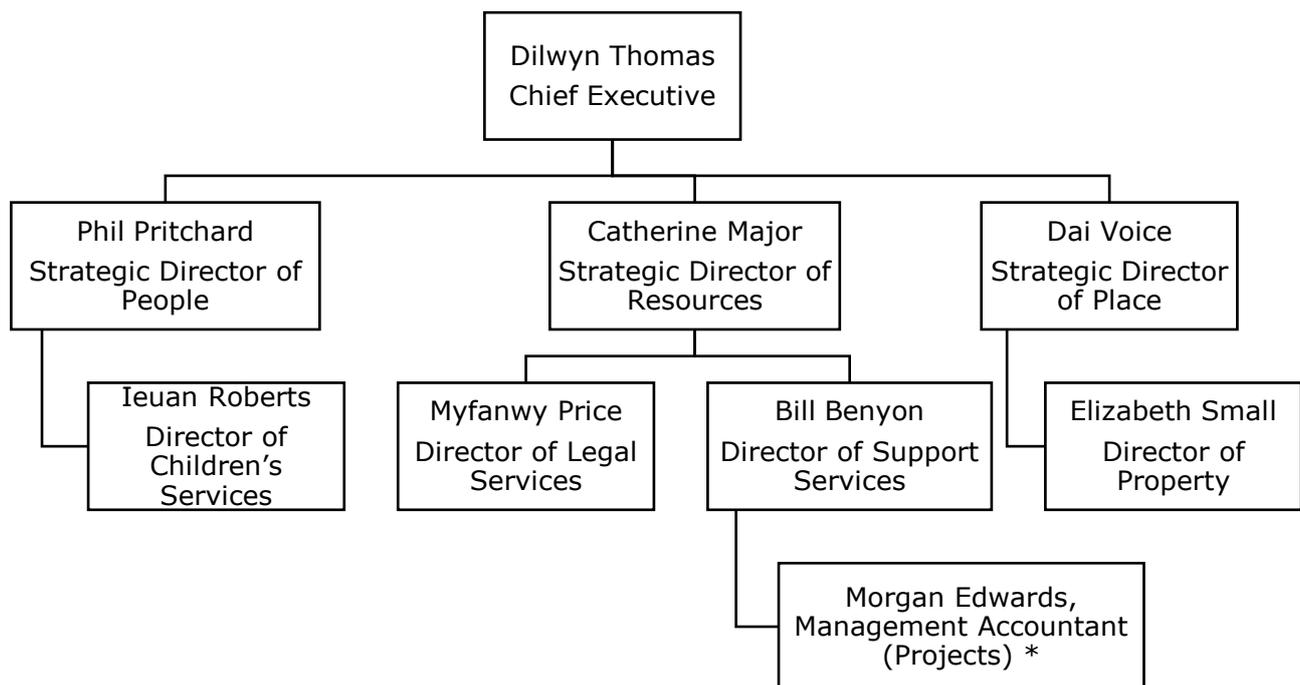
Milkwood County Council (the council)

At the last council election in May 2014, the Milkwood Alliance Independent Group, (MAIG) gained control of the council with 28 of the available fifty seats. Prior to this the council had been run for 16 years by the ARMS party. The current leader of MAIG, and the Chair of the council is the Reverend Elias Jenkins.

The council is jointly funded through a direct national government grant and a local property tax based on the value of the property occupied. The national government grant equates to approximately 68% of the council's funding, with the remaining 32% coming from the local property tax and charges for services.

The main functions of the county council are managed from County Hall in Milton, although highways, social services and other smaller departments are supported through a number of area offices and depots in more rural areas. The day to day management of the council is led by the corporate management team consisting of the chief executive and three strategic directors, each supported by directors of services. The management structure is shown diagrammatically in the following structure chart:

Milkwood County Council – Extract from Management Structure:



* the candidate

The candidate is Morgan Edwards, management accountant (projects). The post was created following a review of the council's project management arrangements which identified a lack of available professional staff to support service transformation initiatives. The candidate reports directly to Bill Benyon, Director of Support Services.

The Chief Executive of Milkwood County Council has established a transformation unit to lead a programme of change that will be required to ensure the council is ready to become a commissioning organisation.

Challenges facing Milkwood County Council

A key challenge facing the council is the availability of capital funding for investment in services and infrastructure. It is committed to an ambitious programme of capital expenditure to improve the provision for primary and secondary school learners across the county. Combined with other on-going capital requirements this is placing a significant strain on the capital funding plans over the next decade.

Milkwood County Council is formulating a capital expenditure funding plan (CEFP), to use a combination of national government capital grant allocation, contribution from its own revenue funding, proceeds from capital disposals and an element of borrowing to address this challenge. In deriving this plan it aims to review the council's asset base, to establish which land and buildings it is necessary to maintain and which are no longer needed.

Milkwood County Council has been slower than many others in reviewing the use of both its investment and operational land and buildings. The council recognises that it has not made efficient use of all its land and building assets located across Milkwood. The strongest political pressure is to review the agricultural smallholdings and farm estate held by the county council, which is viewed by several members as an outdated arrangement and a potential drain on the council's limited capital resources.

Any borrowing by the council must be prudential. This effectively means that the revenue savings or additional income generated from an investment must cover the ongoing costs of

borrowing used to fund that investment. The council's policy towards prudential borrowing is to borrow the money at a fixed rate for the proposed term with an annual charge to the revenue budget also fixed for the term of the loan. The current annual cost of prudential borrowing over a 30 year term, based on the current bank borrowing rate of 1.2%, is 5.15%. The revenue cost of borrowing therefore amounts to £51,500 per annum for each million pounds of capital borrowed.

Milkwood County Council's smallholdings and Gladestry Farm estate

Milkwood County Council currently owns a smallholdings and farm estate totalling over 4,000 hectares. This comprises 53 smallholdings of varying size and the 273 hectare historic Gladestry Farm estate.

The smallholdings estate was established in the early 1920's as part of the response to social issues arising from the first world war of 1914-18. At its height in the late 1950's, the estate totalled over 200 holdings of between 5 and 65 hectares, but over the next 30 years a large number of the holdings were sold or amalgamated in response to the mechanisation of the agriculture industry. Some 130 farm houses were either sold or transferred to the council's housing stock and the total size of the estate reduced by over 25% to its current size. Proceeds from the sales were reinvested back into the remaining estate to improve its infrastructure, with any balance used to support the council's capital programme. Since the 1980's the estate's overall size has remained more stable, which has all but eliminated the availability of capital receipts to use for infrastructure investment.

The holdings are currently let on one of two lease agreements:

Life / Hereditary Lease – used by the council up until 1979 with the term of the lease running to a date 5 years after the normal retirement age of the tenant. The lease can then be transferred to each tenant's son / daughter on retirement for as many generations as they wish. Of the last 15 leases that reached termination, eight were transferred to the tenant's son or daughter on the same lease basis and seven were released and merged into other holdings. Of the 38 tenancies currently let on this basis, 15 will reach the termination date of the current lease over the next 4 years.

10 Year Lease – from 1980 onwards, all new leases were on a fixed 10 year basis and only offered on holdings of a minimum of 100 hectares. This size was assessed in 1979 as large enough to offer employment of 400 days and therefore form a viable holding. Subject to providing six months' notice, tenants can surrender the lease before the end of the fixed period. In the last 10 years six tenants have moved from their council smallholding to a larger privately rented farm.

Current number and size of the Milkwood smallholdings estate

Size of Holding Hectares (HA's)	Life / Hereditary Lease		10 Year Lease		Total	
	Number	Hectares	Number	Hectares	Number	Hectares
< 10	5	36	0	0	5	36
10 - 25	3	52	0	0	3	52
25 - 50	12	504	0	0	12	504
50 - 100	8	496	0	0	8	496
> 100	10	1,130	15	1,736	25	2,866
Total	38	2,218	15	1,736	53	3,954

A five year business plan for the county's smallholdings and Gladestry Farm estate was agreed at a cabinet meeting held in March 2013. The business plan set the following 4 strategic service and financial targets for the end of the planned period.

Milkwood smallholdings and Gladestry Farm estate - strategic service and finance targets 2014 - 2018	
SAF1 – Average size of holding (Hectares)	At least 90.5
SAF2 – Percentage of holdings under 10 year lease	At least 40.0%
SAF3 – Percentage of rental arrears > 6 months	No more than 3.0%
SAF4 – Rental income as a percentage of asset value	At least 3.5%

The annual rent payable is subject to a triennial review, and the council has applied rent increases twice in the last 5 years (in 2010 and 2013). Many councillors with backgrounds in agriculture are now publically stating that any further increase will make the holdings unviable. The next rent review is due in April 2016 following the completion of an asset revaluation currently being undertaken. The summary accounts for the estate for the last 3 years are attached as Appendix A. As a trading activity of the council, the estate's property is treated as investment property within the statement of accounts.

The Gladestry Farm Estate

The Gladestry Farm estate forms part of the council's wider smallholding estate but is managed as a separate entity. The estate was originally developed as a leading centre of innovation in the agriculture industry throughout the 18th and 19th century. In the early 20th century it was bequeathed to the people of Milkwood and run by a private charity until being incorporated into the council's small holding estate in 1974.

The large 18th century farm buildings have been used for a number of purposes over the last 80 years and are currently a mixture of office accommodation for the council, six small incubator units for local businesses and classrooms for the Milkwood Further Education College. The walled garden is currently let to a local garden centre, but they have indicated an intention to relocate later this year. The 270 hectares of land are currently let as a single holding to the college on a 99 year lease.

The farm house, buildings and landscape were listed in 1998 and any external and some internal works must be approved by the Laugharne Industrial and Social Trust (LIST) which has greatly restricted the developments available on the estate.

When the estate was transferred to the council the charity known as the Gladestry Estate Supporters Society (GESS), continued its involvement with the estate. It is currently chaired by a descendant of the original founder, Dr Emlyn Jackson. The charity has become more active since electing a new chair in 2009 and for the last 3 years has run a number of open farm days and other community events with the college and other partners. The event held to coincide with the lambing season in March 2014 attracted a total of 4,300 visitors and its success was the main topic of the discussion at the charity's annual general meeting in September 2014.

The current size, use and rental received for the buildings and land on the Gladestry Farm estate are detailed in the following table:

The Gladestry Farm estate - current usage, size and annual rental:

Property	Usage	Area:		Annual rental £
		Buildings (m ²)	Land (hectares)	
Farm house	Offices	2,350		42,300
Unit 1	Incubator unit	175		2,100
Unit 2	Incubator unit	250		3,000
Unit 3	Incubator unit	125		1,500
Unit 4	Incubator unit	275		3,300
Unit 5	Incubator unit	100		1,200
Unit 6	Incubator unit	100		1,200
Units 7-10	FE college classrooms	16,400		24,600
Farm land	FE college		270.5	71,410
Walled garden	Garden centre storage	225	2.5	3,000
Total		20,000	273	153,610

Milkwood Further Education (FE) College

Milkwood Further Education College was originally run by the council, but under national legislation that withdrew all further education colleges from council control it became a Further Education Corporation (FEC). This made it an autonomous entity reporting to the national Further Education Funding Council (FEFC). It has maintained a close working relationship with the County Council.

The college farms the 270 hectares of land of the Gladestry Farm estate and uses a number of its buildings as offices and classrooms. It provides nationally recognised courses in agriculture, animal management and horticulture as part of a wider portfolio of further education.

Under the lease the college pays an annual rent to use the land as it sees fit, as long as it acts within the law and complies with local and national planning processes and agreements. While ownership of the land and infrastructure rests with the County Council, all maintenance and running costs of the land and of the operation of activities on the land are the responsibility of the college.

The college supports the provision of the open days recently established by GESS and assists with the annual county agricultural show. It acts in an advisory and liaison role to the county council in any dealings with local agricultural businesses and the farming community. Milkwood College has traditionally not charged for these services, viewing them as maintaining their profile with prospective students, businesses and the public.

Milkwood College is under pressure from the FEFC to demonstrate that it is educating students in a way which addresses diversity in agriculture. This is interpreted as widening the use of agricultural land beyond traditional farming, to include tourism, environmental ecology and access to the outdoors for children and adults with disabilities. The college is also keen to explore ways to support the MSLB in achieving its strategic priorities and to further develop its relationship with the council. It believes that a number of its vocational courses in agricultural skills and horticulture could be adapted to enable a wider group of people, including those with learning disabilities, to take them up.

Learning Disability Day Services

There are around 960,000 adults in Laugharne with learning disabilities. They are spread evenly across the county in proportion to the population as a whole. A learning disability affects the way a person understands information and how they communicate. This means they can have difficulty:

- understanding new or complex information
- learning new skills
- coping independently.

In Laugharne, adult social care departments have a statutory responsibility to assess people with a learning disability to establish the level of help they need and provide a service that delivers this support. The assessment defines the type of service a person with a learning disability is eligible for and there is a nationally agreed scale consisting of four levels, with level 1 being people with the greatest degree of disability and level 4 the least.

Milkwood County Council has five learning disability day services spread across the county to provide support to people with learning disabilities. This service is fully funded by central government grant and there are no charges to service users. The budget for the service and a number of other aspects are shown at Appendix B. The learning disability day service offers adults assessed as having a learning disability at level 1 and level 2, the chance to attend a day service where they will be supported by staff and offered a range of leisure and vocational pursuits. The service provides stimulation and a chance to socialise for the service users and also respite for their carers who may be elderly parents.

Milkwood County Council's day service is very traditional. The day services premises were built in the 1960s by a local charitable trust which was established to promote opportunities for people with a learning disability. The council has a 99-year lease on these buildings. The day services premises are located in the north, south, east, west and centre of the county in a configuration which reflects the fact that the charitable trust at the time wanted an even spread of facility rather than to site services based on population. They are all in need of some level of renovation. Feedback from a recent consultation with service users and their carers, organised by LAVO, suggests that some stakeholders, in particular the younger service users, believe this model of care is no longer appropriate. It was felt that the range of activities on offer is determined to a large extent by the buildings. There are, for example, few computer facilities for people to access. Other stakeholders, in particular older parents of service users, are satisfied knowing that their son or daughter is attending a tried and tested facility.

The council has been aware for some time of the need to modernise the learning disability day service. It has been supported by its staff and managers and by the service users and carers groups in developing ideas about the best way to achieve this. All these stakeholders have expressed opposition to any job losses or privatisation of the service as an outcome.

Personal Accounts

Towards the beginning of 2014 the national government announced a new social care policy entitled "Personal accounts - putting you in control". The policy signals a fundamental change in the role of adult social care. Instead of assessing people and agreeing what level of service they are eligible for, social workers will now assess people and allocate them an amount of money (a personal account). They can then decide how to spend this to access their own support and help. Whilst they may choose to continue spending their personal account on the council service that they currently access; they are free to choose to spend it in other ways. This policy supports government's wider agenda of directing councils to become commissioning organisations. It also supports the idea of giving individuals more choice and flexibility in how they manage their own care.

Government piloted this approach throughout 2014 in a number of councils (which did not include Milkwood). The personal account for someone assessed at level 1 is set at £350 per week and for level 2 at £140 per week. The results of the pilots have demonstrated that the concept is popular, especially with younger service users and their carers who report that the approach gives them more flexibility and freedom over the choice of care. Personal accounts have been used in a number of innovative ways such as:

- getting help with cooking, shopping and cleaning
- having short breaks or a holiday
- leisure activities, e.g. an art class or a walking group
- having driving lessons
- buying specialist or computer equipment to make life easier
- buying membership of a gym or sports club.

Day services within the pilot areas have reported a drop in take-up and some pilot councils have indicated that they would need to assess the future viability of the service. Generally the pilots have been considered a success and government has announced the roll out of the approach across Laugharne in 2016. It has recently announced that a one-off set-up grant will be made available to councils to assist in the implementation of this significant policy change.

Extracts from Milkwood County Council accounts and budget papers:

Smallholdings and Gladestry Farm estate - summary operating account:

	2012/13 Actual £	2013/14 Actual £	2014/15 Probable £	2015/16 Estimated £
Direct expenses:				
Estate staff	127,210	128,480	132,330	133,650
Repairs and maintenance	210,600	157,850	175,000	168,250
Capital expenditure – funded through operating a/c	562,500	633,600	475,000	504,750
Central recharges	71,610	72,330	74,500	74,500
Capital financing costs	311,250	295,690	280,900	266,860
Total direct expenses	1,283,170	1,287,950	1,137,730	1,148,010
Rental income from investment property:				
Rental – smallholdings	1,269,280	1,332,740	1,332,740	1,332,740
Rental – Gladestry Farm	149,860	153,610	153,610	153,610
Other miscellaneous income	160	820	430	0
Total rental income from investment property	1,419,300	1,487,170	1,486,780	1,486,350
Profit or (loss) from disposal	0	0	(300,625)	0
Net operating position	(136,130)	(199,220)	(649,675)	(338,340)
Note 1: 90% of the direct expenditure for the estates over the last three years has been spent on the smallholdings estate, with the remaining 10% being spent on the Gladestry Farm estate.				

Smallholdings and Gladestry Farm estate land / property non-current asset valuations:

	2012/13 Actual £	2013/14 Actual £	2014/15 Probable £	2015/16 Estimated £
Total at start of year	52,957,875	53,393,875	54,143,875	54,844,500
Additions	0	0	0	0
Disposals	0	0	(549,375)	0
Net gain from revaluation	436,000	750,000	1,250,000	9,500,000
Total at end of year	53,393,875	54,143,875	54,844,500	64,344,500
Note 1:	Revaluation of assets due on 1 st April 2015; provisional estimated figures used.			
Note 2:	Capital receipts from the sale of assets are treated as a cash receipt within the balance sheet of the council and used to fund the capital expenditure of the council.			
Note 3:	The asset disposed of in year was sold for £850,000.			
Note 4:	The remaining assets in the estate, including both the smallholdings and Gladestry Farm, had a book value of £7,650,000 when transferred to the county council on 1 st April 1974.			

Appendix B

Day services budget for 2015/16

Each day centre is currently attended by a proportionate mix of people with care needs of severity level 1 or 2.

Name of Centre	North	South	East	West	Central	Total
Weeks open/year	52	52	52	52	52	260
Area in square metres (m ²)	1200	1350	1170	1050	2200	6,970
Available places	150	180	130	100	250	810
Places taken up	144	167	126	89	235	761
Staff numbers:						
Managers	1.00	1.00	1.00	1.00	2.00	6.00
Care staff	46.88	56.25	40.63	31.25	78.13	253.14
Catering staff	3.00	3.60	2.60	2.00	5.00	16.20
Staff costs:						
Managers £ per annum	38,500	38,500	38,500	38,500	77,000	231,000
Care Staff £ per annum	1,066,406	1,279,688	924,219	710,938	1,777,344	5,758,595
Catering Staff £ per annum	46,500	55,800	40,300	31,000	77,500	251,100
Total direct staff costs	1,151,406	1,373,988	1,003,019	780,438	1,931,844	6,240,695
Oncost 25%	287,852	343,497	250,755	195,109	482,961	1,560,174
Total staff costs	1,439,258	1,717,485	1,253,774	975,547	2,414,805	7,800,869
Premises costs	100,800	113,400	98,280	88,200	184,800	585,480
Catering costs	88,920	104,458	78,686	55,536	146,640	474,240
Client transport	185,250	217,620	163,930	115,700	305,500	988,000
Gross Expenditure	1,814,228	2,152,963	1,594,670	1,234,983	3,051,745	9,848,589
Sale of meals	(140,790)	(165,391)	(124,587)	(87,932)	(232,180)	(750,880)
Net Expenditure	1,673,438	1,987,572	1,470,083	1,147,051	2,819,565	9,097,709

Note 1: This net expenditure is fully funded by a specific national government grant.