CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC CASE STUDY

Stanrock City Council: 7 September 2021

MARKING SCHEME

The answers detailed below show some but not all possible answers that were accepted by the marking team. Marks were awarded for other valid answers that might not be included in this document.

Key to marks:

Calculations or the manipulation of numerical data

Most calculations will be straightforward such as the creation of accounting ratios to interpret financial performance, or assessment of the sensitivity of particular estimates.

Some specific calculation marks may be allocated but candidates should not be judged solely on whether figures are 'correct', but on how they reached their figures and the reasonableness of their assumptions and approach.

Narrative

The candidate will be required to demonstrate in their narrative responses, an assessment of the impact and implications of the analysis performed and application of appropriate elements of the syllabus as part of further critical evaluation. Narrative responses should demonstrably inform decisions being faced within the case scenario.

Marks will be awarded for the evaluation of the information given in the context of the specific issues raised by the case scenario. It should demonstrate consideration of an appropriate breadth of issues, such as financial and non-financial perspectives, stakeholder considerations, ethical considerations, strategic risks and the strategic objectives and environmental context of the organisation. Candidates will be expected to demonstrate professional judgement in drawing from this evaluation appropriate conclusions, making practical and relevant recommendations and focusing their answer to suit the user(s).

The allocated marks should again be seen as a guide. Some additional credit may be awarded (within the total marks available for the section concerned and subject to the requirement for appropriate coverage of a breadth of relevant issues) for points which have been developed with particular insight or cogency.

The marking scheme will identify (in bold) points of particular significance for which marks will be ring-fenced. This will limit the marks awarded to candidates who miss the most salient issues.

Reasonable credit may also be given for any points which have not been included in the marking scheme but are clearly valid in the context of the candidate's own calculations or preceding analysis.

General comments

It is essential that candidates answer all the questions as set and meet the requirement to achieve a minimum of 25% of the marks available for each question.

Any attempt to evade the terms of the question on the grounds that the situation depicted in the examination scenario is unlikely to have arisen or occurred, or is improbable in concept, should not be awarded any credit.

Question 1 (60 marks)

The council's executive cabinet meets next week to discuss selected strategies originally put forward in the Strategic Options Review in September 2019. To assist with the review, and in the context of the need to improve the financial position of Stanrock City Council (SCC), prepare a briefing paper for the Senior Finance Director, which covers the following areas.

Q1	Response points	Marks	Syllabus Ref.	Appr'p Std. Ref.
i)	*a) With regard to the potential introduction of congestion charging in Stanrock, discuss the potential benefits and problems associated with setting up such a scheme in Stanrock.* ***1 mark per developed point to a maximum of 11, with a maximum of 6 marks for each of benefits and problems.*** **Potential benefits of the congestion charge** • The council does not have a green agenda within its own mission and strategic objectives, but the policy is favoured by the national government and introducing the system may therefore make the council eligible for specific green financial incentives if they are introduced in the next budget. • It is likely that the reduction in car use will lead to an increase in the use of the bus system. As SCC owns Stanbus outright, more passengers using the buses will mean more income will be generated for the council. Alternatively, if these funds are re-invested in the bus system, rather than paid out to SCC, the service could then be improved yet further – a virtuous circle. • The funds collected from the congestion charge can also be used for other transport initiatives – such as repairing the road network and perhaps even paying the interest on funds borrowed to put in the planned road tunnels under the River Stanley. • Reducing pollution as a result of fewer cars should improve public health, reduce pollution-related death rates and save on local healthcare costs. • This could also have a knock-on impact on the requisition payments demanded by Copsted Regional Authority as pollution levels and health metrics are two of the measures used to determine the final amount owed.	11	FM: D1 SPF: A6	K: ARC, BA, LSP, SBMG; S: BI, EI, PSDM; B: AV, PS

	• The charge should also encourage alternative forms of road use such as bikes, e-bikes or walking. These options should also help to improve public health and reduce the size of Copsted's requisition figure. • Less future spending will be needed on the city's road infrastructure. Fewer drivers on the road should mean less wear and tear on the existing network and may even eliminate the need for the road tunnel project. This will open up funding for other projects. • Reducing the number of vehicles entering the congestion zone should also feed naturally into SCC's plans for the city centre. It will make it more attractive for pedestrians and cyclists, allow for greater levels of pedestrianisation and more cycle lanes, and so hopefully encourage people to return to the city centre for shopping. This in turn will improve economic activity and thus SCC's tax revenues. • It will also make it an attractive area to live and thus encourage take up of the converted offices when they have been completed. Once again this will help to improve property values and encourage new businesses to the area which will help to increase the council's tax income. • Congestion charging makes drivers pay the full social cost of driving. Driving in city centres imposes significant external costs as a result of congestion, pollution and accidents on the rest of society. Such costs are likely to be far higher than charges made to SCC by Copsted Regional Authority and there is an equity argument in favour of charging the drivers themselves. • Reducing travel time by reducing the traffic on the roads should help to improve worker productivity with less time spent commuting. • The city should also experience a reduction in road-related deaths as fewer road users should mean fewer accidents. **Potential problems associated with the congestion charge** Availability of suitable public transport • The introduction of the charge is likely to result in a greater public focus on the poor state of the public transport network in the city, as residents look to alternative options, and find they are not sufficient for their needs.			

	• It can be seen from the figures provided that the higher the price charged, the lower the number of car journeys that will be made into Stanrock. However even at the lower end of the scale, car use will still be reduced compared to current levels. Whilst this has environmental benefits it will mean there is increased demand for public transport options in the city. • The current public transport system in SCC is likely to struggle to cope with a sudden increase in the volume of passengers. SCC may need to first invest in additional infrastructure – such as putting in the planned cycle lanes and commissioning the provision of services such as a bike or e-scooter loan scheme etc. to avoid overcrowding and ensure there are sufficient suitable alternative to cars. • Additionally, increased demand for buses would put huge pressure on the existing bus network. It is not clear whether the increase in demand could be met by the existing bus service and fleet given it was rationalised during the pandemic. • But even if Stanbus has enough buses, without investment in the routes offered, the bus network is unlikely to meet the needs of its users. Services previously rationalised may need to be reintroduced, and additional routes will need to be developed to connect the ring of districts around the centre of Stanrock. Since Stanbus suffered significant losses at that time, any additional investment needed may be difficult to finance. • This problem is likely to be exacerbated by the new punitive pollution tax being introduced in January 2022. Stanbus will either have to pay the increased tax on its current fleet or invest in new cleaner electric vehicles – either putting further pressure on its finances. • A further consideration is whether or not buses will be expected to pay the congestion charge. Stanbus is run as an AOTC – i.e., the buses aren't owned by the council but by an independent entity and so it is not clear whether the buses would fall under the 'council owned vehicles' exemption. It may be difficult to exempt vehicles owned by an independent company without a clear rationale, but it will put further financial pressure on Stanbus if the charge is deemed payable.			

	• The keenness of people to switch their journeys from private car to public transport may also be reduced due to the impact of COVID on the safety (perceived or otherwise) of bus travel.
	
	Impact on the city
	
	• SCC must also consider the reaction of residents to the introduction of the charge. They may feel that as taxpayers they are already funding the road system in Stanrock and should not be required to pay again. The public may therefore feel that they should see direct and immediate improvements in the road network as a result of the introduction of the charge. The pandemic has also caused a lot of economic hardship and those affected may be especially strongly opposed to the charge.
	
	• It is probable that the siting of the congestion charging boundary will also be contentious – particularly for
	  ○ those living close to, but just outside the boundary, who may feel unfairly disadvantaged as they will have to pay to enter the city and
	  ○ businesses located inside the boundary who fear they will lose further trade as people are put off from entering the city
	It is likely to require an extended period of consultation and may give rise to petitions, protests and other delays.
	
	• Increasing social inequality: A flat fee congestion charge can disproportionately affect poorer people in already disadvantaged neighbourhoods, who cannot afford to pay the charge, such as those living in Willan Park (if it is sited outside the zone).
	
	• Another inequality argument is that those who can afford the charges will benefit from emptier roads and faster travel times, whilst those who cannot will face additional barriers to travel.
	
	• There is a risk that in disincentivising cars from coming into the city, stores in the city centre will lose yet more business to the out-of-town shopping centres – hastening their decline at the very time the council is trying to boost the centre.
	
	• The operating costs associated with delivery will increase for businesses which are currently located outside the charging zone but deliver inside (such as catering suppliers). Businesses operating in the centre may see a corresponding			

	increase in delivery charges as suppliers pass on the cost of paying the charge. • It is possible that the existence of only three bridges over the river may be the major cause of congestion, such that the introduction of a congestion charge may have a relatively limited impact on congestion unless something is also done about the river crossing issue.			
	b) *With regard to the potential introduction of congestion charging in Stanrock, critically evaluate the financial implications of the scheme for SCC, including the financial impact of the four options put forward for the level of the charge that is set.* ***Up to 5 marks available for relevant calculations (see spreadsheet - either NPVs or annual cash flows are acceptable) and 1 mark per developed discussion point to a maximum of 9, with a maximum of 6 marks for commentary on the results and a maximum of 6 marks for discussion of assumptions.*** <u>Evaluation of the charging options</u> • A review of the impact of the different potential charges shows that there is not likely to be a linear relationship between the price charged and the number of cars entering the charging zone. Each price point, and its impact, therefore needs to be considered separately. • The initial impact of implementing a minimal daily charge of £7.50 would be to reduce the number of vehicles entering the charging zone by 22%. Higher charges are then predicted to further reduce numbers. However, there is only a relatively modest additional impact if the charge rises to £10 (a further 11% fall), whilst an increase from £10 and £12.50 causes numbers to fall significantly – by a further 21%. • The issue for SCC however is that a charge of £12.50, whilst bringing about a significant additional reduction in congestion and (presumably) a related reduction in pollution, has a net loss of £47k (before loan costs). By contrast a charge of £10 would result in a net income of £4.2 million (before loan costs). • This distinction is even more significant when the costs of financing the initial investment are taken into account. Assuming the borrowing is spread over 30 years, and annual interest rates remain at 3%, the cost of repayments would be in the region of £2m per year. A charge of £10	14	FM: C2, D1 SPF: A6	K: ARC, BA, FI, SBMG; S: BI, EI, PSDM; B: AV, PS

	would therefore yield sufficient additional income to cover the borrowing costs, and contribute nearly £2.25m towards operational spending (earning an NPV of £44 million). This can be contrasted with an annual deficit a little over £2m after taking account of loan repayments at a £12.50 charge and a resulting negative NPV of almost £41m. • This would suggest that despite the more modest impact of a £10 charge on reducing levels of congestion, it may be very tempting for SCC given its current financial position. • Once the charge is set at £15, the overall reduction in vehicles, when compared with the current level, is a drop of 58% (a further 4% compared with the £12.50 charge). What is significant about this level of charge is that although in absolute terms the number of vehicles is estimated to drop by only another 450 per day, the overall revenue earned from the scheme is considerably higher than at £12.50 – earning a net income (before considering capital borrowing) of £2.2 million an. This would mean that after taking account of the costs of borrowing, the scheme would effectively earn a small annual surplus of around £240k (or an NPV of £4.7 million). • It could be argued that this option, whilst not as financially lucrative as the £10 option, would be a better long-term choice as it has a more significant effect on congestion. It would therefore be useful to know what the impact on vehicle numbers would be from increasing the charge above £15. If the fall in absolute vehicle numbers is again small, the overall net revenue is likely to rise further. This could help to further mitigate the overall cost of the scheme whilst bringing about huge benefits in terms of congestion and pollution. • The council has been criticised by its internal audit department for an unwillingness to take the actions necessary to protect its finances. In this context there may be considerable pressure to select the charging option (£10) which focuses on raising funds rather than reducing congestion. • However, the higher charge of £15 will have far reaching implications for the long-term – reducing congestion and pollution significantly. SCC will need to use cost-benefit analysis to evaluate these social benefits. Once they are			

	included in the overall evaluation, the higher charges may show a higher overall net income.
	
	<u>Assumptions</u>
	
	Relationship between charge levels and vehicle numbers
	
	• It is not clear to what extent the relationship between the level of the charge and the resulting number of vehicles can be accurately predicted. The figures being used are based on other cities in Linland but it will be important to examine the similarities and differences between them and Stanrock to identify any factors which would tend to a different result.
	
	• The analysis of other schemes elsewhere in Linland from 2019 may well be inappropriate now due to the impact of COVID on public transport use with some behaviours developed during the pandemic (such as home working) potentially continuing post-pandemic.
	
	• In practice, presumably there would be a range of different charges for different types of vehicles and there would be different traffic flows on different days of the week (and during seasonal holidays). Such data will need to be carefully analysed to ensure that the expected overall trends do not change once they have been taken into account.
	
	• The price / demand relationship between the level of charge set and the number of vehicles passing through the zone is also unlikely to be constant over the long-term. The impact of any changes to the prevailing economic conditions – e.g., as a result of regeneration projects within the city, and broader economic factors within Linland as a whole, should also be considered.
	
	Accuracy of the costings
	
	• However, there are risks to the accuracy of the cost estimates. The following issues should be considered:
	
	  ○ The operating cost figure of £24 million is unlikely to remain static over time and sensitivity analysis will be needed to determine the range of values that the council could afford.
	
	  ○ The running costs are also assumed to be fixed. However, the level of costs may well be dependent on the size of the			

	scheme introduced. It is not clear whether the cities used for comparison are of similar sizes – if not, a more sophisticated approach to estimating running costs may be needed. ○ Even if the direct costs associated with the administration of the charge have been considered, the administrative burden on the council of running the scheme may not have been, and so should also be considered. ○ It is not clear whether the figures include the on-going costs of maintaining the infrastructure and upgrading it as needed. These costs must be taken into account. ○ The initial capital funds must be raised and then on-going interest payments will need to be made. If the currently low interest rates were to rise significantly this may require: ▪ An unplanned increase in the congestion charge which may discourage more drivers – and so reduce the future revenues available or ▪ Cuts in other services which will have other damaging repercussions. • The impact of the charge may also be to reduce the number of actual journeys made into the city by any means. This could have the following effects on council income: ○ Loss of revenue from on-street parking charges ○ Fewer visitors to state owned central leisure and cultural venues – reducing ticket income and sales from gift shops / cafes etc.			
ii)	*a) With regard to the provision of a library service in Willan Park, discuss the potential benefits of retaining a local library service in Willan Park* ***1 mark per developed point to a maximum of 5.*** • SCC appears to be focused on falling levels of book lending - with this measure one of the main factors behind SCC's current rationalisation plan. However, although the council will need to fund the ongoing cost of	5	SPD: B3, C3; SPF: B1	K: BA, SBMG; S: BI, PSDM; B: AV, PS

	providing a library service at a time when funds are scarce, there are a number of advantages to having a library service (many financial benefits) which may be ignored if the only metric used to evaluate it is the number of books borrowed. • With the advent of the digital age, modern libraries have evolved and broadened their focus – they have become a local support hub sustaining local communities and helping to improve outcomes for their citizens. The help libraries offer, such as providing information and advice, supporting mental health, developing skills, assisting job seekers etc. can help citizens to make positive life changes. • This in turn can lead to fewer people needing state assistance which can save the council money - reducing the need for social care and support for those dealing with joblessness, homelessness, poor mental health etc. • In an area such as Willan Park where so much of the community is currently economically inactive, the development of such services would support the fledgling initiatives already being introduced by the community centre, and their combined efforts should help to bring about positive changes and help to improve outcomes for the residents. This additional community involvement would also be in keeping with the council's objectives of community resilience and empowering people. • These better outcomes may also lead to an improvement in those metrics which are used by Copsted to set the level of its requisition payments (although in practice it may be difficult to prove a direct causal link). • Libraries are also fulfilling an important role in developing digital skills. The library's resources make this an ideal locus for such services, for example, providing access to computers for residents who don't have them (which may include a significant proportion of the poorer residents of Willan Park). This will be an important consideration given SCC's planned digital initiative which would require residents to use a self-service approach to council services and interact with the council primarily via the internet. • If the Willan Park library is closed, residents are unlikely to be able to access library services elsewhere. The next nearest library is a 20-			

	minute drive away, and, since residents are economically deprived, they may have limited access to cars. Given the current reduced bus service it is also likely that the other libraries will not be readily accessible by public transport. This is important because of the vital role a library can play in a community such as Willan Park – a role that cannot readily be taken up by a library situated in a different part of the city.			
ii)	*b) With regard to the provision of a library service in Willan Park, if SCC does decide to retain the service, discuss the potential benefits and risks associated with selling the existing library building and relocating the service to the Willan Park Community Centre* ***1 mark per developed point to a maximum of 6, with a maximum of 4 marks for each of benefits and risks.*** Benefits • The capital receipts from the sale of the Willan Building are likely to make a significant contribution to the financial position of the council. Although as non-revenue receipts they will not help to resolve the revenue budget problems, they are likely to exceed the cost required to renovate and repair the community centre. • The Albert buildings are extremely expensive to maintain. Such ongoing costs can presumably be reduced by moving to the more modern community centre (once it has been repaired). • The services offered by a modern library will complement the services already being provided by the community centre, which should lead to synergies – in terms of community reach, potential outcomes and new ideas, as well as by saving money. • As the community centre site is well known and used by local Willan Park residents it is likely to be easier to encourage uptake amongst those who have never taken advantage of a library service before. Indeed, the very fact that the library site is changing should spark some interest within the community. • The repairs which will be needed to repair the building could be contracted to a team of tradespeople working together with the support of the WPTA (in the same way that they have come together to fulfil catering contracts) and	6	SPD: B3, C3; SPF: B1	K: ARC, BA, FI, LSP, SBMG; S: BI, PSDM; B: AV, PS

	this would help to bring much needed jobs and income into the area. • The redevelopment of the old library building into housing could also bring regeneration to the area e.g., cafes (employing local people) or other businesses that will make the area more attractive. • This development overall could therefore help with the achievement of all four council strategic objectives – building connections, economic growth, empowering citizens and therefore helping to improve health and resilience. Risks • One source of income currently earned from the location of the library within an iconic Albert Building is the hire of rooms for weddings and other events. The sale of the building and the relocation of the library service to an already busy community centre is likely to lead to the loss of that income. • The floor of the community centre will need to be strengthened if the upper storey where the library is to be situated is to be made safe and sufficient funds will need to be made available. There are multiple other projects being considered by SCC and although borrowing rates are low, there is likely to be a limit on the funds that can be obtained. • No information has been provided about the type of housing being planned by the property developer. If the council does not insist that at least some housing is affordable to local residents, the new development may cause resentment within the community as well as being in conflict with the council's strategic aims of social equality and empowering people. • The building is a heritage asset – selling it now may be short sighted (it may continue to rise in value if held for a longer period) and the council and community may lose a vital piece of local history. This may also be opposed by local heritage groups.			
ii)	*c) With regard to the provision of a library service in Willan Park, discuss the potential benefits and risks of continuing to provide a library service in-house compared with its provision via a Public Service Delivery Vehicle formed for the purpose.*		SPD: D3 SPF: C4	K: ARC, BA, LSP, SBMG; S: BI, PSDM; B: AV, PS

	1 mark per developed point to a maximum of 14. ***As points may be made under different headings – either as an advantage of one or as a disadvantage of the other - the marks have not been split between the two options.*** <u>Remain in-house</u> Advantages • Since the library service is already run this way, this essentially 'do nothing' option will require the least additional time and resources and will not require a new procurement / tendering process which can be time consuming and costly. Any planned changes to the type of service offered should therefore, in principle at least, be achieved more quickly as they can be implemented immediately. • It could also be simpler to realise efficiencies (such as reducing hours, or cutting staff numbers) in the short term as they may able to be implemented within the current structures. • Staff are said to be full of ideas, so it may be that by displaying confidence in them by retaining the service in house and through effective proactive management initiatives, these ideas can be tapped into effectively. Disadvantages • Without a different approach, the current squeeze in library funding and with staff being said to be demotivated and potentially therefore resistant to change it may make it difficult to achieve the changes needed to make the library service viable in the long term unless a change is made to the PSDV model that has the potential to be more empowering. • Given the cost saving agenda, it is likely that any retained service will be scaled back (e.g., fewer staff, reduced opening hours or higher charges for services) which will make it more difficult to meet the needs of the population of Willan Park. • There may be limited opportunities for employees or other community stakeholders to get involved to improve and update the library service to meet the needs of the community. It may therefore end up being almost unchanged	14		

	from its current model and fail to meet the needs of Willan Park. • Failing to take account the wishes of the community and the desire to be involved in the new service provision, may cause resentment amongst the community at a time when the council is keen to increase engagement. • Keeping the library as a council-run service prevents it from operating independently and may constrain its ability to innovate and enter into trade agreements with cafes or creches for example, which may help to provide vital additional sources of income. <u>Move to a PSDV</u> Advantages • PSDVs run as community service companies would fall under the definition of a community business as they are focused on local needs and trade for the benefit of the community. This would mean that they would be eligible to work as providers to KIs across the city as they develop further services. • The employees are currently demotivated but full of ideas. A high level of employee ownership/control which allows them to use their initiative is likely to increase staff engagement and motivation which typically improves productivity, and reduces problems like absenteeism and staff turnover. • The WPTA is willing to provide background support. This greater involvement of community stakeholders should help to ensure that the library develops the services most needed by the Willan Park community and provides the community with a voice. • Removing the council bureaucracy should result in faster decision making with a more local slant. Unlike with in-house provision, operating as a PSDV will mean the library has the commercial freedom to act in whatever ways it believes best. (It will not be restricted by the 80/20 rule of an AOTC for example.) This should provide more flexibility to innovate and deliver services differently. • It can be extremely difficult for existing organisations to implement large-scale changes – practical and cultural barriers can hamper ambition and reduce the planned impacts. As a			

	complete break with the past provision, it should be easier to find a new strategic direction as a PSDV. • Past plans to raise additional funds to support the library service have been found to be unrealistically high. It is not clear whether this was a result of over-optimistic predictions or poor execution, but local knowledge, combined with the fresh ideas and enthusiasm of the staff, may make it more likely that the potential routes to raising income will be successful in reaching their target levels. • Access to the support of the WPTA and through them the local community will make it easier for smaller projects to be trialled. If the council is prepared to learn from such innovations, they could then scale them up and introduce the initiatives across Stanrock. • The ability of a PSDV to reinvest its profits should also help to fund greater innovation. Disadvantages • Setting up the PSDV would be time consuming. It would require financial resources and take up staff time – council staff will either have to complete this work in addition to their current work or external assistance will be needed which must be paid for. • The option would require the support of SCC, the Willan Park community and the existing library staff. Consensus may be difficult to achieve, particularly if this model has not previously been used for library provision, and lines of communication are not currently good. • In the end, provision of a library service is the council's responsibility. If they fail to properly communicate what is required, the library may not serve the needs of its community in the way SCC requires. • It is not clear whether the community centre would remain council property or would be transferred to the PSDV. And if it was transferred, it is unclear whether any 'asset lock' would be applied which would restrict the use of the building, although given that the building is already used to support the community this shouldn't be a problem for the new company. Such details must be agreed and the implications for the overall responsibility for costs must be determined.			

	• Even if funds are made available for the renovation of the building, additional finance will also be needed to cover the ongoing maintenance costs of the community centre, and with greater footfall these costs may be considerable. Some support may be available from WPTA which presumably covers some of the existing running costs of the community centre. • Unlike with an AOTC option, before contracts can be awarded to a PSDV a procurement process will have to take place. In addition to the time and cost requirements this will impose upon the council – tendering for council contracts may be an onerous prospect for a newly formed PSDV. • As a new organisation, it will take time to get the PSDV up and running. Ensuring business continuity during this time may be a challenge for the newly formed company, and they may need to rely on support from WPTA (perhaps providing voluntary cover) to ensure that they have enough staff whilst they are tied up with legal and administrative matters. • The organisation would initially be very dependent on the council contract, which is a classic risk for new businesses and it would be important that the stakeholders understood the importance of diversifying their income streams. • The current employees may have good ideas, but they may not have the management skills and experience necessary to take on all aspects of running a company. If so, either these will have to be developed, or staff with more appropriate management experience will need to be recruited. Both solutions will take time and require funding. • Alternative sources of income may be difficult to generate in a deprived area, making it hard for the PSDV to achieve its financial objectives, which may cause the new team to lose heart. There is a risk that those taking on the service may lose interest over the long-term, at which point it will be difficult (and potentially expensive) for the council to bring the service back in-house • As an independent company, under Linland law a PSDV will need to pay tax, a cost that would not have been incurred if the service was provided in-house.			

iii)	*Discuss the financial and business benefits and risks which SCC will need to consider if it proceeds with its plan to adopt cloud computing solutions for its IT needs.* ***1 mark per developed point to a maximum of 10 to a maximum of 6 marks for each of benefits and risks.*** **Financial and business benefits** • The pay-as-you-go payment model for cloud computing facilitates scalability. SCC is not certain of the level of computing provision it will need over the coming months as the different planned projects unfold. Using cloud solutions means the council can select exactly what is needed at different times – adjusting the provision as often as required. • Although SCC currently requires a mix of IaaS and SaaS, as the cloud market continues to develop, it is possible that even more of their software needs can be met by SaaS providers. • Moving to SaaS for many of its existing applications will save SCC the costs associated with installing, maintaining and updating the software, and eliminate the need to provide the processing power to run it. • Additionally, the move to IaaS for complex applications will mean that the need to buy or rent and maintain council servers will be completely eliminated. It will also avoid the capital expenditure cost of replacing the servers in 2023, and avoid the need to find somewhere new to house them, given that Coloco have given notice. • The council will still be able to choose the level of security and resilience it requires (to match its risk profile and budget) by selecting appropriate providers. • The reduced need for IT staff with the technical knowledge to maintain servers or install and maintain software may lead to a reduced headcount which would represent a cost saving for the council. • Alternatively, the council may choose to refocus their spending on the IT function and encourage the department to take on a more business partnering role. This could be a valuable source	10	BCM: A3	K: ARC, BA, FI, LSP, SBMG; S: BI, PSDM; B: AV, PS

	of information and support when the planned 'self-service' digital initiative is rolled out. **Financial and business risks** • The move to cloud computing is yet another project (and procurement exercise) for SCC to manage – it currently has multiple planned projects (from reviving its town centre, to introducing congestion charging, to reforming its procurement practices) and this may stretch resources too thinly. • Notice has already been given on the data warehouse space, leaving SCC only one year to achieve their goal of moving to a completely cloud based model. Their limited resources, combined with the tight timescale, could lead to project failure – which could have potentially disastrous consequences if their systems were to go down as a result. Planning will be vital and an experienced project team should be brought in to ensure success. • The expansionary monetary policy being pursued by the government means that interest rates are, and are likely to remain, low. Whilst borrowing is cheap, the purchase of assets outright is more affordable. However, the council has stretched reserves and this is putting pressure on operational spending. A move in IT spending to a pay-as-you go model (i.e., from CapEx to OpEx) is therefore likely to present additional financial challenges for SCC. • The ease with which provision can be increased (just a 'click of a mouse') could present additional challenges. The council has a poor record on controlling operational expenditure (as per the Internal Audit report) compared with CapEx budgets (particularly in IT). Without good governance over acquiring additional provision future IT costs could spiral compared with the much more predictable current level of IT spending. • Whilst SCC currently pay for high levels of security and resilience within their data centre, in the case of SaaS applications they will no longer be able to monitor that provision so effectively. Instead of having a direct relationship with the data centre provider, they will have a relationship with the SaaS providers and will have to trust that the provider has itself chosen a reputable data centre.			

	• IT assets rarely have significant resale value. If the existing 200 servers that are not yet due to be replaced have to be written off, the council may wish to compare the cost of finding another data centre now to move to for the final few years and only then move to cloud solutions. • Whilst the reduced need for technical IT staff may produce cost savings there will also be a negative impact – as staff redundancies can negatively impact the morale of the remaining IT department staff. • If the department is refocused to take on the required business partnering role the council will also need to spend additional funds to retrain or recruit as needed. • The recent Internal Audit report highlighted the low IT understanding at senior level within SCC. For such an important decision, it will therefore be important to ensure that senior decision makers are thoroughly briefed about the options before so that decisions taken are as soundly based as possible.			

Question 2 (40 marks)

Cory Miller, Senior Finance Director, is to produce a report for a meeting next month of Stanrock City Council's (SCC) City Revitalisation sub-committee to discuss ways in which the council can invest in the most economically deprived areas of the city and so improve outcomes for its residents. Their focus will be on two initiatives – SCCs actions as a Keystone Institution (KI) to improve city-wide outcomes and the potential use of Zoned Regeneration Tax (ZRT) schemes to revitalise specific zones within the city. To assist, in writing the report, you should prepare a briefing paper for Cory.

Q2	Response points	Marks	Syllabus Ref.	Appr'p Std. Ref.
i)	*In the context of SCC's decision to become a KI and, wherever possible, award future procurement contracts to community businesses such as Willan Park Traders Association (WPTA):* *a) With reference to Cory Miller's email of 3 September on procurement as a KI, assess SCC's current procurement controls and suggest suitable changes to them in order to be consistent with SCC's KI aspirations.* ***1 mark per developed point to a maximum of 15, with 2-3 marks reserved for a discussion of social value metrics.*** • The council's preference for single supplier contracts makes it harder for smaller suppliers to be awarded contracts as they may not be big enough to provide the full service required by a city council. SCC should review this policy and consider whether they can use greater numbers of suppliers. • SCC may be able to provide information and support to smaller businesses to help them in forming consortiums with other community businesses so that they can work together at scale. This may involve putting them in touch with other potential providers and providing them with the legal and practical information needed to for them to collaborate effectively. This could be a useful role for the Sophia Sogill University (SSU) to undertake as they have a highly regarded business school which presumably could provide the support needed. • The council will need to comprehensively revise their preferred supplier list in view of their new focus on community businesses as otherwise existing suppliers will always be chosen. • The use of a preferred supplier list can also be problematical if applications to the council do not actually result in the fulfilment of a specific	15	BCM: D2	K: ARC, BA, LSP, SBMG; S: BI, EI, PSDM; B: AV, PS

	contract but rather a place on the preferred supplier list. Smaller suppliers may be put off applying if all they achieve is a place on the list rather than the business itself. • It is not clear where the council chooses to advertise the contracts – or whether there are any legal obligations on them to use prescribed routes. There is a real risk that the community businesses may not actually find the advertisements placed by the council and so fail to apply. Consultation with groups that the council does know about, such as the WPTA, will help SCC to identify how best to ensure that potential community business applicants hear about the opportunities. • It may be more helpful if SCC approached community businesses directly to invite them to apply. For example, a form of pre-tender information exchanges (like the competitive dialogue process in the UK) where SCC communicates to potential applicants in advance that it has contracts it is planning to put out for tender. This can be achieved, for example, by holding meetings in relevant community spaces such as libraries, and suggesting ways in which different groups could work together and innovate. • The reference to contract-specific PQQs with detailed responses suggests that it will be a significant administrative burden to complete the PQQ which may disadvantage small community businesses with fewer resources. A move to standardised forms would help to simplify the process for smaller businesses. • Complex contract specifications which cover multiple needs make it much more challenging for small businesses to apply. It would be helpful to break down contract requirements into smaller bundles so that smaller businesses can select those that are most suitable and apply for those areas specifically. • Strict penalties for non-compliance are likely to significantly discourage smaller business from applying as they may not have the experience to ensure they can achieve the requirements. SCC should be prepared to offer suppliers more support in the early stages of the contract (seeing the relationship more in terms of a partnership than an arm's length transaction) and be prepared to reduce the penalties charged during the early stages of the relationship.			

	• For some smaller organisations it can be challenging to use an e-tendering process when they are used to a more informal approach. Additional support may be needed to help them navigate the process.
	
	• The tight time frames would also be more of a challenge for smaller business with fewer resources – this would also argue in favour of a pre-tendering information exchange – so that they could be better prepared before the formal tender process is begun.
	
	• The evaluation criteria used to assess the bids will need to be broadened from the price and quality performance measures currently in use. SCC must ensure it incorporates an evaluation of the social value of the applicant's activities (and in particular how those activities would be impacted by the award of the procurement contract). Such measures should also ensure that the values of the bidder align with the overall objectives of the council.
	
	• Suggested social value measures might include:
	
	  o Number of local people employed
	  o Places in work experience, training or employment specifically made available for disadvantaged members of the community
	  o Average wages paid
	  o Success of the business - i.e., extent to which it earns taxable profits
	  o Evidence of accountability to the local community, such as community representatives on the board
	  o Evidence of involvement in community initiatives
	  o Amounts invested in community initiatives.
	
	• One issue for small community businesses however, is that it may be difficult for the suppliers to provide the council with the evidence they need that they are meeting the metrics required. They may not have the processes in place to record the information needed – or be able to demonstrate how their activities will benefit the council if they do not exactly match the criteria provided. Community businesses may need to be supported in setting up the data collection and measurement systems needed to show that they are achieving social value.
	
	• If the weighting given to price remains very high, which is likely given the current financial constraints, then even if smaller bidders do			

	achieve the social value indicators, they may still not get the contract. Despite the financial situation facing SCC, it will be important to measure the longer-term impact of using the community businesses on outcomes within the city, and give them more relative weight than a short-term focus on price. • The suppliers will need to formally put together a team to negotiate with the council on behalf of them all but it will be complex if the team is representing multiple different organisations. Once again SSU could offer support here, to help the potential applicants collaborate effectively. • Insisting on the council's standard payment period may present a challenge to the cash flow of small businesses. If possible, the council should consider reducing the payment period and to prevent creating unintentional financial hardship ensure that prompt payment terms are guaranteed. • Contract monitoring is also more complex where there are multiple suppliers working together to fulfil the order. This will require a collaborative effort between the council and the suppliers and the supplier groups will need help to develop suitable management and governance structures. • Schedule of rates contracts are particularly difficult for smaller suppliers as they cannot plan if they don't know the amounts they will be asked to provide. SCC may have to provide minimum and maximum levels to help them decide how many businesses would need to work together.			
i)	*In the context of SCC's decision to become a Keystone Institution (KI) and award future procurement contracts to community businesses such as Willan Park Traders Association (WPTA) wherever possible:* *b) Discuss briefly the issues that will need to be considered when deciding how to structure a future KI collaboration between SCC and partner organisations, and assess the advantages and disadvantages of the two collaboration options suggested by Cory Miller in his email of 6 September.* ***1 mark per developed point to a maximum of 15:***	15	CGL: H1, H3 (IPFM GPPE: A1, A3); SPD: D1, D2; SPF: B2, C4	K: ARC, BA, LSP, SBMG; S: BI, PSDM; B: AV, PS

	○ ***Up to 4 marks for factors to be considered in structuring the collaboration*** ○ ***Up to 6 marks for each of the two options, with a minimum of 2 marks for each of advantages and disadvantages for each option.*** <u>Factors to be considered:</u> • In selecting a suitable structure for the future KI collaboration, the following matters must be considered: ○ A clear goal for the collaboration. Each party may have different expectations and hopes for the role as a KI and these will need to be aligned if working together is to be effective. ○ Good governance – to ensure that the connected partnerships fulfil their purpose and achieve their intended outcomes and operate in an effective, efficient, economic and ethical manner. ○ Clarity over detailed expectations and effective information sharing protocols – to avoid later disagreements and inaction. ○ Strong relationships – to ensure coordination and smooth out any political and cultural differences emerging from the different stakeholder groups within each organisation. ○ Flexibility – to absorb changes in the focus of the individual partners over time. ○ Operational compatibility – to ensure that the partners can actually work together in practice – for example, developing compatible e-procurement systems. <u>Consortium arrangement</u> Advantages • SCC is already working collaboratively with SSU and SCFC – both organisations use the Stanbus service and the university is an outsource partner in the provision of the library service as it runs the central library. This suggests that they have some developed systems which they can build on in a future KI collaboration. • It will be much quicker to start working together, and implementing the council's			

	agenda, if there is no requirement to set up a separate joint venture vehicle first. • Each organisation will retain the flexibility to take on as little (or as much) of the KI activities as suits them. This may be essential to ensure that the different organisational stakeholders remain satisfied. SCC is a public institution, SSU is a charity and SCFC is a for-profit company. Each will have a different stakeholder focus and this may lead to some projects being more suitable for each participant than others. • Partners' resources are kept separate and independent which allows each party to retain control over the extent to which they are involved – this is again important as each organisation is accountable to different stakeholder groups. Disadvantages • The potential partners are different types of organisations. They may therefore have different cultures, priorities, and decision-making systems. Without formal processes in place to govern the collaboration, it may be difficult to agree on the decisions to be taken and the ways in which they should be implemented. This will lead to slower response times. • A greater amount of management time will therefore need to be spent on stakeholder management and building trust. With the number of strategic plans currently being considered and implemented by the council, this may be an unrealistic expectation for SCC. Additionally, with many organisations cutting staff in the aftermath of the pandemic, it is likely that there may be fewer people available to carry out such activities across all the potential KI partners. • And whilst a consortium arrangement may work well with only three partners, it will be more difficult to act in concert if there are a greater number of potential parties collaborating, as is being considered. An additional layer of resource in each organisation will be needed to oversee negotiations - ensuring all parties agree to each scheme proposed and understand their roles and obligations. • Even once the parties agree in principle, it may be necessary to draw up a separate contract between the different KIs as well as the			

	beneficiaries of the scheme for each new proposal. This is likely to tie up significant time and resources in negotiations which could delay the start of each scheme. • SCC has a poor history of implementing suitable governance controls in areas where they collaborate – as evidenced by the Internal Audit report into pooled budgets. Without a formal governance structure in place to correct this weakness, there is a risk that oversight of joint spending plans and contract performance will be neglected. As a result, SCC could find that the KI proposals become mired in disagreements and inaction. <u>Independent joint venture</u> Advantages • Acting as a joint venture will eliminate the need to answer directly to the multiple different stakeholder groups of the collaborating organisations. Instead, the leaders of the joint venture will be answerable only to the management boards of the collaborators. This may provide a clearer focus for decision makers. • Structuring the collaboration through a separate joint venture will also allow for the creation of a clear governance structure with its own set of priorities. This will provide greater certainty for all parties over the role each will play and the expectations to be fulfilled than the ad hoc negotiations of a consortium arrangement. • Although greater resources will be required to set up the joint venture in the first place, once it is up and running, only one management team will be required – without the formal structure associated with a joint venture, it is likely that there will be considerable duplication of roles within each organisation. • The different partners may be able to pool their expertise more effectively. Each partner can appoint members onto a single management team which will have time to cohere and become more effective than different groups of independent experts. Disadvantages • If the joint venture is to be shared equally then the amount of work done or investment made by each of the three organisations should be			

	equivalent. This could be extremely difficult to achieve in practice. • The costs of administration may be far greater as a separate organisation must be set up and managed. The collaboration is not being formed to make money – only to change how it is spent. Incurring considerable costs in the process will reduce the funds available – mitigating its effectiveness. • KIs are still new within Linland and there are likely to be considerable questions remaining about how they will work and how effective they will be. Entering into a formal vehicle to collaborate may be considered too risky in the early stages of such a proposal. It will be far harder for individual parties to leave the scheme if they are not happy with the outcomes. • It will be far easier to expand the number of KIs to include organisations such as Aspen Airport and the Stanrock Community Hospital if a consortium approach is adopted. It would be administratively complex to include new partners in a joint venture already set up for just three participants. It is likely that the joint venture vehicle would still need to enter into consortium arrangements with the newer KI partners, which makes the administrative burden of the joint venture even less worthwhile.			
ii)	*Discuss the risks of using a Zoned Regeneration Tax (ZRT) scheme to fund the revitalisation of the proposed South City Zone in Stanrock.* ***1 mark per developed point to a maximum of 10.*** Risks • The siting of the zone will be a difficult political decision and likely to give rise to multiple different views and concerns, given the potential impact on those living and working there. On the one hand they will see the benefits of inward investment, on the other they will see their community taxes rise. The consultation process could be fraught and protracted if not carefully managed. • If the use and size of such zones within the city is not capped, there is a risk that too much of the community tax raised by the city becomes ring-fenced. This will mean that other vital schemes in the city cannot be financed.	10	SPD: B3, C3; SPF: A3 T: D1-D4 (IPFM PF: C1)	K: ARC, BA, LSP, SBMG; S: BI, EI, PSDM; B: AV, PS

	• Baseline property values must be agreed in order that the increase can be clearly demonstrated for the calculation of ring-fenced taxes. They will also need to be reassessed at regular intervals in order that new tax rates can be charged to property owners, and it may be this will be needed more regularly than the current seven-year valuation cycle. This would create an extra administrative burden at a time when operating budgets are already stretched.
	
	• It may be difficult to demonstrate that all the increases in property values were as a result of the ZRT scheme rather than other external factors or planned actions. However, as the rules require that all incremental community tax revenues must be ring-fenced, rather than the whole city benefiting from such developments, the money must be channelled into repaying the costs of the scheme. This would be against the objectives of improving society for all which underpins the council's aims for the proposals.
	
	• For example, there are a range of developments currently being planned which will themselves contribute to the city's economic growth and should cause an increase in property values:
	
	  ○ improvements to the shopping district and elsewhere in the city centre are likely to have a knock-on effect on neighbouring districts.
	
	  ○ It will be almost impossible to separate out the results of the council operating as a KI in districts such as Willan Park. The council's newly directed procurement contracts may result in increased business activity and therefore increased property values both inside and outside the zone.
	
	  ○ The potential sale of the Albert Building to property developers may lead to the gentrification of part of Willan Park which will itself attract new businesses and push up property values.
	
	• Also, although inflation in Linland is currently low, if the hoped-for economic growth does emerge, inflation is likely to rise. If the ZRT is not carefully structured, these normal inflationary increases in property values will then be labelled as ZRT increases and funds which should be available to spend on city-wide			

	projects will be earmarked for repayment of the ZRT bonds.
	
	• The scheme may fail to work. It will be important to set up systems to measure, track and report the benefits to determine whether the ZRT zones are meeting their objectives.
	
	• It is not clear what will happen if the anticipated growth is not delivered and there is a shortfall – i.e., the increase in taxes is not enough to fund the investment cost. Presumably the loan payments will then have to be funded out of council reserves – which could be disastrous in the current climate. This could come about as a result of:
	  ○ Changes in the economic climate restricting growth across the city
	  ○ Inflation rates increasing and impacting building and development costs
	  ○ The use of variable rate loans which are then impacted by increasing interest rates.
	
	• The full tax increment is directed towards repaying the development bonds, and presumably therefore cannot even be used to provide additional financial support for needs which arise out of the initial investment. However, an increase in economic activity is likely to be associated with an increase requirement for other public services (from schools to road schemes to public safety) which will still have to be funded by the council.
	
	• The scheme may also have a number of unintended consequences:
	
	  ○ Once the zone has been established, it would be easy for the council to become focused on ensuring the success of its initiatives and so direct even more funding to the area, ignoring other parts of the city with competing needs.
	
	  ○ The effect of the investment may be to move economic activity from one area of the city to another, rather than actually generate new growth. For example, retailers may choose to set up business in the South City Zone rather than, for example, investing in the shopping district.
	
	  ○ As investment in an area increases, rising real estate values can lead to gentrification. The resulting increase in property values, and the attraction of high value inward			

	investment in housing and retail could price existing residents out of the area. The council may need to take steps to prevent this – such as requiring any future housing developments to include affordable housing. ○ In the same way, the incoming businesses attracted to the area may be part of larger national concerns and so operate with economies of scale which price out the small community businesses. The council will have to find ways to protect small players whilst attracting the larger ones.			