The Chartered Institute of Public Finance & Accountancy

STRATEGIC PUBLIC FINANCE

March 2021

Duration: 3 hours

Marking Scheme
There are **6** questions on this question paper. Questions 1 and 2 are 30 marks each. Questions 3 – 6 are 10 marks each. Answer **all 6** questions

1

Central government tax rises and their impact on economic growth

Jesse Norman, financial secretary to the Treasury, has warned against immediate tax rises in the upcoming budget which could "impede" economic growth.

Speaking to the Treasury Select Committee yesterday, Norman said his department is focused on stabilising Britain's economy before any thoughts on wider fiscal policies.

He added that a rapid economic recovery could be caused by a "pronounced bounce" in consumer spending and could mitigate the need for tax rises.

Norman said: "It's not absolutely obvious therefore that there may be any future need for consolidation, depending on the view you take of taxes."

His comments seemingly contradict reports made earlier this week, which suggest that

chancellor Rishi Sunak is looking into longer term tax reforms and raising corporation tax in the March Budget.
The reports suggested Sunak is keen to start clawing back some of the record borrowing made by the government in response to the Covid-19 pandemic.
However, Norman said: "I think the chancellor has made clear his strategy pretty clearly … he has said that he is looking to build strong, stable public finances over the longer term".
When asked on potential tax reforms, Norman told the committee that the government is "still reflecting on" an online sales tax, which was trailed during the business rates review first launched in July.
The levy is a mechanism which would charge companies based on their online sales, which could be used to fund business rates reductions for retail properties.
He added that land tax proposals which were also outlined in the review are "theoretically interesting" but added there "are very clear problems associated" with the concept.
Speaking at a Local Government Association conference last week, David Phillips, associate director at the Institute for Fiscal Studies, said reforming the current tax system could offer greater benefits than new tax approaches.
Source PF January 2021 – Oliver Rudgewick

Requirement for question 1

		Marks
(a)	Define the following terms at a national level: • Deficit • Primary deficit • Structural deficit	(3 marks)
(b)	Explain the interdependencies of automatic stabilisers in the economic cycle, and briefly evaluate the potential impact of altering corporation tax rates in the UK at a time of economic downturn during the pandemic.	(7 marks)
(c)	Sustainable debt is a key feature of the UK's response to the current financial crisis as a result of the pandemic, given the extremely low interest rates for borrowing. Explain the term sustainable debt, and how the IMF framework for debt sustainability analysis can help detect, prevent and resolve financial crises.	(10 marks)
(d)	Devolution of fiscal powers can also bring larger financial responsibilities onto finance professionals. Discuss the advantages and disadvantages of devolving fiscal powers from any central government to local government.	(10 marks)
Total		(30 marks)

2

Failures in financial stewardship.

The Australian government's Department of Infrastructure, Transport, Regional Development and Communications failed to exercise appropriate due diligence over its acquisition of land for the potential expansion of an airport in western Sydney, an investigation has concluded.

The Australian National Audit Office conducted a probe into the purchase, after the department's 2018-19 financial statements valued the 'Leppington Triangle' land at a little more than A$3m – one-tenth of the price it had paid 11 months earlier. A purchase agreement between the department and the original landowner was reached in July 2018 for A$28.9m. The report said the department did not develop an appropriate acquisition strategy, and the valuation inflated the value of the land.

The ANAO found that formal briefings by officials to decision-makers and ministers omitted relevant information, including the purchase price, and that the price exceeded all known market valuations of the land. It added that a departmental review of the acquisition process "lacked rigour and did not provide a reasonable basis for concluding that the transaction was settled for an appropriate value".

The incomplete advice provided to decision-makers, and the inadequate response by the department when questions were raised by the watchdog, was "inconsistent with effective and ethical stewardship of public resources", the report said.

Source: Public Finance Focus 24 November 2020

Requirement for question 2

		Marks
(a)	Based on the case, provide examples of recommendations that you would expect the ANAO to make, with explanation why implementing the recommendations might help prevent this happening again.	(7 marks)
(b)	Discuss the role of the Chief Finance Officer in establishing a robust internal control framework to safeguard public money.	(5 marks)
(c)	Effective internal controls should reduce the chance of procedural and governance breaches. They should also help prevent and detect fraud. With use of examples of activities where frauds are common, identify how fraud might be mitigated.	(8 marks)
(d)	The UK has a very wide range of inspectors and regulators for the public and third sector. Not including the statutory external auditors of financial statements, identify and provide a brief description of the responsibilities for five different external inspectors or regulators for public sector organisations. UK or international examples are acceptable.	(10 marks)
Total		**(30 marks)**

3

Requirement for question 3

You are the CFO for a large County Council, and as a result of efficient use of the new financial management system, some back-office services have spare capacity. The Council is looking to exploit this spare capacity by offering services to other public service organisations outside of the County Council. You should assume that they are operating in a competitive market for selling services to other organisations.

(i) Present a definition of the term 'Marketing' and explain briefly why marketing is more than just advertising a product or service.

(2 marks)

(ii) Consider the marketing mix theory of the 4 Ps – Product, Place, Price, Promotion.
Under each heading, discuss what you should consider when developing your marketing campaign for back office services to external customers. (You may also refer to the further 3Ps added to the theory by the Chartered Institute of Marketing).

(8 marks)

(10 marks)

4

Requirement for question 4

a. Explain the purpose of the Commercial case within the Treasury's Five Case Model for business cases, and describe the expected content of this section.

(5 marks)

b. Sometimes a project does not really require the complexity of the Five Case Model. Explain what might be used instead, and, using examples, why this would be more appropriate.

(5 marks)
(10 marks)

5

Requirement for question 5

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

(10 marks)

6

Requirement for question 6

Identify the sequential stages of forecasting, and then discuss when qualitative forecasting might be preferable to quantitative forecasting, with an explanation how qualitative forecasting can be undertaken.

(10 marks)

Question 1

Workbook 1 Syllabus ref A1

a)

i)

The term deficit has several variations in relation to the macroeconomics of a country or nation, but in broad terms the idea is simple. It is when there is an excess of expenditure over income. The variants can be defined as follows:

Deficit

This is when the total expenditure of a country exceeds the revenue. Depending on the country concerned, this may be based on an accrual accounting or a cash accounting basis.

Primary Deficit

This is the deficit excluding interest payments. This could be crucial in assessing the sustainability of a deficit and in any discussions with creditors when negotiating with the IMF/WB and creditors. This was the case with a number of EU countries following the sovereign debt crises of 2008/2009 such as Portugal, Ireland, Italy, Greece and Spain.

Structural Deficit

This is where the deficit is calculated over the economic cycle and is important when allowing for the impact of 'automatic stabilisers' which we explain next.

1 mark per definition total of 3 marks

ii)

Automatic Stabilisers

Over an economic cycle there are variations in the levels of economic activity which will have an impact on employment levels affecting welfare benefits and tax revenues.

When there is an economic downturn, unemployment increases and there is an increased reliance on public services rather than the private sector. The impact of these two events means that the government automatically stimulates the economy by putting more money into the system via the payment of increased welfare payments and increased spending on public services in response to the increased demand.

The increase in welfare benefits is particularly well-focused as the lower the income a household has, the less likely they are to save and more likely to spend (known as a higher propensity to spend). This helps to limit the reduction in demand.

At the same time, tax revenues reduce as consumer demand slows (leading to lower consumption taxes such as VAT), businesses make smaller profits (hence lower Corporation tax) and household incomes drop (reduced yield of income tax).

The increase in expenditure and the reduction in tax revenues means the government has to borrow more to make up the deficit. This debt will eventually have to be repaid so it is therefore important that the opposite situation is recognised when the economy is doing well (i.e. higher tax revenues and lower welfare spending creating surpluses which can be used to repay debt).

In order to take account of these cyclical factors, the deficit is calculated over the economic cycle. Otherwise there is a danger that, during the best times in the economic cycle, governments will not reduce debt levels sufficiently to meet the requirements of the troughs in the cycle.

Increasing corporation tax rates in the UK at a time of economic downturn could generate slightly more income from those larger business that can withstand economic shock, or have shown growth despite overall shrinkage of the economy during the pandemic – such as online delivery businesses and supermarkets. However, any increase in income relies on the business being registered to pay tax in the UK. Also, increasing the corporation tax rate at a time when smaller or other businesses are struggling to continue operating could severely disincentivize innovation, lead to further job losses, business closure and hinder prompt recovery.

Lowering corporation tax rates could lead to quicker recovery for small or struggling businesses, and
encourage entrepreneurs, eventually leading to higher total revenue from corporation taxes. The impact on other countries may also need to be considered if the UK does not want to be seen as a tax haven.

1 mark per point explained about automatic stabilisers, 2 further marks for reasonable evaluation on changing corporation tax rates. 7 marks total

b)

Sustainable Debt (Inter-Temporal Budget Constraint)

This is looking at a long term and often inter-generational time scale (inter-temporal) and it considers if debts that have been accumulated can be serviced i.e. can the interest and principal be paid when it falls due. If it cannot, that is when a country will either default or need to be supported by the IMF.

For the debt to be sustainable the stock of debt must be able to be paid by future revenues and can be represented by:

Debt < Net Present Value of future cash flows.

In many countries, independent scrutiny of the inter-temporal position is included in government budget estimates. This is often due to a history of poor government predictions (i.e. usually over optimistic and often politically influenced).

This scrutiny may be by external bodies scrutinising government estimates - as is the case in France - or of independent calculations used by the government - as is the case in the UK with the Office of Budget Responsibility (OBR). The OBR are an independent body that examines the public finances over a 5-year and a 50-year time period.

In addition, the IMF will carry out a Debt Sustainability Analysis under its Surveillance activities for all its members. Below is an extract from the IMF:

The IMF's advice on macroeconomic policies—both in the context of IMF-supported programs and surveillance—is anchored in the analysis of a country's capacity to finance its policy objectives and service the ensuing debt without unduly large adjustments, which could otherwise compromise its stability. To this end, the IMF has developed a formal framework for conducting public and external debt sustainability analyses (DSAs) as tool to better detect, prevent, and resolve potential crises. This framework became operational in 2002.

The objective of the framework is threefold:

Assess the current debt situation, its maturity structure, whether it has fixed or floating rates, whether it is indexed, and by whom it is held;

Identify vulnerabilities in the debt structure or the policy framework far enough in advance so that policy corrections can be introduced before payment difficulties arise;

In cases where such difficulties have emerged, or are about to emerge, examine the impact of alternative debt-stabilizing policy paths.

The framework consists of two complementary components: the analysis of the sustainability of total public debt and that of total external debt.

Each component includes a baseline scenario, based on a set of macroeconomic projections that articulate the government's intended policies, with the main assumptions and parameters clearly laid out; and a series of sensitivity tests applied to the baseline scenario, providing a probabilistic upper bound for the debt dynamics under various assumptions regarding policy variables, macroeconomic developments, and financing costs.
The paths of debt indicators under the baseline scenario and the stress tests allow to assess the vulnerability of the country to a payments crisis.

1 marks for full and explained definition of sustainable debt
1 mark per point on IMF analysis up to 8 marks
Total 10 marks

c)

Syllabus ref A3 Workbook 4

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

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

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

Arguments in favour:

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

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

Arguments against:

- Lack of capacity at local level - the skills required for good local governance and good local financial management are scarce. In many developing countries there is not the capacity in terms of skills to meet these needs. The capacity not only needs to be developed but also retained. This can take some considerable time and investment in both human and institutional capacity building.
- Risk of (extra layer of) corruption - one of the key arguments promoting decentralisation was greater scrutiny at local level reducing potential corruption. A counter argument is the capture of institutions by local elites that add an additional layer to the system and use that to benefit themselves.
- Replication of systems - operational efficiency may be reduced as the optimum size for operational efficiency may be greater than for the other aspects resulting in replica systems being developed adding costs that are not efficient.
- Additionally, some countries are very small and so the need for localised knowledge is not there, for example city states like Singapore.

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

- Lack co-ordination between different agencies - there can be difficulties co-ordinating policies between national and local agencies on areas such as health and education as well as co-ordinating resources and service delivery. This can be particularly acute where there is a partial overlap of policy for example in health and social care.
- Difficult to link to national policies - there may be a more fundamental problem when local and national policies are at odds with each other. For example, whether the solution for the expansion in airport capacity should be a third Heathrow runway. These are often of strategic national importance and policies rather than local policies where the benefit is seen elsewhere in the country.

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

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

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

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

where: preferences can be voiced; oversight can be promoted; and benefits from taxation observed.

The retention of business rates locally is the start of fiscal devolution, and in England, the aspiration of the government is to move from the 50% retention currently, towards full retention locally by 2020.

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

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

Question 2

Syllabus Ref B1 Workbook 7

a)

The ANAO made three recommendations, all of which were accepted by the department. These included the preparation of comprehensive and balanced written analysis on the benefits, costs and risks of proposals to spend public money.

- The department has also been asked to put in place **protocols** covering staff engagement with landowners, developers or similar parties with integrity risks. These protocols should include guidelines regarding suitable venues and require the presence of at least **two departmental representatives**, with properly **recorded minutes** (separation of duties, independence, transparency)
- The department has also been asked to develop policies and **procedures** to govern its approach to obtaining purchase valuations.

This case exposes the importance of public trust and the expectation that professional work is completed competently, and, of course, is capable of being **verified.** The fact the land was valued prior to purchase by an **independent valuer** would appear to be an obvious control.

In reality, however, only one valuer was approached, when a **competitive tender approach** would be expected, and the appointed valuer was, in fact, proposed by the landowner.

Specific instructions were given to ensure the usual enquiries and investigations associated with a market valuation of this type were not carried out, the report found. The result? A 'restricted assessment', which provided a lower level of assurance than was appropriate. "The department did not provide the ANAO with accurate answers when questions were first asked about the valuation approach," the report found. Not surprisingly, the auditors concluded this was "not ethical behaviour".

Questions relating to integrity and objectivity, as well as professional competence, are raised by the case. Overall, there were numerous instances where officials were not acting in the public interest, the cost of which was enormous to the public purse. Due diligence was missing, separation of duties, and monitoring. The implementation of any of these processes and measures should reduce the opportunity for this kind of stewardship failure.

1 mark per point, note that this is from an article not the learning material so answers may vary significantly. Good students should be able to give plausible examples of recommendations that could have helped based on the information in the case, and some explanation why they could help. 7 marks

b)

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.

1 mark per point, 5 marks for CFO section c)

c)

The control framework should extend to appropriate arrangements to effectively detect potential fraud, especially from external sources. As the table below shows, one of the largest areas of fraud in the public sector that is not related to tax avoidance or claiming benefits is procurement fraud. (table shows fraud areas in order of most activity)

Tax fraud
Vehicle excise fraud
Procurement fraud Grant fraud
Television licence fee
evasion Payroll and
recruitment fraud NHS
patient charges fraud
Student finance fraud
Pension fraud
National Savings and Investments
fraud Housing tenancy fraud
Payroll and recruitment
fraud Council tax fraud
Blue Badge Scheme
abuse Grant fraud
Pension fraud
Benefits fraud
Tax credits fraud

Housing tenancy fraud is a significant area – sub-letting of council housing. This can be detected by routine visits to tenants to establish who is residing in a property.

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. Control processes should be established to detect or prevent these types of activities. An organization should carry out checks on suppliers to independently verify that they are genuine service providers. Collusion is hard to both prevent and detect if the colluders can together breach a control such as separation of duties. Mangers should be alert to employees who work longer hours than their job would normally require, or those who refuse to take some reasonable periods of leave (at least a week at a time)

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.

Candidate may give examples or explanations of any type of fraud. Marks for identifying different types of fraud, as well as how they might be mitigated Limit to 5 marks if only types of fraud are identified.
Max 10 marks

d) Syllabus Ref B1 Workbook 7

The range of inspectors and regulators for the public and third sector in the UK alone is vast. The GOV.uk website lists all the departments, agencies and government bodies in the UK that are currently active.
Within this list are a number of key inspectors and regulators. A selection of inspectors and regulators across the public sector are listed below with a brief description of their responsibilities. The full list is available at: www.gov.uk/government/organisations

The **Charities Commission** registers and regulates charities in England and Wales, to ensure that the public can support charities with confidence.
Within England and Wales, they are responsible for:

- registering eligible organisations in England and Wales which are established for only charitable purposes
- taking enforcement action when there is malpractice or misconduct
- ensuring charities meet their legal requirements, including providing information on their activities each year
- making appropriate information about each registered charity widely available
- providing online services and guidance to help charities run as effectively as possible

The Office of Qualifications and Examinations Regulation **(Ofqual**) regulates qualifications, examinations and assessments in England and vocational qualifications in Northern Ireland.

Ofsted is the Office for Standards in Education, Children's Services and Skills. They inspect and regulate services that care for children and young people, and services providing education and skills for learners of all ages.

HM Inspectorate of Constabulary (**HMIC**) independently assesses police forces and policing, asking the questions that citizens would ask and publishing information to allow the public to compare the performance of their force against others.

The Independent Police Complaints Commission (**IPCC**) exists to increase public confidence in the police complaints system in England and Wales. It also investigates serious complaints and allegations of misconduct against the police and handles appeals.

Her Majesty's Inspectorate of Prisons for England and Wales (**HMI Prisons**) is an independent inspectorate, which reports on conditions for and treatment of those in prison, young offender institutions and immigration detention facilities.
HM Inspectorate of Probation reports to the government on the effectiveness of work with adults, children and young people who have offended with an aim to reduce reoffending and protect the public.

The Health and Safety Executive (**HSE**) is the national independent watchdog for work-related health, safety and illness. It acts in the public interest to reduce work-related death and serious injury across Great Britain's workplaces.

The Independent Case Examiner reviews complaints about certain government organisations that deal with benefits, work and financial support.

The Independent Chief Inspector of Borders and Immigration provides independent scrutiny of the work of the UK Border Agency and the Border Force. The Inspector is completely independent of these organisations, and reports directly to the Home Secretary.
As the sector regulator for health services in England, **NHS Improvement's** job is to make the health sector work better for patients.

- independent NHS foundation trusts are well-led so that they can provide quality care on a sustainable basis
- essential services are maintained if a provider gets into serious difficulties
- the NHS payment system promotes quality and efficiency
- procurement, choice and competition operate in the best interests of patients Within England, **NHS Improvement** makes sure that:

The Care Quality Commission (**CQC**) regulates all health and social care services in England. The commission ensures the quality and safety of care in hospitals, dentists, ambulances, care homes, and the care given in people's own homes.the care given in people's own homes.

The Parliamentary and Health Service Ombudsman investigates complaints about government departments and the NHS in England. They do this independently and impartially, without taking sides. The Pensions Regulator (**TPR**) is the UK regulator of work-based pension schemes. It works with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them.

The Pensions Ombudsman (**PO**) impartially investigates complaints from members of pension schemes (including personal pensions) or their beneficiaries, employers or trustees.

2 mark per example identified and explained, can be others than these listed (10 marks total)

Question 3

Syllabus ref C1 workbook 10

a)

Marketing may be defined by the Chartered Institute of Marketing as 'The management process responsible for identifying, anticipating and satisfying customer requirements profitably.'
Marketing is more than just advertising and may also be considered to be the method by which an organisation achieves a match between what the customer expects, wants or needs and what the organisation is able or willing to provide. It is crucial for an organisation to understand what their customers actually want in a product or service so they can meet these needs.

1 mark for definition, 1 mark for expanding why. 2 marks

b)

Product

- Are the services you offer wanted by your customers?
- Have you consulted your customers?
- What are the attributes your customers want?
- What are your tangible factors: volume, turnaround, information, flexibility, accuracy?
- What psychological factors do you offer: reliable source, help desk, query response?

Price

- How sensitive is demand to changing price?
- How does your price compare with those of your competitors?
- What is the relationship between your price and cost?
- Do you differentiate your prices for different customers?
- Are you able and willing to discount to gain market entry and market share?
- As a public sector organisation what other considerations to you need to take into account (market impact, legal issues around generating income)

Place

- Do you deal directly with your customers?
- How are your services accessed: online, through the post?

Promotion

- How do prospective customers know what you do?
- Do you advertise? If so, how?
- Do you use publicity: sponsorship, employee activity?
- Who does your selling?
- You could also apply the three service 'P's of People, Process and Physical here if you wished.

2 marks per 'P' must be applied to the marketing campaign for back-office services such as IT helpdesk, payroll, HR, invoice processing etc, otherwise cap at 1 mark per 'P' up to 8 marks.

Total 10 marks

Question 4
Syllabus ref C3 Workbook 11

Commercial case
The Commercial Case demonstrates how the preferred option will result in a viable procurement and well-structured project.
This section of the business case includes the planning and management of the procurement. It requires the organisation to set out how the preferred option for spend will be procured competitively, in accordance with European Union (EU) and Word Trade Organisation (WTO) rules and the current regulations for public sector procurement.
It also requires the organisation to clearly specify the service requirements for the spending proposal in output terms, together with the anticipated charging regime and the allocation of risk in each of the design, build, financing and operational (DBFO) phases of the proposed scheme. In addition, it includes the contractual arrangements and specifies the accountancy treatment to be used for the proposed service.

In summary, the commercial case should include:
- procurement strategy
- service requirements
- charging mechanism
- risk transfer
- key contractual arrangements
- personnel implications (for example, the Transfer of Undertakings (Protection of Employment) Regulations 2006 protect employees' rights when the organisation or service they work for transfers to a new employer)
- accountancy treatment

1 mark per point up to 5 marks b)

Smaller Proposals and the Business Justification Case (BJC)
In practice, many projects are not significantly large to require the detailed business case stages outlined above.

The Business Case Justification case (BJC) is a lighter, single stage methodology that is available for smaller less expensive proposals that are not new or contentious, or where pre-competed procurement schemes, (in accordance with EU/WTO rules and regulations) are available such as framework contracts. A much shorter and more simplified business case template based on the fundamentals of the Five Case Model is available and includes the following sections:
- purpose
- strategic context
- case for change
- available options
- preferred option
- procurement route
- financing and affordability
- management arrangements
- investment appraisals

Furthermore, all the sections described in the previous sections for development of the SOP, SOC, OBC and FBC can be scaled down according to the significance of the project.
Many organisations develop their own templates from the guidance, and use different templates depending on the size or impact of the project.
Examples for using the BJC instead of a 5-case model could be for the shift from desktops to laptops, where the desktops were due to be replaced, where frameworks exist, and the specification is clear cut on functionality and maximum cost per unit. This would be suitable as this is a reasonably significant
change of service delivery option, but not an extreme change that might require multiple stages of

change of service delivery option, but not an extreme change that might require multiple
stages of decision making. This would be more appropriate as it would be disproportionally

costly to develop a full business case for a project that will only have a minor impact on the way services are delivered and potentially only a small difference in cost compared to purchasing like for like. The BJC would still include the reasoning for the switch from desktops to laptops to justify any cost implications, and the reasons for options like touch screens or other functionality changes.

1 mark per point up to 5 marks, cap at 3 if no plausible example or explanation is provided. Total marks 10

Question 5

Syllabus Ref C5 Workbook 13

The key motivation for a move to a Balanced Scorecard approach in the private sector is to go beyond a focus solely on financial measures. In the public sector, however, much more non-financial performance is measured as a matter of routine.

Standard methods of performance management, with suites of key performance indicators and reporting of progress against actions, do tend to look at areas such as stakeholder satisfaction, staff satisfaction, training and achievement of outcomes, but they are reported and presented in a less coherent way than that with a Balanced Scorecard.

Linkages, dependencies and relationships between performance measures are often overlooked or not considered when the information is displayed in the standard manner. Balanced scorecards can be more effective, as they are seen as a way of translating an organisation's strategy and mission into measures that can be monitored to illustrate progress and success.

They originated in the US in the 1990s and were used as a way of linking non-financial measures of success with the more commonly used financial measures (sales, profits, shareholder dividends, etc.) There are four key areas in the traditional scorecard:

- Financial Measures
- Customer (External) Perspective
- Internal Perspective
- Learning & Growth Perspective

These have been adapted for the public sector, and some organisations have added further areas to reflect better the different priorities for the public sector.

Whilst developed initially for businesses, the balanced scorecard approach has been adapted for public service organisations. Clearly, the objectives and strategy of such an organisation can still be translated into a scorecard of performance measures:

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

One example is for a local council in the UK – London Borough of Barking & Dagenham:

As part of their 2020 vision document, London Borough of Barking & Dagenham have developed a balanced scorecard, with ***five*** *elements, rather than the traditional four. In addition to categories for 'Customer First', 'Funding for the Future', 'People Matter' and 'Performance Counts', there is an overarching category – 'Community First'. This is to recognise the Council's role in community leadership, promoting the social, economic and environmental well-being of the area.*
There is a strategic scorecard for the whole Council, with performance indicators for each area, supplemented by a framework of service and scorecards, bringing together a total of 200 performance indicators.
Furthermore, the scorecard approach has been adapted to produce a strategic approach for the Council, with 17 strategic objectives (covering the basic four categories) which support 7 community objectives. Although in its early stages, the Council say that this approach has already brought them a number of benefits 'Because the scorecards link our externally focused community priorities to strategic objectives, service priorities and individual performance measures they have helped to clarify the picture and have direct relevance at many levels of the organisation. Services are measurably improving as performance management becomes valued.'

The advantages of a Balanced Scorecard approach are as follows:

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

To implement such an approach will need knowledge and experience of successful change management, as there will often be a significant shift in mindsets and how the organisation looks at its own performance.
As stated above, consensus on developing the objectives, measures, targets and actions will be crucial and time should be devoted to achieving this, utilising proportional avenues of communication and engagement, as appropriate.
The benefits of a Balanced Scorecard approach will need to be sold to those involved, to win 'hearts and minds' and ensure ownership and full engagement.
The disadvantages of Balanced Scorecards can be:

- Having four categories can present difficulties with determining which categories a measure should go in
- Such approaches can require a lot of resources in terms of time and cost
- Information may be incomplete, therefore not giving an accurate overall picture

- There may be a resistance within the organisation, as the approach requires a different mindset and processes from more conventional performance management
- The link between financial investment/savings etc is not always known and may not be 'proved' for some time, therefore difficult to use 'scientifically'
- While balanced, Finance traditionally remains the overriding concern - ie the other dimensions are used to create better financial performance.ie profit - in the public sector the decision is more about the prioritisation of scarce financial resources which requires some adaption and lateral thinking to the original model

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

1 mark per point explaining the BSC approach up to 4 marks
1 mark per point for advantages and disadvantages of a BSC approach up to 4 marks. 2 marks for reference to examples. Total 10 marks

Question 6

Syllabus reference B4 Workbook 9

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 timeline** – 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 income, 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.

Qualitative forecasting
In general, qualitative methods will be used in circumstances where hard data is difficult to collect, or there is no right or wrong way of delivering a service. It involves using soft data and finding out what is going on by asking people, and evaluating their responses.
These are subjective, based on the opinion and judgment of consumers and experts, and are appropriate when past data is not available.
They are usually applied to intermediate to long-range decisions. A qualitative

forecasting method is an estimating method that relies on expert human judgment combined with a rating scale, instead of on hard (measurable and verifiable) data. Some qualitative methods include:

- Simple questionnaire - care must be taken to ensure unambiguous wording, no bias.
- The structured interview – clarity about the subject, consistency in interview, accurate recording, confidentiality.
- Open conversations – where all contributors have their views recorded
- Scenario building– using role play to simulate different scenarios
- guided discussions – round table exercises where problems are discussed, and expert opinions are recorded and analysed.

Difficulties with forecasts

Risk and uncertainly are central to forecasting. It is impossible to forecast the future precisely – there must always be some range of error allowed for in the forecast. Risks are inherent in any forecasting because of the underlying uncertainties of each individual component that forms the basis of the forecast.

It is important to effectively manage risks to reduce their potential impact as far as possible, but it is impossible to mitigate risks completely.

Up to 4 marks for explaining stages
Up to 3 marks for qualitative methods Up to 3 marks for drawbacks
Some flexibility for spread of marks but must cover all 3 areas. Total 10 marks