

FINANCE AND MANAGEMENT CASE STUDY

Final Test of Professional Competence

30 November 2011

PRE-SEEN MATERIAL

Pre-seen material for the Finance and Management Case Study is dispatched two weeks in advance of each examination sitting.

You should note that the purpose of this pre-seen material is simply to allow you to familiarise yourself with the case scenario, i.e. the organisation contained in the case and its regulatory background.

You you will not be allowed to take in any notes to the examination. The pre-seen material will be provided again on the day of the examination itself.

For further information on the pre-seen material, please refer to your Techniques Guide.

The case study has been prepared on the assumption that candidates will not necessarily have a detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded to those candidates displaying such knowledge.

Candidates should submit all papers produced during the examination, but they should distinguish clearly between formal answers (including appendices) and working papers.



Allegro Regional Assembly

Background

Carbunion is an independent state within the economic region of Eurovia and a member state of the Eurovian Union. Carbunion, with a total population of 3.5million, is governed under a two tier political structure. The national government, which is based in the state capital, is supported by a single tier of regional government. This consists of four regional assemblies; one covering the metropolitan area around the state capital of Riley and three non-metropolitan assemblies covering the remainder of the state.

Allegro is the largest of the three non-metropolitan regional assemblies and is administered from the regional centre, the town of Roverford, on the banks of the River Trojan. The region of Allegro is divided into three districts, each named after the main town in the district:

- **Roverford** the most affluent, where the majority of business employment is centred
- **Elftown** a largely suburban district with good housing and infrastructure
- **Causeway** the least affluent of the three districts with dense residential accommodation of a lower than average standard for the region.

In line with all the regional assemblies, Allegro is managed by a locally elected regional government (local councillors), supported by directly employed officers. The regional assemblies are responsible for delivering a wide range of public services including education, social care, highways and transportation, passenger transport, waste management and community services. The Allegro Regional Assembly budget for the current financial year, which runs to the 31st of March, is given at **Appendix A**.

The revenue expenditure of the regional assemblies is funded in three main ways: the General Formula Grant (GFG) which can be spent on all services; a dedicated Schools Grant that can only be spent on schools provision and the Regional Assembly Tax (RAT), which is a property based tax used to balance the revenue budget and calculated according to local property values.

Carbunion was accepted into the Eurovian Union in 1992 but retains its own currency, the Carbunion Pound (£), which enjoys parity with the UK pound. There is underlying low inflation and no VAT.

Allegro Regional Assembly

Allegro has a population of 670,000 and despite having areas with a high urban concentration, also encompasses a number of areas of outstanding natural beauty including The Austin Heights, The Marina, and the Princess Valley. There is also a concentration of woodland cover in Healy Forest and this is increasing due to the ongoing planting of the new National Forest.

Due to a severe and ongoing recession within Carbuinion, brought on in part by the international banking crisis, the Carbuinion national government has been faced with the need to make significant reductions in public expenditure over the next three years. Measures put in place to address this include reduced GFG allocations to regional assemblies as well as the national government recommending minimal year on year increases in RAT, with the possibility of invoking existing RAT capping powers that have not been used in the last 10 years. This has put severe pressure on the Allegro revenue budget and the Regional Assembly is currently undertaking a significant planning exercise to identify areas of revenue savings that can be implemented to meet GFG and RAT constraints.

This is providing major challenges across the Assembly. In particular the Children and Young People and Adult Social Care budgets are facing severe difficulties in planning future service provision within constrained resources. Many of the services provided for Children and Young People, such as counseling, advice, support and developmental activities, are linked to grant allocations to voluntary sector providers. For Adult Social Care, the Assembly is tied into contracts with private sector providers for both residential care and community care. These contracts do not expire for a number of years and renegotiating the rates within them is proving difficult. The Schools revenue budget is ring-fenced and funded separately through the dedicated Schools Grant. This is devolved to schools and outside the Assembly's main budget. However, relevant and proportionate central administration costs of the Assembly may be charged against the dedicated Schools Grant.

Allegro has previously attempted to outsource service provision in the area of waste management, but with disastrous consequences. The chosen contractor went into liquidation, leaving a series of major quality complaints in their wake in addition to the significant financial consequences of sourcing replacement provision. The Assembly has therefore formally resolved not to risk undertaking any further major outsourcing projects, irrespective of any wider political pressure to do so.

Highways and Transportation

Allegro is responsible for the provision and maintenance of the highways network within the region. This includes maintaining the 3,100 km of highways (excluding national trunk roads and motorways, which are the responsibility of the Carbuinion national government) and their associated infrastructure, as well as managing traffic flows, road safety and environmental impact. Roads are classified as major roads, i.e. those that form the main transport links between and within urban areas, and minor roads, i.e. those within housing areas and smaller rural roads. The Regional Assembly is also responsible for the long term planning of the highways network, including the commissioning of new infrastructure.

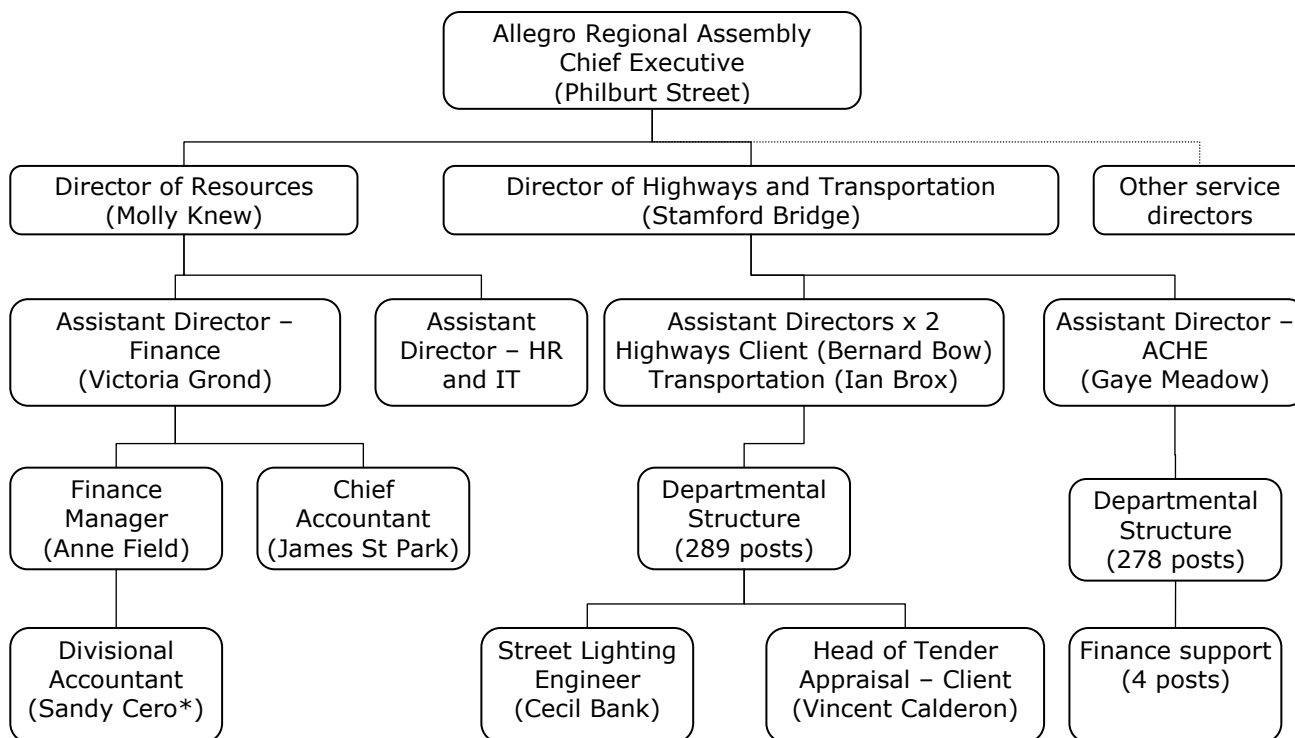
Revenue expenditure on highways and transportation is funded from the Regional Assembly's general revenue budget, i.e. the GFG and the RAT. As such there is downward pressure on the highways and transportation budget in line with national spending plans.

Capital expenditure on highways infrastructure forms part of the Regional Assembly's capital programme and is funded in two ways. Under the first type of funding, a regional assembly can allocate its own resources, funded through a mix of supported and unsupported borrowing, as well as direct revenue funding and allowable capital receipts. Supported borrowing is that which is funded specifically through the GFG. Unsupported borrowing is that which is funded

outside the GFG and is also known as prudential borrowing. The second type of capital funding is in the form of capital grants awarded by the Carburn national government for specific projects or schemes of works. Such grants are awarded as part of a 5 year Regional Transport Plan (RTP).

Highways and Transportation Structure and Reporting

The structure of the Highways and Transportation Service, relative to the structure of the Allegro Regional Assembly is given below.



**The candidate is the newly appointed Divisional Accountant (Sandy Cero)*

The Highways and Transportation Department, under the management of the Director of Highways and Transportation, reports to the Highways and Transportation Board, which consists of locally elected councillors of the majority party. The Highways and Transportation Board in turn reports periodically to meetings of the full Allegro Assembly (all locally elected councillors) and may also be required to report to the Allegro Scrutiny Committee, consisting of locally elected councillors from the minority parties.

The current year's revenue budget for the Highways and Transportation service is given at *Appendix B*. The service is structured according to a "client" and "provider" arrangement that has been in place for over 20 years. Under this structure, the client side of the service is responsible for controlling the Highways and Transportation revenue budget and capital programme and is split under the Assistant Director of Highways - Client and the Assistant Director of Highways - Transportation. The client side is also responsible for ensuring that the highways, and their associated infrastructure, are maintained to an appropriate standard within the resources available. The provider side of the organisation is an in-house delivery organisation called "Allegro Construction Highways Engineers" (ACHE), which is only permitted to undertake work following successful competitive tendering against private sector organisations. ACHE is managed from within the Highways and Transportation Department under the delegated responsibility of the Director of Highways and Transportation, although to maintain a sufficient level of separation from the client, it is directly managed by a separate

Assistant Director within the department and has its own premises, depots and devolved finance support team.

ACHE invoices the client for both capital and revenue work programmes using the schedule of rates contained within the contracts it has been awarded. It keeps a separate Income and Expenditure account, the net surplus or deficit on which is transferred to the client budget (see Appendix B). ACHE is required to make a 5% return on the average net assets it employs (a simple average based on the opening and closing net assets figure from its balance sheet).

Street Lighting

Street lighting is a non-statutory function of the Assembly. This means that there is no legal requirement to provide street lighting and there are no legal standards as to the number of streetlights in a given area, their spacing or the type of equipment used. Nevertheless, as part of its wider duties, the Assembly does have to ensure that roads are safe for drivers and pedestrians and as such there is an implied duty of care to have some level of street lighting on the highways network.

Types of Equipment

There are four main components that make up a streetlight; the column, the lantern, the lamp and the controller.

The column is the support that raises the light above the ground. Columns are of two main types, steel and concrete. There are also a minority of streetlights that are attached to buildings etc. Allegro now only installs steel columns both for new capital schemes and as replacements for existing columns. Replacements can be through either the planned maintenance schedule, or through reactive maintenance if a street light becomes damaged through a road traffic accident (RTA). Steel columns have an expected life of 40 years before they need replacing.

The concrete columns were originally designed to have a life of 40 years. However, due to weaknesses in their design and construction, in reality they only last 20 years before the top of the column becomes weathered and starts to crumble. This in itself is dangerous as the column head can fall off. However, it also leads to other problems as water drips down through the column and rots it from the inside. This can lead to electrical problems and in extreme circumstances, a health risk to the public. Columns are therefore inspected regularly and, where necessary, the top of the column is sleeved in a metal cap to both strengthen and protect it. Concrete columns are exclusively located on minor roads.

The lantern is the casing at the top of the column that houses the electrical circuitry, the lamp and the controller. They are of aluminium and glass construction and are generally very reliable, not needing replacement until the column itself is replaced.

The lamp is the term used for the light bulb that goes into the lantern and they come in different wattages (brightness) and energy efficiencies. The two main types of lamp are Low Pressure Sodium (LPS), which give off a soft orange light and tend to be used on minor roads, and High Pressure Sodium (HPS), which give off a brighter, whiter light and tend to be used on main roads as they improve driver visibility. Lamps are normally replaced on a planned maintenance cycle. However, they are also replaced on an ad-hoc basis if they fail before their planned replacement. This is called reactive replacement.

The controller sits on top of the lantern and is used to turn the lamp on and off. With the exception of those few steel column streetlights that are on 24 hours a day, controllers are exclusively photo sensitive cells that react to reducing light levels at dusk and increasing light levels at dawn to switch the lamp on and off.

Information about the type and age of streetlights is given in table 1 below.

Table 1: Street Lighting Information

Type and Age of Columns (Years)	0-20	21-30	31-40	Over 40	Total
Steel	27,977	11,774	5,358	405	45,514
Concrete	0	995	12,711	2,338	16,044
Other	672	555	1,083	13	2,323
Total	28,649	13,324	19,152	2,756	63,881

Regional Transport Plan and Key Performance Indicators

The Regional Transport Plan (RTP) is a strategic plan produced by each regional assembly for a period of five years. The RTP sets out how the regional assembly plans to maintain and develop its transport infrastructure in line with local needs and national priorities during the period and is produced following consultation with relevant third parties. It also incorporates the Assembly's plans for achieving Government policies for highways and transportation. In addition, the RTP sets out the overall strategy for highways and transportation management and maintenance within the region as well as specifying the capital projects planned to be undertaken. The RTP needs to be formally agreed by the Carbnion national government in advance of its implementation and the latest RTP has recently been agreed covering the five year period from 1st April 2012. Approval of the RTP formally allocates capital grants to the region over the five-year period and also sets a number of key performance indicators (KPIs). These KPIs are defined by the national government with all regions required to set their own annual targets for each of the KPIs. Monitoring and reporting of actual performance against these internally set targets, as well as the government benchmark, is undertaken for each KPI. Table 2 sets out the KPIs and Allegro's recent performance against them.

Strategic Priorities

In addition to the RTP, Allegro also produces an annual Highways and Transportation Strategic Plan. Allegro is continuing to work towards the creation of a better highways infrastructure for the region to enable safe and efficient transport, while simultaneously addressing increasing concerns about the impact of transport on the environment. To this end, a number of key priorities have been identified in the annual Highways and Transportation Strategic Plan that also complement national priorities, namely to:

- reduce road casualties
- tackle congestion and improve air quality
- reduce the impact of traffic on the environment
- improve access to facilities for people in rural Allegro and for those who do not have the use of a car
- improve the condition of roads, pavements, bridges and street lights
- improve customer satisfaction with the Highways and Transportation Service
- enhance service efficiency.

An extract from Allegro's 2011/12 annual Highways and Transportation Strategic Plan is given in *Appendix C*.

Customer satisfaction levels with Allegro's Highways and Transportation Service are monitored each year. Independent surveys found that in the last financial year 85% of residents were satisfied with the highways service overall, and 81% were satisfied with the overall condition

of Allegro's roads. The level of satisfaction with the information provided to the public on road works has risen from 51% to 56% over the last year.

Table 2: Highways Key Performance Indicators

KPI Ref	Note: RTA = Road Traffic Accident	National Benchmark	2009/10 Actual	2010/11 Target	2010/11 Actual	2011/12 Target
HM1*	People killed or seriously injured in RTAs (% change over a 3 year rolling average)	-2%	+1%	-2%	+2%	-2%
HM2*	Children killed or seriously injured in RTAs (% change over a 3 year rolling average)	-4%	0%	-5%	+2%	-4%
HM3*	Motorcyclists killed or seriously injured in RTAs (% change over a 3 year rolling average)	-5%	-2%	-4%	0%	-4.5%
HM4	People incurring minor injuries on all roads	Not Applicable at National level	2,171	1,950	2,420	1,820
HM5	Congestion – average journey time per mile in peak morning traffic (measured in minutes)	3.5	6.6	4.2	6.3	4.0
HM6	% of roads with significant defects	2%	3%	2%	2%	2%
HM7	% of roads with minor defects	4%	3%	4%	3%	3%
HM8	% of footways with significant defects	15%	15%	15%	16%	15%
HM9	% street lighting columns requiring replacement	8%	27.22%	18%	25.77%	16%
HM10	% traffic signals requiring complete renewal	5%	7%	5%	6%	5%

* In previous years, Allegro achieved performance for indicators HM1, HM2 and HM3 broadly in line with the respective national benchmarks.

Traffic flows

Additional information has recently come to light about potential future traffic flows from two sources, namely the national Carbunion census and a consultation exercise undertaken by the Allegro Regional Assembly.

The information from the census undertaken in 2010 revealed the following and reflects national trends across Carbunion:

- the number of dwellings in Allegro increased by 17,000 between 2000 and 2010
- traffic volumes grew by 7.9% during this period
- 83% of households have at least 1 car available
- 71% of journeys to work are made by car.

In addition, a new housing development consisting of 400 residential dwellings is currently being completed in the Causeway district just across the River Trojan from Roverford. Planning consent for the development was given on the basis that it would attract additional residents into Allegro from neighbouring regions. It is anticipated that 80% of the residents of this new estate will commute into Roverford on a daily basis.

Allegro has also carried out extensive consultation with the public in recent years, to establish their priorities for highways management in the Region. This described in outline many of the actions needed to meet the key priorities identified in the strategic plan. Awareness of the consultation was raised through:

- the Assembly newsletter delivered to all households in Allegro
- press releases which resulted in articles in local newspapers including the Allegro Herald
- a discussion on Radio Allegro early on in the 12 week consultation period
- a series of presentations and discussions with stakeholders, including sessions with local highways forums and local strategic partnerships.

The main findings from the consultation are summarised in Table 3. The majority of respondents gave all the key priorities either a medium or high priority.

Table 3: Summary of Consultation – Support for Strategies

Objectives	High priority	Medium priority	Low priority	Not a priority	No response
Tackling congestion	74%	18%	3%	2%	3%
Access to facilities	33%	41%	16%	3%	7%
Road casualty reduction	52%	31%	9%	2%	6%
Air quality and traffic impact	60%	24%	6%	3%	7%
Maintaining transport assets	40%	43%	6%	1%	10%

Appendix A

ALLEGRO REGIONAL ASSEMBLY REVENUE BUDGET 2011-12
(as approved by the Regional Assembly on 20 February 2011)

	Total Budget
	£
<u>Spending</u>	
Services:	
Schools *	0
Children & Young People	50,890,640
Adult Social Care	109,944,830
Highways & Transportation	27,922,080
Passenger Transport	22,690,920
Waste Management	25,285,800
Community Services	21,296,890
Chief Executives	9,704,710
Corporate Resources	21,787,650
	289,523,520
Corporate Change Management Programme	1,440,240
Service improvements	328,940
Central Department Recharges against Schools Grant *	-1,737,640
Total Services	289,555,060
Central Items:	
Bank & Other Interest	-6,630,000
Revenue funding of capital	2,040,000
Financing of Capital	30,396,000
Financial Arrangements	424,320
Members Expenses & Support etc	1,398,110
Flood Defence Levies	255,000
Total Central Items	27,883,430
Budget Requirement	<u>317,438,490</u>
<u>Funding</u>	
General Formula Grant	94,624,770
Regional Assembly Tax	222,813,720
Total Funding	<u>317,438,490</u>

* The dedicated Schools Grant is delegated directly to schools and ring fenced. The Schools budget does not therefore form part of the Regional Assembly budget. However, appropriate central department costs may be recharged against the dedicated Schools Grant.

Appendix B

ALLEGRO REGIONAL ASSEMBLY HIGHWAYS AND TRANSPORTATION BUDGET

REVENUE BUDGET 2011-12

Actual 2010-11 £	Description	Employees £	Running Expenses £	External Income £	Net Total £
HIGHWAYS & TRANSPORTATION					
4,966,992	Staffing & Admin. Costs *	3,843,003	1,029,149	-586,306	4,285,846
Highway Maintenance					
10,549,289	Structural Maintenance	0	10,526,920	-35,955	10,490,965
1,934,155	Safety Maintenance	0	1,982,492	0	1,982,492
1,733,837	Environmental Maintenance	0	1,981,187	0	1,981,187
1,312,595	Street Lighting Maintenance	0	1,012,605	0	1,012,605
1,999,978	Street Lighting Energy	0	2,002,332	0	2,002,332
1,756,736	Winter Maintenance	0	1,790,477	0	1,790,477
-334,438	Contribution From ACHE	0	-342,802	0	-342,802
18,952,152	Total Highway Maintenance	0	18,953,211	-35,955	18,917,256
632,400	Urban Traffic Control	0	646,221	0	646,221
195,840	Road and Traffic Safety	0	386,396	-80,060	306,336
24,747,384	TOTAL	3,843,003	21,014,977	-702,321	24,155,659
MANAGEMENT AND SUPPORT SERVICES					
2,154,842	Staffing & Admin. Costs *	2,077,424	184,090	-1,112	2,260,402
Departmental Costs:					
935,014	Insurance	0	958,392	0	958,392
201,848	Department General Expenditure	0	200,960	0	200,960
300,767	ICT Equipment/Software/Maintenance	0	299,747	0	299,747
41,820	Improved Information Systems	0	46,920	0	46,920
3,634,291	TOTAL	2,077,424	1,690,109	-1,112	3,766,421
28,381,675	TOTAL HIGHWAYS & TRANSPORT	5,920,427	22,705,086	-703,433	27,922,080

* Staffing and Admin. Costs are shown net of costs recharged to the Capital Programme for design fees etc

ACHE - Budgeted Expenditure and Income (2011-12)

Staff Costs	9,282,000
Other Costs	16,487,198
Total Expenditure	25,769,198
External Income	-3,060,000
Income from Allegro Regional Assembly **	-23,052,000
Total Income	-26,112,000
Budgeted Surplus 2011-12	342,802 (Budgeted 5% return on average net assets)
Actual Surplus 2010-11	334,438 (Actual 5.6% return on average net assets)

** Income from Allegro Regional Assembly is a mix of Revenue and Capital works

Appendix C

Extract from Allegro's Annual Highways and Transportation Strategic Plan 2011-12

Highways and Transportation

We are continuing to work towards the creation of a better transport system for Allegro that delivers safe and efficient transport whilst at the same time addressing the increasing concerns we have about the impact of transport on our environment.

What we will do in 2011-12

Reduce road casualties

- Every effort will be made to develop strategies for delivering road casualty reductions. We are working towards the production of a rolling programme of local safety schemes. We will also be working with the Road Safety Partnership to review the Safety Camera scheme.
- We will continue to focus efforts on reducing motorcycle casualties. An Action Plan will be implemented from the start of 2011-12 with the objective of meeting our target of reducing motorcycle casualties.

Tackle congestion and improve air quality

- Following a successful bid to the Carabunan State Government, we will be developing plans for a replacement bridge over the River Trojan at Roverford to reduce congestion in and out of the city at peak times. We will also be looking into ways of further curbing congestion in 2011-12.
- We will introduce civil parking enforcement in January 2012.
- We will continue to work with bus operators to improve bus information and service quality. We will continue to listen to the views of local people to identify the areas where we need to target improvement, and these will be taken forward in partnership with the bus operators.

Reduce the impact of traffic

- Work will start on the Elftown bypass in Autumn 2011. A bid is being made to Government for the Impville town centre improvement scheme with the aim of securing planning consent and achieving initial Government approval during 2011-12.
- Our Community Speedwatch Initiative, aimed at involving people in taking responsibility for the impact of speeding traffic in their own communities, has been successfully introduced and will be further developed in the coming year.

Improve access to facilities for people in rural Allegro and for those region-wide who do not have access to a car

- We will be working with the Allegro Rural Partnership to formalise arrangements for the delivery of our RTP accessibility strategy, implementation of which will remain ongoing throughout the year.
- We will prepare for the launch of a national concessionary travel scheme in 2012-13.

Improve the condition of our roads, pavements, bridges and streetlights

- Our first Transport Asset Management Plan is now in place, covering our roads, footways, bridges and street lighting. We will review maintenance practices accordingly

to ensure we are maintaining our roads and other assets in the best condition at minimum cost.

- We will constantly review performance against national and local performance indicators and will seek to establish innovative work practices and funding streams to tackle problem areas.
- We aim to sustain our impressive record of delivery on highways maintenance performance indicators. This will be particularly challenging in the coming year given the current financial climate. Plans will also be drawn up detailing how we can best adjust for the longer-term should funding reductions be on-going.

Improve customer satisfaction with the Highways and Transportation Service

- We will introduce our departmental Customer Service Centre in November 2011 as part of the Assembly's Customer First initiative. This will provide improved access to information about Highways and Transportation services, and make requests for services simpler and more convenient.
- We have developed an equalities action plan, and we will work to achieve equality standards for our services and facilities.

Service efficiency

- We will focus on improving service efficiency in 2011-12, with an ambitious plan involving new working arrangements and structures for the delivery of highway works. Some services and departments will be merged to streamline management costs and arrangements will be introduced for a continuous process of service performance analysis and improvement.