

BUSINESS STRATEGY IN LOCAL GOVERNMENT

Professional 2 examination 9 June 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**

One of the conclusions from the recently completed pilot Best Value Review (BVR) of the accountancy function in the Finance Department of Blandshire County Council, is that there should be an immediate review of all systems, procedures and documentation to establish whether the current arrangements offer best value for money. The very clear assumption behind this conclusion is that substantial savings and efficiency improvements are achievable.

The Review showed that 50% of the documentation and 80% of the systems and procedures have been in place for 5 years or more without having been reviewed, and that there is no substantiated evidence which demonstrates that value for money is being achieved.

In responding to the report on the pilot review, the Chief Executive commented that it is vital that the Council be able to demonstrate the cost effective use of resources. He has instructed that all the functions of the Finance and other Central Services Departments are critically examined using the Best Value framework.

To carry out the Chief Executive's instructions an internal Steering Group, chaired by the Director of Finance, has been established to take this task forward.

- **Requirement for question 1**

You have been asked to prepare a paper for the first meeting of the Steering Group. Your paper should:

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|-----|--|---|
| (a) | Describe the five key features of the Best Value framework, explaining the relevance of features to the group's task of preparing the way for a full review of the Central Services of the County Council. | 8 |
| (b) | Explain the advantages and disadvantages of benchmarking in a Best Value Review. | 4 |
| (c) | Identify and briefly describe three other resource analysis techniques which might be used in such a review. | 6 |

(18)

SECTION B (Answer two questions)**2****• Requirement for question 2**

- (a) Identify the principal stages in the strategy making process, and suggest linkages between them. 4
- (b) Describe and contrast “deliberate” and “emergent” strategies as distinguished by Mintzberg. 4
- (c) In the light of the work of Mintzberg, discuss the extent to which the strategies followed in your organisation have been deliberate. 10

(18)**3****• Requirement for question 3**

- (a) Describe “Value Chain Analysis” as developed by Porter. 6
- (b) Discuss the principal uses of this model. 4
- (c) Illustrate the applicability of the value chain to your organisation. 8

(18)

4

- **Requirement for question 4**
- (a) Identify and explain the typical barriers to change, together with management styles which can be adopted in managing change. 9
- (b) Identify three techniques used for monitoring strategic implementation, and discuss the advantages and disadvantages of each. 9

(18)



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

Whitedown Unitary Council's Direct Services Organisation (DSO) has expanded rapidly over the last ten years, mainly as a result of successful tendering for all of the Council's contracts. The DSO is organised into four front line units: Catering; Grounds Maintenance; Building Cleaning and Maintenance; and Vehicle Maintenance. There is also a central administrative support unit serving all the front line units.

The DSO is based on three city centre sites, conveniently located for the major roads, and has another large site housing the Vehicle Maintenance Unit and overnight garaging facilities and the administrative support unit. However, although this large site is only five miles away, it requires an awkward and difficult journey for heavy vehicles travelling to and from the site for overnight garaging.

Many of the buildings on the city centre sites, which house the other three units, are antiquated with some being derelict and not useable. The Catering Unit's kitchen facilities are very cramped with significant health and safety problems and the supply of storage space for building materials has been outstripped by demand for it. A building used by the Building Cleaning and Maintenance Unit is in a very poor state of repair and has been subject to significant criticism. Other buildings, however, are still in a relatively good state of repair.

The DSO's success in winning in-house contracts has been followed by threats of difficulties in retaining them as contract renewals arise, due to increasingly competitive tendering by the private sector. In responding to this, pricing by the DSO has become very keen indeed, to the point where losses have been incurred by all units from time to time. To avoid threatened legal action to wind up the entire DSO operation, an urgent review of costs has been undertaken. This revealed that the quality of the existing accommodation was a major factor inhibiting the profitable operation of all units. It is considered essential that substantial improvements are made. A number of possibilities have emerged, all of which require exploration. A Strategic Planning Group has been set up under the Contracts Manager to undertake this task. At its initial meeting the Group identified the following options:

- A The purchase and conversion of a large, derelict dockland site some ten miles away from the existing city centre sites. The site would be used to replace the Vehicle Maintenance Unit and garaging facilities, and also to provide the Building Cleaning and Maintenance Unit with a new purpose built depot which would include kitchen facilities for the dedicated use of employees at the new location. This option would be funded partly through the sale of the currently unused buildings and the current site of the Building Cleaning and Maintenance Unit. It is assumed that work commences on this option on 1 January 2000 and that the facilities will be ready for use on 1 January the following year.
- B The conversion of some of the vehicle maintenance facilities on the site five miles away from the city centre sites, to house the Building Cleaning and Maintenance

Unit with the same facilities for the unit as specified for Option A. This would have the effect of significantly reducing the Vehicle Maintenance Unit's ability to carry out routine repairs, many of which would have to be contracted out to local garages, whose ability to handle repairs to specialist vehicles such as refuse freighters and heavy plant is suspect. The same funding as above is assumed to be available for this option. This option is also assumed to have the same timescale for building work as that above.

- C The conversion of the existing accommodation. This option would maintain broadly the current roles and designations of the existing buildings. This option is assumed to have the same timescales for building work as above.

In assessing the options, the Planning Group agreed on five benefit criteria, namely:

- V - Projected financial performance.
- W - The provision of improved, modern operational facilities for every unit.
- X - Quality of kitchen facilities.
- Y - Improved garaging accommodation.
- Z - The provision of vehicle maintenance facilities.

The relative importance of these factors was determined by the Planning Group as follows:

- V was twice as important as W;
- W was 50% more important than X or Z; and
- X and Z were equally important and were twice as important as Y.

The Planning Group then arranged for a specialist officer to carry out an analysis of these options, and to provide the Group with his conclusions.

He was given the following financial projections to assist in his analysis and told to use a discount rate of 6% for any discounting undertaken.

Option A

- capital costs
(net of the proceeds of existing buildings
and sites) £4,000,000
- expected life 30 years
- operating savings generated £1,500,000 per annum
- running costs £525,000 per annum

Option B

- capital costs
(net of the proceeds of existing buildings and sites) £1,000,000
- expected life 15 years
- operating savings generated £1,200,000 per annum
- running costs £400,000 per annum

Option C

- capital costs £3,000,000
- expected life 15 years
- operating savings generated £1,500,000 per annum
- running costs £350,000 per annum

- **Requirement for question 5**

- (a) Undertake a weighted benefit analysis of the above options. 10
- (b) Identify the principal risks that should be taken into consideration, and suggest work that might be undertaken in order to investigate these risks further. 8
- (c) Discuss the advantages and disadvantages of entering into a PFI deal for this project. 5

(23)

6

Your Authority published its Corporate Plan in July 1997. It was prepared by the Chief Executive and the Directors after several weeks' intensive work, including three consecutive weekends of brainstorming at a remote, but luxurious, rural location. The Plan opens with the statement that:

This document is the Council's statement of where it wants to go over the next five years. It analyses where we are and what environment we are operating within. It is intended to guide all the operations and activities of the Council and its staff and, therefore, all staff must keep in mind, at all times, the values and ways of working set out herein.

It then goes on to describe in some detail how services will be provided to customers and clients, and includes values and minimum standards to be achieved. Examples include: "We shall deal with the public in a courteous and sympathetic way", "We shall answer telephone calls promptly", and "Quality financial information will be available to all departments to assist them in the discharge of their obligations".

The Corporate Plan, which runs to over 30 pages of close-typed text, was approved by the Policy Committee with little discussion and every member of staff was given a copy, although complaints were received from a number of user groups concerning a lack of consultation. The Chief Executive then held a number of meetings for staff across the whole Authority where he explained the purpose and content of the plan, and exhorted those staff who attended the meetings to do their best to meet the targets in the plan.

One of the initiatives contained in the Corporate Plan was the introduction of a complaints procedure for the public. This was set up in September 1998. It is in fact the only one of the 37 initiatives in the Plan which has been brought to fruition.

The Chief Executive has asked for a report on the complaints received so far, and is concerned at the large volume of complaints, which cover all Departments. The Finance Department has received its fair share, including the following examples:

- 17 cases where telephone callers could not make any contact, despite trying for between 2 and 12 minutes.
- A student nurse who was subjected to legal action for recovery of alleged Council Tax arrears, although she stated that she sent in an application for exemption in good time. She alleges that when she telephoned after receiving a first bill she was told "Oh don't worry if you've sent in the application form for exemption - it can be up to a month before mail gets opened in this place. Just ignore the bill and any reminders and it will all get sorted out eventually."
- There have also been a number of complaints from staff in other departments about the lack of financial information available to enable them to monitor their budgets. One

complainant stated that he was using the public complaints system because he was “at his wits’ end trying to get any sense from the Finance Department”!

When faced with these complaints, Finance staff assert that they are doing their best, that they do not have enough staff to cope with the work, and that it is the job of management to sort out the complaints with the public (or “the enemy” as they call the public). Staff deny knowing anything about a Corporate Plan, but they do recall some sort of pep talk from the Chief Executive about a year ago. At the Management Team meeting the Director of Finance found that other Directors have experienced similar reactions from their staff.

- **Requirement for question 6**
 - (a) Explain what has gone wrong with the planning process as set out in the above scenario. 8
 - (b) What actions would you suggest in the short term to begin to address the deficiencies you have identified in the planning process? Show how these might begin to address the problems facing the Finance Department. 8
 - (c) Suggest how the overall planning process should be designed in future to reflect good practice. 7
- (23)