

BUSINESS STRATEGY IN LOCAL GOVERNMENT

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 examinations room.

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

SECTION A (Compulsory)**1**

Mendip Council's Education Department has traditionally seen itself as a provider of high quality education services for its area. Its schools have high ratings in the Government's school league tables although it is currently experiencing a significant rise in the number of schools expressing an interest in opting out of local authority control.

The Education Committee has become concerned about the rapidly changing external environment in which the Department operates. These changes include increased competition from the private sector, technological changes in the way teaching material is delivered, increased demand for "lifelong learning", and pressure on budgets leading to a reduction in resources in real terms. It now wishes to consider the various measures it might take to maintain its strategic position and to maintain the quality of teaching within severe budgetary constraints. It has therefore set up a Working Group to highlight aspects of strategic analysis and strategy formulation which might be undertaken as part of the strategic planning process.

At its first meeting, the Working Group 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 the Education Department. | 3 |
| (b) | Using appropriate examples, show the three main steps involved in ensuring the PEST analysis has strategic value to the Department. | 3 |
| (c) | Define scenario analysis and indicate how this might enable the Department 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 Education Department. Briefly outline the environmental merits and problems in each scenario. | 9 |

(18)

SECTION B (Answer two questions)**2****• Requirement for question 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**• Requirement for question 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 local authority context. 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 local authority, discussing briefly the applicability of the matrix to the provision of services by a local authority. 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 local government. 5
- (18)

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

Two years ago, the Printing and Reprographics Department of Redshire Council was designated a separate business unit (known as “RedRepro”) with responsibility for the provision of a full range of reprographics services to the Council’s departments. The Unit may, if it has excess capacity, bid for and provide services to other public sector bodies, and the private sector. The unit remains responsible to the Central Services Committee of the Council and any financial surplus, planned or actual, on operations must be returned to the Council.

You are the Management Accountant in the Finance Department, with responsibility for monitoring the Unit’s expenditure and income generated under Service Level Agreements with other Council departments and outside clients. RedRepro has three divisions: Printing; Photocopying; and Photography.

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

1. To provide a high quality and comprehensive service throughout all of the Council departments;
2. To ensure that the Unit makes use of the latest technology in its operations; and
3. To maintain a balanced financial position.

With increasing pressure on resources in the public sector generally, RedRepro is concerned that the Council, as its major client, will seek to reduce the Unit’s income and volume of work, and that it may look elsewhere for less expensive providers for some, but not all, of its printing requirements. There have also been complaints from some departments 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 1999/2000. The following table represents the budgeted Trading Account for the year 1998/99.

Trading Account for Year to 31 March 1999 (Budgeted)

Income	£
Category A	418,570
Category B	34,370
Category C	15,960
Total Income	468,900
Expenditure	
Direct Labour	215,870
Direct Materials	154,820
Equipment Leasing Costs	31,000
Total Direct Expenditure	401,690
Operating Surplus	67,210
Overheads	
(including share of General Administration)	45,130
Share of Administrative Buildings	15,040
Retained Surplus / (Deficit)	7,040

Notes:

1. Category A income is from the Council for general work.
2. Category B income is from work for other public sector bodies, and the private sector.
3. Category C is income from high quality, low volume work mainly related to civic ceremonies.
4. Category B income was estimated based mainly on the previous year.
5. It has been assumed that a cost improvement saving target of £6,000 in direct materials will be met.

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

	Unit Cost £	Activity	£
Council SLA – printing	16	5,389	86,220
Council SLA – photocopying	8.6	25,390	218,350
Council SLA – photography	12	9,500	114,000
Other public sector bodies – printing	14.5	593	8,600
Other public sector bodies – photocopying	6.8	1,618	11,000
Other public sector bodies - photography	11	562	6,180
Private sector – printing	9	344	3,100

Private sector – photocopying	4.5	1,002	4,510
Private sector – photography	13	75	980
Totals		44,473	452,940

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

Trading Account for Year to 31 March 1999 (Actual)

Income	£
Category A	418,570
Category B	23,822
Category C	15,960
Total Income	458,352
Expenditure	
Direct Labour	216,010
Direct Materials	157,320
Direct Overheads	31,000
Total Direct Expenditure	404,330
Operating Surplus	54,022
Other Overheads	45,130
Share of Administrative Buildings	15,040
Retained Surplus / (Deficit)	(6,148)

In terms of activity this represents:

Council – printing	5,400
Council – photocopying	25,300
Council – photography	9,520
Public sector bodies – printing	560
Public sector bodies – photocopying	1,400
Public sector bodies – photography	180
Private sector – printing	160
Private sector – photocopying	400
Private sector – photography	74
Total	42,994

There is soon to be a meeting of the Finance Committee, where the Director of Finance will be required to comment on the financial performance of the unit in the light of the strategic plan. In addition, after the last Committee meeting the Chairman had raised the issue of the quality of service that RedRepro provides.

• **Requirement for question 5**

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

- (a) Addresses the issues raised in the strategic plan of the unit. In addition to drawing the Committee’s attention to significant issues raised by the 1998/99 results, you are required to make recommendations as to how RedRepro should address any areas of concern; 15
 - (b) Makes recommendations as to how the Unit could monitor the quality of the services it provides; and 4
 - (c) Identifies the characteristics of budgeting required for it to be an effective tool in monitoring strategic plans. 4
- (23)

6

Noland Unitary Council operates on a geographically decentralised basis. It has five multi function area offices – 1 located in the city centre and the other four in smaller rural towns. The area offices discharge most front line functions and the Council's stated aim is to use technology to enhance the level of decentralisation as far as possible.

A decision was taken in 1997 to install a comprehensive information system linked into databases in all departments, the purpose of which would be to enable front line staff in all area offices to deal immediately with queries from the public. The service would include the provision of personal information such as rent arrears upon production of a 'smart' card by the caller. The use of this was considered essential to enable a personal service to be provided with satisfactory security.

Early in 1998, a bespoke IT system was developed by ITI Co, a small software company, and introduced into each of the five area offices. The system introduced in the city office differed slightly from the others to cope with the expected minor differences in the nature of enquiries from an urban as opposed to a rural environment.

Three months after the live date it became apparent that the urban operational requirements were significantly different requiring a major reconfiguration of the system. ITI Co argued that any modification of the system would be in addition to the original contract price as they had delivered what was specified. The council argued that the original contract was more in the nature of a joint venture and that ITI Co had an obligation to make the system comply with all reasonable demands on it. This dispute carried on for three months. Just as it seemed that 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 system on a care and maintenance basis only.

As a result of this, the city office developed changes to the system to cater for its different needs, by employing consultants. By the end of 1998 each of the five area 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. The level of service provided from each area office was at that stage so different that any attempt to harmonise these was abandoned despite the Council's original priority to provide a uniform level of service throughout its area.

At this stage there is considerable criticism about the quality of services provided by area offices. The Council's External Auditors have stated that they are about to conduct a value

for money study into the system. The Council has resolved to address this problem urgently and in particular to consider carefully future options for IT developments.

You are a member of a joint working group set up to consider options for remedying the current 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 Noland's current IT problems, and how the options might be evaluated. 8

(23)