

BUSINESS STRATEGY IN CENTRAL GOVERNMENT AND AGENCIES

Professional 2 examination
8 December 1999

From 10.00 am to 1.00 pm
plus ten minutes reading time from 9.50 am to 10.00 am.

Instructions to candidates

Answer five questions in total. Question 1 from Section A, two questions from Section B and both questions from Section C. The marks available for each question are shown in italics in the right-hand margin.

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

SECTION A (Compulsory)**1**

Cheltham House is a long standing training school for accountancy students and related subjects. It is a free standing, and self financing, function of the Ministry of Defence (MoD) Recruitment and Training Agency. It has an excellent reputation among government departments and some of the professional accountancy bodies although it is currently experiencing a large reduction in applications from home civil service departments. Teaching accountancy students, most of whom come from government departments, accounts for 80% of its activities, while the remaining 20% is taken up with a mix of consultancy and research.

The Board of Management has become concerned about the rapidly changing external environment in which the school operates. These changes include increased competition for students, falling student numbers generally, changing technology and the implications for ways in which learning material is developed and delivered, government policy of private sector involvement and a reduction in financial support from the MoD and external sources. It now wishes to consider the various measures it might take to maintain its strategic position and the quality of its teaching and other services, while remaining financially viable. It has therefore set up a Steering Committee to highlight aspects of strategic analysis and strategy formation which might be undertaken as part of the strategic planning process.

At its first meeting, the Steering Committee invites you as Finance Manager to present a paper outlining the various analytical processes which could be undertaken to assist in the formulation of strategy. In your initial paper you decide to outline the techniques of PEST and scenario analysis.

- **Requirement for question 1**

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|-----|--|-----------|
| (a) | Present a PEST analysis grid identifying some of the additional external factors which are likely to affect Cheltham House. | 3 |
| (b) | Using appropriate examples, show the three main steps involved in ensuring the PEST analysis has strategic value to Cheltham House. | 3 |
| (c) | Define scenario analysis and indicate how this might enable Cheltham House to develop its strategic planning process. | 3 |
| (d) | Using the environmental changes outlined in the question and identified in your PEST analysis, suggest three alternative future scenarios (or visions) for Cheltham House. Briefly outline the environmental merits and problems in each scenario. | 9
(18) |

SECTION B (Answer two questions)

2

(a) One approach to planning sees planning occurring at three levels within an organisation. You are required to identify these levels and the type and content of the planning considered to be appropriate at each level. 6

(b) Identify five aspects of good practice in planning and critically discuss how far the planning process in an organisation with which you are familiar conforms to these criteria. 12

(18)

3

(a) Explain what is meant by the 'Balanced Scorecard' and how it can assist the strategic planning process. 6

(b) Outline four perspectives of the balanced scorecard as they would apply in the public sector and illustrate each with a practical example from a central government department or agency. 12

(18)

4

Despite recent government reforms, market forces still play a significant role in the provision of many public services. Consequently, market analysis can play an important part in the design and delivery of services.

- **Requirement for question 4**

- (a) Describe the stages through which markets typically develop. 3
- (b) Illustrate the Boston Consultancy Group matrix, defining the product types it includes and giving examples of each from a central government department or agency, discussing briefly the applicability of the matrix to the provision of its services. 10
- (c) State what is meant by the term 'market segmentation' explaining the role it can play in public service design and showing the way it might be applied in a central government department or agency. 5

(18)

SECTION C (Answer both questions)**5**

You are the Financial Accountant at the Registration of Land Agency. The Agency has three divisions: Registration; Information and Publication; and Professional Services.

The Agency has a strategic plan and within it the following long-term objectives are incorporated:

1. To provide a high quality of service throughout each of the three divisions.
2. To ensure that the Agency increases its income base from its three divisions.
3. To maintain a balanced financial position.

There has in the past been some concern over the Agency's income from Professional Services with a major contract for aerial surveys having been won by a private sector competitor. In addition a number of customers, including some notable legal firms, have been expressing concern about the quality of service across the three divisions, but in particular about Professional Services. Consequently, it has been decided to carry out an analysis of 1998/99 in order to identify any problems that need to be addressed early on during 1999/00. The following table represents the planned Income and Expenditure Account for the year 1998/99.

Income and Expenditure Account for Year to 31 March 1999 (Planned)

Income	£000
Registration	4,800
Information and Publications	650
Professional Services	3,550
Total Income	9,000
Expenditure	
Employment costs	6,265
Cost of goods sold	250
Operational costs	1,375
Other costs	110
Depreciation	350
Total Expenditure	8,350
Operating Surplus/(Deficit)	650
Interest on capital	400

Surplus/(Deficit) for the year	250

Notes:

1. Registration income is estimated on strategic plan volumes for 1998/98 adjusted to take account of outturn for 1997/98.
2. Information and Publications income is based on strategic plan estimates of sales.
3. Professional Services income is based on existing and anticipated contracts.
4. It has been assumed that a cost improvement saving target of £60,000 in operational costs will be met.

Planned Activity for 1998/99

	Activity	£000
Registration:		
Category A	15,000	1,800
Category B	8,000	720
Category C	12,000	1,200
Category D	2,000	1,080
		4,800
Information and Publications:		
Category 1	10,000	550
Category 2	3,500	70
Category 3	200	30
		650
Professional Services:		
Surveys	1,200	2,365
Searches	4,800	960
Maps	1,500	225
		3,550

The following actual Income and Expenditure Account and Activity Statement has been prepared for 1998/99

Income and Expenditure Account year to 31 March 1999 (Actual)

Income	£000
Registration	4,136
Information and Publications	639
Professional Services	3,096
Total Income	7,871
Expenditure	
Employment costs	6,410
Cost of goods sold	250
Operational costs	1,405
Other costs	105
Depreciation	350
Total Expenditure	8,520
Operating Surplus/(Deficit)	(649)
Interest on capital	400
Surplus/(Deficit) for the year	(1,049)

Actual Activity 1998/99:

	Activity	£000
Registration:		
Category A	14,500	1,740
Category B	8,000	720
Category C	9,200	920
Category D	1,400	756
		4,136
Information and Publications:		
Category 1	9,800	539
Category 2	3,600	72
Category 3	185	28
		639
Professional Services:		
Surveys	1,000	1,971
Searches	4,500	900
Maps	1,500	225
		3,096

There is soon to be a meeting of the Agency's Management Board, where the Finance Manager will be required to comment on the financial performance of the Agency in the light of the strategic plan. In addition, after the last Board meeting the Non-Executive Directors had raised the issue of the quality of service being provided.

- **Requirement for question 5**

You are required to write a report, suitable for presentation at the next Management Board meeting which:

- (a) Addresses the issues raised in the strategic plan of the Agency. In addition to drawing the Board's attention to significant issues raised by the 1998/99 results, you are required to make recommendations as to how the Agency should address any areas of concern. 15
- (b) Makes recommendations as to how the Agency could monitor the quality of service it provides to all its customers. 4
- (c) Identifies the characteristics of budgeting required for it to be an effective tool in monitoring strategic plans. 4

(23)

6

The Rent Registration and Assessment Service (RRAS) has been a joint agency of the Department for the Environment (DoE) and The Scottish Office since 1993. It is not an Executive Agency, and its status is described under the heading of 'other publicly funded bodies'. All RRAS expenditure is met from voted monies shared proportionately between DoE and The Scottish Office. All staff are direct employees of RRAS although normal civil service terms and conditions apply.

The main function of RRAS is to assess market rents of private rented properties for the purpose of establishing appropriate levels to be paid in respect of Housing Benefit claimants. This information is passed to Local Authority Housing Departments who in turn are responsible for making payments to claimants. (Under the terms of the Scotland Act 1998, matters relating to Housing Benefits are reserved.)

When the RRAS was first established in 1989 it was considered appropriate, given the obvious links, that it should operate on a regional basis from local authority premises. In total 18 regional offices were established, four in Scotland and the rest in England. However, in 1993 Ministers collectively took the decision, against a background of growing complaints about the quality and integrity of the service, that the operation of RRAS should no longer be provided from local authority premises and should become a joint agency. At this point five regional offices were established, one in Scotland and four in England. Part of the rationale for the change was the development of more efficient and effective administration processes, which up until 1993 were extremely labour intensive and operated on the basis of considerable local variances.

In 1993, a bespoke IT system was developed by ITI Co, a small software company, and introduced into each of the five regional offices. The system introduced in Scotland differed only marginally to the one in England to reflect the apparent minor differences in legislation between the two countries. Three months after the introduction of the new system, it became evident that the legislative differences required more substantial operational variances. ITI Co argued that any modifications to the system would be in addition to the original contract price as they had delivered what had been specified. The debate between ITI Co, DoE and the Scottish Office went on for a further 3 months. Just as it seemed a resolution would be reached ITI Co went into receivership. The assets of ITI Co were eventually bought by ITRUS Co who undertook to support the RRAS system on a care and maintenance basis only.

As a result of this, the Scottish regional office developed changes to accommodate the legislative differences by employing consultants. By the end of 1997, each of the five regional offices had made substantial changes to the operational system to the extent that only a small core of the original functionality remained the same across all the offices. By the end of 1998, all attempts to aggregate or compare the results across the regional offices were abandoned, despite the need to be able to do this being considered by the Board of Management as one of the key drivers for change in 1993.

As in earlier years there is again mounting criticism about the quality of service provided by RRAS. However, in addition, the National Audit Office (NAO) has announced that it is to investigate a detailed anonymous letter claiming that some £5 million of public funds have been wasted in the introduction and ongoing development of the its IT system since 1993. The involvement of the NAO has focused the attention of The Scottish Office and the DoE on the need to address the problems of the RRAS and in particular to consider carefully future options for IT development.

You are a member of a joint working group set up to consider options for dealing with RRAS's current IT problems and have been asked to produce a report for its next meeting which:

1. Sets out how appropriate options might be generated, evaluated and shortlisted; and
2. Identifies and evaluates the options available to resolve the current problems.

- **Requirement for question 6**

Prepare a report for the next meeting of the working group as outlined above. Your report should:

- (a) Set out approaches to generating, evaluating and shortlisting appropriate strategic options relevant to the scenario. 15
- (b) Identify appropriate options for dealing with RRAS's current IT problems, and how the options might be evaluated. 8

(23)