

BUSINESS STRATEGY IN LOCAL GOVERNMENT

**Professional 2 examination
June 2000**

MARKING SCHEME

The logo for CIPFA (Chartered Institute of Public Finance and Accountancy) features the letters 'CIPFA' in a serif font. The letter 'I' is replaced by a stylized, curved line that loops around the top of the 'P' and extends to the left, resembling a ribbon or a decorative flourish.

Question 1

(TU 1999 pp81-86);

- (a) This question is designed to test the candidates' ability to outline points concisely and to relate what is in the OLM to real-life situations. It should be noted that the White Paper in the question is the one which updates and superseded the Green Paper of March 1998. This latter paper listed the key features of Best Value. This is not what the question is looking for, and one mark only should be awarded for listing the six "key features" of Best Value.

Local Financial Accountability

Description: - end of "crude and universal" capping of the Council Tax
- retention of reserve powers to control excessive council tax increases
- grants and funding to be announced over three year periods 1

Strategic Impact: The removal of universal capping allows more flexibility in setting the Council Tax and therefore in spending, but bearing in mind (a) the gearing effect will multiply up the effect of marginal spending decisions on the level of Council Tax to be levied, and (b) the retention of reserve powers, the apparent flexibility is less than might be expected.

Three year announcements will give the opportunity to budget and plan ahead for longer than one year, allowing front line services to be planned with more certainty. There will also be a need to develop different budget-making processes. 2

Best Value

Description: List 6 'Key Features' of Best Value

- 1 Duty and demonstrate Best Value
- 2 Performance Management
- 3 Performance Plans
- 4 Performance Indicators
- 5 Interaction by Secretary of State
- 6 Early start – CCT to go 1

The significant changes in the White Paper (which coincidentally number six) are -

- 1 Best Value Inspectorate
- 2 "Beacon" councils
- 3 de minimis values for Best Value
- 4 National performance indicators
- 5 Performance reviews of all services
- 6 Local performance plans

up to a maximum of 3

Strategic Impact: There are a number of possible impacts here. They include:

- liaison arrangements with BV Inspectorate;
- monitor output from Beacons to compare own performance with benchmarks and national performance indicators;
- performance review -how does this compare with present monitoring arrangements?;
- can the existing strategic/operational planning arrangements be aligned with the criteria for Local Performance Plans?

2

Business Rates (see also SU 10.3)

Description: National Business Rates will be retained, but may be varied up or down within limits at local discretion.

1

Strategic Impact: a balanced decision will be required between (a) increasing the business rate locally to generate more income to spend on local services and/or subsidising the Council Tax payer and (b) reducing the business rate locally to encourage activity in the local economy. This balance will have to be struck having regard to the nature of the locality, e.g. rural or industrialised, buoyant or in recession.

2
(12)

(b) (TU 1998 pp 42 - 44)

Brief definition of deliberate strategy - considered and planned in advance - and emergent strategy - emerges as continuous response to changes in environment.

1½

Several possible alternative approaches:

- Planned: deliberate strategy, based on formal plans and centrally driven, works best in more stable environments.
- Entrepreneurial: essentially deliberate, based on strong leadership, capable of adaptation.
- Umbrella: partly deliberate, partly emergent and deliberately emergent. Strategy based upon broad constraints or guidelines within which decision makers will work.
- Ideological: deliberate strategy which is based on shared beliefs and collective vision.
- Imposed: strategy originates outside the organisation either by imposition or by constraints.
- Unconnected: lack of central direction which allows strategy to emerge in separate and loosely connected parts of the organisation
- Consensus: lack of central direction, but strategy emerges through consensus and pervades the organisation.
- Other approaches are possible and should receive credit when properly articulated.

1½ marks for each approach fully explained up to maximum of 4½

(6)
(18)

Question 2

SU13

- (a) Definition – the beliefs, expectations and values which are shared in an organisation (or some such similar definition)

Importance- strategic fit of options to culture
 increased risk where option does not suit culture
 indicator of openness to change

4 x 1/2 marks to total of 2 marks

- (b) Power Culture controlled centrally by powerful individuals
 lack formal rules/relationships
 Web structure

Role Culture bureaucratic, clear definitions of functions, specialists,
 authority, accountability
 Temple structure

Task Culture job or product orientation,
 power based on expertise, commitment to teamwork
 Network structure

Person Culture exist to serve individuals needs and objectives
 unresponsive to conventional power systems
 No formal structure

1 mark each where well explained up to maximum of 4 marks

- (c) Stories and myths about core beliefs
 successful individuals, relationships
 outlines acceptable behaviour, expectations

Rituals & symbols what behaviour is expected and rewarded
 language and attitude
 outward signs of acceptance

Leadership strategies preferred
 leadership style
 where power lies

Structure & systems collaboration or competition
 formal or informal
 creativity or process driven

1 mark each where well explained up to a maximum of 4

(Note - Alternative versions of the web exist and credit should be awarded on merit)

- (d) A good answer should
- describe the organisation, *up to 1 mark*
 - link to cultural web with examples of each element, *up to 4 marks*
 - state which of Handy's types apply, *up to 1 mark*
 - justify which of Handy's types is dominant *up to 2 marks*

(18)

Question 3

(a) Importance of good communication

- promotes good working relationships
- helps create clear understanding
- clarifies the reasons for management action
- equips staff to improve performance
- creates supportive climate
- assists in the change process
- develops an atmosphere of trust
- promotes holism
- improved morale and productivity
- any other appropriate example

1/2 mark each to a maximum of 4

Features of effective communication:

- relevance
- regularity
- credible
- honest
- understandable

1/2 mark each up to a maximum of 2

Role of marketing:

- ensure that the right products appear in the
- right place at the
- right time at the
- right price,
- promoted in the right way to the
- right people.

2

Marketing mix

- Product
- Place
- Price
- Promotion

1 mark for each element well explained up to a maximum of 4

(c) A good answer will include:

Outline of communication methods employed:

internal
external

2

Evaluation of effectiveness against criteria set out in part (a)

up to a maximum of 4

(18)

Question 4

(a)

Payback	Calculates how quickly the investment is repaid
advantages	simple, identifies non-viable options, to some extent evaluates risk
disadvantages	ignores time value of money, earnings after payback
ROCE	Calculates percentage return of capital employed
advantages	easy, considers total earnings
disadvantages	ignores timings, time value of money, duration.
DCF	Calculates the financial return in the current time value of money. Examples, IRR, NPV
advantages	takes account of time value of money, allows common base
disadvantages	more complex, discounting rate can be arbitrary

Other appropriate purely financial methods, or variations on the above, are acceptable.

*2 marks each, (1 for explanation, 1 for advantages and disadvantages)
up to a maximum 6*

(b)

Discussion of application, advantages and disadvantages of two tools which consider non financial as well as financial consequences.

Cost – Benefit analysis

acknowledges that there are social implications
assessments are made for non measurable elements
decisions should be made on social and economic value

advantages	includes social costs and benefits takes long term view
disadvantages	difficult to measure social consequences complex principles different assumptions lead to different decisions

Ranking & Scoring / Weighted Benefit Analysis

groups score against weighted selection criteria
attempt to turn subjective into objective measurement
accepts that social consequences are vital
reconciles option to strategic direction

advantages	linked to strategic objectives takes all aspects into account takes long term view
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disadvantages tends to be subjective
 biased results possible

*maximum of 4 marks for each method where discussion covers key points as above
up to a maximum of 8*

Risks arising could be on variability, uncertainty, or optimistic bias .
Methods for taking risk into account include:

Scenario planning: apply various different environmental assumptions to the
 option and ascertain whether it remains the correct decision.

Sensitivity analysis: Tests all underlying assumptions considering optimistic,
 pessimistic and normal views of each to ascertain whether the
 decision is sensitive to changes in assumptions.

maximum of 2 marks for each, where clearly explained, up to a maximum of 4

(18)

Question 5

(a)

Holistic approach to performance, linking financial and non-financial indicators.

Linking strategy and operations, short and long-term, soft and hard, lag and lead indicators.

2

(b) Issues raised by the case

General

The CTU is structured into 4 functions, but PIs not identified in this way.

Performance management almost entirely based on annual financial budgets and PIs are short-term and internally focused

Current PIs focus on lag and short-term, not balanced with lead or long-term indicators

No link between PIs and strategic direction of the organisation (indeed, not clear whether CTU has a clear strategic direction)

Incremental budgeting – inherent problems will be carried forward

Quarterly reviews look only at financial performance against budgets – not clear how frequently PIs are reviewed

Strategic Plan produced 3 years ago and not to be reviewed until year 6

Mission statement talks about quality, customers, technology and VFM, yet virtually no PIs to measure performance in these areas

Annual Business Plan produced by the Head of Management Training, but no evidence of consultation with other staff or link to strategic plan

PIs – concerns

Focus too much on financial PIs

Turnover not growing as fast as improving % of new contracts

Above evidenced by poor delivery time on orders and growing numbers of customer complaints

staff turnover trend very worrying

Other valid points should receive credit

1 mark for each point explained up to maximum of 12

Report format

*1
(13)*

(c)

Students could use some of the examples in the case or come up with new ones, but objectives must be relevant to the case, consistent with the CTU's mission statement and capable of measurement. The following is not a model answer and other relevant objectives will be acceptable.

Financial Perspective

Objective	Measure	Example target
Achieve acceptable return on capital	Return on capital employed	6%
Achieve acceptable profit margin on all contracts	Contract costing - full cost	20% gross profit on all contracts

Customer Perspective

Objective	Measure	Example target
Meeting customer needs	Annual customer satisfaction survey	95% of customers scoring the service received at 95% or above
Maintaining customer satisfaction	Customer complaint response times	All customer complaints to be resolved, to the customers satisfaction, within 5 working days

Internal Business Processes Perspective

Objective	Measure	Example target
Increase market share	Tender success rate	80% of tenders won
Maintaining position as market leader in use of cutting edge technology	Development programme of new products or services	Increase range of products or services by 5%

Learning and Growth Perspective

Objective	Measure	Example target
Recruitment and retention of skilled staff	Completion of staff training and development programme	95% of staff to complete their annual staff training and developments programme
Continuous investment in cutting edge technology	Investment in research and development	5% of turnover

*½ mark for each objective plus ½ mark for combined measure and target
(8)*

Question 6

The answer is based on the article by Susan Key and Samuel J. Popkin ‘Integrating Ethics into the Strategic Management Process: doing well by doing good’ which is included in the P2 Technical Update 1999, and Study Unit 3 ‘Why we are here’.

- (a) Discussion of the importance of moral, social and legal obligations to guide management in developing goals and strategies. Evidence that integrating ethics improves strategic development and implementation and organisational survival.
Link of ethics to values.
Identification of interests and the importance of linking stakeholder values to ethics. 4

- (b) Factors

Economic

Wealth of the district
Direct inward investment
Multiplier effect
Impact on jobs - quarry and tourism (likely negative)
Externalities - pollution, infrastructure
Impact on Southlands of the quarry versus environment protection (tourism).
Impact on resources and funding of Southlands via increased business rate BUT the need to service/support new industry.

½ mark for each point up to 4

Ethical

Moral - long term impact beyond planning horizon
impact on nature e.g. birdlife, woodlands, countryside 2

Social - sport, leisure, health and education facilities
job creation
real incomes 2

Legal - correct permissions
any conflict of interests 1

- (c) **Stakeholders** **Likely values**

Local community need for jobs
inward investment
impact on tourist industry

Elected members votes

	political values
Government	influence economic
Pressure groups	environmental issues jobs local amenities
Chief Exec/Managers	managing likely conflict of views local v national pressures legal issues

½ for naming stakeholder groups and 1 for values with up to a maximum of 5

Influence will be in extent to which stakeholder values match the vision and mission of the Authority. There are likely to be conflicts about mission and purpose, even within stakeholder groups, and these need to be resolved.
The process may involve the following steps:

1

Key & Popkin model

S.U.3

Interest identification

i.e. stakeholders
dominant/passive

Identify the stakeholders
dominant/passive

Interest analysis

How to serve these interests
e.g. coalition, bargaining etc.

Collect views from stakeholders
bargaining view

Interest actualisation

Mission statement + education, commitment

Collate the views method?

Try it out

discussion

Implement

4

Throughout part (b), other valid points should attract credit

(23)