STRATEGIC PUBLIC FINANCE

June 2019

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.
While many reports recognise the advantage of an outcomes focus in government, too often our public bodies concentrate on individual outputs. Many agencies are still working on short-term or one-year planning and budgeting cycles, and in some cases confusing their outputs with outcomes.

Successfully re-orientating our public bodies to an outcomes focus requires leadership from the top. Such a shift is not a simple task – once outcomes have been set, you will frequently find that important factors are not under the control of any single body. This raises questions about how the resources for those interventions are pooled and shared widely enough to ensure that changes in outcomes are obtained.

This puts forward a strong case not only for cross-government collaboration but potentially partnerships and collaboration with the wider community and private sector.

Another challenge comes with monitoring our progress. If no one organisation has the full picture, judgements on effectiveness must come from a higher level. So governance and scrutiny arrangements must be moved away from a particular organisation to a custodian of the overall plan for outcomes.

This is a significant change from the traditional, functional, organisation-based and mainly short-term budgeting focus used by many organisations. However, with continued pressure on available resources, we need to look at delivery differently.

Source: Public Finance, Alan BERMINGAM 29 Jan 19

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**Requirement for question 1**

(a) Using examples from a service you are familiar with, explain why measuring outcomes can be more complex than measuring outputs.

(5 marks)

(b) Explain the Balanced Scorecard approach to measuring performance, and discuss the advantages and disadvantages of its use in a public service organisation. Refer to examples from your experience or learning to illustrate your points.

(10 marks)

(c) 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)

(30 marks)
When we talked to CIPFA members from around the world at our annual conference in July, a number spoke of the pressure they had felt to use ‘creative’ accounting techniques, or to turn a blind eye to fraudulent behaviour.

With our recent survey finding that almost 60% of public sector finance professionals have come under pressure to act unethically at least once in their career, we are not talking hypothetically.

As the only body specifically for public finance professionals worldwide, CIPFA is focused on countering fraud and corruption, whether through training by our Counter Fraud Centre, or via our global advocacy for accrual accounting and IPSAS principles. But all of us who work with or for CIPFA, as members, associates or students, have a role to play on an individual level, by behaving ethically and standing up for what is right.

On 1 November 2018, we formally adopted a new statement of professional practice to align with the International Ethics Standards Board for Accountants code of Ethics. This is based on integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour. While the fundamentals of the code have not changed, there are several major revisions, including stronger independence provisions and new guidance on professional judgment and scepticism.

Source: Public Finance, Don Peebles 6 Dec 2018

• Requirement for question 2

(a) Good ethical behaviour is a culture that should be underpinned by a clear code of conduct. Explain the purpose of a code of conduct, and present the content 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)

(b) Identify examples from your experience or learning, of potential ethical dilemmas faced by finance managers in public service organisations, and discuss what finance managers can do to protect themselves when under this type of pressure.

(10 marks)

(c) In addition to ethical decision making already discussed, devolution of fiscal powers can also bring larger financial responsibilities onto finance professionals. Discuss the well documented advantages and disadvantages of devolving fiscal powers from any central government to local government.

(10 marks)

(30 marks)
Many organisations are now charging for public services for the first time. Finance managers in the public sector need to be aware of the different types of pricing methods, and consider when it is appropriate to use that method, depending on the nature and the charge, and the purpose of that charge.

**Requirement for question 3**

(a) Identify at least **five** different pricing methods. For each method identified, provide an example of a chargeable public service, and evaluate why the suggested method of pricing might be most appropriate for that particular service.

*(10 marks)*
As well as good governance, there are other activities that help financial managers develop solutions to volatile funding such as:

- Managing risk
- Long term agreements
- Diverse sources of income
- Seeking opportunities
- Managing reserves

**Requirement for question 4**

(a) Under each of these headings, discuss the activities the finance professional in any public service organisation might undertake to manage fluctuations in funding, and explain why this helps to ensure appropriate levels of service are maintained.

*(10 marks)*
Finance managers should be aware of project risks so they can help manage any financial impact of those risks to the delivery of the project, and to their organisation as a whole.

- **Requirement for question 5**
  
  (a) Identify a range of risks to project delivery, (not just financial risks) and include actions that a finance manager might take to help manage the risks. Refer to relevant examples from your experience or learning to demonstrate your understanding.

  *(10 marks)*
Aid effectiveness requires a commitment from both the aid donors and recipients. Historically the commitments from the donors and recipients have not always been aligned resulting in the aid not always achieving its objectives. There have been several international summits over the past 15 years – such as Paris, Accra and more recently in Busan.

- **Requirement for question 6**
  
  (a) Identify the common principles that have been established by international agreement that can help demonstrate effective use of aid.

  *(4 marks)*

  (b) Discuss the role the CFO can play in demonstrating effective use of aid, both as a **donor** organisation, and a **recipient** organisation.

  *(6 marks)*

  *(10 marks)*
Question 1

Syllabus reference C5

a)  
As relatively simple measures of what an organisation has achieved, it is unsurprising that outputs can be attractive indicators of success. For example, the outputs from the body that looks after roadworks might include the number of repairs completed, miles of roadway refurbished or newly built, and at what cost.  
Outcomes can be more complex. They require an organisation to consider whether what it is doing is making a difference and to what. From our previous example, this could include looking to see whether traffic flow is better, journey times shorter, if there are fewer accidents, or if the works contributed to wider economic development. 
Another example, improving the wellbeing of children in a certain area might require an improvement across a range of areas – from housing standards to access to pre-school care and education. As a result collaboration might be required to achieve the best outcomes. 
Benefits (rather than requirements) may arise across multiple organisations in the long term. For example, links between outcomes across education, social care and health. 
Also, conflicts can arise across public bodies due to conflicting objectives – social care and long term benefits of recipients staying in their community compared to the Police’s need to reduce crime which could lead to arrest and subsequent imprisonment through the criminal justice system. 
1 mark each for explanation of output and outcome (and therefore difference) 1 further mark for each example provided (max 5 marks)

Syllabus ref C5

b)  
The key motivation for a move to a Balanced Scorecard approach in the private sector is to go beyond a focus solely on financial measures. In the public sector, however, much more non-financial performance is measured as a matter of routine.  
Standard methods of performance management, with suites of key performance indicators and reporting of progress against actions, do tend to look at areas such as stakeholder satisfaction, staff satisfaction, training and achievement of outcomes, but they are reported and presented in a less coherent way than that with a Balanced Scorecard. 
Linkages, dependencies and relationships between performance measures are often overlooked or not considered when the information is displayed in the standard manner. 
Balanced scorecards can be more effective, as they are seen as a way of translating an organisation’s strategy and mission into measures that can be monitored to illustrate progress and success. 
They originated in the US in the 1990s and were used as a way of linking non-financial measures of success with the more commonly-used financial measures (sales, profits, shareholder dividends, etc.) 
There are four key areas in the traditional scorecard: 
- Financial Measures  
- Customer (External) Perspective
These have been adapted for the public sector, and some organisations have added further areas to reflect better the different priorities for the public sector. Whilst developed initially for businesses, the balanced scorecard approach has been adapted for public service organisations.

Clearly, the objectives and strategy of such an organisation can still be translated into a scorecard of performance measures:

- **Financial Measures** – These will be budgets and other financial aspects (unit costs, for example).
- **Customer Perspective** – This can cover a range of stakeholders, including citizens, service users, non-executive roles, regulators and Government.
- **Internal Perspective (Processes)** – These would be the key processes for improving effective service delivery, as well as some inward-looking strategic objectives which the organisation has set itself.
- **Learning & Growth Perspective (People)** – This often relates to the development of the organisation’s workforce and how the organisation itself learns as it delivers services.

One example is for a local council in the UK – London Borough of Barking & Dagenham: As part of their 2020 vision document, London Borough of Barking & Dagenham have developed a balanced scorecard, with five elements, rather than the traditional four. In addition to categories for 'Customer First', 'Funding for the Future', 'People Matter' and 'Performance Counts', there is an overarching category – 'Community First'. This is to recognise the Council’s role in community leadership, promoting the social, economic and environmental well-being of the area.

There is a strategic scorecard for the whole Council, with performance indicators for each area, supplemented by a framework of service and scorecards, bringing together a total of 200 performance indicators.

Furthermore, the scorecard approach has been adapted to produce a strategic approach for the Council, with 17 strategic objectives (covering the basic four categories) which support 7 community objectives. Although in its early stages, the Council say that this approach has already brought them a number of benefits ‘Because the scorecards link our externally focused community priorities to strategic objectives, service priorities and individual performance measures they have helped to clarify the picture and have direct relevance at many levels of the organisation. Services are measurably improving as performance management becomes valued.’

The advantages of a Balanced Scorecard approach are as follows:

- A clear and easy to understand reporting tool and format for senior managers and other stakeholders
- It covers multiple aspects of an organisation's performance and operation - e.g. not just financial performance - so the impacts of decisions can be monitored over these aspects
- Grouping performance measures into areas can draw out links within such areas and across different areas, given the sometimes complex and/or conflicting nature of public sector objectives
Balanced Scorecards allow users to look at short-, medium- and longer-term issues through a single "dashboard".

To implement such an approach will need knowledge and experience of successful change management, as there will often be a significant shift in mindsets and how the organisation looks at its own performance.

As stated above, consensus on developing the objectives, measures, targets and actions will be crucial and time should be devoted to achieving this, utilising proportional avenues of communication and engagement, as appropriate.

The benefits of a Balanced Scorecard approach will need to be sold to those involved, to win 'hearts and minds' and ensure ownership and full engagement.

The disadvantages of Balanced Scorecards can be:

- Having four categories can present difficulties with determining which categories a measure should go in
- Such approaches can require a lot of resources in terms of time and cost
- Information may be incomplete, therefore not giving an accurate overall picture
- There may be a resistance within the organisation, as the approach requires a different mindset and processes from more conventional performance management
- The link between financial investment/savings etc is not always known and may not be 'proved' for some time, therefore difficult to use 'scientifically'
- While balanced, Finance traditionally remains the overriding concern - ie the other dimensions are used to create better financial performance.ie profit - in the public sector the decision is more about the prioritisation of scarce financial resources which requires some adaption and lateral thinking to the original model

A BSC approach may not be suitable for every organisation for some or all of these reasons, but where resources and an open attitude to change are available, then pursuing such a change in performance management and reporting can lead to a better understanding of what an organisation wants to achieve, and how it can go about achieving it.

**1 mark per point explaining the BSC approach up to 4 marks**

**1 mark per point for advantages and disadvantages of a BSC approach up to 4 marks. 2 marks for reference to examples.**

**Syllabus ref C4**

(c)

The role of financial managers in any collaboration is likely to centre around the key financial risks to the organisation. Strategic financial planners should use their central role to identify the financial impact of collaboration and the risks the organisation faces, and provide advice on the financial viability of proposed joint working. The CFO will be likely to have responsibilities for governance and accountability for collaborative working.

One of the reported benefits of collaborative working is saving money. When determining the savings achieved by collaboration, it can sometimes be difficult to distinguish the savings that have been achieved as a result of collaborative working from those that have been achieved by the organisations separately, and would have been achieved anyway. Also, the CFO needs to strike the right balance between safeguarding their own...
organisation’s finances in the short term while still being prepared to seek the longer term benefits of collaboration.

‘Collaboration dividend’ is the term used by the collaboration between the Police & Crime Commissioners for Essex and Kent, where effort has been made to identify the additional financial saving or service gain over and above what would have been achieved through individual working.

For example, measuring the collaboration dividend comes from:

- identifying the additional savings through economies of scale when purchasing that could not be achieved alone, and excluding those that might have been achieved by a solitary negotiation on contract prices
- identifying the savings made through adopting more efficient procedures through collaboration – such as a single back office
- identifying savings from shared management posts.

*Up to 2 marks for the role of the CFO and 3 marks for examples to explain collaborative dividend (max 5 marks)*

**Syllabus ref C4**

d)

Candidates are not expected to cover all the elements listed here in the time available. The governance arrangements for different types of collaborative working will vary.

All should include:

- defined roles and responsibilities
- reporting lines
- reporting intervals
- decision making powers
- funding structure and financial record keeping responsibilities
- exit strategy - clauses should be included in the agreement about how the partnership can be terminated.

**What does good governance for collaboration look like?**

Here are some fundamental elements of good governance that can apply to any shared working arrangement.

**Shared understanding**

Partners should formally agree and record how a partnership operates, including:

- structure
- purpose and aims
• activities
• roles and responsibilities
• membership
• regulatory framework
• exit strategy

Accountability
Partnerships should account for actions through:
• reporting, meetings
• oversight and scrutiny of performance and regulatory compliance
• openness and engagement
• complaints and redress procedures.

Decision-making
There should be clearly allocated roles, responsibilities, accountabilities and open and transparent processes, such as:
• records of delegated authority and key decisions
• effective scrutiny

Value for money
Costs and benefits should be understood to ensure arrangement provide value for money over alternative arrangements.

Corporate governance processes
Good governance contributes to delivering high-quality, cost-effective services through effective systems and process for managing issues, such as risk (including insurable risk) performance, finance and information.

Standards of conduct and leadership
High standards should be agreed to govern the way the partnership works, to ensure the needs of all partners are met, to identify conflicts of interest and to resolve disputes.
Challenges around collaborative working usually arise in the following areas:
• Partners may have different ways of operating so conflicts may arise as a result of cultural differences
• Mistrust can occur if sharing of competitive or sensitive information is required
• Co-dependency can develop making it difficult to operate separately as before the alliance
• Scope for collaboration is usually limited e.g. access to strong brands or particular skills or technology
• Short term dip in service quality may arise during initial collaboration period
• Inequitable treatment of partners if one organisation becomes too dominant

*Up to 6 marks for describing good governance framework, 4 further marks for examples and identifying challenges (max 10 marks)*
**Question 2**

**Syllabus Ref B2**

a)
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. An example for an Educational Trust is below. Would not expect this level of detail from candidates in the time available.

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 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.

12. 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.

*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 in total)*

**Syllabus Ref B2**

b) Morals and values lie at the heart of ethical dilemma. Our morals come into play when we are called upon to make a judgement. Within the financial leadership role the decisions are seldom clear-cut as to whether the decision is ‘good’ or ‘bad’, as we must factor in the needs and requirements of a multitude of stakeholders.

Our values come from our experiences in life and the culture and societies we live in. Again, for a leader in public service he or she will be dealing with employees and citizens from a wide variety of cultures and backgrounds.

Ethical leadership is therefore not just about following the rules: it is about acknowledging the rules and setting boundaries for action, while treating people fairly and with respect. Finance professionals can also protect themselves by ensuring they have evidence that stands up to scrutiny, as well as being within the legal parameters for the sector.
For example, in local government in the UK, a balanced budget must be set and agreed. The Responsible Finance Officer (under Section 151 of the Local Government Act) needs to explain to elected Members the legal constraints, and the consequences of not staying within them, such as the issuing of a Section 114 Notice. The balance of ‘attractive’ or at least ‘palatable’ and ‘right’ must be struck. If ethical behaviours of honesty and transparency have been operating, then decision makers should already be aware of any potential for problems with setting a balanced budget. A Section 114 should already be aware of any potential for problems with setting a balanced budget. A Section 114 notice would normally be a last resort, when all reserves and alternatives have been exhausted, and no agreement can be reached. The end result is quite often the departure of the S151 officer.

*Up to 5 marks for explaining ethical dilemmas – following rules, upholding rules, setting boundaries, fair treatment, balancing demands (including political) transparency, honesty. Limit to 4 marks if only refer to Nolan principles. 5 marks for examples or marks are also available for topical references to the New Code of Ethics or other 2018 publications such as ‘Stories that Matter’ (10 marks)*

Syllabus Ref A3

c)

The arguments for greater fiscal decentralisation fall into three broad categories that are the constant theme of good public financial management:

- greater democratic engagement
- improved allocative efficiency
- improved operational efficiency

National fiscal discipline will continue to be controlled by fiscal rules/legislation regarding local government.

**Arguments in favour:**

- Sub-national governments know better what local people want - this moves the decision making closer to the end users and take account of very specific local needs. For example the local health care needs may vary dependent on ethnicity (pre dispositions to certain illnesses), local environment and local industry. By moving the spending decisions closer to the local area these demands can be better reflected in provision of services. As well as better needs assessment there is also a better reflection of local priorities when resources are scarce. This can be particularly important in times where resources are being reduced as where the cuts are made can reflect local priorities.

- Sub-national governments have a better idea of best local sources of revenue - this links to allocative efficiency in that taxes can be targeted to meet local circumstances. For example, in areas of high tourism a room tax on hotels can be a very useful source of revenue that does not impact on the level of tourism as the impact is likely to be small. Examples here are in the Kilimanjaro areas of Tanzania and capital cities, such as Rome, whereas in other areas that may not be appropriate. In China mining taxes are appropriate in Anshan region but not in Shanghai.

- Sub-national governments can provide services more efficiently - operational efficiency can be improved where the local scrutiny is higher and the hierarchical structure reduced. This is one of the principles of subsidiarity.

- Improves the democratic processes - Local representation should increase access to marginalised groups, promote an opportunity to be involved in the decision making process, allow greater scrutiny of political choices and improve governance of local activities.
Whilst the above arguments offer strong incentives to increase fiscal decentralisation, care must be taken. There are a number of dangers that must be managed effectively. If they cannot be managed then they may prevent the benefits being achieved or make the position worse than a centralised system.

**Arguments against:**

- **Lack of capacity at local level** - the skills required for good local governance and good local financial management are scarce. In many developing countries there is not the capacity in terms of skills to meet these needs. The capacity not only needs to be developed but also retained. This can take some considerable time and investment in both human and institutional capacity building.

- **Risk of (extra layer of) corruption** - one of the key arguments promoting decentralisation was greater scrutiny at local level reducing potential corruption. A counter argument is the capture of institutions by local elites that add an additional layer to the system and use that to benefit themselves.

- **Replication of systems** - operational efficiency may be reduced as the optimum size for operational efficiency may be greater than for the other aspects resulting in replica systems being developed adding costs that are not efficient.

- **Additionally some countries are very small and so the need for localised knowledge is not there, for example city states like Singapore.**

- The ideas of decentralisation have been based on geographic policies rather than sector policies. This can lead to the following difficulties when sector policies do not link to geographical areas:

  - **Lack co-ordination between different agencies** - there can be difficulties co-ordinating policies between national and local agencies on areas such as health and education as well as co-ordinating resources and service delivery. This can be particularly acute where there is a partial overlap of policy for example in health and social care.

  - **Difficult to link to national policies** - there may be a more fundamental problem when local and national policies are at odds with each other. For example, whether the solution for the expansion in airport capacity should be a third Heathrow runway. These are often of strategic national importance and policies rather than local policies where the benefit is seen elsewhere in the country.

For policy on the level of fiscal decentralisation it can be seen as a balance between conflicting pressures and with the political will, capacity and institutional structures of a country all coming together to shape the outcome. If we add to these influences those of pan national organisations, such as the IMF in its conditionality packages, or the EU for applicant countries, the key thing to remember is the complexity of the process.

The starting point of fiscal decentralisation should be asking the question ‘What public services should sub-national governments deliver?’

Sub-national governments spending assignments will vary according to size of country (population and area), geography, heritage and political situation.

When allocating services to each level of government the concept of ‘subsidiarity’ should be kept in mind. That is, each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalise the benefits and costs of such provision.

This includes thinking about whether services may be more efficiently provided locally where: preferences can be voiced; oversight can be promoted; and benefits from taxation observed.
The retention of business rates locally is the start of fiscal devolution, and in England, the aspiration of the government is to move from the 50% retention currently, towards full retention locally by 2020.

The advantages and disadvantages of fiscal devolution are laid out above. The most significant problem that will always remain with local tax retention and no equalisation by central government, is, how to cope with the national imbalances that will affect areas of economic deprivation or very rural areas, where there are limitations on the amount of business rates that can be raised. Arguably these areas may need more public spending locally than areas that are more economically prosperous.

1 mark per well explained point for the advantages and disadvantages. Limit to 5 marks if only one side of the argument is presented. (Maximum 10 marks)
Question 3

Syllabus Ref A6

The following list of charging methods that may be used in public services is not exclusive and there will often be some overlaps between the methods being described.

Variable costing
Only charging clients with the variable/incremental costs of the services rendered. This is best used for services where costs need to be recovered, and where variable costs are a significant part of the overall cost.

Partial overhead charging
All variable/incremental costs are recovered, but only a proportion of fixed costs. The same proportion of overheads could be applied to chargeable services or could differ in relation to the services being provided.

Full cost charging
All costs incurred in the provision of a service should be charged in this instance. Thus no subsidy will be required. This would be most suitable for non-statutory services that the organization does not necessarily wish to influence the level of use (either encourage or discourage).

Full cost plus a profit margin
A charge is set in order to create a surplus that will subsidise other services. This could be used for peripheral services that occur as a side issue in an organisation’s service provision. For example, the pricing-out of halls of residences during student vacations. However, there may be an argument for charging these on a marginal cost plus basis. This would gain competitive advantage and recognise that colleges need to have the residences regardless of vacation use, so any extra contribution which can be earned is a bonus.

Going rate charges
This rate would reflect that set by other public sector service providers in other localities. It ignores any differences in service and the specific cost structures of the different localities. It may be based on the idea of inter-jurisdictional equity, meaning that the public should be able to receive the same service as is available in other similar locations, at the same charge.

Demand - orientated charging
At its simplest this is where charges will link to levels of demand. If an organisation had a policy of recovering full costs – then very high demand would enable low charges to be set. If demand was low then higher charges would be needed to recover costs.

Charges dependent on service need
In developing charging policies and choosing methods of pricing, organisations will need to consider the impact of their charges on the outcomes they are trying to achieve for their communities. This is particularly the case with social care charges which have a direct impact on vulnerable members of society. Another example would be the use of free swimming to try and encourage children to be more active and reduce obesity.

**Minimum standards**
Minimum standards could be set and provided free for the public. If individuals wished a higher level of service they could pay some form of charge for this. Charges could therefore be used to finance discretionary increases in service provision. Many local authorities apply this principle to domestic refuse collection: normal household refuse is collected free of charge, but bulky items require a special collection for which there is a charge.

**Customised value added model**
This could be applied where there is substantial discretion shown by service users in deciding how they wish their service to be provided. An organisation could for example provide ‘gold/silver/bronze’ levels of service for corresponding gold/silver/bronze prices or charges.

**Differential pricing**
This is similar to the private sector, where different prices are set for different customers. For example, peak/off peak, adult/child, disadvantaged/advantaged.

**Penalty pricing**
Higher prices may be set in order to reduce the number of people using a facility. The London congestion charge illustrates this idea.

**Subsidised pricing**
This could be used where the public sector body wishes to promote a service and encourage users of the service. An example of this may be the charges set for recreational facilities in a bid to promote good health.

½ mark per pricing method identified. ½ mark per appropriate service identified for that kind of pricing method, 1 mark per reason why the method is appropriate for that service to gain full marks. (Maximum 10 marks)
Question 4

Workbook 10.3.2 (new work book reference)

Syllabus Ref B2

Managing the risks
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

Long-term agreements
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.

Diverse sources of income
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.

Seeking opportunities
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, undertake fundraising activities and apply for grants.

Managing reserves
Managing reserves is a key activity for financial managers in all types of organisations.
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 in 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.

*1 marks per area, 1 mark for activity 1 mark for explanation why (10 marks)*
Most risks, if they materialise, will have some impact on delivery and / or cost. There is a range of risk sources to be considered.

- **Commercial Risk** – Contractual issues, failure of suppliers to timescales/quality etc, collapse of contractors etc. Managed by appropriate contracts established, due diligence when appointing contractors.
- **Financial Risk** – Inflation, failure to meet targets, financial developments affecting plans etc. Managed by identifying all likely costs at the outset of the project to secure appropriate funding
- **Legal Risk** – New legislation, failure to obtain appropriate approval, unexpected licensing requirements etc. Managed by taking appropriate legal advice before projects start.
- **Management Risk** – Lack of clarity regarding roles and responsibilities, poor leadership, inappropriate decision making etc. Managed by ensuring clear communication in project plans of roles and responsibilities.
- **Resource Risk** – Skill set, limited resource availability, training requirements etc. Managed by clearly identifying what skills are both required and available before project approval is made.
- **Schedule Risk** – Delays in supplies, dependencies on other projects, poor estimations of time etc. Managed by regular project meetings to assess whether milestones have been achieved on time, and actions to address slippage established and assigned to individuals as responsible
- **Technical Risk** – Inadequate design, infrastructure failure, breaches in information security etc. Candidates may come up with other ways of managing risks, but as examples they may also refer to:
  - Identify key milestones of the project and assign deadlines and responsibility for their completion. Ensure this is clearly communicated to and understood by relevant individuals
  - Regularly monitor and report the costs at intervals to suit the project needs, rather than routine monthly
  - Use of project specific budgets to help monitor and manage costs specific to a project and not business as usual activities.

*1 mark per risk explained, 1 further mark per action or mitigation for the risks they identify, 1 mark for any relevant examples provided. Broad scope for high marks here but must demonstrate a spread of risks, actions and examples. Limit to 5 marks if actions and examples are not well defined.*

(Maximum 10 marks)
Question 6

Workbook 2

Syllabus Ref A2

a) The Busan Partnership document includes a set of common principles making development co-operation effective:

- **Ownership of development priorities by developing countries:** Countries should define the development model that they want to implement.
- **A focus on results:** Having a sustainable impact should be the driving force behind investments and efforts in development policy making.
- **Partnerships for development:** Development depends on the participation of all actors, and recognises the diversity and complementarity of their functions.
- **Transparency and shared responsibility:** Development cooperation must be transparent and accountable to all citizens.

The focus on results comes with some risks that will be familiar from debates around results-based management in any public services, and whether quantitative targets can have unhelpful unintended consequences. Transparency and demonstrating accountability can be difficult in countries where governments have problems with corruption.

In the context of aid, there is a risk of projects being chosen because it will be easy to demonstrate impact, as opposed to doing what is best to promote development over the longer term in a sustainable way. For example, providing short-term help such as food parcels (easy to measure how many tonnes are delivered and how many people fed), rather than long term projects such as irrigation, tools and farming advice so that people can help themselves (harder to measure success over the short term).

The cost of monitoring and evaluating the effects of aid can result in difficult trade-offs for donors. Oversight can be expensive, and cause aid workers to be behind a computer screen filling out forms when they should be out in the field.

**One mark per point for discussing principles around measuring aid effectiveness (up to 4 marks). Other international agreements (or a combination) may be used to gain marks.**

b) Whilst the CFO might not be the decision maker regarding where aid is to be distributed, there is a responsibility to ensure that public funds are spent wisely, and that good value for money is achieved. Typically, the CFO of a donor organisation must:

- identify resource needs and how to meet them, and potential risks and contingency requirements - short, medium and long term planning should show where funds will come from and when they will be needed
- know which funds they hold have restrictions on their use
- set a budget that shows how the activities will be resourced and what the cost will be
- be aware of what income streams are available now, and what are planned or available for the future
- obtain and critique information on compliance with any aid conditions received from recipients
• lead on due diligence to ensure processes are in place to minimise risk of loss in transit of aid as a result of corruption
• CFOs for organisations receiving international aid have responsibilities regarding the appropriate recording of spending so that transparency and accountability can be demonstrated to the donor bodies. The CFO must:
• be aware of any conditions that are attached to the aid received
• establish a control framework to ensure spending is within any conditions
• establish a method of collecting data that proves compliance
• collect and report evidence of compliance to secure continued funding, or additional funding in future.
• report on VFM, with a particular focus on measurable/demonstrable outcomes to allow both improvement in performance and to justify current/future funding.
• improvement in performance and to justify current/future funding.

½ mark per CFO role identified, must be across both donor and recipients to gain full marks (up to 6 marks)

(Maximum 10 marks)