# BUSINESS STRATEGY IN CENTRAL GOVERNMENT AND AGENCIES

**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 Comprehensive Spending Review (CSR) of the Department for Heritage and Culture (DHC), is that there should be an immediate review of all support and ancillary services to establish whether the current arrangements offer best value for money. The very clear assumption behind this conclusion is that substantial savings are achievable.

As an initial step, the Minister for the DHC called for a report on all support and ancillary services, to show, in particular, what measures have been taken to support the case that the current service delivery arrangements offer best value for money. This report showed that the current arrangements for eight of the ten services in this category (representing 85% of the total expenditure on support and ancillary services) have been in place for five years or more, and that, in these cases, there is no substantiated evidence to demonstrate that value for money is being achieved.

In responding to the report, the Minister commented that it is vital that the DHC must be able to demonstrate the cost effective use of taxpayers' money. He has now demanded that the continuing need for and future operation of all the support and ancillary services are critically examined in a review which considers all possible options.

Following the Minister's comments, an internal Steering Group, chaired by the Principal Finance Officer, 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:

(a) Describe the key options considered during a "prior options review", explaining the relevance of each, and of the overall approach, as a means of identifying a practical solution for the Minister. *7*

(b) For each of the key options described above, outline what the resultant contractual or similar arrangement would be if each option were taken to conclusion and, in particular the ongoing responsibility of the DHC. *3*

(c) Outline the roles and responsibilities of the client and contractor at the different stages of a market testing exercise. *8*

*(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** The Central Health Agency came into being four years ago, following the merger of the Food Welfare Agency and the Regulatory Division of the Department of Health. The merger was the main recommendation from the Prior Options Review of the Food Welfare Agency. It is based on three inner city sites, conveniently located for the major transport services, and has another large office site consisting largely of technical departments and facilities which is five miles away and is well served by transport links. Many of the buildings on the inner city sites are antiquated, and two are derelict and not used. Other buildings on the inner city sites, which are still in a relatively good state of repair, date from the 1960s and are principally devoted to administrative and support services, including the finance department.

Since the merger, the Chief Executive and the Board of Management have pursued the goal of attaining single site centralised offices. A number of possibilities have emerged and requires exploration, and a Strategic Planning Group has been set up under the Director of Finance 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 inner city offices. Although the site is somewhat remote it is situated close to a newly constructed light railway terminus. All staff would be accommodated in the converted building which would be equipped with low energy heating and lighting installations as part of a complete high quality refurbishment. This option would be funded partly through the sale of current sites. 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 existing accommodation on the site five miles from the inner city sites to allow all departments to be accommodated on the site. The site is served by excellent road, rail and other public transport links. Only a partial refurbishment of the property is envisaged by the plan. The property will be partially fitted with solar panels but is not anticipated to be as energy efficient as Option A. Funding from the sale of the current inner city sites is assumed to be available for this option. This option is assumed to have the same timescale for building work as that above.

C The conversion of the existing accommodation, including the refurbishment of existing derelict property and a new build on the largest of the three inner city sites partly financed by the sale of the site of the technical departments. This would leave the Agency occupying one large and two small though adjacent sites and would also maintain the current good transport links albeit with relatively few parking spaces available. The existing structure of the accommodation would inhibit some improvements to the office facilities envisaged as being desirable but the same heating and lighting arrangements as Option A would be incorporated. This option is assumed to have the same timescale for building work as above.

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

V - Projected financial performance.
W - Achievement of single centralised site.
X - Provision of improved, modern office facilities.
Y - Environmental impact of facilities.
Z - Quality of staff and public access.

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 asked the Agency's Finance Director to carry out an analysis of these options and 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<br>(net of the proceeds of existing 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<br>(net of the proceeds of existing 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 (net of the proceeds of existing site) | £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 Agency (the Sports Licensing Agency) 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 Agency'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 Agency 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 and Resources Sub-Committee with little discussion and every member of staff was given a copy, although a number of user groups complained about the lack of consultation. The Chief Executive then held a number of meetings for staff across the whole Agency 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 junior football club which was subjected to legal action for recovery of alleged licence arrears, although they stated that they sent in an application for exemption in good time. They allege that when they telephoned after receiving a first bill they were 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, but 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 from 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 Board meeting the Director of Finance found that other Directors have experienced similar reactions from their staff.

- **Requireme nt 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)*