Strategic Public Finance Exam (September 2023)

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MPs call for sustained bus investment

Committee chair Iain Stewart renewed calls for a funding settlement post 2025, following the publication of a government response to a March report.

MPs said that while they welcomed a recent government commitment to fund bus service improvement (BSIPs) plans until 2025, councils should have further certainty over funding.

Stewart said: "Our report warned that if the government did not loosen the purse strings and give at least some BSIP funding to all areas of the country, a two-tier system could emerge, with some areas having notably worse services than others in neighbouring towns and cities.

"Although the government did not explicitly acknowledge this warning, we are pleased it appears to have taken the idea on board, and that the latest round of funding saw those councils that missed out last time getting some of the pie.

"We still believe the government should find more funding beyond 2025 to truly transform local services in the way its original strategy envisaged."

The committee's report raised concerns over the lack of BSIP support, after research found that more than half of councils didn't receive any support from the first round of funding.

MPs were also sceptical over government plans to get 4,000 zero emissions buses in service by 2024 – at the end of December 2022 just 87 were on the road.

In its response, the government said it hopes reforms to the bus service operator grant fuel subsidy will incentivise councils to improve investment in zero emissions buses.

It said new funding including the Zero Emission Bus Regional Areas (Zebra) fund has boosted public sector investment in electric vehicles.

Source: Public Finance: https://www.publicfinance.co.uk/news/2023/06/mps-call-sustained-bus-investment– 22 June 2023

Requirement

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Q1a)

The article indicates that volatile funding streams impact delivery of public service objectives and their financial plans.

Q1ai) For a public sector organisation, detail the financial management implications of reliance on volatile grant funding. (3 marks)

Q1aii) Discuss how having diverse sources of income can help manage the risks of public sector organisations relying on grants. (3 marks)

Q1aiii) Explain how public sector organisations can maximise their success in obtaining grant funding. (4 marks)

(10 marks)

Q1b)

The article suggests that central government should find more funding beyond 2025 for bus investment.

Q1bi) Outline how dual-purpose taxes can be used as a way of increasing government taxation in order to boost available funding for the public sector, including presenting the advantages and disadvantages of this type of taxation. (6 marks)

Q1bii) Give two examples of dual-purpose taxes **and** explain how the tax burden for each example might encourage behavioural change. (4 marks)

(10 marks)

Q1c)

Charging for public services is an alternative source of funding for public service organisations, especially since austerity measures were introduced in 2010 in the United Kingdom giving an incentive to generate income. The income allows for continuity of service provision and even greater value for money for every public pound spent.

Identify and describe the desirable characteristics for public service charges. (10 marks)

(Total 30 marks)

Feedback:

Available Answers
- Q1bi (6 Marks)

Available Answers
- Q1c (10 Marks)

Available Answers
- Q1ai (3 Marks)

Available Answers
- Q1aii (3 Marks)

Available Answers
- Q1aiii (4 Marks)

Available Answers
- Q1bii (4 Marks)

Model Answer Q 1b)

Q1bi) **Dual-purpose taxes as a form of government taxation to boost funding sources**

Taxes on certain goods are in fact dual- purpose. For example, excise duty on alcohol and tobacco **seeks to reduce consumption and to raise revenue.**

However, history has shown that **while the purpose of such measures was honourable, the impact was not that effective.** Even as far back as 1956, Harold M. Groves of the University of Wisconsin wrote that:

'A tax on tobacco or admissions may not cause some poor family to smoke or attend theatres

[sic] less frequently but to reduce the number of visits to the dentist.... Insofar as [luxury taxes] persuade a consumer...to forgo taxed goods in favour of non-taxed ones, they impose a burden without any yield to the government'

Advantages and disadvantages of the examples of alcohol, tobacco and sugar:

Advantages

- Health benefits for the citizen
- Reduced demand for health services
- Revenue for government

Disadvantages

- Higher tax burden on those "addicted"
- Seen as imposition on civil liberties ("nanny state")
- May not alter behaviour, but still impact on personal wealth/ income
- Impact can be demographic - hit the poorest most

In the UK, despite continual increases in duty on tobacco and alcohol intake and use of these has not been shown to diminish due to this factor. Other factors have had an impact (e.g. limiting areas where smoking is permitted).

Q1bii) **Examples of dual-purpose taxes are:**

· duty on alcohol

· duty on tobacco and cigarettes

· duty on fuel (petrol, diesel, etc.)

· carbon taxes

· tiered vehicle (road) taxes

In all of the cases above, **the tax burden encourages behaviour change:**

· drink less alcohol

· smoke less, or give up completely

· take fewer car journeys, drive more economically (with environmental benefits), buy a more fuel-efficient car, use public transport (or walk) more

· be more conscious about energy efficiency and energy saving

· change to a lower engine capacity, more environmentally-friendly vehicle as well as raising revenues for government

Mark scheme:

6 marks in total for dual-purpose taxation as a form of government funding (1 mark) and listing of advantages and disadvantages (5 marks)

4 marks in total for examples of dual-purpose taxes (1 mark per example) and how the tax burden encourages behaviour change (1 mark per explanation)

Maximum 10 marks

Model answer is comprehensive and students are expected to include some of the detail shown.

Q1c)

Summary of desirable characteristics for public service charging

The desirable characteristics for charges for public services (where charging is an option) are that they should be:

- <u>Easily determined and calculated:</u> the methodology should be relatively simple and straight forward and should not involve undue time and effort expended on the part of those responsible.
- <u>Equitable:</u> public sector organisations have a responsibility to the users of services and to taxpayers. Charges which are made should be fair to all parties and should be seen to be fair.
- <u>Transparent and understandable:</u> in order to reinforce the fairness and encourage people to willingly pay the charges, the basis of charging should be clear to those paying the charges.
- <u>Sufficient:</u> that is, sufficient to meet whatever financial objectives have been set in relation to the service being provided. This may be:

  o full cost recovery

  o to limit the level of subsidy where the subsidy is a fixed amount

  o to limit demand by high pricing

- <u>Compatible with other objectives:</u> the charge should not be set in such a way as to work against the meeting of other, service based objectives. It is important that the mission and purpose of the organisation is recognised clearly and that charges should not conflict with achieving them.
- <u>Related to ability to pay:</u> the local authority provides services that should be available to all, irrespective of ability to pay. In these cases charges should not act as a barrier preventing people from using the services.
- <u>Cost-effective:</u> the charges made should at least cover the administrative cost of recovering them unless there is some other motive behind charging such as encouraging responsible use.

Mark scheme:

1 mark for each characteristic correctly named as underlined. 1 mark for each characteristic

appropriately explained. Maximum 10 marks.

Candidates not expected to cover all the points in the model answer

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Q1a)

Q1ai) Financial Management Implications of Volatile Grant Funding

Financial management of grant funding is a key activity in ensuring alignment between use of resources and service objectives. Central government grants and local taxation are relevant to ensuring that financial plans and forecasts are kept up to date for the range of short, medium to long term objectives are successfully met.

The management of specific grants, and how particular features of these **grants need to be taken into account in strategic management of resources.** The **approach to managing formula grants, which will change according to the economic and social priorities of government is very similar with the sensitivity of both to levels of service affordability which would be a key focus for the CFO.**

Short and long term strategic planning is affected by relying on volatile funding streams. Given the **deficit reduction plans** of the 2015 government in the UK and in recent times, and other similar austerity measures in many other countries, most public sector organisations have felt the **financial squeeze** over the following years. **Central government grants can no longer be relied upon for many as 'certain'.** This is also the case for many charities and third sector organisations that rely on grants from local government.

Financial managers need to be:

- aware of conditions and performance targets attached to funding;

- confident that the risks are being managed around this; and

- informed if things are not on track

The **ability to appropriately plan financially in the short and long term will rely on innovative financial leaders, capable of supporting the services delivery teams in their organisations.**

Q1aii) Diverse sources of income

Financial strategy should ensure that a range of income sources is used wherever possible to help smooth peaks and troughs in funding needs, and **spread risk of funding loss. Reliance on one source** – be it central government or one main benefactor – places an organisation in a much more **financially risky position** than one that is able to obtain smaller amounts of funding from a **range of funding streams.**

Q1aiii) Seeking funding opportunities

The most **successful organisations that rely on external funding sources** are those who:

- **keep aware of funding streams available**

- have **enough resources to seek funding** (which can be time consuming)

- **complete applications on time**, as often the time frame for application can be tight

Examples of local authorities who have a **dedicated officer for seeking grant funding from any source** demonstrate that they are much more successful in obtaining funding, and obtain more funding than those councils who rely on officers applying for grants on a more ad-hoc basis as a small part of their day job. This has been seen in practice, where an **external funding officer is employed and targets are usually set for generating grant income.** Charities and third sector organisations employ dedicated staff to generate donations and fundraising and apply for grants.

Mark scheme:

3 marks for financial management implications of volatile grant funding. Answer is comprehensive and not all points need to be included in student responses. 1 mark per valid point raised

3 marks for diverse sources of income explained

4 marks for seeking grant funding opportunities

Marks can be awarded for relevant examples but are not required for full marks.

Maximum 10 marks

Model answer is comprehensive for financial management implications of volatile grant funding and not all points need to be included in student responses.

Model answer is precise for diverse sources of income and seeking grant funding opportunities and most of the detail should be included in student responses.

Tackling Fraud and Corruption against Government

Most public bodies do not know how much fraud they face and cannot demonstrate that they have the correct level of counter fraud resources, according to the National Audit Office (NAO). The amount of fraud in government expenditure that was reported in the accounts audited by the NAO rose from £5.5 billion total in the two years before the pandemic (2018-19 and 2019-20) to £21 billion in total in the following two years. Of the £21 billion, £7.3 billion relates to temporary COVID-19 schemes. These estimates are in addition to an estimated around £10 billion of tax revenue lost to evasion and crime every year.

The Public Sector Fraud Authority (PSFA) – established last year in response to concerns about fraud during the COVID-19 pandemic and the lack of a coordinated response – has a broader estimate that includes both fraud and error but excludes expenditure specific to the COVID-19 pandemic. It estimates that in 2020-21 there was between £33.2 billion and £58.8 billion of fraud and error in government spending and income unrelated to the pandemic. This is out of £1,106.1 billion of expenditure and £608.8 billion of HMRC tax income.

The vast majority of government's counter-fraud capability sits within the Department for Work & Pensions and HM Revenue & Customs, where the largest known risks exist. However, outside of tax and welfare, most departments have little counter fraud capability and cannot demonstrate that this is proportionate to the level of fraud they face. Government's vulnerability to fraud increased due to its response to the pandemic. The NAO found that public bodies could have better managed the fraud risk without impairing their emergency response.

The NAO concludes that the creation of the PSFA presents an opportunity for a renewed focus on fraud and corruption, but that it will need to be influential across government to achieve the required changes in culture, preventative approach, and robust assessment of risks.

Source: https://www.nao.org.uk/press-releases/tackling-fraud-and-corruption-against-government/ - 30 March 2023

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Requirement

Q2a)

Based on the case above:

Q2ai) discuss the regulatory role of auditors and the National Audit Office in the public sector (8 marks)

Q2aii) provide examples of recommendations that you would expect the NAO to make with respect to PSFA, with explanations on how fraud could be prevented with the implementation of the recommendations. (4 marks)

(12 marks)

Q2b)

Explain the impact that Public Sector inspectors and regulators should have on financial strategy.

(8 marks)

Q2c)

Pooling budgets between public sector organisations can enhance transparency and accountability in the use of public funds.

Q2ci) Explain what a pooled budget is and how it is managed. (3 marks)

Q2cii) Explain what an aligned budget is and how it is managed. (3 marks)

Q2ciii) Discuss the drivers for pooling and aligning budgets. (4 marks)

(10 marks)

(Total 30 marks)

Feedback:

Available Answers
- Q2ai (8 Marks)

Available Answers
- Q2b (8 Marks)

Available Answers
- Q2ci (3 Marks)

Available Answers
- Q2aii (4 Marks)

Available Answers
- Q2cii (3 Marks)

Available Answers

- Q2ciii (4 Marks)

Q2a) The regulatory role of auditors, inspectors and regulators (NAO / PSFA)

Q2ai) **Auditors** in the public sector and private sector both **perform a regulatory role in accordance with relevant laws. The Local Audit & Accountability Act 2014 outlines the audit requirements for UK Local Authorities. The NAO have responsibilities across a range of public sector organisations, including the NHS, Police and Central Government departments.**

External auditors have an increasing influence on the development of financial strategy. Their influence is not only restricted to their opinion on the **truth and fairness of the financial statements** and the **reporting of any material misstatements in the accounts** but also on their assessment of **value for money.** This assessment may influence the organisations ability to **obtain funding or their financial standing with banks and other lending** institutions. This may have an effect on the organisation's ability to obtain credit for projects and investment.

The **National Audit Office (NAO)** have provided external auditors with guidance on assessing the **financial resilience of a local authority and the strength of its arrangements in place to ensure good value for money is achieved.** The approach will **focus on matters that will highlight risks associated with significant projects or programmes, the strength of governance arrangements and the degree to which required savings have robust plans.**

There may be further influence where the external auditors have undertaken value for money

audits, or reports in the public interest. These reports are in the public domain and can cause adverse publicity that leads to stakeholder action and changes to policy or even legislation.

Public service organisations will normally have an **internal audit function. Publicly funded organisations must demonstrate good governance arrangements, which includes appropriate internal audit arrangements.**

Q2aii) Recommendations the NAO made with respect to PSFA, to help prevent fraud

These include

- **faster transparency,**

- **better management of conflicts of interest,**

- **addressing known vulnerabilities more quickly,**

- and **timely financial reporting.**

The **NAO has set out 9 insights on measures the PSFA can take to help government reduce the extent of fraud and corruption:**

1. **Demonstrate best practice financial control and transparency.** Public bodies must demonstrate that they have **put in place the basics of good governance and financial management, are transparent, and have assurance that their controls are working effectively.**

2. **Act as 'one government' in tackling fraud.** PSFA will need to **work in partnership with Departments** such as HMRC and DWP which contain most of government's counter fraud capability and win the support of departments with less capability. It needs to set out clear business cases for each of its services to demonstrate to others why they should use them.

3. **Set an anti-fraud and corruption culture.** Leaders need to set the right tone **from the top** on tackling fraud and corruption. They also need to celebrate the detection of fraud and corruption to encourage people to speak up and to learn lessons.

4. **Develop robust assessments of the level of fraud and corruption.** PSFA aims to produce a global fraud risk assessment that summarises the level of fraud across government and highlights areas where more action is needed. It needs to develop a methodology to assess the levels of fraud and corruption that public bodies can use in a proportionate way and which provides both sufficient information and coverage to inform decision making

5. **Embrace a preventative approach,** tailored to the risks of each area. Public bodies should aim to **demonstrate cost effective controls that minimise the risk of fraud and corruption** as much as possible while also securing their other objectives. Taking a fully preventative approach will require effort beyond the counter-fraud profession.

6. **Develop the counter-fraud and corruption profession.** Adopting more preventative approaches will require a new cadre of counter-fraud and corruption professionals capable of working with other professions to assess risks and develop digital and operational means to tackle fraud

7. **Harness and use data to prevent fraud and corruption.** But government efforts to use data are hindered by both technical and legal challenges. Government also needs to do more to improve public confidence in the use of data analytics to detect and prevent crime and the impact that this can have on different user groups.

8. **Design out fraud and corruption from new initiatives and systems.** One of the key lessons from the level of fraud in government's COVID-19 response is the need to design counter-fraud measures, including controls, reporting and recovery, into new initiatives at an early stage. PSFA has introduced a process for new Initial Fraud Impact Assessments to assess the risks and design mitigations. PSFA and departments now need to show they can make this work.

9. **Use its investigative powers and capabilities as an effective preventative deterrent.** Public bodies need a means of judging the appropriate balance between criminal prosecution and civil recovery, the means and powers to pursue crime and to clearly communicate their enforcement activities to act as a deterrent.

Mark scheme:

1 mark per valid point made for both parts of question

Up to a maximum of 12 marks

Model answer is precise for the role of auditors and NAO in the public sector and students are expected to include most of the detail outlined. (8 marks)

Model answer is detailed for recommendations for and explanation for how recommendations could help prevent fraud and students are not expected to include all the detail shown. Note that recommendations are from the NAO website referenced in learning material and not the learning material itself so answers may vary significantly. Well read and prepared students should be able to give plausible examples of recommendations that could have helped based on information in the case and knowledge gathered during the course, and some explanation of how (4 marks)

Q2b) The Impact of Inspectors and Regulators on Financial Strategy

- As a financial manager, it is important to be **aware of the range of regulators** that exist for your type organisation

- as part of the finance manager's role is to **understand the rules (financial and otherwise)** within which the organisation must operate.

- **Financial strategy and service alignment to resources must be developed within the constraints of the regulators and inspectors** and

- **appropriate business and financial records must be maintained** to demonstrate compliance to the inspectors.

- The **cost of compliance must also be taken into consideration** when developing financial strategy,

- especially where the **penalties for non-compliance could cause unnecessary financial pressures.**

- The **public sector is subject to more regulation and inspection** than the private sector because of the

- **need to openly and independently demonstrates how public money has been spent.**

Mark scheme:

1 mark for each point raised per mark scheme, up to 8 marks.

Students who include bold words (indicated in model answer) within their response can get up to 8 marks if their explanations are clear; if bold words are not included in answer, marks given will depend on how much their response matches the model answer or provides valid explanations , but they should still be given marks for correct information.

Model answer is precise and students are expected to include all of the detail.

Q2c)

Q2ci) Pooled budgets and how they are managed

Pooled budgets means those that are shared between and usually contributed by, more than one organisation. This will usually be done for partnership working or where joint service delivery is needed.

A **pooled budget (or fund)** is an arrangement where **two or more partners make financial contributions to a single fund to achieve specified and mutually agreed aims.** It is a single budget, **managed by a single host with a formal partnership or joint funding agreement that sets out aims, accountabilities and responsibilities.**

Q2cii) Aligned budgets and how they are managed

Aligned budgets **involve two or more partners working together to jointly consider their budgets** and **align their activities to deliver agreed aims and outcomes,** while **retaining complete accountability and responsibility for their own resources.**

Under this arrangements **budgets remain with the individual organisation** but a **joint board** comes together to agree joint objectives and how individual organisations activities can be **aligned to maximise the synergies between them.** This is the **loosest form of shared budgeting, as it is not a single pool controlled by one organisation.**

Q2ciii) Drivers for pooling and aligning budgets

- **Constraints on public finances** mean that it is **essential to find new ways of working that enable delivery** on serious economic, social and environmental issues **while at the same time making savings.**

- The aim of pooled and aligned budgets is **to deliver more efficient and effective services that better meet citizen's needs.**

- Sensible, collaborative, behaviour can lead to **better outcomes for local people and drive better value for money.**

- Local people care about the quality and relevance of the services they get but are less concerned about who supplies them. **Local partnerships are maturing and the amounts they are investing in joint financing are rising.**

Mark Scheme:

3 marks for pooled budgets definition (1 mark) and how they are managed (2 marks)

3 marks for aligned budgets definition (1 mark) and how they are managed (2 marks)

4 marks for the drivers for pooled and aligned budgets

This is a precise answer and students are expected to include most of what is shown in mark scheme

Question 3

Public service organisations are faced with important strategic decisions to ensure value for money. This can include decisions around the investment of their surplus cash as well as whether to insource or outsource services.

Requirement

Q3a) Using one example of a public sector organisation, describe the organisational investment powers and constraints in public services for investment of surplus cash (4 marks)

Q3b) Define insourcing and explain its advantages and disadvantages. (6 marks)

(Total 10 marks)

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Feedback:

Available Answers

- Q3a (4 Marks)

Available Answers

- Q3b (6 Marks)

Q3a) Investment powers and constraints in public services for investment of surplus cash and example

There is a wide range of organisations within the public services. The powers that local authorities and the NHS have to invest their surplus cash are:

Example 1: Local Government

Local authorities' treasury management activities are prescribed by statute. The sources of their powers are, in England and Wales, the Local Government Act 2003. The Local Government Finance Act (Northern Ireland) 2011 provides for the same powers for district councils in Northern Ireland and the Local Government Investments (Scotland) Regulations 2010 set out the provisions relating to Scottish authorities.

Essentially, a local authority in England, Wales or Northern Ireland may borrow or invest for any purpose relevant to its functions, under any enactment, or 'for the purpose of the prudent management of its financial affairs'. The latter is intended to cover those investments made in the course of treasury management and also covers the temporary investment of monies borrowed to finance expenditure in the near future. It should be noted, however, that borrowing purely to invest remains unlawful. A local authority in Scotland can invest money in accordance with the regulations.

Local authorities are not constrained by law in the types of investments they may make or the investment instruments they may use, although in addition to the Code of Practice, they are subject to formal guidance from central government.

Example 2: The National Health Service NHS Trusts

NHS Trusts only have the power to invest any surplus funds with the National Loans Fund Temporary Deposit Facility operated by HM Treasury or Government Banking Services accounts.

NHS Foundation Trusts

NHS Foundation Trusts (NHSFTs) have the ability to invest surplus exchequer funds commercially. The overall objectives of an NHSFT in relation to treasury management should be to ensure a competitive return on surplus cash, within an acceptable risk profile. Monitor (the independent regulator of NHSFTs) issued guidance in 2005 to support NHSFTs in this. The guidance, Managing Operating Cash in NHS Foundation Trusts, advises that NHSFTs should invest surplus operating cash in 'safe harbour' investments and have a written operating cash management policy.

Safe harbour investments are those that ensure adequate safety and liquidity, and must meet all of the following criteria:

· They meet the permitted rating requirement issued by a recognised rating agency.

· They are held at a permitted institution.

· They have a defined maximum maturity date.

· They are denominated in sterling.

· They pay interest at a fixed, floating or discount rate.

· They are within the preferred concentration limit (the extent to which investment is to be made in any one entity or group of entities).

Safe harbour investments include (but are not limited to) money market deposits, money market funds, government and local authority bonds and debt obligations, certificates of deposit and sterling commercial paper provided that they meet the above criteria.

Other examples: Public sector variations

Universities and charities have few restrictions on their investment powers, with many having sophisticated corporate treasury and investment functions. Nevertheless, these sectors provide some excellent examples of good stewardship. The Welcome Trust is an example of a large charity with a spectacularly successful investment team managing a substantial endowment.

(www.wellcome.ac.uk/Investments/History-and-objectives/index.htm)

Yale University is a similar example in the education sector. (www.investments.yale.edu/) and has sound governance arrangements.

Registered Providers of Social Housing often have substantial treasury teams who issue bonds to fund capital expenditure, often engaging in sophisticated interest rate hedging.

Many countries outside the UK often have gigantic **sovereign wealth funds**, which invest public monies to support national expenditure. These funds are significant purchasers of long term assets like major infrastructure projects and property developments and are significant contributors to public finance in other countries as a result.

Mark Scheme:

3a) 4 marks: Investment powers and constraints of a public service organisation when investing surplus cash. 1 mark per valid point raised – answer must cover investment powers and constraints for a named type of public sector organisation

3b) 6 marks: 1 mark for definition of insourcing; 5 marks for list of advantages and disadvantages of insourcing

Maximum 10 marks

Model answer gives specific examples for local authorities, NHS and other public sector variations and is therefore comprehensive and students are not expected to include all of the detail shown with respect to investment powers and constraints. For the example given, marks are discretionary depending on how well the detail is articulated by the student. Students can also provide examples specific to their geographical location. Examples should be well explained and describe the investment powers and constraints faced when investing surplus cash.

Model answer is precise for list of advantages and disadvantages of insourcing. Students expected to include all the detail shown. 1 mark for definition (either of the 2 definitions is acceptable); 1 mark per advantage; 1 mark per disadvantage.

Q3b) Definition of Insourcing and Advantages and Disadvantages of Insourcing

Insourcing is an alternative to collaboration and outsourcing. The term insourcing in this context refers to **providing a service in-house by staff employed by the organisation they serve.** This is the opposite of outsourcing, and usually occurs after outsourcing has been abandoned. This can happen as a result of political or management decision, a change in strategic direction, or failure of a provider to deliver the required level of service.

There is an **alternative meaning of insourcing – where an external entity provides a service on your premises and integrates with your processes and staff, for example a print and copier company operating their own machinery and staff in your building.**

The **advantages and disadvantages in the next table refer to bringing a service back in-house.**

Advantages

- Organisation is in control of its own staff and service standards.
- Potentially lower costs, and less likely to incur unpredictable or additional costs
- Less likely to have cultural compatibility issues over common goal
- Improved staff morale and ownership of service

Disadvantages

- Limited access to expertise that is not already in the team
- Resources between organisations may not be split fairly, which may lead to resentment and dispute
- Organisation is liable for any increases in staff costs and any HR related problems such as sickness and staff turnover.

Mark Scheme:

3a) 4 marks: Investment powers and constraints of a public service organisation when investing surplus cash. 1 mark per valid point raised – answer must cover investment powers and constraints for a named type of public sector organisation

3b) 6 marks: 1 mark for definition of insourcing; 5 marks for list of advantages and disadvantages of insourcing

Maximum 10 marks

Model answer gives specific examples for local authorities, NHS and other public sector variations and is therefore comprehensive and students are not expected to include all of the detail shown with respect to investment powers and constraints. For the example given, marks are discretionary depending on how well the detail is articulated by the student. Students can also provide examples specific to their geographical location. Examples should be well explained and describe the investment powers and constraints faced when investing surplus cash.

Model answer is precise for list of advantages and disadvantages of insourcing. Students expected to include all the detail shown. 1 mark for definition (either of the 2 definitions is acceptable); 1 mark per advantage; 1 mark per disadvantage.

Question 4

Whole Life Costing is a technique used to assess the costs of projects, asset purchases or service commissioning. This is over the entire duration of a project's life cycle.

Requirement

Q4a) Discuss when it is appropriate to use whole life costing. Give two examples of when it could be used (5 marks)

Q4b) Outline the steps used in a typical Whole Life Costing approach (5 marks)

(Total 10 marks)

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Feedback:

Available Answers
- Q4a (5 Marks)

Available Answers
- Q4b (5 Marks)

Model Answer Q4

Q4a)

When to use Whole Life Costing

The Whole Life Costing approach is flexible and whilst it is **commonly used at the purchasing and options appraisal stage in the lifecycle of an asset, it can be used when looking at particular components of facilities, items of equipment, refurbishment and repair work on facilities or equipment and so on.**

For example, it can be used:

· As part of a purchasing options evaluation

· To estimate the total costs and benefits of any given project or asset purchase (not just physical infrastructure or assets)

· When considering alternative specifications

· When reviewing assets and considering upgrading, repair or disposal options

· When identifying and managing future operational costs linked to assets

· When assessing the costs and benefits of a new or improved technology

Q4b)

Steps in a typical Whole Life Costing approach

The steps in a typical WLC approach show some similarities to Cost Benefit Analysis when evaluating options, but will essentially include:

1. **Decide on performance criteria.**

2. **Determine the assumptions** to be fed into the WLC calculation.

3. **Identify the elements which are common to all options and remove these from the comparison** (this is an optional step).

4. **Identify material capital investment, operational and disposal costs.**

5. **Identify material income streams** (if applicable).

6. Place **costs and income on a timeline**, identifying when they are likely to occur.

7. **Produce a cashflow covering the expected life of the asset** (this is commonly produced on a spreadsheet or with specialist software).

8. **Use discounting to calculate the NPV of all options considered.**

9. **Undertake sensitivity analysis of the variables (e.g.** the discount rate used, expected useful life of assets and their components).

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

Mark scheme:

Q4a) 5 marks – 3 marks for explanation of when to use Whole Life Costing and 1 mark for each of the two examples given

Q4b) 5 marks – ½ mark for each Whole Life Costing step given

Maximum 10 marks. Except for examples given, model answer is precise and students are expected to include most of the detail for the first 5 marks and all the detail for the second 5 marks.

Question 5

The role of the business case is critical to decision-making in public sector organisations.

Requirement

Q5a) Name and briefly describe the purpose of each of the Five Cases in the Treasury's Five Case Model for Business Cases. (5 marks)

Q5b) Outline the rationale for having a business case for decision-making in the public sector and describe the perceived benefits of applying the Treasury's Five Case model (5 marks)

(Total 10 marks)

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Feedback:

Available Answers
- Q5a (5 Marks)

Available Answers
- Q5b (5 Marks)

5a) Name and briefly describe the purpose of each of the Five Cases in the Treasury's Five Case Model for Business Cases

list purpose as defined in learning material for each one

Strategic Case - The Strategic Case demonstrates how the proposal fits with the strategic objectives of the organisation, and how it will support the achievement of those objectives. It should present a robust and evidence-based case for change. This includes the rationale of why intervention is required, as well as a clear definition of outcomes and the potential scope for what is to be achieved.

Financial Case – the financial case demonstrates that the preferred option will result in a fundable and affordable project. It sets out the capital and revenue requirement for the spending proposal over the expected life span of the project, assesses how it will impact the balance sheet, income and expenditure account and pricing of the PSO.

Economic Case - The main purpose of the Economic Case is to demonstrate that the spending proposal optimises value for money (for public services as a whole, rather than the individual organisation).

Commercial Case – the commercial case demonstrates how the preferred option will result in a viable procurement and well-structured project. This part includes the planning and management of the procurement (covering competitive procurement and service requirements for spending proposal in output terms, charging regime and risk allocation).

Management case – the management case demonstrates that the preferred option is capable of being delivered successfully, in accordance with recognised best practice, with implementation in accordance with a recognised Programme and Project Management (PPM) with robust arrangements in place for change management, contract management, delivery of benefits and the management and mitigation of risk.

<u>Mark scheme:</u>

Q5a) 5 marks: ½ mark for each case correctly named and ½ mark for each case's purpose correctly explained.

Q5b) 5 marks: Rationale for business case in decision-making in public sector (2 marks) and benefits achieved from applying the Five Case Model in line with Treasury guidance (3 marks)

Maximum 10 marks

Model answer is comprehensive and students are expected to include most but not all of the detail shown above.

5b)

Rationale for having a business case for decision-making in the public sector

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.**

Benefits achieved from applying the 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 business cases** and to **improve the efficiency and throughout of the spending approval 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**

<u>Mark scheme:</u>

Q5a) 5 marks: ½ mark for each case correctly named and ½ mark for each case's purpose correctly explained.

Q5b) 5 marks: Rationale for business case in decision-making in public sector (2 marks) and benefits achieved from applying the Five Case Model in line with Treasury guidance (3 marks)

Maximum 10 marks

Model answer is comprehensive and students are expected to include most but not all of the detail shown above.

Question 6

The economic appraisal in the business case has nine costs that should be included in the appraisal.

Requirement

Q6) Describe and explain, with examples where appropriate, the following costs to be included in economic appraisal:

Q6a) Revenue costs (4 marks)

Q6b) Contingent liabilities (2 marks)

Q6c) Sunk costs (2 marks)

Q6d) Full economic costs (2 marks)

(Total 10 marks)

Please enter your answer below.

To make sure you answer the question fully, you can copy the requirements into the answer box below using ctrl+c (copy) then ctrl+v (paste) buttons.

Feedback:

Available Answers
- Q6a (4 Marks)

Available Answers
- Q6b (2 Marks)

Available Answers
- Q6c (2 Marks)

Available Answers
- Q6d (2 Marks)

Q6) Description and explanation of 4 costs for economic appraisals in the business case

The following provides an overview of 4 of the 9 costs that should be included in the economic appraisals:

Q6a) **Revenue costs:** these are the **running costs** and are at least as important as capital costs. They must be included but it **should not be assumed that they will remain unchanged for the baseline option over time.**

Fixed, variable, semi-variable and step costs these costs should be distinguished between within the economic appraisals and their relationships explained in full:

- **Fixed costs remain constant** over a wide range of activities for a specified period of time – for example, the building.
- **Variable costs vary** according to the volume of activity – for example,, training costs.
- **Semi-variable costs include both fixed and variable components** – for example, a combination of fixed maintenance costs and variable call-out charges.
- **Step costs for a pre-determined level of activity that eventually rise** by a given amount – for example, the need for a new call centre after a certain volume of calls.

Q6b) **Contingent liabilities: commitments to future expenditure if certain events occur** should be included in the economic appraisals. For **example,** the cancellation costs for which a public sector body may be liable if it prematurely cancels a contract.

Q6c) **Sunk costs:** these are amounts that have already been spent and cannot be recovered. They should be noted in the case and excluded from the economic appraisals.

Q6d) Full economic costs: the **full costs (direct, indirect and attributable) of each option**, rather than its net cost in relation to the baseline proposal must be shown. This **means 'bottom up' costing**, which provides a better understanding of the cost differences between options and is more transparent.

Mark scheme:

4 marks for Revenue costs

2 marks each for Contingent liabilities, Sunk costs and Full economic costs

1 mark per valid description and explanation and, where appropriate, a mark for an example.

Maximum 10 marks

Model answer is concise and students are expected to include all of the detail in mark scheme.