

## **STRATEGIC PUBLIC FINANCE**

**December 2022**

Duration: 3 hours  
6 questions, 100 marks

### **Question 1**

#### **Tax cuts a 'risk' to public finances**

The government's package of tax cuts aimed at boosting economic activity are unlikely to stimulate enough growth to pay for themselves, and could lead to future tax rises or spending cuts, economists have warned.

The reduction of national insurance, the abolition of the 45% tax bracket and the introduction of investment zones that target tax cuts to businesses in particular areas, aimed at increasing GDP by 2.5% over the medium term.

However, economists at the Institute for Fiscal Studies said it is likely the government will need to cut spending or raise taxes over the medium term, with borrowing set to be around £80bn higher than forecast by the Office for Budget Responsibility in March.

A research economist states that growth would need to be around 0.8 percentage points higher than current medium-term forecasts to cover the additional borrowing.

Without cuts to spending or future tax rises, the government will likely breach its own fiscal rules that aim to reduce government debt in relation to GDP and eliminate borrowing for day-to-day spending over the medium term.

Source: Public Finance: Tax Cuts a Risk to Public Finances 23 September 2022

#### **Question Q1 a)**

#### **Question type: Knowledge and Application**

Most countries in the developed world have a body known as an Independent Financial Institution (IFI) that stands independent from the national government and scrutinises public finances for that particular country. Give one example of such a body and describe its main duties and responsibilities in assisting a country to maintain fiscal sustainability.

(10 marks)

#### **Question Q1 b)**

#### **Question type: Knowledge and Analysis**

In a report to the Treasury Department, discuss and analyse the arguments for and against centralisation and decentralisation of fiscal policy.

(10 marks)

**Question Q1 c)****Question type: Knowledge and Analysis**

The **role** of the business case for both spending and service reductions is critical to the delivery of public service objectives.

Evaluate this statement with particular reference to the process of using the Treasury's 5 Case Model in business case development.

(10 marks)

**Model Answer Q1 a)****Syllabus reference: Workbook 1/ A1**

Key words required in response:

1. named body e.g. OBR/ HCFP;
2. monitoring public sector finances;
3. frequency of monitoring;
4. detailed forecasts;
5. assess impact of policy decisions and expected developments in economy;
6. independent analysis of country public finances;
7. advice on whether fiscal policy will meet targets set;
8. evaluate sustainability of public finances;
9. statutory act giving body powers/ charter;
10. description of composition of body;
11. analytical assessment of government performance against the mandate it has set itself;
12. link between named body and Treasury/ Parliament

Most countries in the developed world have a body that stands apart from the government and assesses public finances for that country. These are known as Independent Financial Institutions (IFI). Further information on these bodies can be found at:

<https://obr.uk/topics/international-engagement/>

Here are two examples:

**Office for Budget Responsibility (UK)**

The Office for Budget Responsibility was established in 2010 to monitor the public sector's finances. Twice a year – alongside each Budget and Autumn Statement – the OBR produce detailed forecasts for the coming five years, assessing the likely impact of policy decisions and expected developments in the economy.

The main task of the OBR was to provide economic forecasts and independent analysis of the UK's public finances, to advise whether the fiscal policies were likely to meet the targets set by Cabinet, and, more broadly, to evaluate the sustainability of the UK's public finances.

The Budget Responsibility and National Audit Act 2011 established the OBR on a statutory basis, as a quasi-autonomous non-governmental organisation (QUANGO) independent from the Treasury. Seven paragraphs of the Act are dedicated to the OBR. Schedule 1 provides for its membership:

'1. (1) The Office is to consist of-

(a) a member to chair it, appointed by the Chancellor of the Exchequer with the consent of the Treasury Committee of the House of Commons,

(b) 2 other members appointed by the Chancellor of the Exchequer after consultation with the member appointed under paragraph (a) and with the consent of that Committee, and

(c) not fewer than 2 members nominated by the Office and appointed by the Chancellor of the Exchequer.'

(Note: the title 'Chancellor of the Exchequer' is the UK equivalent of the most senior finance minister or head of Treasury).

The OBR therefore analyses the performance of the government against the mandate it has set itself. According to Section 1 of the Budget Responsibility & National Audit Act 2011, the Treasury sets its objectives and/or the mandate for fiscal policy; this is achieved through the establishment of a Charter for Budget Responsibility ('the Charter') at the start of Parliament.

Should the Treasury wish to change its objectives and/or the mandate for fiscal policy, this shall be achieved through the formal process for modifying this Charter for Budget Responsibility ('the Charter').

The original Charter in 2010 included the following:

- The Treasury's objectives for fiscal policy are to:
  - ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider Government policy; and support and improve the effectiveness of monetary policy in stabilizing economic fluctuations.
  - The Treasury's mandate for fiscal policy for this Parliament, announced in the Budget on 22 June 2010, is: a forward-looking target to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period.
  - At this time of rapidly rising debt, the Treasury's mandate for fiscal policy is

supplemented by: a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16, ensuring the public finances are restored to a sustainable path.

The above mandate has been changed and the balanced budget objective delayed several times as fiscal performance did not match predictions.

The Treasury's mandate for fiscal policy lapses at the dissolution of a Parliament. The duty to set out a fiscal mandate will require the Treasury to set out a revised mandate for fiscal policy as soon as possible in the life of the new Parliament and, in any event, no later than the first Budget Report of the new Parliament.

The Chancellor of the Exchequer uses the OBR fiscal and economic forecasts (which are independent from the Treasury) as the official forecasts for the national budget as placed before Parliament in the annual Finance Act.

The transfer of the power to issue economic forecasts from the Treasury to the OBR is quite remarkable in the international context. The OBR continues to operate in this autonomous way currently.

### **Haute Conseil des Finances Publiques (France)**

In Europe, looser constraints than those in the United States on borrowing by governments were agreed by the European Union under the Maastricht Treaty and its successor (which the UK and Czech Republic both refused to sign) - the Treaty on Co-ordination Stability and Governance (TCSG) in 2013.

In France, the Haute Conseil des Finances Publiques was created at the time the TCSG was ratified. It has no such power to issue the actual economic forecasts, leaving it to bodies dependent on the ministry of finance to make such forecasts. The Haut Conseil merely has the power to evaluate the forecasts used by the government and decide whether they are plausible or not.

The HCFP is responsible for assessing the realism of the macroeconomic forecasts of the French Government and for checking the consistency of the 'return path to balanced public finances' with France's European commitments. It is an independent agency of the Government and Parliament, and it reports to the Court of Auditors and is chaired by its First President.

If the Government is led to modify its macroeconomic forecasts during the parliamentary debates, they inform the HCFP, which must also issue an opinion.

Forecasts analysed by the HCFP are either short term (one to two years) for the annual budget bills or medium term (a four-year horizon) for multi-year scope of texts (programming bills and stability programme projects).

When expressing an opinion on the realism of the macroeconomic forecasts, the HCFP may consider other bodies' forecasts.

The way the HCFP operates is that a forum of economic experts (all unpaid) will meet to assess and verify the forecasts and information it is presented with. Independence from government

and agencies of government is of the highest importance. More details can be found at:  
[www.hcfp.fr](http://www.hcfp.fr)

**Mark scheme:**

**1 mark per valid point raised for the example put forward, up to a maximum of 10 marks**

**Model answer is comprehensive and students are not expected to include all of the detail included**

**Model Answer Q1 b)**

**Syllabus reference: Workbook 4/ A3**

Report format:

Prepared for: Treasury Department

Prepared by: Officer name, job title, department

Report Title: Arguments for and against centralisation and decentralisation of fiscal policy

Date: dd/mm/yyyy

**Fiscal decentralisation in public financial management**

As far as public financial management is concerned, fiscal decentralisation involves decentralisation of:

- a tax instrument, when local governments have the power to raise taxes, or
- expenditures, when local governments bear the responsibility for implementing expenditure functions, or
- both of these functions.

**Fiscal decentralisation strategy**

The general move internationally is to greater fiscal decentralisation. Indeed that has been one of the key requirements of EU applicant countries in the Balkans in readiness to join the EU in the future. It is interesting that at the same time as advocating greater tax harmonisation in Europe it is also promoting decentralisation. It is worth comparing the arguments for greater tax harmonisation and those for greater decentralisation to show how they can be developing together.

**Centralisation**

Arguments for greater centralisation of fiscal policy are:

- More able to contribute to competitiveness
- An economy can be more productive in increasing its allocative efficiency due to the following factors:
  - Avoidance of high compliance costs.
  - By having a more centralised system it should reduce complexity and hence reduce the costs of compliance, especially dealing within a single economic area such as the European Union.
  - Remove tax obstacles to cross-border activity - this will reduce the costs of tax compliance when dealing with countries within an economic area so assists in the removal of tax obstacles to cross border activity, hence reducing the tax distortions on demand.
  - Tackle unsuitable tax competition - this would stop countries trying to increase activity at the expense of others in the same economic area by using tax incentives.

Arguments against greater centralisation:

This has proved particularly controversial in terms of sovereignty of nation states and control of economic policy. In terms of attracting businesses the rate of corporation tax is seen as unfair within a single currency and was a key point of contention in the negotiations in the Republic of Ireland when it required EU support in 2013. It was argued that it used a very low rate of corporation tax (10%) as an unfair means to attract direct foreign investment by multi-national firms such as Amazon.

A similar argument has been lodged against Luxembourg and the Netherlands with their treatment of taxation of large taxpayers.

Whilst the above arguments relate to the macro management of pan national economic areas there are strong arguments for central government to also devolve more fiscal power (as seen in the UK with the Localism Act).

## **Decentralisation**

Arguments regarding greater fiscal decentralisation:

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

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

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

Arguments in favour:

- Sub-national governments know better what local people want - this moves the decision making closer to the end users and takes account of very specific local needs. For example, the local health care needs may vary dependent on ethnicity (pre-dispositions to certain illnesses), local environment and local industry. By moving the spending decisions closer to the local area these demands can be better reflected in provision of services. As well as better needs assessment there is also a better reflection of local priorities when resources are scarce. This can be particularly important in times where resources are being reduced as where the cuts are made can reflect local priorities.
- Sub-national governments have a better idea of best local sources of revenue – this links to allocative efficiency in that taxes can be targeted to meet local circumstances. For example, in areas of high tourism a room tax on hotels can be a very useful source of revenue that does not have a major impact on the level of tourism as the tax is likely to be small in comparison to the total cost to the visitor. Examples here are in the Kilimanjaro areas of Tanzania and capital cities, such as Rome, whereas in other areas that may not be appropriate. In China mining taxes are appropriate in Anshan region but not in Shanghai.
- Sub-national governments can provide services more efficiently - operational efficiency can be improved where the local scrutiny is higher and the hierarchical structure reduced. This is one of the principles of subsidiarity.
- Improves the democratic processes - Local representation should increase access to marginalised groups, promote an opportunity to be involved in the decision making process, allow greater scrutiny of political choices and improve governance of local activities.

Whilst the above arguments offer strong incentives to increase decentralisation care must be taken. There are a number of dangers that must be managed effectively. If they cannot be managed then they may prevent the benefits being achieved or make the position worse than a centralised system.

Arguments against:

- Lack of capacity at local level - the skills required for good local governance and good local Public Finance Management are scarce. In many developing countries there is not the capacity in terms of skills to meet these needs. The capacity not only needs to be developed but also retained. This can take some considerable time and investment in both human and institutional capacity building.
- Risk of (extra layer of) corruption - one of the key arguments promoting

decentralisation was greater scrutiny at local level reducing potential corruption. A counter argument is the capture of institutions by local elites that add an additional layer to the system and use that to benefit themselves.

- Replication of systems - operational efficiency may be reduced as the optimum size for operational efficiency may be greater than for the other aspects resulting in replica systems being developed adding costs that are not efficient.
- Additionally some countries are very small and so the need for localised knowledge is not there, for example city states like Singapore.

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

- Lack co-ordination between different agencies - there can be difficulties co-ordinating policies between national and local agencies on areas such as health and education as well as co-ordinating resources and service delivery. This can be particularly acute where there is a partial overlap of policy for example in health and social care.
- Difficult to link to national policies - there may be a more fundamental problem when local and national policies are at odds with each other. For example, whether the solution for the expansion in airport capacity should be a third Heathrow runway or the tensions experience with the HS2 project in rural areas which will not benefit from the rail service but where the impact on the country side is significant. These are often of strategic national importance and policies rather than local policies where the benefit is seen elsewhere in the country.

### **Getting the balance right**

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

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

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

When allocating services to each level of government the concept of 'subsidiarity' should be kept in mind. That is, each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalise the benefits and costs of such provision. This includes thinking about whether services may be more efficiently provided locally where preferences can be voiced, oversight can be promoted and benefits from taxation observed.

### **Mark scheme:**



**2 marks – report format with introduction and conclusion**

**4 marks – arguments for and against centralisation of fiscal policy**

**4 marks – arguments for and against decentralisation of fiscal policy**

**Model answer is comprehensive and students are not expected to include all of the detail included**

**Maximum 10 marks**

**Model Answer Q1 c)**

**Syllabus reference: Workbook 11/ C2**

**Role of the business case**

**Business case development**

Background

The continuing downward pressure on the availability of public sector finance, together with the ever growing upward pressures of demand for public services, will continue to further increase the need to make better use of the resources available. The challenge has never been greater.

A well prepared business case supports evidence-based decisions and can be used to provide a clear framework for thinking about spending proposals or transformation of services, and a structured process for appraising, developing and planning to deliver best public value.

**Treasury 'Five Case Model'**

For the UK public sector, the Treasury guidance provides a practical step by step guide to the development of business cases using the Five Case Model, using an approach which is both scalable and proportionate. It is recognised as best practice and is the Treasury's standard methodology. Experience has demonstrated that when this guidance is embedded in public sector organisations, better more effective and efficient spending decisions and implementation plans are produced. When correctly understood and applied, the approach provides a more efficient planning and approval process saving between 30% and 40% in time taken and cost of production of business cases compared with unstructured approaches.

It provides a framework for thinking and a process for approval, which is flexible and scalable along with a range of tools that can be applied proportionately to provide clarity in the decision support process. For smaller projects the Business Justification Case can be used. The approach also provides a clear audit trail for purposes of public accountability.

The Treasury guidance claims that the application of the Five Case Model has been shown to:

- reduce the costs and timescales associated with producing businesscases and to improve the efficiency and throughput of the spendingapproval process through clearer structure and presentation
- raise the quality of spending proposals, both in terms of their scoping and delivery and public value, as a result of the more effective comparison of alternative options for the achievement of objectives
- support the prioritisation of spending proposals and the management of spending portfolios through provision of standard information

Templates are available online for all of the stages of the Five Case Model.

It is important to remember though, that the full model is often not appropriate for small projects, and in practice many organisations develop business plans that do not use, or need to use, all the stages described for the model.

### **Process for developing a business case**

Business cases are important because policies, strategies, programmes and projects will only achieve their spending objectives and deliver benefits if they have been:

- scoped robustly
- planned realistically from the outset
- the associated risks and costs have been taken into account.

The business case, both as a product and a process, provides decision makers, stakeholders and the public with a management tool for evidence based and transparent decision-making, and a framework for the delivery, management and performance monitoring of the resultant scheme.

The business case in support of a new policy, new strategy, new programme or new project must evidence the five 'cases' or 'dimensions', namely:

- the strategic case: intervention is supported by a compelling case for change that provides holistic fit with other parts of the organisation and public sector
- the economic case: intervention represents best public value
- the commercial case: the proposed deal is attractive to the marketplace, can be procured and is commercially viable
- the financial case: the proposed spend is affordable
- the management case: what is required from all parties is achievable

Business cases should be developed over time. It is an iterative process and at each key stage further detail is added to each of the five dimensions. The level of detail and the completeness of each of the five dimensions of the case are built up at different rates during the process.

For major spending proposals, there are three key stages in the evolution of a project business case, which correspond to key stages in the spending approvals process. These are the

Strategic Outline Case (SOC), the Outline Business Case (OBC) and the Full or Final Business Case (FBC).

Major Policies and Programmes (for example the London 2010 Olympics) often comprise of multiple projects. In these circumstances a Strategic Outline Programme (SOP) business case is required. This does not require a three stage approach. In these instances, the initial assessment of the cost and benefit information may be at a high level.

There will usually then be the formation of sub-programmes and projects before firm spending commitments can be finalised and approved.

It is important to note that Five Case Model is a framework for 'thinking' and that the supporting methodology is flexible and can be applied at both strategic (macro) and tactical (micro) levels.

For minor spending proposals – relatively low value and non- contentious items of spend for which pre-competed procurement arrangements exist – a one stage business development process using the Business Justification Case (BJC) can be used.

In reality, many organisations will develop a business case that is more detailed than the Business Justification Case, but only makes use of some of the elements of the Five Case Model.

The full Model guidance can be obtained from:

<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

**Mark scheme:**

**1 mark per valid point raised for the Five Case model, up to a maximum of 10 marks. Should refer to each of the Five cases ( up to 1 mark per case correctly explained) but must include wider explanation of the model itself and its role to gain full marks.**

**Model answer is comprehensive and students are not expected to include all of the detail included**

## Question Q2

### Nearly 60 councils at risk of 'running out of money' next year

The soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts, experts have warned.

As a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26, according to analysis from Grant Thornton – an increase of £4.6bn since forecasts made at the beginning of this year.

The firm said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services, Grant Thornton said.

A firm representative said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.”

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.

Source: Public Finance - Nearly 60 Councils at risk of running out of money next year 6 October 2022

### Question Q2a)

#### Question type: Knowledge and Application

- i) Describe the roles and professional responsibilities of the Chief Finance Officer in the public sector (6 marks)
- ii) Give specific examples for types of Chief Finance Officer roles in two different public sector organisations. (4 marks)

(10 marks)

### Question Q2b)

#### Question type: Knowledge and Analysis

Forecasting is a tool used in financial planning by financial managers.

- i) Define forecasting and explain its purpose (2 marks)
  - ii) Outline the stages in forecasting that a financial manager must undertake (8 marks)
- (10 marks)

**Question Q2 c)      Question type: Knowledge and Analysis**

With the financial risk that many councils are facing currently and will continue to face in the medium term with inflation and energy cost pressures, detail the advantages and disadvantages of charging for some council services.

(10 marks)

**Model Answer Q2**

**Model Answer Q2a)**

**Syllabus reference: Workbook 8/ B2**

Key words for inclusion in response to Q2a i) and ii)

1. Most senior finance officer
2. Leads and directs financial strategy and operations
3. Title examples
4. Establishes strong framework for
5. Implementing and maintaining good financial management across the organisation
6. Sound financial control
7. Sound money management
8. Sound analysis support for strategic planning and decision-making
9. Strong internal controls for financial management, risk management and asset control
10. Secure probity through sound internal control systems (standing financial instructions/ codes of practice/ operating manuals)
11. Measures to prevent and detect fraud and corruption
12. Supporting the organisation's internal audit arrangements
13. Fiduciary duty to local taxpayers.
14. 2 marks for each example and explanation of role in public sector given e.g. local government, charities, health, academies, etc

## **Role of Chief Finance Officer in the public sector**

The Chief Financial Officer (CFO) is an organisation's most senior finance role. The CFO is responsible for leading and directing financial strategy and operations.

The CFO may have a different job title such as Director of Resources or Director of Finance. This person is responsible for establishing a strong framework for implementing and maintaining good financial management across an organisation.

CFOs have a responsibility to ensure their organisations control and manage money well, and that strategic planning and decision-making are supported by sound analysis. Other responsibilities of the CFO may include:

- applying strong internal controls in all areas of financial management, risk management and asset control.
- implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- implementing appropriate measures to prevent and detect fraud and corruption.
- supporting the organisation's internal audit arrangements, whether the function reports directly to the CFO or the Chief Executive.

In organisations delivering public services in the UK there is legislation that refers specifically to the role of the CFO in some sectors. The following are some examples of the laws that apply in different sectors.

### **Local Government**

The role and responsibilities of the 'Treasurer' were developed by case law in England and Wales. In *Attorney General v De Winton* 1906, it was established that the Treasurer is not merely a servant of the authority, but holds a fiduciary responsibility to the local taxpayers. Fiduciary duty means a person has a legal duty as part of their job to act solely in another party's interests.

Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements.

The Local Government Act 2003 requires the CFO to report on the robustness of the budget and on the adequacy of the proposed level of financial reserves.

Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements.

In Northern Ireland, section 54 of the Local Government Act (Northern Ireland) 1972 requires local authorities to make safe and efficient arrangements for the receipt of money paid to it, the issue of money payable by it and for those arrangements to be carried out under the supervision the Chief Financial Officer.

The CFO's duties in England and Wales were significantly extended by section 114 of the Local Government Act 1988, which requires a report to all the local authority's members to be made by that officer, in consultation with the monitoring officer and head of paid service, if there is, or is likely to be, unlawful expenditure or a budget that cannot be balanced with reserves, without leaving the organisation with inadequate reserves for future years.

Section 114 does not apply to Scotland – instead the requirement to set a balanced budget is established in section 108(2) of the Local Government (Scotland) Act 1973 and section 93(3) of the Local Government Finance Act 1992. In Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's CFO in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972.

In 2018, Northamptonshire County Council's CFO issued a Section 114 Notice, stopping all non-statutory service spending. The Council had relied too heavily on reserves to balance the budget, and had become unsustainable. A service commissioner was appointed and the most likely outcome is that the Council will cease to exist, with the district and borough councils being also abolished and two new unitary authorities will be established in their place.

It is unlikely that they will be the only council to face financial unsustainability in the coming years.

(<https://www.publicfinance.co.uk/news/2019/05/english-councils-risk-exhausting-reserves-named>)

## **Health**

The Health and Social Care Act 2012 (which amends the NHS Act 2006), supported by the National Health Service (Clinical Commissioning Groups) Regulations 2012, set out the requirement for each clinical commissioning group (CCG) to appoint an employee as the CFO, who has a professional qualification in accountancy and the expertise or experience to lead the financial management of the CCG.

NHS Foundation Trusts must appoint a finance director as part of the Board of Directors. There is no requirement in law that the finance director is a professionally qualified accountant. The

legislation stipulates only that one of the registered directors must be a medical practitioner or a dentist, and one must be a registered nurse or midwife. Other than this, it is the responsibility of the board as a whole to ensure that directors have the appropriate skills and knowledge to fulfil their role.

### **Policing**

Paragraph 6 of schedule 1 of the Police and Social Responsibility Act 2011 (PSRA) requires every Police and Crime Commissioner, outside London, to appoint a CFO. Within Greater London, an identical duty is placed on the Mayor's Office for Policing and Crime and the Commissioner of the Metropolis by section 127 of the Greater London Act 1999.

Under paragraph 4 of schedule 2 and paragraph 1 of schedule 4 to the Police Reform and Social Responsibility Act 2011 the Chief Constable is also required to appoint a CFO. The Police and Social Responsibility Act 2011 requires both CFOs to comply with relevant provisions within the Local Government Acts.

### **Further education**

There is no statutory requirement for a further education institution to appoint a CFO. The Charter, Statutes or Articles of Association through which an institution was established often require certain officers to be appointed, for example a principal but rarely, if ever, a Chief Financial Officer. In practice, most large organisations will appoint a finance professional, or buy in the required services.

### **Central Government**

There is no applicable legislation for central government equivalent to section 151 of the Local Government Act 1972, as such there is no requirement for qualified and competent accountants in central government CFO roles.

Chapter 3 of the Treasury document, 'Managing Public Money' outlines each permanent secretary is the accounting officer for their department, directly accountable to Parliament for public spending. As accounting officer, a permanent secretary has the right to object formally to a ministerial decision to spend money if it does not meet the Treasury criteria of regularity, propriety, value for money and feasibility. If a spending decision breaches any of these criteria, the accounting officer must ask for a written direction to continue from the secretary of state. The accounting officer then implements the decision – but it is the minister who bears responsibility for that use of public money.

Accounting officers are not required to be trained accountants, as the role is not technical. Their seniority, rather than expertise, is crucial, so by convention they are the permanent head of the organisation in question.

For Whitehall departments this invariably means the permanent secretary. As the 1872 Treasury minute which formalised the role explains:

'It cannot be doubted that the officer entrusted with the duty should occupy a sufficient standing to enable him not only to exercise a direct supervision and control over the persons executing the detailed business of account and book-keeping, but also to influence the working of his department in all those respects which affect the method of its receipts or expenditure.'



He must also be qualified to represent his department before the Parliamentary Committee of Public Accounts.'

There has been no legal change to this accounting officer role. In 2011, the coalition government produced a document called 'Managing taxpayers' money wisely: a commitment to action'. Within that document, the following statement and commitment is recorded:

It is not enough for departments to work through finance professionals, important as that is. In future, all senior civil servants must demonstrate a minimum level of capability with financial information and concepts so that they can make responsible corporate decisions in their organisations. Finance is as much about forward looking decisions as it is about accounting for current and past performance.

Commitment 3: building on the approach in Managing Public Money, the government will require all senior civil servants to demonstrate a reasonable level of financial competency.

The Financial Management Review report 'Strengthening financial management capability in government' was published in June 2013.

The report states that:

'accounting officers are formally accountable for the value for money and probity of their departments' spend, for producing the resource accounts and living within their budget allocations, based on the principle of keeping accountability where the spending decisions are taken.'

The report also refers to the 'Head of Finance Profession, who leads the Finance Leadership Group, and, through that group, helps drive up standards of financial management across government. The Head of Finance profession role is supported by, but currently separate from, the Treasury – instead filled by one of the network of departmental finance directors.'

The report goes on to say that 'a key further part of support for improved management of public spending has been an emphasis on skills and capability. The Finance Transformation Programme is strengthening financial discipline and delivering a fundamental shift in public sector culture to become more commercial, adaptable and innovative – putting finance at the centre of decision making. This includes better leadership, professionalism, expertise, information, technology and structures. The Treasury has also required departments to produce financial management improvement plans.

The Chancellor and Chief Secretary have asked Richard Douglas, Head of the Government Finance Profession, and Sharon White, Director General, Public Spending at the Treasury, to lead jointly a review on financial management in central government. Lord Sainsbury will act as external advisor to the review.

The review will particularly examine how the Treasury can, within existing budgets, and while preserving the single point of accountability to Parliament for financial stewardship that the accounting officer regime provides:

- Improve the quality and consistency of management information flows between

the Treasury and departments to ensure these are of the right quality to enable effective risk-management and decision making across Government;

- Strengthen the role of the Head of the Government Finance Profession in promoting and assuring improved financial capability –skills, systems and processes – across government (considering also the interaction of this role with the Treasury);
- Ensure that the right levels of delegated authorities and approvals are in place to ensure both tight spending control and appropriate flexibility for those departments with proven financial management capability;
- Create a more streamlined, coherent set of central appraisal and approval processes for projects and programmes outside those delegations.

The review will make recommendations about ways to achieve further improvement in these areas. It will report to the Chancellor and Chief Secretary by the end of the year.'

It remains an interesting approach that there is no legal requirement to have at least one qualified accountant as part of the leadership team in central government departments in the UK. CIPFA has led the debate about the need for qualified accountants in key roles in central government in the UK.

## **Academies**

The Academies Financial Handbook issued by the Education Funding Agency sets out the duties and obligations of an academy trust which has a funding agreement with the Secretary of State for Education.

Academy trusts must:

- as companies, produce audited company accounts
- as charities, maintain accounting records and prepare and publish accounts in line with Accounting and Reporting by Charities: Statement of Recommended Practice (the SORP)
- as public bodies, ensure regularity, propriety and value for money in their management of public funds.

The academy trust must designate a named individual, normally the principal, as the 'accounting officer'. This post confers responsibility for financial and administrative matters. This is a vital role, as the accounting officer is personally responsible to the governing body for:

- ensuring regularity and propriety
- prudent and economical administration

- avoidance of waste and extravagance
- efficient and effective use of available resources
- the day-to-day organisation, staffing and management of the academy.

As the executive head, the principal is responsible for running the institution and as such his or her duties are very wide. Academy trust boards are therefore also required by the funding body to appoint a 'principal finance officer' – a chief financial officer, finance director, business manager or equivalent. Academies must, therefore, have someone clearly designated in the CFO role. This person should have a direct reporting line to the principal.

### **Charities**

Charities appoint trustees under the rules of the Charity Commission. There are rules around eligibility of trustees, but there is no legal requirement for a charity to have a qualified accountant as a trustee, or to have a role specified as the finance director. The charity is free to choose to appoint any trustees who are eligible (over 16 years, not subject to bankruptcy or other insolvency, banned from being a company director, and meet the fit and proper persons criteria).

Charities do have a duty to 'have regard' to the skills, experience and knowledge of their trustees to ensure they meet the needs of the charity. The board of trustees are jointly responsible for the financial stewardship of the charity. The accounting and reporting responsibilities are laid out in the Charities SORP.

### **International examples**

USA - Federal government Chief Financial Officers Act of 1990 defines the roles and responsibilities of the CFO in stewardship and governance of public money.

Australia - Standing Directions of the Minister for Finance under the Financial Management Act 1994 Procedure 2.2(a) provides that the governance and oversight of the financial management of a public sector agency is the responsibility of the responsible body, defined as the Accountable Officer for a department, and the board for public sector agencies. Procedure 2.2 further requires the establishment of: "appropriate arrangements to ensure that public funds and resources are used economically, efficiently, effectively, with due propriety, and in accordance with the statutory or other authorities that govern their use".

South Africa - The Public Finance Management Act, Act 1 of 1999 (PFMA) provides a framework for the functions, roles and responsibilities of the Accounting Officer (AO). The Chief Financial Officers Handbook for Departments by the National Treasury of South Africa provides guidance on the AO/CFO role.

### **Mark scheme:**

**6 marks – describing the roles and responsibilities of the Chief Financial Officer in a public sector organisation**

**4 marks – examples given – 2 marks per example and detail of that example**

**Maximum 10 marks**

**Model answer is comprehensive and students are not expected to include all of the detail shown**

**International students may give local examples specific to their own geographical location**

**Model Answer Q 2b)**

**Syllabus reference: Workbook 9/ B4**

### **Definition and purpose of forecasting**

Forecasting is a term given to a wide range of techniques and approaches designed to identify potential future outcomes. It is required for longer term financial planning to help finance managers identify problem areas in advance and develop strategies that help plan for and accommodate the uncertainties.

Forecasting has a key role to play in decision-making in public service organisations in a wide variety of contexts including policy making, demand forecasting, financial resource forecasting, strategy development, service reconfiguration and budget management.

### **Stages in forecasting**

Forecasting can be considered as a number of fairly discrete sequential stages. Although the details of these stages might vary from case to case, the main stages should be undertaken in the following order:

- Determine the purpose – this is fundamental to the exercise and involves deciding the purpose of the forecasting exercise and what we are trying to find out.
- Establish a time line – the amount of time available to undertake the forecasting exercise will be limited but it is likely that having a longer time horizon to prepare a forecast will provide for more detailed and sophisticated forecasting.
- Identify items to be forecast – a forecasting exercise can involve a wide range of items such as sales, costs, customer numbers, demand.
- Select relevant forecasting methods – do this based on the type of forecasting required – quantitative or qualitative?
- Gather data - once the purpose has been clarified and the relevant forecasting method agreed, it will be necessary to undertake data collection exercises. Some data may be harder to collect than others. If some data is impossible to obtain within the required timescales, then an estimate should be made, but the results of the

forecasting exercise should be subject to some form of sensitivity analysis around these estimated variables.

- Make forecasts – it will usually be appropriate to also undertake some form of sensitivity analysis or scenario planning to consider the likely impact of uncertainty around certain input variables.
- Validate forecasts – once the forecasts have been prepared it is important to try to understand how much reliance can be placed on their accuracy. To achieve this, forecasters try to validate their forecasts. One approach might be to input older data into the model and see how the forecasts produced compare with what actually happened.
- Decision making – if no decisions are made on the basis of the forecasting results, then the whole exercise has been a waste of time and money. So it is important that the results are reviewed and some decisions taken, even if it is to do nothing in the short or the longer term.

**Mark scheme:**

**2 marks – definition of forecasting**

**8 marks – stages of forecasting – 1 mark per stage given with adequate explanation of stage**

**Maximum 10 marks**

**Model answer is precise and students are expected to include most of the detail shown**

**Model Answer Q 2c)**

**Syllabus reference: Workbook 6/ A6**

**Advantages and Disadvantages of charging for services**

**Arguments for charging (Advantages)**

**Equity - relating payment to benefit**

- Eliminate hidden subsidies for service provision
- Non-users of the services are not required to subsidise users. This occurs when taxation is used instead of charging - for example families with children who attend state schools are subsidised by taxpayers who do not have children

- Charge can reflect the scale of usage; for example, parking charges relate to the amount of time so occasional users are not subsidising frequent users.

Charging policies might influence customer behaviour and demand for services. There is evidence that even small charges can change behaviour. Consider that in Australia, charges to visit the doctor at the local surgery were introduced in 2014, not only to generate income for Medicare, but to help reduce the number of unnecessary visits that could be self-treated.

There is an interesting blog article about this case that examines some of the 'nudge' theory about charging and behavioural change. Subsequent to this article, charges of up to \$20 per GP visit have been introduced.

([www.briwilliams.com.au/articles/Blog--News-Will-charging-6-for-a-visit-to-the-doctor-change-behaviour](http://www.briwilliams.com.au/articles/Blog--News-Will-charging-6-for-a-visit-to-the-doctor-change-behaviour))

### Economy

- Users are more likely to value and economise their use of something they have paid for than something they receive for free at the point of use
- Promote competition and improve value for money where services can be provided by other suppliers

### Rationing/efficient use of resources

- Where services attract a charge, users will only buy that service when the cost to them matches the value they will receive.
- Where services are free at the point of use there is a risk of over-supply and waste of resources

### Accountability

- Charging for services helps develop a relationship of accountability between provider and customer. Funding via taxation can reinforce anonymous bureaucratic service delivery
- Service quality is usually under more scrutiny if the user has paid for the service rather than receiving it free at the point of use.

### **Arguments against charging (Disadvantages)**

#### Equity – relating payment to ability to pay

- The major barrier against charging for public services is moral. The price people are prepared to pay reflects both the value and their ability to pay for the service.
- Discounts to certain groups (benefits claimants and those on low incomes) can create stigma and potentially the exacerbation of a dependency culture

### Costs

- Substantial resources may be required to implement effective charging mechanism
- Administrative costs relating to and vouchers or discount schemes need to be calculated

### Managing expectations of stakeholders

- Culturally, UK citizens are familiar with receiving public services free at the point of use and are less used to paying for them so have minimal knowledge of the true cost of some services

### Mark scheme:

**5 marks – advantages of charging for services with adequate explanations that reflect understanding of each point raised**

**5 marks – disadvantages of charging for services with adequate explanations that reflect understanding of each point raised**

**Maximum 10 marks**

**Model answer is precise and students are expected to include most of the detail shown**

### Question Q3

### Question type: Application and Analysis

Many organisations - particularly in the public services - are under so much pressure from cuts in funding and other austerity measures, that the cheapest option for procurement of infrastructure, equipment or assets is often the most tempting to deliver Value for Money in the short-term - with little consideration of sustainability over the whole life of a project or asset. Whole Life Costing is a technique commonly used to determine value for money.

Q3a). Discuss how Whole Life Costing is used as a technique to assess Value for Money of investment in a project or asset within the public sector. (4 marks)

Q3b). Outline the advantages and disadvantages of Whole Life Costing. (6 marks)

(10 marks)

### Model Answer Q3

#### Syllabus reference: Workbook 8/ B2

A focus on the purchase cost does not take account of the Whole Life Cost of an asset or infrastructure. Whole Life Costing (WLC) is a way of looking at the costs of a project (or purchase of an asset or even the commissioning of a service) for the entire duration of that project's life cycle (the useful life of an asset, the length of a contract). This is clearly more than the purchase price of an asset; it will also include:

- Initial capital costs (construction costs, professional fees, loan interest)
- Operating costs (energy use, water use, cleaning, maintenance, insurance, etc.)
- Major maintenance, repair or refurbishment costs (labour, materials, disruption costs)
- Disposal costs (resale value, demolition costs, site clean-up)
- Any revenue that the asset will generate during its life (offsetting costs)

There can also be extended costs and benefits to consider, which include:

- Social impacts (and associated benefits and costs)
- Environmental impacts



- Economic impacts

So, for example, an asset that appears cheaper than other options in terms of purchase cost may:

- have much higher running costs
- be expensive to dispose of and
- may not have potential to generate any income when compared to other options.

The steps in a typical WLC approach to an options appraisal or purchasing decision can include:

- Decide on performance criteria
- Determine the assumptions to be fed into the WLC calculation
- Identify the elements which are common to all options and remove these from the comparison (this is an optional step)
- Identify material capital investment, operational and disposal costs
- Identify material income streams (if applicable)
- Place costs and income on a timeline, identifying when they are likely to occur
- Produce a cashflow covering the expected life of the asset (this is commonly produced on a spreadsheet or with specialist software)
- Use discounting to calculate the NPV of all options considered
- Undertake sensitivity analysis of the variables (e.g. the discount rate used, expected useful life of assets and their components)

This will enable decision makers to have a clear comparison of their options for the asset / project, looking at its entire lifecycle.

Benefits/ Advantages of taking a Whole Life Costing approach can be:

- Improved efficiency through a costing process that balances initial capital and running costs
- A resulting reduction in cost for the owner of the asset
- Recording actual performance and operation data and comparing this with predicted performance – which can be used in future planning and decision making

- Supporting the recoding of information on materials and components
- Encouraging discussion and review
- Improving analysis of business needs and the communication of these to decision makers across various departments and teams
- Joining up strategic planning and objectives with purchase and/or construction decisions on the ground
- Assisting in managing potential risk and costs arising from poor performance due to failure or inappropriate maintenance

Challenges/ Disadvantages in applying a WLC approach include:

- Making sure that the limitations of WLC are understood as well as its benefits
- Ensuring there is collaboration across departments (or partners) including those responsible for initial purchasing decisions and those responsible for operation and maintenance budgets
- Having access to reliable data, especially cost information
- Gaining / Having a long term commitment to developing WLC skills and building up knowledge
- Identifying / Recognising the benefits from the use of WLC
- Maintaining a continued commitment to evaluation and feedback

**Mark Scheme:**

**4 marks: for explaining what Whole Life Costing is as a technique (1/2 mark per valid point)**

**6 marks: for discussing advantages and disadvantages (1/2 mark per valid point, split evenly between advantages and disadvantages)**

**Maximum 10 marks**

**Model answer is comprehensive and students are not expected to include all of the detail shown**

**Question Q4****Question type: Knowledge, Application and Analysis**

4a). Define variance analysis. (1 mark)

Giving examples within a public sector organisation:

4b). Explain what can be learnt from variance analysis (4 marks)

4c). Detail what tolerances and limitations would need to be considered when analysing variances? (5 marks)

(10 marks)

**Model Answer Q4****Syllabus Reference: Workbook 13/ C5****Definition**

By definition, variance analysis refers to how much actual performance differs from what was planned.

In terms of budgeting, this is a comparison of actual versus budgeted expenditure and analysing why there is a difference (variance). Budgeting itself can be flawed if the planned expenditure was based on erroneous estimates or data, or there were errors in putting the budget together in the first place.

Variance analysis can also be applied to non-financial performance. If actual performance falls short of the targets that have been set, then it is important to fully understand the reasons for missing the target.

Candidates can give examples of variance analysis used in a public sector setting, demonstrating their knowledge.

**Learning from variance analysis**

Looking at the reasons why a service or programme failed to perform can be important in terms of learning lessons for the future, from several perspectives:

- Whether estimates for service demand were accurate enough
- Whether the planning for a particular strategy was robust and effective enough
- Whether cost estimates (for equipment, staff time, etc.) were robust enough
- Other reasons, specific problems that have been encountered (legal wrangles, technical difficulties)

The concepts of scenario planning and sensitivity analysis from a cost perspective can also be used for non-financial measures.

### **Tolerances**

When looking at variances, it is important to think about tolerance. Some performance indicators and measures will be black or white (e.g. whether a particular service has been introduced or not) whereas others will be less clear to define success or failure.

For these measures, failing to meet a target by, say, 3% could still be considered a success (or at least a significant improvement), even though the target was not achieved.

Similarly, an organisation needs to think about the tolerances to set for financial variances, and whether these should be absolute or a particular percentage (e.g. £1 000 variance or +/- 5%).

Factors to influence these decisions could include:

- financial amounts being considered (size of budget)
- importance of that budget to corporate priorities
- any contractual or legislative parameters (e.g. tolerances relating to whether grant funding will be approved and paid out).

### **Limitations**

Whilst variance analysis can be of great use to managers and stakeholders, its value decreases over time. If it is a long and laborious process to analyse variances for an organisation, the delay in reporting the reasons for variances in performance may mean that there is not time to take corrective action and improve performance from this position.

However, with systems for analysis in place and working effectively, and with monitoring taking place regularly throughout the year (or the lifecycle of a project), variance analysis can aid decision making and management action to ensure that things get back on track, so services can be delivered effectively.

### **Mark scheme:**

|                             |  |
|-----------------------------|--|
| <b>1 mark:</b>              | <b>definition of variance analysis</b> |
| <b>Up to 4 marks:</b>       | <b>learning from variance analysis</b> |
| <b>Up to 2 and ½ marks:</b> | <b>tolerances</b>                      |
| <b>Up to 2 and ½ marks:</b> | <b>limitations</b>                     |

**Maximum 10 marks. Model answer is comprehensive and students are not expected to include all of the detail shown**

## Question Q5

## Question Type: Knowledge

A London council has secured a court order allowing it to work with Airbnb to suppress the illegal subletting of council homes. Lead councillor for housing at the council, said: "There is a huge demand for social housing in our borough and it is simply not fair that people in genuine need are being denied a place to call home because others are illegally subletting their council properties to make money."

Given the above:

Q5a). Describe how, through enquiry with management, external auditors may seek to identify potentially significant financial impacts of fraud against a public sector organisation. (5 marks)

Q5b). What measures to prevent and detect fraud should be put in place by the Chief Finance Officer (5 marks)

(10 marks)

## Model Answer Q5

**Syllabus reference: Workbook 7/ B1**

### **Impact of fraud on public services – how external auditors seek to identify through management enquiry**

A single case of fraud against an organisation can have a significant financial impact. Financial managers must be alert to potential fraud and the potential financial impact on budget planning. As Board level management, and particularly the Chief Finance Officer, have a responsibility for ensuring that systems and procedures are in place to prevent and detect fraud, it is usual for the external auditor to seek assurances by asking the following questions:

- What are management's processes in relation to:
  - Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)
  - Identifying and responding to risks of fraud in the organisation, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist
  - Communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)
  - Encouraging employees to report their concerns about fraud
  - Communicating to the Authority and the Audit Committee the processes for identifying and responding to fraud or error
- What are Management's views about whether there are areas within the organisation

that are at risk of fraud?

- Does Management have knowledge of any actual or suspected instances of fraud?
- Is management satisfied that internal controls to prevent and detect fraud, including segregation of duties, exist and work effectively?
- Are there any deficiencies in internal control?
- Are you aware of any instances where controls have been overridden?
- Is there any organisational or management pressure to meet financial or operating targets?
- Are there any particular areas of the accounts that are more susceptible to false entries or omissions or other forms of manipulation? Are management aware of any manipulation having occurred?
- How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during the period of account?
- Are there any actual or potential litigation or claims that would affect the financial statements?
- How does management satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

These are very challenging questions but nonetheless get to the heart of the matter of prevention and detection of fraud.

## **Roles and responsibilities for counter fraud/ Measures to be put in place by CFO**

### **CFO Role**

The CFO in a public service organisation has specific responsibilities for safeguarding public money. Under that umbrella, the CIPFA statement on the role of the CFO in public service organisations states that the CFO must:

- lead the implementation and maintenance of a framework of financial controls and procedures for managing financial risks
- determine accounting processes and oversee financial management procedures that enable the organisation to budget and manage within its overall resources
- ensure robust systems of risk management and internal control
- ensure financial control is exercised consistently
- implement appropriate measures to protect its assets from fraud and loss

In practical terms the CFO must ensure the internal control framework is established to (as far as possible) prevent internal fraud through separation of duties and authorisation or access controls that will prevent or detect irregularities.

The control framework should extend to appropriate arrangements to effectively detect potential fraud, especially from external sources. One of the largest areas of non-tax or non-benefit fraud in the public sector is procurement fraud.

Procurement fraud is most successful where organisations fail to perform due diligence in the initial procurement process or fail to spot collusion and anti-competitive behaviour between suppliers.

Once goods or services have been procured, fraud occurs most regularly where organisations fail to manage contracts properly or where controls around authorisation of orders and payment of invoices are weak. Unscrupulous contractors submit inflated or fictitious invoices which are paid without sufficient scrutiny by contract managers or finance teams.

Bogus suppliers submit fictitious invoices and rely on weak systems of controls to obtain payment. This is often done by impersonating a real supplier to the organisation and then submitting invoices with 'new' payment details.

Financial managers must be aware of the risks of fraud and the likely areas of exposure and have plans to mitigate the financial impact if the event actually occurs. This might be through insurance or through investment in controls that minimise the risk of fraud occurrence in the first place.

Financial strategy should be developed to ensure the organisation has resilience should a fraud occur and sufficient reserves or insurance to withstand the financial impact.

### **Mark scheme:**

**5 marks: external auditors management enquiry on fraud impact on organisation – ½ mark for introductory comment about fraud impact on organisation; ½ mark for each valid point raised but up to a total of 5 marks for Question 5a**

**5 marks: measures to be put in place by CFO to prevent and detect fraud – ½ a mark for each valid point raised but up to a total of 5 marks for Question 5b**

**Maximum 10 marks**

**Model answer is comprehensive and students are not expected to include all of the detail included**

**Question 6**

**Question type: Knowledge, Application and Analysis**

Q6a). Define benchmarking as a tool for improving performance in a public sector organisation (2

marks)

Q6b). Detail problems a public sector organisation may face with benchmarking. (5 marks)

Q6c) Give three examples of performance indicators that may be used to compare one public sector organisation with another. (3 marks)

(10 marks)

## **Model Answer Q6**

**Syllabus reference: Workbook 13/ C5**

### **Q6a) Definition of Benchmarking**

Benchmarking is the measurement (of the quality / efficiency /effectiveness) of an organisation's policies, performance, strategies, costs, etc., and their comparison with standard measurements, or similar measurements of its peers. It can be a key element of measuring performance and success and providing information to improve an organisation's performance.

### **Q6b) Problems with benchmarking**

Key words:

1. Like for like comparisons
2. Consistently derived measures/values/costs
3. Data sources
4. Data collection
5. Differences in accounting for costs/ services/ activities
6. Major variations between similar organisations

You will often hear the phrase 'comparing apples with oranges' in the field of benchmarking. For effective comparisons, it is essential to be looking at consistently derived measures, values or costs.

Organisations such as CIPFA spend a long time developing consistent methodologies and definitions for performance indicators; data to be collected and prescribe what sources should be



used for the data. For cost information, it is common to ask participating organisations to provide data from specific fields on government returns (such as Revenue Outturn forms – RO forms – for local government in the UK).

However, even with such prescriptive instructions, different organisations will account for costs, services and activities in different ways, so there can be major variations between organisations that seem very similar.

The cost/benefit of ensuring that everyone is providing the same data from the same source and undertaking activities in the same way is something that needs to be taken into consideration, and the costs of benchmarking should always be proportionate to the services being looked at.

### **Q6c) Three Examples of Benchmarking to compare one public sector organisation with another**

#### Examples

For local government bodies in the UK, there were national performance indicators up until 2012-13. A key set of indicators for environmental and street scene services were regularly benchmarked and this practice has continued, even though the Performance Indicators are no longer specified. Examples are set out below:

1. Kg waste per household (tonnes)
2. Cost of waste collection per head of population
3. % waste recycled
4. % missed bins
5. % highway repairs against target
6. % Special needs students using paid for transport
7. Length of road repaired
8. Average Cost per student transported

Students may give examples unique to their location and public sector organisation they are aware of – as long as they are valid examples of performance indicators that can be used for benchmarking.

#### **Mark scheme:**

**2 marks for Q6a – definition of benchmarking**

**5 marks for Q6b – problems with benchmarking – 1 mark per valid point made and explanation for the point**

**3 marks for Q6c – examples of benchmarking performance indicators – 1 mark for each example**

**Maximum 10 marks**

**Model answer is precise and students are expected to include most of the detail shown**



