

## **STRATEGIC PUBLIC FINANCE**

**September 2019**

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

*Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication. Marks will also be awarded for appropriate examples drawn from real life that demonstrate understanding and application of theory.*

# 1

Crossrail is a major transport infrastructure project in London UK. Its problems are not unique to large complex building projects.

Crossrail Ltd, the company heading up the troubled project, has said central sections of the line will open between October 2020 and March 2021 but is yet to evaluate the impact of this schedule on costs, according to the National Audit Office.

The NAO report, out today, said: 'While it has made progress with the development of a detailed and realistic plan, Crossrail has not yet completed its assessment of the financial implications of this opening schedule.'

It noted that the programme initially became 'dominated by a fixed completion date' of December 2018 and working to this deadline drove up costs and meant multiple activities were forced to run in parallel.

Sticking to the original opening date meant that costs on most of the 36 main contracts have increased substantially. This was due to changes to contractors' delivering schedules, which amounted to £2.5bn between 2013 and 2018. Meg Hillier, chair of the Public Accounts Committee, said: 'It is concerning that Crossrail Ltd deluded itself for so long about its ability to meet its original opening date, and the £17bn plus programme's project management was not up to the job.'

The project was initially given £14.8bn in 2010 but this has since risen to £17.6bn following emergency funding boosts. When complete, the railway will run between Reading, through central London, to Shenfield in Essex.

The NAO said, 'there is no going back' on the project and Crossrail Ltd must now 'refine' its plan and set out a realistic cost estimate.

Amyas Morse, head of the NAO, said: 'Throughout delivery, and even as pressures mounted, Crossrail Ltd clung to the unrealistic view that it could complete the programme to the original timetable, which has had damaging consequences.'

'Department for Transport and Transport for London must support the new Crossrail Ltd executive team to get the railway built without unrealistic cost or time expectations.'

'While we cannot make an overall assessment of value for money until Crossrail is complete, there have been a number of choices made in the course of this project that have clearly damaged public value.'

Mark Wild, chief executive of Crossrail, said: 'I share the frustration of Londoners that the huge benefits of the new transport line are not yet with us. A new leadership team and enhanced governance structure has been put in place to strengthen the Crossrail programme and put the project back on track.'

Source: Public Finance, Dominic Brady, 3 May 2019

---

▪ **Requirement for question 1**

- (a) Outline the best practice project management arrangements you would expect to be in place for a project of this nature. For the Crossrail case (or other major project you are familiar with) assess the project management arrangements in place against best practice, and suggest potential improvements that should be considered for similar future projects.  
*(10 marks)*
- (b) How can sustainability be incorporated into the programme of work for Crossrail, or other similar project, in order to ensure a continuing benefit following the project close?  
*(5 marks)*
- (c) Discuss the role of the Chief Finance Officer (CFO) in supporting project management, and outline areas where a CFO might be expected to intervene.  
*(8 marks)*
- (d) Using the benefits realisation model, explain how the benefits from the project (realised, or not) can be assessed, use examples from the case, or other major project to illustrate your answer.  
*(7 marks)*  
**(30 marks)**

# 2

The UK's Chancellor of the Exchequer, Philip Hammond, has hinted if the Treasury goes ahead with a three-year Spending Review it might not happen in 2019, to a group of MPs.

When pressed on whether the six-month extension to Brexit discussion meant the Spending Review would be delayed until next year, Hammond did not answer the question. He told the Treasury Select Committee: 'We will keep an open mind about how the process should unfold as we go through the next few months.'

'If we are going to do a full three-year Spending Review then we need to formally start the process before the summer recess, carry it on through summer and bring it to a conclusion around the time of the autumn Budget.' Hammond committed to a three-year Spending Review by the time MPs break for the summer in the Spring Statement in March 2019, although this was subject to a Brexit deal.

Since then, the EU has granted Theresa May an extension to Brexit from March 29 to October 31 to give the UK extra time to solve its current political impasse. While talks between the government and Labour continue it is unlikely a deal will be drawn up, and agreed by the EU, imminently.

Hammond also told the committee: 'My own view at the moment is that if we have not clearly found the solution to the Brexit conundrum and we are on our way to delivering an outcome it probably would not be appropriate to go ahead with a three-year Spending Review.'

MPs also challenged Hammond on the funding gap facing local authorities, citing the Local Government Association's analysis that estimates the funding gap will reach £8bn by 2025.

'We will be – in the course of the Spending Review – setting forward budgets for local authorities,' he said. Hammond added: 'I do accept there is a funding gap but I don't accept the numbers you just quoted from the LGA.' The chancellor said that he did not have alternative figures that he was willing to share with the committee, when asked by the panel.

'Obviously we are looking at local authority funding, and it will be one of the key areas that we need to look at,' he added.

Source: Public Finance, Dominic Brady, 24 Apr 19

---

## ▪ Requirement for question 2

- (a) In terms of public services financial planning, other than the uncertainties relating to Brexit, discuss with examples from your experience or learning:
- why the development of medium and longer term financial plans is important
  - the key assumptions for sources of income and types of expenditure

you would expect to see in medium and longer term financial plans

- the advantages and disadvantages of medium and longer term financial planning.

*(10 marks)*

- (b) It remains likely that the funding gap between central government grant and local authority spending requirements will continue to increase (be it £8 billion by 2025 or some other figure to be determined). In the absence of the Spending Review being undertaken by the Government, public service organisations such as local government, health services and higher education may need to become skilled in developing their own financial forecasting.

Discuss the stages of forecasting, making reference to qualitative and quantitative forecasting methods and examples from your learning or experience. Include the potential drawbacks of quantitative forecasting when relying on historical data.

*(10 marks)*

- (c) The CFO may be involved in seeking alternative sources of funding if they consider that there is too little certainty to rely on traditional central government grants.

Identify a range of good governance practices that help mitigate risks with funding sources and discuss what other activities CFOs can do to reduce the risk exposure to the organization in relation to volatile funding sources.

*(10 marks)*

***(30 marks)***

**3**

Your Chief Executive and the Board Members are keen to consider how the finance function could move away from a centralised approach, to meet the changing needs of the organisation, and make full use of available technology.

---

▪ **Requirement for question 3**

As Head of Finance, you are required to provide a report to your organisation's Board that discusses the benefits of Finance Business Partnering, compared to the more traditional centralised finance approach. Your report should also outline any areas of difficulty that may typically be encountered when implementing this approach to delivering financial services.

**(10 marks)**

**4**

▪ **Requirement for question 4**

Describe the purpose and objectives of the PEFA framework, and discuss the advantages and disadvantages of relying on a standard set of performance indicators to measure aid effectiveness.

**(10 marks)**

**5**

Local council mergers are becoming more common. A study last year by the Local Government Association in the UK found councils were saving about £971m per year through shared services and other partnership arrangements. By merging to become West Suffolk, the councils of Forest Heath and St Edmundsbury expect to save a further £800,000 per year on top of the £4m already saved annually by sharing services. Suffolk Coastal and Waveney councils forecast that merging to become East Suffolk will save £1.3m on top of savings of £16m from sharing services.

---

▪ **Requirement for question 5**

- (a) With reference to examples from your studies or experience, describe the characteristics of mergers in a public sector context, explaining how they differ from some other types of collaboration.

*(3 marks)*

- (b) Discuss the advantages and disadvantages of mergers, including the specific difficulties that might be faced by merging some types of public service organisations. Refer to examples where appropriate.

*(7 marks)*

***(10 marks)***

**6**

Whole Life Costing (WLC) is a way of looking at the costs of a project (or purchase of an asset or even the commissioning of a service) for the entire duration of that project's life cycle, such as the useful life of an asset, or the length of a contract. This is clearly more than just the purchase price of an asset.

---

**Requirement for question 6**

- a) Describe, with reference to examples, the component costs and impacts that should be included when undertaking a whole life costing exercise for a project, asset purchase or commissioning of services.

*(3 marks)*

- b) Briefly describe the steps required when undertaking a whole life costing exercise, and discuss the benefits and challenges that might be encountered.

*(7 marks)*

***(10 marks)***

Question 1

**Syllabus ref A5**

a)

A range of project management techniques can be utilised when attempting to deliver a project on time and in budget.

The business case for a project of this scale should follow the Treasury's Five Case Model and therefore should include detailed management case of how the project can be delivered, within realistic timeframes. The project management techniques should also be included here.

Responses needed to both recognise best practice project management techniques and apply the techniques to the case.

Best practice for project management includes:

- programme and project management methodology (PPM) and structure
- programme and project management plans
- use of specialist advisers
- change and contract management arrangements
- benefits realisation
- risk management
- monitoring during implementation (proportionate) including delivering on time
- post implementation evaluation arrangements
- contingency arrangements.

The role and responsibility of the Project Director / Manager is central to the successful implementation of the project. To manage this project properly and effectively a smart and dedicated project management unit (PMU) would be necessary to deliver the project.

Continuity of key staff is desirable in order to prevent any unnecessary disruption and ensure learning points are not lost to the organization. New leadership has been introduced in this case to revitalise the project, but it should be recognised that this could also disrupt the project for a time during adjustment to new leadership.

Another important element for the success of the project is the level of support from top executives of all the key stakeholders.

As the project's outputs are time bound prompt decisions are often necessary from the appropriate authority level. This can be difficult at times, which often reflected on project implementation timescales.

The need for a risk register and effective robust risk management process is fundamentally important to ensure sound control over the progress of the project and to facilitate corrective actions when required.

Future projects should ensure that best practice is followed, particularly focus on staff continuity and risk management, as well as monitoring of slippage against deadlines so that restorative action can be taken earlier. It is also important that optimism bias is challenged at the outset of projects such as this, particularly around being realistic about costs and timing of delivery.

***Up to 5 marks for identifying best practice guidance and up to 5 marks for applying the techniques to the specific project scenario.***

***(Max 10 marks)***

**b)**

### **C5 Workbook 13**

#### **Sustainable development**

Sustainable development is often a product of economic, social and environmental considerations.

With a high impact transport project such as Crossrail, to ensure that the project leaves a sustainable legacy the following actions should be considered:

- i) Ensuring the mix of people on the project steering committee includes external consultants and in- house expertise.
- ii) Documentation of project work is of a high standard.
- iii) There is cascade training and development built into the project delivery phase.

- iv) A phased withdrawal of external expertise is in place.
- v) A forward programme of delivery with defined responsibilities is prepared.
- vi) The environmental impact of the build is recorded, and long term impact is monitored
- vii) A business plan is prepared to transcend the project close period.

**One mark is awarded for each justifiable point made up to 5 marks. Definition of sustainable development *attracts a mark, need to be aware that it is not just about green/environmental issues. Some reference to UN sustainability goals may also attract marks. (Max 5 marks)***

## **b) B2**

### **Role of the Chief Finance Officer (CFO).**

CIPFA's 'Role of the Chief Finance Officer' is one of a number of guidelines that the CFO can refer to in order to comply with public service standards and in some cases statutory requirements in the UK.

This includes the contribution of the CFO at different levels of the organization; strategic, tactical and operational.

In the context of project management the CFO would be expected to be on the sponsoring board or on the project management board.

Moreover, the contribution of the CFO would then blend with the particular board and level of responsibility required either directly or by delegation to other finance professionals.

CFO should be involved in any Benefits Realisation process to support the project, and ensure that appropriate calculations are being used when reporting financial benefits, and establish whether they are one-off savings (or costs), and incorporate the outcomes into future budgets where appropriate. Moreover, assessing the extent to which benefits are cashable and non-cashable and having systems is expected.

Further best practice guidelines and techniques are available to support the project management function, for example PRINCE II and GANTT charts etc.

***Up to 4 marks are awarded for a robust description of the guidelines and best practice material available***

d)

Particular difficulties highlighted in this project and recognized in the answer to part a) and which require CFO intervention are:

- i) Timeliness of the project. Did the project start on time? CFO intervention should include highlighting the operational and financial consequences to the governing board as a minimum. This may extend to providing financial support to the project management, which enables additional expertise to be employed in order to speed up the pace of the project work.
- ii) Loss of funding. The potential loss of significant monies should raise a 'red' risk with mitigating strategies needed to mitigate the position.
- iii) Ensuring that a risk register is in place and also an effective risk management arrangement regarding potential loss or reduction of funding for a project
- iv) Assess the adequacy strength of financial reporting in order to ensure that financial information is both accurate and complete.
- v) Ensuring that adequate systems and procedures are in place for procurement of goods and services included within the project.

**Up to 4 marks are awarded for demonstrating practical CFO interventions that may be required in order to ensure that the project was a success. (8 marks maximum for whole of part d)**

d)

### **C5 Workbook 13**

#### **Benefits of the programme can be assessed.**

Benefits realisation underpins the business case justification for work.

Clarification of the business benefits is needed for all projects in order to ensure that there is a common view of the purpose and expectation of delivery

of the project. This will include the identification of project outputs, benefits and outcomes.

The model approach to assessing benefits should be referred to:

- i) Identify
- ii) Validate
- iii) Enable
- iv) Realise

For the **identify** stage there are four aspects to measuring benefits; customer focus, savings,

For the **identify** stage there are four aspects to measuring benefits; customer focus, savings, efficiency/productivity and risk mitigation. For each aspects the approach is to define the benefit, identify key milestones, establish the criteria for success and identify when the benefits will be realized.

This analysis helps support the '**validation**' stage in assessing the extent to which the benefits are sustainable. This stage will look at the identified benefits and make sure they are robust, relevant and sustainable.

For enabling the benefits to come to fruition, to be **realized**, conditions need to be right for success. It is therefore important to identify potential barriers, work with the steering committee to overcome these, consider any interdependencies, implement strong communication and regular reporting and undertake 'horizon-scanning' to identify future/upcoming issues.

At the **benefits** realisation stage there are several key steps to consider and undertake; measuring against a baseline, regular monitoring of success, reporting success, accounting for extraneous factors and finally getting the benefits embedded.

The above approach can be applied to the project case above. As a part of this approach the CFO should be involved in any BR process to support the project, and ensure that appropriate calculations are being used when reporting financial benefits, and establish whether they are one-off savings (or costs), and incorporate the outcomes into future budgets where appropriate. Moreover,

assessing the extent to which benefits are cashable and non-cashable and having systems is expected.

For Crossrail, the number of passengers using the services compared to the projections in the business case will be a measure, and the reduction in congestion, reduced journey times, better customer experience, transport cost savings, or other factors that were included on the business case as beneficial outcomes.

***Up to 3 marks awarded for identifying project benefits.***

***Up to 4 marks awarded for how benefits may be assessed.***

***(Max 7 marks)***

## Question 2

a)

### **Syllabus Ref B4**

A good medium-term financial plan / strategy should act as the organisation's route planner that plots the path ahead by focusing on policies and priorities in an organised, coherent and systematic manner. It should not seek simply to give provisional budget figures, but rather provide an insight into business trends.

It is important to:

- give clear direction and assurance that the strategy is affordable
- identify potential problems before they arise
- provide opportunity for scenario planning and development of contingency plans
- flexibility to accommodate changes in the environment through the planning period

Clearly the longer the planning assumption, the greater the extent to which they will be high level forecasts built on a number of significant assumptions. The uncertainties around leaving the EU could influence all other assumptions simply because it is hard to predict the impact until more facts are known.

When forecasting, the significant key assumptions will include:

- the main sources of income:
  - central government settlement
  - Fees and charges
  - business rates and growth
  - Council tax income
  - Commercial income opportunities
- key spending assumptions:
  - pay awards
  - non pay inflation
  - cost of supplies and services
  - expected demand for services
  - known future commitments/liabilities.

There will be degrees of uncertainty in forecasting both income and expenditure streams into the distance. Nevertheless, by making informed

decisions on the main elements, the likely level of affordability limits for service planning can be derived.

Further refinements to forecasts can be achieved through sensitivity analysis, which can enhance the quality of financial information to the betterment of front line services.

Benefits of developing a MTFS are:

- Clear framework of planned expenditure to support decisions made already and to inform future decisions
- Transparent tracking of adjustments year on year
- Increased predictability of funds available, which can force clarity around criteria for spending in the short and medium term

Problems with MTFS may be:

- Figures included for later years might be considered as entitlement to budgets by managers
- Assumptions made might turn out to be wrong because of unexpected changes in service demand, the economy, political changes to central policy, or within the organisation itself.

A good MTFS relies on the skill and knowledge of the finance managers developing it, reliable information from the organisation's teams and realistic forecasting.

**1/2 mark per point allocated as: up to 3 marks for why MTFS is important, up to 4 marks for examples of assumptions, up to 3 marks for discussion of advantages and disadvantages. (Max 10 marks)**

## **Syllabus ref B4**

### **b)**

#### **Stages in forecasting**

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

- **Determine the purpose** – this is fundamental to the exercise and involves deciding the purpose of the forecasting exercise and what we are

trying to find out.

- **Establish a time line** – the amount of time available to undertake the forecasting exercise will be limited but it is likely that having a longer time horizon to prepare a forecast will provide for more detailed and sophisticated forecasting.
- **Identify items to be forecast** – a forecasting exercise can involve a wide range of items such as 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.

### **Quantitative forecasting**

These are used to estimate futures as a function of past data, so it is only applicable when adequate past data are available. The method is usually applied to short- to intermediate range decisions. Quantitative forecasting are statistical techniques for making projections about the future, which uses numerical facts and prior experience to predict upcoming events.

Basing forecasts on historic data is becoming less useful for public service organisations, as historic data is often not a reliable basis for future demand, or future funding. Examples being:

- rapidly changing population demographics leading to much higher demand for elderly care services
- rapid immigration leading to pressures in demand for related services
- reducing central government grants.

The two main types of quantitative forecasting used by business analysts are the:

- explanatory method, which attempts to correlate two or more variables
- time series method, which uses past trends to make forecasts.

There are many very complex statistical methods of forecasting that can be used, especially in multi- faceted businesses or organisations. In practice, most

forecasting in public service organisations is based on scenario planning and sensitivity analysis.

### **Difficulties with forecasts**

Risk and uncertainty 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 examples of methods 3 up to marks for drawbacks**

**Some flexibility for spread of marks but must cover all 3 areas**

***(10 marks)***

### **Syllabus ref C1**

#### **Financial management implications**

Short and long term strategic planning is affected by relying on volatile funding streams. Given the deficit reduction plans of the government in the UK since 2011, and other similar austerity measures in many other countries, most public sector organisations have felt the financial squeeze, and have sought alternative sources of funding. 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.

Where alternative grants are obtained, 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.

Good financial governance can help mitigate the risks of using volatile sources of funding. Evidence of good governance can be found where:

- Officers and managers across the authority understand the financial implications of current and alternative policies, programmes and activities.
- The leadership ensure appropriate financial skills are in place across all levels of the organisation, for example a good understanding of unit costs and cost drivers
- The leadership foster an open environment of open challenge to financial assumptions and performance.
- There is an effective scheme of delegation, ensuring clarity of financial responsibilities and accountabilities.
- There is engagement with stakeholders, including budget consultations.
- There are comprehensive policies and procedures in place for members, officers and budget holders which clearly outline responsibilities.
- Internal and external audit recommendations are not overdue for implementation.

As well as good governance, there are some specific activities that help financial managers develop solutions to volatile funding.

### **Managing the risks**

As identified above, one of the tools in the solutions box for volatile funding is to manage the risks as effectively as possible. This includes:

- identifying the risky sources of funding and assessing the level of risk
- assessing how likely they are to cease and what the impact of that would be (financially and operationally)
- managing the risks by putting appropriate controls in place to give early warning of potential problems
- mitigating the impact of risks through contingency planning
- monitoring and reporting on compliance with conditions of funding

### **Long-term agreements**

Using long term agreements can help reduce the risk of volatile funding by building in some certainty to long term financial agreements such as minimum guaranteed funding, and time bound release of funding to match budget cycles. Financial managers should also seek to influence payments to contractors that

limit price rises through the life of the contract, thus reducing the volatility of spending, so that smoothing of budgets can take place where volatile funding is likely.

### **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.

### **Seeking 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.

**1 mark per good governance practice, 1 mark per point relating to other activities such as diverse income streams, long term agreements, seeking opportunities. Candidates may also refer to commercial activities.**

***(Max 10 marks)***

### Question 3

#### **Syllabus ref B2 Workbook**

Purpose:

Report to Board for information on Finance Business Partnering as an approach to delivering finance services.

**Date: September 2019**

**Presented to: The Board**

#### **Introduction**

Business partnering for financial professionals is about how finance's role contributes to the business rather than pursuing a narrow departmental agenda. This report seeks to provide information about how finance business partnering can operate, and what the benefits to the organisation could be.

#### **Current arrangements**

We currently operate a traditional approach to finance, with a centralised team focusing on the transactional processing of financial data, preparation of budgets for all teams across the organisation, and the provision of financial management information for budget monitoring. The Finance Team also prepare the final accounts for the organisation, in accordance with the current financial regulations and guidance. Members of our centralised team are sometimes invited onto particular project teams to provide financial advice and assist with financing calculations or budget monitoring for a project, but are rarely involved in the decision-making.

Centralised finance teams can become detached from the needs of the organisation's sub-parts, but usually have a good grasp of the overall financial position of the organisation and how the individual parts are contributing to the whole.

As technology and financial management software becomes more sophisticated and automated, the amount of officer time spent on transactional processing is diminishing. The approach to reconciliations and production of financial management information is often at 'the touch of a button' and there are current developments in technology that will allow almost fully automated production of final accounts. These advances will much reduce the officer time

required on the traditional function of the finance team.

### **The Finance Business Partner**

Finance business partnering is an attempt to partially decentralise financial services to support sound financial decisions and good financial management at the service level.

Business partnering focuses on supporting performance. Strategic finance business partnering and innovation focus on enabling the transformation of the organisation:

- securing stewardship – an emphasis on control, probity, meeting regulatory requirements and accountability
- supporting performance – responsive to customers, efficient and effective, and with a commitment to improving performance
- enabling transformation – strategic and customer led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas.

Usually it means maintaining a central finance team, but within that, developing finance professionals to have the skills to understand the different parts of the organisation, its complexities, needs and desires. These skilled finance professionals can then act as a dedicated advisor on particular departmental issues, whilst still maintaining a good understanding of the organisation as a whole.

### **Benefits of business partnering**

The benefits of good business partnering for finance staff as individuals, for the finance department and its partners, and for wider stakeholders should be established. If the benefits are not clear, and do not outweigh the potential drawbacks, then implementation may fail, or may actually damage the organisation.

At another organisation where finance business partnering has already been introduced, different groups within an organisation responded with the following benefits:

<b>Finance</b>	<b>Teams</b>	<b>Other stakeholders</b>
Add more value to the organisation	Get professional insight from finance	Cohesive approach to financial management
An integral part of decision making	Understand our finances better	Improved financial literacy in organisation
Valued as professional colleagues	Develop better solutions	Improved value for money
More variety	Achieve better value for money	Organisation is more commercially and risk aware
Greater commercial awareness and influence	One version of the truth where finance really adds value to our activities	Better, quicker decision making
Involved at the earliest stages and can really influence outcomes	Finance understands and shares our objectives	Common understanding of priorities

### **Potential drawbacks**

Labelling finance staff as a business partners may help to break down stereotypes of what accountants and the finance department do. It is dangerous however, to simply rely on a role name change from management accountant to business partner, and expect a change in service delivery.

The idea of business partnering is not without its problems. Some argue that the term 'partnering' suggests that finance is outside of the business proper rather than an integral part of it. Also, in non- commercial organisations the term 'business' may be interpreted as profit seeking, and therefore oppose the culture or nature of that organisation.

If a business partnering approach is pursued, cultural challenges will arise during these periods of change, primarily due to changes in working methods and activities. If we deploy current internal finance staff to specific partner areas of the organisation, they may find cultural differences easier to cope with as they will still be within the same organisation, and may not need significant adjustment to the environment.

If the organisation decides to outsource the finance function and then assign business partners to the different departments, there may be a greater impact on the culture of the organisation. The changes to working practices and the scope of the support role may be perceived as being imposed on departments by outsiders. Excellent communication and understanding of the organisation is even more important for delivering effective business partnering where finance has been outsourced.

Successful business partnering can only be achieved where partners understand the organisation. Through this understanding, finance can both determine business needs and help to meet them. The required level of understanding is not always easy to achieve quickly.

### **Conclusion**

If there are no business benefits from business partnering, then there is no good reason to do it. As you can see from the table above, other organisations have implemented this model successfully, and seen measurable benefits. In summary, implemented successfully, the following general benefits may be achieved:

- greater involvement in strategy formulation, implementation and communication;
- early involvement in commercial decision making and negotiations;
- better financial leadership on business analysis
- a more inclusive approach for finance professionals to be trusted adviser, critical friend and facilitator of productive business discussions

To minimise the risk of failure, any implementation of this model should be effectively communicated to all affected staff. All involved should be included in consultation on the process and timeframes for implementation, and supported by appropriate training to fill any skills gaps.

***1 mark for overall presentation to include a conclusion  
6 marks for explaining business partnering and benefits compared to traditional finance function 3 marks for difficulties over implementation  
(Max 10 marks)***

#### Question 4

##### **Syllabus ref A2**

The PEFA Program originates from the aid effectiveness agenda, focussing on country ownership, coordinated donor work and monitoring of improvements in country systems.

The PEFA framework is a diagnostic tool intended to act as an agreed assessment of the performance of the PFM system that allows an accepted starting point to discuss reform requirements of governments and increasingly sub national governments. The assessment of a country's PFM, through applying the PEFA framework, provides valuable information to donor and lending organisations, such as the World Bank.

The PEFA framework has been developed as a means to assess whether a country has the tools to deliver the following three main budgetary outcomes:

- aggregate fiscal discipline
- strategic resource allocation
- efficient use of resources for service delivery

The objectives of the PEFA framework are to:

- provide reliable information on the performance of PFM systems, processes and institutions over time contribute to the government reform process by determining the extent to which reforms are yielding improved performance and by increasing the ability to identify and learn from reform success
- facilitate harmonisation of the dialogue on PFM performance, reform needs and donor support between government and donors around a common PFM performance assessment and therefore contribute to reduce transaction costs for governments of the countries involved.

Advantages from following the PEFA framework and PIs:

- Delivering a credible, comprehensive and evidence-based diagnostic that can be compared over time and serve as a basis to monitor the results of PFM reform efforts, through repeat assessments and/or by building PEFA indicators into a country's own monitoring and valuation mechanisms.
- Enabling country governments to lead PFM assessments or become actively engaged in work led by external agencies, through a clear and

specific assessment framework with objective rating criteria.

- Providing harmonization and standardization of the information requested by external agencies using a common assessment tool.
- Providing a common platform for stakeholder dialogue on PFM reforms by facilitating priority setting and defining key entry-points for PFM reform plans.
- Strengthening country capacities to promote alignment with and use of country systems (such as PFM, procurement, statistics, monitoring and accountability systems).
- Promoting 'capacity development' through peer-learning and regional PFM groupings. Disadvantages from using PEFA PIs

The focus on results comes with some risks that will be familiar from debates around results-based management in any public services, and whether quantitative targets can have unhelpful unintended consequences. One method of measurement may not fit all circumstances, some of the standard PIs might not always be relevant.

In the context of aid, there is a risk of projects being chosen because it will be easy to demonstrate impact, as opposed to doing what is best to promote development.

There is also the possibility of 'what gets measured gets done' rather than focusing on the actual needs of the recipients, and the outcomes that will improve their well-being and development opportunities.

The cost of monitoring and evaluating the effects of aid can result in difficult trade-offs for donors. Oversight can be expensive, and cause aid workers to be behind a computer screen filling out forms when they should be out in the field, diverting resources away from delivering the services required, in favour of number crunching to demonstrate records have been kept and processes have been followed. Showing compliance with the system and processes for donors to see, may actually reduce the chance of achieving the best outcomes for the recipients.

***For explaining purpose and objectives of PEFA (4 marks)***

**3 Marks for advantages, 3 marks for disadvantages of using fixed PIs (10 marks)**

Question 5

**a)**

### **Syllabus**

#### **reference C4**

#### **Characteristics of mergers**

Mergers are characterised as the coming together of two or more organisations to form a **new legal entity**, with the old organisations ceasing to exist after the merger. This is different to some other collaborations, such as shared services. Sharing services or management teams does not lead to the creation of a new organisation.

In the past there have been many instances of public sector organisations being merged together for a variety of reasons. Some examples of such mergers include:-

- Health - mergers of several primary care trusts and of several NHS Trusts
- Education – mergers of several further education colleges and several universities and also mixed mergers of FE and HE institutions
- Local government – merger of several local authorities as a result of local government restructuring
- Central Government – mergers of several government departments and of government agencies (e.g. Job Centre and the Benefits Agency to create Job Centre+)

**1 mark per relevant point, MUST include reference to new legal entity being created, as the difference to score maximum marks.**

***(Max 3 marks)***

**b)**

Mergers are usually undertaken to reduce costs and improve benefits. It is anticipated that mergers will reduce costs by

- elimination of duplication
- rationalisation of activities

It should also produce benefits in terms of additional revenues and better and more responsive services.

Public sector mergers are again becoming increasingly topical as a

consequence of austerity. Mergers are being considered in the NHS as a means of dealing with overspending NHS Trusts and NHS Trusts with legacy PFI problems. However, mergers should not be considered a panacea for solving these types of problems. Simon Stevens – Chief Executive of NHS England stated: ‘Merging two leaky buckets will not give you a watertight solution’.

In local government, although full mergers of local authorities are difficult to achieve, not least because of changes to local political areas (council wards) are normally required, there are several mergers being planned of specific services with one local authority taking over operational management of services such as social care, or schools support on behalf of several neighbouring authorities.

Advantages	Disadvantages
Greater economies of scale and purchasing power drives down costs	Can import the failures on one organisation into another by merging and failing to address problems
Improved customer experience as less organisations to deal with to obtain a range of related services	Cultural differences may be difficult to overcome
	Merger activities can take over and impact front line service provision

1 mark per advantage/ disadvantage up to 4 marks, 3 further marks available for discussion about mergers for different types of organisations  
(7 marks)

**(Max 10 marks)**

## Question 6

Syllabus Ref C6

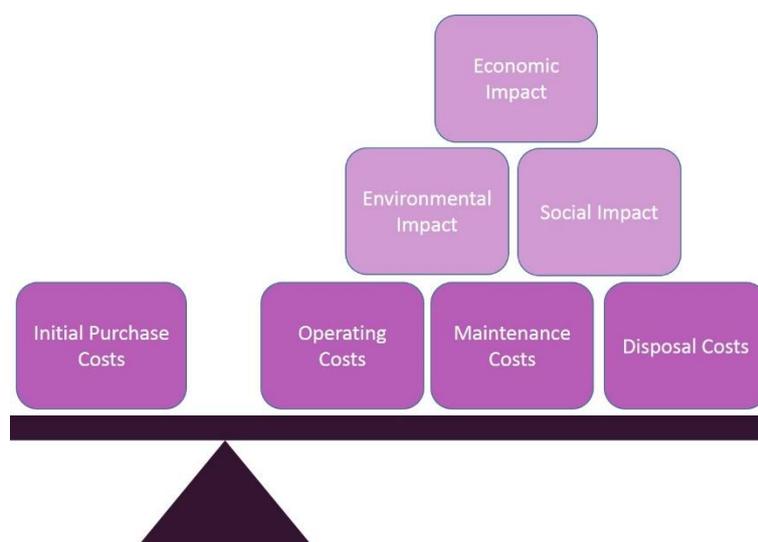
### Whole Life Costing – what to include

- initial capital costs - construction costs, professional fees, loan interest
- operating costs - energy use, water use, cleaning, maintenance, insurance
- major maintenance, repair or refurbishment costs - labour, materials, disruption costs
- disposal costs - resale value, demolition costs, site clean-up
- any revenue that the asset will generate during its life - offsetting costs. There can also be extended costs and benefits to consider, which include:
  - social impacts (and associated benefits and costs)
  - environmental impacts
  - economic impacts.

Whole life costing can be applied to high-value purchases, or smaller, high-volume purchases. It can also help identify the key drivers of operational costs that are linked to the original purchase decision.

At various stages during an asset's life, WLC can be revisited and updated as the information will still be useful. It can also be used to test the assumptions and decisions made when the asset was purchased – to learn lessons for future purchases.

WLC can be represented diagrammatically– the more 'basic' costs to assess are in the darker shade, with the 'external' impacts in the lighter shade.



The diagram underlines how important it is to look at costs and impacts **beyond** the initial purchase of an asset.

**½ mark per cost component identified and explained up to 3 marks**

## **b)**

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 cash flow 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).

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

### **Benefits of a WLC approach**

Users of the concept have cited the following benefits:

- Improved efficiency through a costing process that balances initial capital and running costs.
- A resulting reduction in cost for the owner of the asset.
- Recording actual performance and operation data and comparing this with predicted performance – which can be used in future planning and decision making.
- Supporting the recoding of information on materials and components.
- Encouraging discussion and review.
- Improving analysis of business needs and the communication of these to decision makers across various departments and teams.
- Joining up strategic planning and objectives with purchase and/or construction decisions on the ground.
- Assisting in managing potential risk and costs arising from poor performance due to failure or inappropriate maintenance.

### **Challenges with WLC**

WLC is not a panacea for assessing and estimating performance on its own, there are several challenges in applying a WLC approach:

- Making sure that the limitations of WLC are understood as well as its

benefits

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

***½ mark per point on the process up to 3 marks***

***½ mark per advantage or disadvantage up to 4marks***

***(Max 10 marks)***