BUSINESS STRATEGY IN HOUSING ASSOCIATIONS

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.

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SECTION A (Compulsory)

1

Mendip Housing Association is a city centre, community based housing association which has traditionally seen itself as a provider of mainstream social housing. It has a good reputation in the local community although it is currently experiencing a large reduction in housing applications and the number of unlet houses has grown steadily.

The Board of Management has become concerned about the rapidly changing external environment in which the association operates. These changes include increased competition for tenants, Care in the Community, special needs housing, starter homes, Single Regeneration Budgets and a reduction in funding. It now wishes to consider the various measures it might take to maintain its strategic position and the quality of its houses and service to the public, 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**

(a)   Present a PEST analysis grid identifying some of the additional external factors which are likely to affect the association.   *3*

(b)   Using appropriate examples, show the three main steps involved in ensuring the PEST analysis has strategic value to the association.   *3*

(c)   Define scenario analysis and indicate how this might enable the association 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 Mendip Housing Association. 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 housing association.   *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 housing association, discussing briefly the applicability of the matrix to the provision of services by a housing association. *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 housing association. *5*

(18)

SECTION C (Answer both questions)

5

You are the Management Accountant in the Repairs and Maintenance Directorate of Redshire Housing Association. The Directorate has three Divisions, Internal Repairs and Maintenance; Agency; (work carried out for smaller community based associations) and Contracts.

The Association 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 Repairs and Maintenance divisions.
2. To ensure that the Association increases its income base from community based associations.
3. To maintain a balanced financial position.

There has in the past been some concern over the Association's income from agency work for smaller associations, with a major maintenance contract having been lost recently to a local authority, and several other associations expressing concern over the quality of service that is being provided. 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 Trading Account for the year 1998/99.

Trading Account for Year to 31 March 1999 (planned)

Income	£000
Category A	41,857
Category B	3,437
Category C	1,596
Total Income	**46,890**

Expenditure	
Direct Labour	21,587
Direct Materials	15,482
Direct Overheads	3,100
Total Direct Expenditure	**40,169**
Operating Surplus	**6,721**
Other Overheads	
(including Share of General Administration)	4,513
Share of Administrative Buildings	1,504

Retained Surplus / (Deficit)   **704**

Notes:
1. Category A income is for internal repairs and maintenance activity.
2. Category B income is income from agency work for other housing associations.
3. Category C income is contract income mainly from local authorities.
4. Category B income was estimated based mainly on the previous year.
5. It has been assumed that a cost improvement saving target of £600,000 in direct materials will be met.

Planned Activity for 1998/99 (Categories A and B)

	Activity	**£000**
Internal R&M	40,279	41,857
Agency	4,194	3,437
Total	44,473	45,294

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

Trading Account year to 31 March 1999 (Actual)

Income	**£000**
Category A	41,857
Category B	2,382.2
Category C	1,596
Total Income	**45,835.2**
Expenditure	
Direct Labour	21,601
Direct Materials	15,732
Direct Overheads	3,100
Total Direct Expenditure	**40,433**
Operating Surplus	**5,402.2**
Other Overheads	4,513
Share of Administrative Buildings	1,504
Surplus / (Deficit)	**(614.8)**

In terms of activity for categories A and B this represents:

Internal R&M	40,220
Agency	2,774
Total	42,994

There is soon to be a meeting of the Board of Management of the Association, where the Finance Manager will be required to comment on the financial performance of the Repairs and Maintenance Division in the light of the strategic plan. In addition, after the last Board meeting the Chairman had raised the issue of the quality of service the division provides.

● **Requirement for question 5**

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

(a)   Addresses the issues raised in the strategic plan of the Association. 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 Association should address any areas of concern.   *15*

(b)   Makes recommendations as to how the Association could monitor the quality of repairs and maintenance service it provides to other housing associations.   *4*

(c)   Identifies the characteristics of budgeting required for it to be an effective tool in monitoring strategic plans.   *4*

(23)

6 Omnia is a large, UK wide, housing association, which manages houses and provides services throughout England, Wales, Scotland and Northern Ireland.

In 1989, it was considered appropriate to decentralise the management of the association and it was decided that the association should operate on a regional basis, renting premises from local authorities. In total 18 regional offices were established, 4 in Scotland, 1 in Northern Ireland and the rest in England and Wales. However, in 1993 the UK Board of Management took the decision, against a background of growing complaints about the quality and integrity of the service, that the operation of the association should no longer be provided from local authority premises and should be consolidated into fewer, more manageable units. At this point six regional offices were established, one in Scotland, one in Northern Ireland and four in England and Wales. Part of the rationale for the change was the development of more efficient and effective administrative 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 six regional offices. The system introduced in Scotland and Northern Ireland differed only marginally to the one in England and Wales to reflect the, apparent, minor differences in legislation between the 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, the Association and government ministries 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 Omnia's system on a care and maintenance basis only.

As a result of this, the Scottish and Northern Ireland regional offices developed changes to accommodate the legislative differences by employing consultants. By the end of 1997, each of the six 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 Omnia. 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 Omnia IT system since 1993.

The involvement of the NAO has focused the attention of the UK Board of Management on the need to address the problems involved 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 Omnia'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 Omnia's current IT problems, and how the options might be evaluated.   *8*

                                                                                                (23)