CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC CASE STUDY

Strategic Stage

ADVANCE MATERIAL AND EXAM DAY MATERIAL

01 December 2020

Time allowed: 3 hours 30 minutes

All questions must be answered. The weightings for each question are indicated. The examination has been prepared on the assumption that candidates will not have any detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded to those candidates displaying such knowledge.

© 2020 Chartered Institute of Public Finance and Accountancy (CIPFA)

STRATEGIC CASE STUDY

Strategic Case

NOTES TO CANDIDATES

i) Answers to be prepared as on 01 December 2020 by Hali Singh, Finance Manager for Renmouth City Council, who is on secondment to the mirror authority created as part of the programme to establish Austland Regional Council.

ii) All calculations and diagrams provided in source materials should be assumed to be arithmetically correct.

EXAM QUESTIONS

1	Prepare a briefing paper on the reorganisation programme for Jann Jamieson, the mirror authority's newly appointed manager of the programme to establish Austland Regional Council, in order to assist with the report needed for next week's meeting of the Mirror Executive Management Board.	60%
2	Prepare a briefing paper for Jiang Li, Chief Financial Officer of the mirror authority, on the project to promote tourism in Austland.	40%

Country of Fianfora

Fianfora is a wealthy, developed island nation in the northern hemisphere. It is ranked highly in the global index for per capita income, economic freedoms, education, civil liberties and quality of life. It is dominated by the petroleum and gas industries, which account for 30% of its Gross Domestic Product and employ 8% of the population. Tourism is the next biggest employer, employing 6% of the population, but most work is seasonal, with over half of the annual number of tourists visiting in the summer (June to September). Around 80% of Fianfora's annual international tourist visitors travel from two neighbouring island nations, Obvalda and Vitkana. Employees enjoy strong legal protections in Fianfora, including automatic enrolment into a workplace pension scheme and a legal entitlement to severance pay based on existing salary in the event of redundancy. The currency in Fianfora is the Fianfora Pound (£) which is equivalent to the UK Pound.

Fianfora has a federal government structure as follows:

- The national government is responsible for areas such as foreign affairs, police, defence, border control, the national transport infrastructure and telecommunications.
- The second tier of government is delivered through regional authorities (RAs), which are responsible for services including housing, health and social care, education, leisure services, planning and the regional transport network including highways, buses and regional airports. RAs receive much of their income in the form of national government grants, plus a significant proportion from regional taxes. RAs have the flexibility to select the tax base(s) they consider most appropriate for their region and to set the tax rates to reflect their strategic agenda. RAs typically raise a significant proportion of their funds from property taxes, such as community tax payments (CTP) from households, and business rates (based on the property's rental value, with revaluations usually every five years) for commercial businesses operating in the region. These income streams, combined with charges for some services such as property rents, make a vital contribution to flexibility in the funding of RA services.
- At a local level, municipal councils (MCs) have been created for some larger towns. MCs derive their authority from their RA and act as administrative hubs for the town. Some budgets and decision-making powers are devolved to the MC by the RA.

All RAs are required to set and work towards a balanced budget and can set a deficit budget only to the extent that sufficient reserves are available to cover the deficit. All government and public sector bodies have a financial year end of 31 December. Following a global financial crisis and the subsequent economic slowdown which followed, the Fianfora government has struggled to maintain an overall balanced budget for many years. It has already significantly cut costs, and in July 2018 it announced that all national and subnational government authorities should plan for further efficiencies and budget cuts over the following three years, with grant funding for all RAs affected.

Fianfora has also been affected by the global coronavirus pandemic in 2020. Fianfora's government authorities took effective action to ensure that infection and mortality rates from the pandemic were significantly lower than in most other countries. Some months ago, after experiencing no new infections for several weeks, the Fianfora government agreed a 'travel corridor' with Obvalda and Vitkana, nations with similar experiences of coronavirus, allowing free movement between the countries. The corridor is operating successfully, and, to date, has not resulted in a new wave of infections, with further such agreements with other countries being expected soon. However, the government's actions in response to the pandemic have added significantly to public borrowing and it is expected that the Fianfora government will impose further cuts to government expenditure in the next few years to try to reduce public debt levels. One of the government's major interventions during the pandemic was an employment protection scheme whereby the

government paid organisations 75% of the wage costs of employees during the period of lockdown. This scheme was extensively utilised by organisations in sectors such as hospitality, tourism, and entertainment, as a result of which there have been very few business failures and redundancies in these sectors as a result of the pandemic.

Subnational government

The Subnational Government Act 2002 imposes a number of requirements on RAs in Fianfora. The main ones are as follows:

- All RAs have an executive. This governing body comprises a cabinet with an elected leader. Cabinet members are councillors (politicians elected by residents in the region) with particular responsibilities for a specified area of the RA's activities. The executive provides leadership, sets the budget and policy framework and appoints councillors to standing committees to scrutinise specific issues.
- Each RA must make arrangements for the proper administration of its financial affairs, including a sound system of internal controls. Most RA's achieve this by appointing a Chief Finance Officer (CFO) and establishing an internal audit function.
- Policies set by the RA's cabinet are implemented by a management board of RA-employed executive directors, led by a Chief Executive Officer (CEO).

In RAs, each executive director typically has responsibility for a directorate covering a broad area of the RA's activities (such as Citizens, Resources and Growth). Within each directorate, there are departments responsible for the day to day running of one aspect of service delivery. For example, the Growth directorate may include departments for policy and partnerships, digital transformation, tourism and sustainable transport. Departments in RAs are typically arranged functionally and run by department heads.

National policy issues

Business licences

Many businesses need a licence to trade in Fianfora, including food outlets, hotels, and those selling alcohol or providing gambling activities. The charge to obtain a licence varies from £20 for a single event alcohol licence to £7 000 for a regional casino licence. Licences to operate are granted by RAs, although an RA may devolve to local MCs the power to process licence applications, grant licences, and to collect and retain the resulting income. MCs submit an 'Application for Licensing Authority' (ALA) - the right to award licences in a designated neighbourhood or district - to the RA's planning department. After reviewing the application and any strategic guidelines which apply to the area, the RA planning department may devolve to the MC one of two categories of licensing authority:

- Full licensing authority (FLA) – the MC is free to grant licences in the specified district for all commercial businesses to run at any time including late night bars and clubs. It also includes the power to grant gambling and alcohol licences.
- Limited licensing authority (LLA) – the MC may award licences (including those for the sale of alcohol), but only for operations within business hours (7am to 11pm) and it is prohibited from granting licences for gambling. Under this licensing authority, the RA also predetermines a maximum number of each type of licence that a MC is permitted to grant in the area concerned.

Pay

In Fianfora in recent months, there have been many successful legal challenges to public sector pay structures whereby roles traditionally carried out by male workers were found to be better paid than equivalent roles traditionally performed by female workers. A

national government-appointed review committee was set up and it has just recommended that legislation is needed to require all public sector employers to eliminate such discrepancies in pay, conditions and pension provisions across a wide range of public sector roles. The legislation is expected to be in force by March 2022.

County of Austland

Austland is a coastal county in the west of Fianfora known for its natural beauty. It is primarily made up of small towns, rural villages and remote farms, but also comprises an area known as The Strand which has been designated a conservation area by the Fianfora government. The Strand encompasses a stretch of the county's dramatic coastline and the inland Hoyetoppe mountain range. In the south of Austland, the coastal city of Renmouth is an important economic hub for the county. Renmouth is linked by a fast rail route to the national capital city of Tromdan, and from there to the rest of the country. Renmouth is also the location for Ibsen Airport, a regional flight hub serving Fianforan Airways, the national carrier. The airport is primarily used by business people travelling to and from Tromdan and to other airports in Fianfora and operates only a few flights per week.

Despite having a thriving industrial centre, and some wealthy residential districts, Renmouth also has large areas of severe urban poverty and demand for local public services continues to rise. It has growing numbers of elderly residents with complex care needs and a steady influx of new residents seeking work, leading to high levels of unemployment and accompanying issues of homelessness, substance abuse, youth crime and mental health problems. In common with many towns and cities across Fianfora, the central shopping area of Renmouth, once popular with local residents and tourists, has been abandoned by many stores. Those stores that remain have been struggling to compete with the increase in online shopping and their profitability has been adversely affected by recent increases in business rates, with other stores likely to close in the near future. Stores also suffered significantly from the restrictions imposed by the government during the coronavirus pandemic, and many closed permanently once the restrictions were lifted, so there are a high number of vacant retail sites in the city.

The Austland countryside is popular with hikers, water sports enthusiasts and other tourists in the summer months, but currently work opportunities in rural areas are scarce for the rest of the year, and much of the younger population has migrated to Renmouth and cities elsewhere in Fianfora. This migration of young people has been accompanied by the closure of many rural schools, shops and medical facilities in Austland, such that many older children living in the north of the county now have to take an hour-long bus journey to reach their nearest secondary school. Loneliness and isolation in the county are becoming serious problems and drug and alcohol abuse is at an all-time high.

The county also contains four large towns with flourishing local businesses and demanding residents, each of which has an MC. The largest of these towns is the coastal town of Knarravik located 11 kilometres north of Renmouth. Knarravik has in recent years become popular with groups of young people visiting from the city, and the town is developing a reputation for beach parties and late-night gatherings.

Subnational government in Austland

Two different RAs are responsible for subnational government in Austland. Both RAs currently use the same regional tax bases, CTP and business rates, to raise income but apply different taxation rates. The RAs are:

- Bagwold Council (BC) is responsible for the delivery of services to all areas of the county except Renmouth and The Strand. This area of the county was originally served by two separate RAs – East Bagwold Council and West Bagwold Council. In order to

reduce costs, these two RAs were combined into one to create BC four years ago. BC also oversees the four MCs in the county.

- Renmouth City Council (RCC) is responsible for delivery of services within Renmouth and for The Strand, including its conservation. Although The Strand is geographically separated from Renmouth, and BC is responsible for all the areas surrounding it, for historical reasons it has always been under the control of RCC.

The administration of RCC is highly centralised and hierarchical in structure. Politically left of centre, it has steadily increased regional taxes in recent years and favours interventionist strategies aimed at improving outcomes for the region's poorest residents with a focus on protecting services such as education and child welfare. The council's existing strategic priorities include improving outcomes in areas such as homelessness, substance abuse, public health, regeneration of the city's central shopping area, improving the existing transport network, increasing tourist numbers, and the reduction of pollution. In order to achieve the cost savings needed as a result of cuts in national government grants over the past few years, and to avoid increasing CTP further, many other services have been reduced in scope and some have been discontinued altogether.

Smaller than RCC, the administration of BC is politically right of centre, favours decentralised decision making and has a strong preference for keeping regional taxes as low as possible. However, the council has also seen a significant change in the attitudes and expectations of residents and businesses in recent years, with growing demands for better quality, more accessible services. Achieving these conflicting goals has become increasingly difficult. A shrinking working age population has reduced the council's existing tax base and as a largely rural area with a low population density, the council fails to fulfil the eligibility criteria for many of the Fianfora government's grants. Consequently, provision of many rural services is becoming increasingly uneconomic. BC is therefore focused on providing the minimum service level required whilst encouraging its residents to be as independent as possible. In practice, residents rely on charitable organisations to provide many of the additional services they require. BC's stated strategic priorities include economic growth (including extending the tourist season), protecting the environment, and providing additional high-quality housing.

Council staffing

In order to reduce expenditure as a result of the ongoing reduction in national government grants announced in 2018, both councils in Austland have cut a number of posts in the past two years. Staff complain of being overworked and demotivated and many are also concerned that the job cuts, particularly at senior levels, have reduced their prospects of advancement. Since there has also been a ban on overtime working to save money, most departments in both councils have backlogs of work, which has brought about a significant rise in complaints from service users across Austland.

BC staff in particular are struggling to manage their workloads since the merger of East and West Bagwold councils. At that time, significant savings were anticipated as a result of reduced staffing levels. However, many of the more experienced staff left before the merger, necessitating an unplanned recruitment drive. With key posts filled with inexperienced replacements, processes have been in disarray since and staff complain of feeling unimportant and demoralised.

Despite the expected changes to employment legislation by the Fianfora government, neither council has so far updated pay and conditions to eliminate existing pay inequalities between male and female employees, even though the new rules are expected to affect workers at all levels of both councils.

Council finances

Reserves represent an RA's net worth. Usable reserves result from an RA's activities and can be spent in future. The usable reserves are made up of the following:

- General Fund Strategic Reserve – This reflects the excess of revenue over expenditure relating to the provision of all services provided by a RA, after allocation of specific sums to the defined reserves detailed below. It is held to cushion the impact of unexpected events or emergencies and may be used at a RA's discretion.
- Earmarked Reserves – to provide financing to meet known or predicted future General Fund expenditure plans.
- School Balances and Housing Revenue Account (HRA) Reserves – amounts required by statute to be set aside and ringfenced for future expenditure in schools and investment in housing.
- Capital reserves – includes capital receipts and capital grants set aside and ringfenced to finance future capital expenditure plans.

The Fianfora government reimbursed RAs for the excess costs they incurred in responding to the 2020 coronavirus pandemic. This has helped ensure that the current reserves position of RCC and BC is in line with their original budgets for 2020. The movements on the reserves of RCC and BC are shown in the following tables:

RCC - usable reserves					
	General fund	**Earmarked reserves**	**School balances and HRA**	**Capital reserves**	**Total**
	£000	£000	£000	£000	£000
Balance at 01 January 2019 brought forward	2 500	3 678	4 946	4 041	**15 165**
Movement on reserves:					
Surplus/(Deficit) on provision of services	(599)		3 459		**2 860**
Transfers to/from designated reserves		(16)	(4 976)	(892)	**(5 884)**
Balance carried forward at 31 December 2019	**1 901**	**3 662**	**3 429**	**3 149**	**12 141**
Balance at 01 January 2020 brought forward	1 901	3 662	3 429	3 149	**12 141**
Movement on reserves (forecast):					
Surplus/(Deficit) on provision of services	(1 151)		7 020		**5 869**
Transfers to/from designated reserves		(181)	(7 737)	(455)	**(8 373)**
Forecast balance carried forward at 31 December 2020	**750**	**3 481**	**2 712**	**2 694**	**9 637**

BC - usable reserves					
	General fund	**Earmarked reserves**	**School balances and HRA**	**Capital reserves**	**Total**
	£000	£000	£000	£000	£000
Balance at 01 January 2019 brought forward	1 820	1 956	3 215	2 345	**9 336**
Movement on reserves:					
Surplus/(Deficit) on provision of services	(559)		2 502		**1 943**
Transfers to/from designated reserves		(22)	(2 318)	(168)	**(2 508)**
Balance carried forward at 31 December 2019	**1 261**	**1 934**	**3 399**	**2 177**	**8 771**
Balance at 01 January 2020 brought forward	1 261	1 934	3 399	2 177	**8 771**
Movement on reserves (forecast):					
Surplus/(Deficit) on provision of services	(759)		3 486		**2 727**
Transfers to/from designated reserves		(159)	(4 916)	(496)	**(5 571)**
Forecast balance carried forward at 31 December 2020	**502**	**1 775**	**1 969**	**1 681**	**5 927**

Local housing

RCC is keen to provide additional affordable housing for its expanding city population. The land within the existing city boundaries is already heavily developed and there are no sites considered suitable for large scale redevelopment in Renmouth. However, 11 kilometres north east of the city a large potential site, known as Heimdell Felt, has been identified. RCC believe it could be developed to provide around 1 200 houses and flats, a primary school and multiple retail units. The land is in BC's administrative area and owned by BC. RCC approached BC about the Heimdell Felt development nine months ago, but BC has not given a formal response. Concerns were expressed within BC's executive that, should it proceed, the development would bring about an even greater exodus from rural towns and villages towards this Renmouth expansion. Councillors at the time also expressed a reluctance to become responsible for supplying services to the large numbers of residents currently living in the city who would be expected to move to the site.

Austland Regional Council

In October 2018, following the national government's announcement earlier that year of planned cuts to existing government grants, the cabinets of RCC and BC agreed that sufficient savings could not be achieved using traditional cost cutting approaches. The financial pressures being felt by both councils, combined with greater demand for services, led to a joint proposal that regional government in Austland should be reorganised. The proposal was for the creation of a single RA, thereby freeing up the resources and energy being used to manage and coordinate two separate councils. The agreed objectives were to ensure that the required cuts in spending could be achieved without reducing essential services, and to provide better quality, more integrated and more responsive services to

meet the growing demands of the county's residents. It was envisaged that the savings would facilitate this by allowing for the commissioning of additional key services.

Following numerous discussions, in May 2020 a programme mandate was approved by the two councils for the creation of a new RA, Austland Regional Council (ARC), to be responsible for the delivery of services across the whole of Austland.

The transitional period

After further discussions, on 4 September 2020 BC and RCC formally approved a programme brief and, three weeks later, the proposal to create ARC received the required consent of the Fianfora national government which passed the secondary legislation necessary to authorise the development of ARC.

The legislation also provided for the creation of a mirror authority, a temporary legal entity, which took over all the powers, property, assets and staff of BC and RCC. All existing councillors of BC and RCC are now deemed to be members of the mirror authority until the new ARC is formally constituted, at which point a local election will be held to appoint councillors to the new council.

The mirror authority is being run by a mirror executive (ME) consisting of 14 councillors (seven nominated by each council). The ME councillors immediately chose Jamil Hadi, who had been the leader of BC, to be their chair. The detailed reorganisation process will be managed by a newly constituted mirror executive management board (MEMB) consisting of twelve directors (six chosen by each council from their existing pool of directors), and a new CFO, Jiang Li, appointed by the ME. The ME has also appointed Rea Shilton, originally CEO and leader of RCC's management board, to be acting CEO of the mirror authority and leader of the MEMB. Once the new ARC management board is established, Rea Shilton and Jiang Li will become its CEO and CFO respectively. The MEMB is scheduled to meet formally every six weeks until then.

Those councillors not serving on the mirror authority, and the council staff at BC and RCC, will be responsible for the ongoing, business as usual, functions of the two councils, and will continue to run the two councils separately until ARC is formed. However, all senior roles within ARC, other than that of its CEO and CFO, will need to be specifically applied for, and any spending plans over a pre-set limit, and any projects or decisions not considered to be business as usual or containing a significant strategic element, will need to be pre-approved by the MEMB.

The existing councils are currently forecasting a joint overall annual revenue expenditure of £188 500 000 in the financial year ending 31 December 2021, before taking account of the reorganisation plans. In an attempt by both councils to maintain usable reserves at the same level as forecast for the end of 2020, the 2021 expenditure budgets assume the implementation of a number of significant cost reduction measures by both councils.

Managing the change programme

RCC has an existing projects department, run by senior project manager Kat Jackson, who is currently responsible for managing a range of council projects within the city. It has been agreed that the work needed to establish ARC will be run by this department. As far as possible, to keep costs down, the detailed reorganisation work – such as designing new systems and organisation structures - will be carried out by existing departmental staff employed by the councils, guided by the team from the RCC projects department.

A Local Restructuring Grant (LRG) was obtained by BC from the national government when it was created from the merger of East and West Bagwold councils, and the ME has

submitted an application for an LRG of £3 670 000 for the reorganisation needed to establish ARC, which it is hoped would cover 50% of the budgeted cost. However, the outcome of the application is unlikely to be confirmed for six to eight weeks and LRG applications are not always approved. The overall cost of the reorganisation (less the LRG) is intended to be paid out of existing reserves of the two councils.

Excerpt from MEMB minutes – 22 October 2020

Planned reorganisation projects

Governance

Kat Jackson, senior project manager at RCC, has been confirmed as responsible for running the reorganisation programme. Kat will therefore be responsible for overseeing:

- The creation of ARC
- The transfer of business as usual activities to the new ARC organisation
- The winding down of RCC and BC.

The commissioning of all additional services after the creation of ARC will be carried out by staff within the new organisation.

Each project will be run by a project manager appointed from within one of the relevant departments of BC and RCC. All project managers will report to Kat Jackson, as senior project manager, who in turn will report to Rea Shilton, CEO. Rea will provide feedback to the MEMB.

Programme vision

A vision for the programme has been agreed as follows:

> To establish a new council for the county of Austland, at the forefront of modern regional government, committed to improving the quality of life and wellbeing for all local residents, designed to engage effectively with communities county-wide, and to ensure a prosperous and sustainable future for the county.

Project streams

Six main project streams have been identified as follows:

1. Finance, procurement and contract efficiencies

The reorganisation will involve the review and renegotiation of many existing contracts with external suppliers. Additionally, the reorganisation process itself will require the selection of some external service providers such as Information Technology (IT) specialists, public relations advisors etc. The MEMB has instructed those responsible for procurement to use the greater purchasing power of the enlarged council to negotiate purchase discounts and to enter into fixed price deals wherever possible in order to provide budget certainty.

A key part of this project stream will be the harmonisation of tax rates between the two councils. The rates charged by RCC are currently approximately 30% higher than those charged by BC across all categories of CTP and business rates.

2. Staffing efficiencies

The reduction in staff numbers expected from the reorganisation, particularly at senior levels, is expected to deliver significant savings.

All senior management within the existing councils will be required to apply for roles in the ARC management structure once it has been agreed. In the longer term, all existing staff roles will be revaluated and many staff will need to reapply for the jobs that remain. Lawyers have confirmed that under Fianfora law, during the reorganisation of public sector organisations such as RAs, entities can alter existing staff employment contracts where it is in the interests of the organisation to do so.

A project team has been formed to design an appropriate organisation chart for ARC and develop detailed structures for each department. It is being led by Hale Withers, the human resources manager at BC, supported by two members of the human resources department at RCC. Their brief is to streamline the organisation to minimise the headcount and so ensure that the council can be agile, dynamic and quick to respond to change.

3. New IT system

One major project is the planned integration of the two councils' IT systems. Both use a wide range of applications, software and information systems and rely on a variety of external contractors to operate and maintain them. The MEMB believes that although the systems at BC were updated more recently (when East and West Bagwold councils merged), it would be simpler to expand and update the larger, more integrated systems used by RCC. The intention is to appoint an external IT firm to perform the work. The project is being managed by Dyl Reingold, head of IT at BC.

The council plans to help pay for the project by using a grant from the Fianfora government's Local Digital Fund (LDF). BC successfully obtained an LDF grant for the IT integration of East and West Bagwold councils and the current application is expected to cover 25% of the budgeted IT cost of the reorganisation, but there is no guarantee that the application will be successful. Dyl has completed the LDF application which now needs to be authorised by Kris Anker, BC's current finance director.

4. Process efficiencies

To reduce costs and deliver better value for money, the MEMB intends to streamline back office support services and front-line service delivery. It hopes that by evaluating the two councils' existing systems and processes it can improve efficiency by introducing new lean ways of working across the new ARC, based on the best of the existing councils. Teams made up of appointees from the relevant departments in both councils have been formed to work on developing best practice delivery protocols. The project team is being led by Evan Morgan, a senior manager from RCC's planning department.

5. Property rationalisation

A project to review all premises owned by the councils is being carried out. Where possible, buildings will be sold to provide additional funds and reduce maintenance costs.

6. Legal and democratic services

This project is focused on ensuring legal continuity of the democratic process by setting up a framework for the next council elections, harmonising the council by-laws etc.

Reorganisation programme budget

Budgeted reorganisation programme costs

The budget for the one-off reorganisation programme costs is summarised below:

	Value £	Description
Transition team	1 500 000	Using existing staff wherever possible to minimise the cost of interim staff
Property rationalisation	250 000	Rationalising properties and disposing of unneeded sites to realise their value
Communications	250 000	Creating new ARC branding and public relations activities
IT systems	2 250 000	Systems integration – the cost excludes the LDF grant
Redundancy costs	2 340 000	Costs of paying for early retirement/redundancy packages based on existing salaries
Closedown costs	500 000	Cost of closing down overlapping elements of the two councils
Legal fees	250 000	Contract negotiation and development of ARC's constitution
Total	**7 340 000**	

Programme costs phasing

The reorganisation programme costs, before taking account of the receipt of any LRG or LDF grant, are expected to be incurred over a four-year period, with estimated cash flows as follows:

Year to	**£000**
31 December 2021	1 030
31 December 2022	2 515
31 December 2023	3 335
31 December 2024	460
Total	**7 340**

The candidate

The candidate is Hali Singh, a recently qualified accountant who is employed as a Finance Manager in RCC's finance department. Hali has been seconded to the mirror authority, working part time on the programme to create ARC, with particular responsibility for the risk review process. Hali will also work on future projects related to ARC's longer-term goals, for which Hali will report directly to the CFO, Jiang Li. All accountancy bodies in Fianfora are members of the International Federation of Accountants and have adopted its code of ethics.

RCC internal audit summary report

Renmouth City Council (RCC) Internal Audit Department
Annual Internal Audit Summary: 2020 Operational Audits
Covering operational audit reports 2020-001 to 2020-046

19 October 2020

Summary

In response to a request by the MEMB to provide a summary of internal audit activity to date for 2020, this summary covers the findings of RCC's Internal Audit department over the past nine months to 30 September 2020. It also follows up on our 2019 findings as noted in our Annual Internal Audit Summary: 2019 Operational Audits.

We carried out a programme of 46 operational audits across all departments of RCC. The audits were focused on selected processes and administrative activities performed by each department during the period. The audits disclosed the following common issues:

Finding 1: As similarly noted in our 2019 audit summary report, the stated council target of replying to all e-mails within 3 days is rarely met. The current average is 10 days with some replies taking far longer. Many telephone calls continue to go unanswered with residents often calling multiple times before reaching the relevant department.

Finding 2: It is common for departments to hold numerous meetings which result in few, if any, action points. Those which are raised are often only actioned after considerable delays.

Finding 3: As similarly noted in our 2019 audit summary report, the referencing systems used by many of the departments we audited were found to be erratic and inconsistent. Across a range of departments, we found large numbers of documents numbered incorrectly or filed wrongly. This has led to significant delays in retrieving and providing key documentation – in one case this year, a failure to locate the plans for the underground sewerage network led to a major delay in repairs to the main link road between the city and Ibsen airport.

Finding 4: The 'paperless office' initiative launched by RCC 18 months ago as part of its Green Strategy has not been systematically implemented. Almost all formal applications to the council still require the submission of multiple copies of paper documents, many of which go on to be misfiled.

Finding 5: As similarly noted in our 2019 audit summary report, in several departments few controls over spending could be identified, and in each case departmental running costs continue to exceed annual budgets.

Tourism in Austland

An investigation into the state of tourism in Austland
Authored by Rory Coppeck and Jay Wylde of Fianfora State University
9 October 2020

Method
To compile our report, we conducted detailed interviews with 126 visitors to the region over the four months of summer 2019, consulted at length with The Strand Tourist Office and representatives of both Renmouth City Council (RCC) and Bagwold Council (BC). Follow-up discussions were held with representatives of both councils in summer 2020 in light of the adverse impact of the coronavirus pandemic on the 2020 tourism season.

Summary of key findings

Austland

The county of Austland, and The Strand conservation area in particular, with its rugged coastline and majestic Hoyetoppe mountain range, offers a wide range of nature-based activities to domestic and international visitors alike, from hiking and mountain climbing to coasteering and windsurfing.

The picture in 2019

Our findings suggest that tourist visits to the region are primarily limited to the summer months of June to September and overall tourist numbers are lower than expected, particularly when compared with other locations with similar topography. Despite feedback from many tourists, particularly domestic visitors, that they would like to visit the region at other times, most tourist provision closes at the end of September and does not open again until April. Overall, the potential of the region to attract visitors and the opportunities available to maximise tourist-based income streams are still relatively unrealised in Austland.

Cuts in council spending in recent years by both RCC and BC have led to a lack of investment in tourist infrastructure in Austland, especially in and around The Strand. This means that despite the county's popularity with tourists it lacks the infrastructure to adequately support them:

- The small number of hotels and holiday lets in the area are always overbooked in the summer owing to long-standing council planning restrictions limiting new developments.

- Other accommodation options available include a few poor quality campsites, some rooms in bed and breakfast establishments offered by local residents, and two hikers hostels offering basic accommodation in bunk houses.

- There are limited options to eat out. Most villages offer few cafes or bars and there are very few restaurants outside of larger urban areas which are difficult to reach from inland areas.

- Road conditions are poor (both within The Strand itself and in the surrounding areas), significantly increasing journey times particularly in the busy summer season.

- There is limited parking available near the most popular sites and many areas are almost inaccessible apart from on foot.

- The bus services connecting The Strand with Renmouth and the rest of the county are limited and infrequent.

- There are few shops in The Strand and its surrounding areas, with the nearest large shops (such as supermarkets and outdoor sports equipment providers) located in the coastal town of Knarravik (which on poor roads can take over 45 minutes to reach).

- There is little for tourists to do if the weather is too poor for outside activities to continue.

The future

Due primarily to the government's pandemic-related employment protection scheme, the infrastructure a year later is largely unchanged compared to our 2019 findings.

Existing plans

Recent discussions with Pat Virtanen, head of tourism and leisure at RCC, have revealed the following options are being considered by the council, but with no firm decisions yet taken:

- Introduction of a tourist tax to be paid by all visitors to The Strand. Various options are being considered including a toll payable on entry to the region and a nightly charge per head to be levied by all accommodation providers.

- Development of sustainable accommodation options for tourists wanting to stay in The Strand. Pat has had initial discussions with the Fianfora minister responsible for tourism who indicated that the ministry would be willing to allow controlled development in the area. Various options for collaborating with other organisations to build and run the accommodation sites are being considered.

Potential avenues for further exploration

Based on our interviews last and this year, we offer the following further suggestions to potentially be part of a tourism strategy in the region. We recommend that a number of these would require a formal commissioning approach to implement the changes needed:

- Access to the national transport infrastructure is a key factor in the region's ability to benefit from tourism. Potential solutions include:

    - Development of Ibsen Airport to offer daily flights across the country and potentially direct international flights from neighbouring countries several times per week.

    - Construction of a modern highway from Renmouth direct to The Strand. From Renmouth tourists can access the road and rail network across Fianfora.

- Development of a range of visitor attractions to provide tourists with options for activities when weather in the region is poor. Examples of attractions which have been successful in similar regions in other countries include biodomes, aquatic centres, indoor climbing centres and velodromes.

- The region offers huge untapped potential for the development of winter activities including everything from ice climbing and ski biking to snow tubing and sled rides.

Q1 Requirements (1/5)

Jann Jamieson, an external consultant, has been recently appointed by the mirror authority to manage the Austland Regional Council (ARC) reorganisation programme and its project portfolio. She is providing a progress report to the Mirror Executive Management Board (MEMB) next week, and requires a briefing paper covering the following areas:

		Marks
i)	With reference to the existing arrangements, explain why the successful management of the council reorganisation requires that it should instead be run as a formal programme and discuss the implications of doing so.	12
ii)	In preparation for the development of the programme blueprint and benefits realisation plan, discuss the potential benefits which the creation of ARC should generate, in addition to those already listed in the financial benefits budget.	7
iii)	Evaluate whether the programme will meet its financial objectives, and assess the financial and other risks that must be controlled during its management if the Mirror Executive's (ME) objectives are to be achieved.	20
iv)	With reference to the development of a new organisation structure for ARC, assess the suitability of the differing models for allocating responsibility and decision-making currently adopted by Renmouth City Council (RCC) and Bagwold Council (BC).	9
v)	Discuss the impact that the problems identified in RCCs 2020 Internal Audit Summary are likely to be having on the council's capacity to deliver value for money (VFM) in council services.	7
vi)	Discuss the ethical issues arising from the potential errors in the Local Digital Fund (LDF) grant applications, and suggest the appropriate actions that should be taken.	5
		60

Question 1 (2/5)

Email from Jann Jamieson

To: Hali Singh, Finance Manager
From: Jann Jamieson, Programme Manager
Subject: Reorganisation programme
Date: 30 November 2020

Hi Hali

We have encountered difficulties since the reorganisation programme began. With all six project streams underway, coordination and control has become increasingly problematic, costs are in danger of rising significantly and there are concerns that service delivery could be adversely impacted. The MEMB is very keen to see progress, particularly given the increasing impact of government grant cuts, and is reluctant to spend yet more time planning. I have therefore been appointed to manage the reorganisation programme and Kat Jackson will return to overseeing RCCs existing business as usual projects. I will report to the MEMB next week to explain how to get the programme back on track. From my initial exchanges with staff there are a range of issues as follows:

Programme management

We need to explain why successful management of the reorganisation requires it to be run as a formal programme rather than as a series of separate project streams. If the MEMB understand how a programme approach would help to overcome the difficulties that have arisen, they will be better able to support our work.

Programme benefits

We should soon start developing the programme blueprint and the accompanying benefits realisation plan. I will forward the financial benefits budget for the reorganisation. However, it seems to exclude many other potential benefits which could arise from the reorganisation.

Risks

In discussions with project stream leaders I have uncovered several specific matters which should be addressed in your risk evaluation. My notes on this are attached.

Ethical issues

I have just received an email from one of our accounts clerks, about what may be an ethical issue and will forward it to you. Can you advise me on the best approach to take with regard to the concerns raised?

Thanks

Jann

Question 1 (3/5)

Programme Manager's notes on project risks

- New IT system

  Jamil Hadi, chair of the ME, has written to the MEMB expressing the strong wish to see additional functionality incorporated into ARC's finance system during the integration process. Dyl Reingold told me that several additions have been requested including:

  i) a new electronic Community Tax Payments (CTP) billing system to allow residents to receive and view their CTP bills electronically rather than through the post, and
  ii) an integrated centralised supply chain management system to facilitate relationships with suppliers and manage distribution and logistics activities across the council.

- Staffing efficiencies

  From initial conversations with Hale Withers, the project manager for the staffing project, I am concerned that different organisational models are currently used to assign responsibility and decision-making power in BC and RCC. It is vital that the management and governance structure adopted by ARC works for it as a whole. It is also clear that many staff, both those working on the reorganisation and those involved in business as usual activities, are uncertain about what they are trying to achieve and about their roles within ARC – both now and in the future. There are also rivalries developing between the staff employed at each of the councils.

- Process efficiencies

  I have been discussing the process efficiencies project with the project manager, Evan Morgan. It is clear from the latest Annual Summary by RCCs Internal Audit department, that there is a lack of process efficiency in many areas and I am concerned that management do not appreciate the impact this has on our capacity to deliver VFM. Also, BC's far smaller departments are reported to be in disarray, and are, in many cases, likely to be absorbed into RCC's during the reorganisation. I therefore need you to review the internal audit report, and, with reference to the importance of developing a lean organisation, explain the likely impact of the identified problems on achieving VFM when delivering council services. This should help to achieve buy-in for changes Evan will need to introduce to achieve process efficiencies.

Question 1 (4/5)

Financial benefits budget

To: Hali Singh, Finance Manager
From: Jann Jamieson, Programme Manager
Subject: Reorganisation programme – financial benefits budget
Date: 30 November 2020

Hi Hali

Here is the financial benefits budget for the reorganisation programme. The first savings from the reorganisation are expected in 2023 when ARC is formally established, with the full benefits to be achieved in 2025 when the annual savings are budgeted as follows:

Benefit area	**Value £**	**Description**
Structural rationalisation	815 000	Reduced number of councillors, committees and support
Senior staffing	1 495 000	Streamlining senior management
Back office	1 990 000	Support service efficiencies
Consolidated systems	850 000	Reduced cost of running a single system
Contract efficiencies	1 380 000	Purchasing efficiencies and economies of scale
Front-line service efficiencies	1 825 000	Consolidating existing services and operating at most efficient level
Property rationalisation	750 000	Revenue savings from rationalisation of property holdings
Total	**9 105 000**	

The savings in the year to December 2023 are budgeted to be £2 397 000, and total savings of £5 516 000 are expected in the year to December 2024.

The ME's target is that by the end of December 2025, the annual savings from the reorganisation should be at least 4.5% of the current councils' total planned expenditure of £188 500 000 for 2021. Also, for the reorganisation programme costs, it is aiming for a maximum payback period of two years after the formation of ARC on 1 January 2023.

Thanks

Jann

Question 1 (5/5)

LDF application ethical issue

To: Hali Singh, Finance Manager
From: Jann Jamieson, Programme Manager
Subject: Local Digital Fund (LDF) application
Date: 30 November 2020

----------Forwarded Message------
To: Jann Jamieson, Programme Manager
From: Eli Leinmann, Accounts Clerk
Subject: Local Digital Fund (LDF) application
Date: 30 November 2020

Hi Jann

The on-line application for the LDF grant to help finance the IT systems integration was submitted recently after being signed off by Kris Anker, BC's finance director. I am preparing the paperwork in support of the application to send to the government this week.

However, while checking it to the paperwork Kris sent with the LDF application when East and West Bagwold councils integrated, I noticed what appears to be an error in the previous application. If I am right, it resulted in an overpayment to the newly created BC of £20 000. It appears that no one noticed and, as BC will soon cease to exist, I assume we do not need to raise the issue now. However, the same error (if it is an error) also appears to have been made in the current LDF application and will lead to an overpayment of £135 000 if it is not corrected. I have mentioned it to Kris, but she is too busy to look at it, thinks the figures are correct, and is insisting that I should send off the paperwork as it is. I am unsure what I should do next and wondered if you could advise me?

Thanks

Eli

Q2 Requirements (1/4)

In response to the emails from Jiang Li, Chief Financial Officer (CFO) of the mirror authority, and to assist with the project to promote tourism in Austland, prepare a briefing paper for the CFO covering the following areas:

		Marks
i)	Discuss suitable strategic outcomes for Austland Regional Council's (ARC) tourism promotion project.	5
ii)	To inform the development of the Tourism Commissioning Strategy (TCS), explain the purpose and scope of the analysis stage of the commissioning cycle, and identify the quantitative and qualitative information that will need to be collected for it.	9
iii)	Discuss ways in which ARC can facilitate the market to ensure there is sufficient appropriate accommodation in the region to meet the needs of tourists.	6
iv)	Evaluate the two options being considered for developing sustainable accommodation for The Strand, identifying the additional information that would be needed in order to make a final decision between them.	13
v)	Use weighted benefit scoring to evaluate the licensing options for the town of Knarravik and discuss the other issues that should be considered before a decision is taken.	7
		40

Question 2 (2/4)

Promotion of tourism

To: Hali Singh, Finance Manager
From: Jiang Li, CFO
Cc: Rea Shilton, CEO
Subject: Project to promote tourism in Austland
Date: 30 November 2020

Hi Hali

Rea and I met recently with Councillor Nilsson (who, until 2019, ran a hiking tours company and has been pressing the council to change its approach on tourism) and Jamil Hadi, chair of the Mirror Executive (ME). We agreed the importance of doing more to promote tourism in Austland, while recognising that the pandemic has created inherent challenges in seeking to grow tourism. We will formally launch a project to promote tourism in Austland and I need a briefing paper on the next steps as follows:

Strategic outcomes

While some specific plans are already being investigated, we need a fully integrated tourism strategy. Please suggest some suitable strategic outcomes for the tourism strategy to provide a focus for the project plan.

Commissioning

We need to commission a wide range of tourism-related services. We will therefore develop a TCS for Austland, but have yet to consider the details. The first stage of it will be to analyse the existing situation - focussing specifically on the needs of tourists to the region.

One issue is the need to extend the provision of tourist accommodation in Austland. Please suggest ways in which we can facilitate the market for tourist accommodation so that suitable providers are encouraged to provide the accommodation needed.

Specific assignments

There are two other specific assignments for you, one concerning the options for building sustainable accommodation around The Strand, the other an Application for Licensing Authority (ALA) submission. I attach notes on the options to help with the former and will email you separately about the latter.

Thanks

Jiang

Question 2 (3/4)

Sustainable accommodation options for The Strand

The Fianfora minister for tourism has granted permission in principle for the development of sustainable campsite options (providing places for tents and caravans alongside simple hostels) around the borders of the current conservation area.

The two potential development options are:

i) A public private partnership (PPP) with Teltco

Teltco is a large private company which runs many campsites across Fianfora and neighbouring countries. Under the 15-year contract, ARC would retain full ownership of the land and Teltco would be responsible for development and maintenance of the camp sites. Teltco would be entitled to keep the income earned from tourists using the sites. The development plan would include an option to renew at the end of the contract. If Teltco chose not to renew, ARC would acquire full ownership of buildings on the sites.

ii) A joint venture (JV) with Camping Fianfora (CF)

CF is a not-for-profit organisation which owns or manages campsites across Fianfora. Sites can be used by CF members at a favourable price, or by other tourists for a higher rate. Under this JV a legal partnership would be created. It would be jointly owned by CF and ARC and its purpose would be to develop the land, build the sites and run them post-construction. The council would contribute 30% of the construction finance (to be raised by a bond issue direct to the public), the land needed for construction and its administrative expertise. CF would contribute the remaining construction finance, oversee the development of the sites and provide all of the campsite management experience. Profits would be shared between the two partners based on a pre-determined ratio which has not yet been defined.

Question 2 (4/4)

Licensing options for Knarravik

To: Hali Singh, Finance manager
From: Jiang Li, CFO
Subject: Licensing options for Knarravik
Date: 30 November 2020

Hi Hali

The licensing department of Bagwold Council (BC) has forwarded an ALA from Knarravik Municipal Council (KMC). As our strategic approach to tourism and related development in the county is under review, the decision has been referred to the MEMB for approval.

The ALA is for the power to grant business licences in a run-down area on the Knarravik sea front known as Krystby Sands. I would appreciate your input on whether a Full Licensing Authority (FLA) or Local Licensing Authority (LLA) is the most suitable to grant to KMC, having analysed the data provided below by the BC planning department.

Many thanks

Jiang

Bagwold Council - ALA assessment criteria

A 2018 Fianfora Tourism Study, commissioned by the Fianfora government, identified the major concerns of tourists when visiting coastal towns in Fianfora, and weighted them according to the importance applied to them by specially appointed focus groups. To assist in the processing of ALAs, the BC planning department selected from the full list of concerns those criteria likely to be impacted by the provision of business licences in the area. The criteria were then re-weighted according to their relative importance, and the licensing authority options were scored against them. The results are below.

Concerns relevant to licensing decision

Criteria	Weight
Place is clean, tidy and well maintained	5
Elegant seafront	15
Safe to walk around at night	30
Good shopping opportunities	10
Wide range of places to eat	25
Unspoiled views of the sea	15

Scores awarded to the licensing authority options by BC planning department

Criteria	FLA	LLA
Place is clean, tidy and well maintained	5	8
Elegant seafront	4	8
Safe to walk around at night	3	7
Good shopping opportunities	9	3
Wide range of places to eat	9	4
Unspoiled views of the sea	5	7