

## Advanced Material

This Advanced Material contains a pre-seen case study provided to students prior to the exam date. Students should familiarise themselves with the Advanced Material before they sit the exam. The Advanced Material provides key information and forms the basis of the requirements set out in the exam day materials. Students should carry out research into the sector and apply learning from the workbooks.

**Exam: Strategic Case Study**

**Exam Sitting: March 2024**

## Heliostan

Heliostan is a medium-income, democratic country in the northern hemisphere. It has a total population of 7.3 million.

It is one of the sunniest countries on earth, averaging 3,800 hours of sunshine per year. It is also one of the hottest places, with more than 100 days a year having a maximum temperature exceeding 38 degrees Celsius. The hot summers are paired with short, mild winters in which the temperature rarely falls to freezing point.

The country covers about 300,000 square kilometres. Most of this land is used for agriculture. About 20% of the country's area is desert, with water covering less than 1% of the area.

For much of the 20th century, agriculture drove the country's economy, particularly cotton, citrus fruits and cattle farming. There were also some valuable copper deposits to be mined, as well as oil and gas reserves. The copper deposits have been completely extracted but there are still some working oil and gas wells.

The advent of affordable, effective air conditioning systems in the last 50 years enabled the growth of tourism, which today makes up 8% of the country's gross domestic product (GDP). It also led to many technology-reliant companies (such as electronics manufacturers and pharmaceutical businesses) moving into the country to take advantage of a relatively large, well-educated, English-speaking labour pool. These businesses benefited from the relatively low rate of corporate taxes that were levied at the time.

The country's gross domestic product (GDP) in 2023 was about £297 billion (approximately £41,000 per capita). The central bank has been effective at maintaining inflation (Consumer

Price Index) between 2% and 2.5% in the last 3 years, and is expected to continue to do this over the medium term.

## **Heliostan's government**

The legislature in Heliostan is a parliament with 120 members of parliament (MPs). The parliament is elected using proportional representation and the next general election for parliament will be in 2026.

Since 2021 the national parliament has been controlled by a coalition of the National Democrat Party, which is a left-wing, socialist party, and the Planet Earth Party, which is focused on social, environmental and ecological policies. The two parties negotiated and agreed a governing pact that sets out in broad terms the policies they agreed on. The pact also states that the Prime Minister will be from the National Democrats, as it has the larger number of MPs, and the Deputy Prime Minister, who also has responsibility for the Ministry of the Environment, will come from the Planet Earth Party.

Local government in the larger cities is structured with the mayor and council governance model. Under this model, a mayor is elected separately from the councillors and holds executive powers to deliver public services, under the oversight of the council.

Smaller cities, towns and rural districts adopt the council manager governance model, where the council (comprised of elected councillors) appoints a manager, usually called the chief executive, to organise and manage all of the executive functions on behalf of the council.

The financial year for all public sector bodies in Heliostan is 1 July to 30 June.

## Heliostan's climate change challenges

Water has always been a precious resource in Heliostan. It has a desert climate and less than 300mm of rainfall a year. The rivers and lakes within the country are formed from rain and snow that falls on the mountains in neighbouring countries. Climate change is causing longer summers and lower rainfall in the wider region, not just Heliostan. Scientists have found that the higher temperatures are sapping the flow of the River Apollo (the biggest river in Heliostan), and it could lose about a quarter of its flow by 2050.

Heat is also a problem. There are about 500 deaths a year from heat-related causes, and this number has been steadily growing since the 1970s.

Despite the sunniness of the country, successive governments have not developed the use of solar energy in any meaningful way. Heliostan's oil and gas reserves have been used in power stations since the wells were first drilled in the 1930s and 1940s. These sources do not generate enough energy for the country as a whole, so additional energy is imported from neighbouring countries. Some of it comes from Carbonia, where it is generated from fossil fuels, and some from Vodaland, where it is generated using a combination of nuclear and hydro-electric power stations.

The public is becoming more concerned about the issue of climate change. It is now the third-highest priority in national surveys, coming after improving the public education system and making healthcare more accessible and affordable.

A survey of voters in 2023 showed:

- 71% either "agree" or "strongly agree" that the national government needs to do more to combat climate change

- 66% (up from 60% in 2017) believe the government should impose more regulations to reduce greenhouse gases
- most voters believed Heliostan will not have sufficient water to meet all of its needs for the next 50 years.

Despite the growing number of voters who want the government (national and local) to do something about climate change, most have been slow to change their own behaviour voluntarily. The most successful changes have come where the government has mandated the change, such as when it banned the use of plastic cups and straws for takeaway drinks.

The cities and towns in Heliostan have relatively high levels of pollution from vehicle emissions. There are, on average, 1.8 internal combustion engine vehicles per household (mostly cars, but also lorries, vans and motorcycles) and some of the larger cities have implemented low emission zones (LEZs), with varying levels of opposition. An LEZ is an area that drivers of vehicles have to pay a toll to enter, unless the vehicle is electric or has a very small capacity internal combustion engine.

Climate change has been a much higher priority for the national government since the Planet Earth party became a member of the ruling coalition. As a result, the national government has adopted the outcome targets of the United Nations' Sustainable Development Goal (SDG) 11 (see appendix). It has also brought in a number of sustainability policies. These include:

- banning the sale of new vehicles with diesel engines from 2030 and providing subsidies to help consumers buy electric vehicles (EVs)
- promotion of solar and wind power through the Alternative Energy Act, 2018

- legislation requiring the publication of sustainability reports (reports on their environmental, social and governance (ESG) impact) by all businesses, charities and public bodies that employ more than 50 people.

In general, the take-up of EVs has been slow. The government has a target for EVs to make up at least 50% of new vehicle sales by 2030, but in 2023 they amounted to just 8%. This is despite offering a tax credit of £4,000 on the purchase of new EVs. There are similar issues with all the government's other sustainability initiatives, with citizens and businesses not changing their behaviour as fast as the government (and other stakeholders) say is needed to prevent environmental disaster.

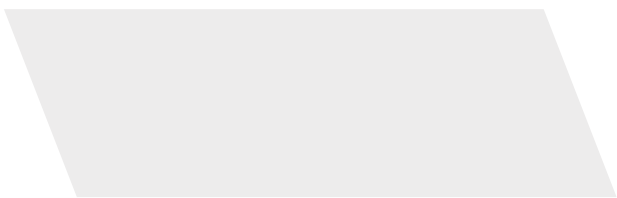
## **Moonroyal City Council**

Moonroyal is the largest city in Heliostan, although it is not the capital (which is Helios City). It has a population of 299,263 (2021 census data) and an area of 282 square kilometres. It has the same density of housing as the country's average, at 2.42 people per dwelling (i.e. house or apartment).

In 1930 Moonroyal was a town with fewer than 50,000 inhabitants. The growth is the result of, first, the discovery of oil and gas, and later, the influx of technology companies.

Moonroyal is a city that operates the mayor and council governance model. Moonroyal City Council (MCC) comprises 35 councillors, each elected for 4-year terms using proportional representation. The next election of councillors is due in 2025.

The political make-up of the full Council since the most recent elections in 2021 is shown in Table 1 (which does not include the mayor).



**Table 1: Party representation in MCC**

<b>Party</b>	<b>Number of councillors</b>
Conservative	18
National Democratic	9
Liberal	5
Planet Earth	3
<b>Total</b>	<b>35</b>

MCC has jurisdiction over many local matters, including police, fire and rescue, housing, solid waste management, water supply, wastewater treatment, parks and recreation, urban planning and economic development. The executive powers reside in the mayor, who is elected separately from the councillors for a 4-year term.

The current mayor is Jane Meldrum, a member of the National Democratic party. She was first elected to the role in 2019 and was re-elected in 2023.

The mayor has direct responsibility for the delivery of all of MCC’s services. She can appoint a maximum of nine commissioners to assist her. Each commissioner is given a portfolio of services and they provide the political leadership to the relevant department(s) within the Council. Each department also has a managerial leader, usually with a job title incorporating the word chief. For example, there is a City Planning Commissioner who heads the planning department despite not being trained in urban planning. There is also a Chief City Planning Officer, who is a professional planner who manages the department and advises the commissioner.

Together the mayor and the commissioners form the Executive Committee (EC), chaired by the mayor. The decision-making powers of the EC include the awarding of contracts and grants, the management of human and financial resources, supplies and buildings. There is a scheme of delegation in place that empowers the commissioners and chief officers to take decisions that are within the purview of their department.

The mayor is accountable to the full Council and to the general public for all the actions of the EC. The commissioners are accountable to the mayor, who can appoint them and remove them at will, and they do not have any formal accountability to the public or any other external stakeholder.

## **MCC's 2024 budget**

The mayor and her commissioners have to operate within the limits of the annual budget and three-year capital expenditure programme as approved by the full Council.

MCC has four main sources of income. The main source is grants-in-aid from national government ministries, which can be either for financing revenue or capital expenditure, and which usually have conditions attached. The other three sources are:

- income from the local sales tax of 2.5% which is levied on goods (not services) sold within the city;
- rent from the dwellings owned by MCC; and
- fees and charges for various services provided by MCC, such as water supply, planning applications, off-street car parking, sewage and solid waste collection and disposal.



Capital receipts (the net proceeds of the disposal of non-current assets) may only be used to redeem loans or to finance new capital expenditure.

MCC, like all councils in Heliostan, may borrow money from the Local Government Loans Board (a division of the Bank of Heliostan). Currently the fixed interest rates for longer-term loans are 5.25% for 5 years, 5.50% for 10 years and 5.95% for 20 years.

A balanced budget must be approved by the full council at least 15 working days before the beginning of the financial year.

In most years, the mayor's initial budget proposal has been approved by the full council without challenge. The 2023/24 budget, however, had to go to a second submission. Full council rejected the initial proposal (by 22 votes to 13) because the Conservative and Liberal members were unhappy about the proposed increases in both the local sales tax (from 2.2% to 2.5%), and the across-the-board increase of 7% on all fees for council services. These increases had been proposed in order to finance a significant increase in spending on environmental and green policies.

The mayor refused to amend her budget proposal and her opponents could not provide properly costed counter-proposals that would achieve a balanced budget, so at second submission the original budget without change was approved by the council.

The approved 2023/24 operating budget is summarised in Table 2.

**Table 2: MCC operating budget 2023/24**

	<b>£M</b>
Police and Fire	102
Highways and public transport	97
Planning and development	12
Housing	61
Parks, recreation, libraries, cultural services	22
Environmental services	86
Sustainability	23
Central services	18
Interest charges	46
<b>Total expenditure</b>	<b>467</b>
Government grants	115
Local sales tax	167
Rents	65
Fees and charges for services	105
<b>Total income</b>	<b>452</b>
<b>Net operating expenditure</b>	<b>15</b>

The budgeted operating deficit for 2023/24 will be financed by a contribution from MCC's unrestricted general reserves, which were £37 million on 1 July 2023.

Although the mayor was successful at getting her budget through the Council meeting, during the debate she was forced to state that she would put an increased emphasis on improving the value for money of the services and programmes that she is responsible for.

### **Financial management arrangements**

MCC operates decentralised financial management arrangements. Each city department is responsible for managing its allocated budget. They have a degree of financial autonomy to make decisions related to spending, procurement, and resource allocation within the limits of their approved budgets.

Within each department, finance business partners oversee financial activities. They are responsible for tracking expenditures, ensuring compliance with budgetary restrictions, and reporting financial information to the city council and central finance department (that is headed by the Chief Finance Officer). The finance business partners also provide financial advice to their commissioner and departmental managers.

The central Finance Department focuses on financial accounting, accounts payable, local taxation, treasury management, co-ordination of the decentralised finance teams, internal audit and liaison with external auditors. The Finance Department also takes the lead on financial planning, both in the short-term annual budget and longer-term revenue and capital budgets. Within this framework the departments are encouraged to develop multi-year financial plans that align with the city's overall strategic goals.

All external communication on financial matters is done by the Finance Department. This includes managing the opportunities for public input on budget priorities and financial decisions through public hearings and engagement mechanisms.

There are monthly reporting and accountability mechanisms in place to monitor the financial (both revenue and capital budget) performance of each department.

## **Mission:2030**

MCC aspires to be a model city in its commitment to a greener, more sustainable and carbon-neutral future by 2030. MCC has devised a comprehensive strategy, called *Mission:2030*, to achieve this aspiration. The strategy has five major strands:

1. Reducing MCC's carbon footprint through extensive energy efficiency measures, transitioning to renewable energy sources, and electrifying its vehicle fleet.
2. Fostering community engagement by encouraging residents to adopt greener practices, such as energy-efficient home upgrades, increased reliance on public transportation and cycling, and waste reduction through recycling and composting initiatives. Public awareness campaigns and outreach programmes are being implemented to educate residents about the importance of sustainability and their role as co-producers of the desired outcomes.
3. Collaborating with local businesses to support the development of green enterprises and create economic incentives for environmentally responsible practices.
4. Enhancing green infrastructure, including the expansion of green spaces and tree planting, to absorb carbon dioxide and improve local air quality.

5. Monitoring progress through regular carbon assessments and engaging with the community.

## **MCC's Sustainability Department**

The Sustainability Department is headed by the Sustainability Commissioner, Dylan Wilkinson, and the Chief Sustainability Officer, Marie Thomaszeau. The overriding aim of the Sustainability Department is finding ways to meet the needs of the present generation without compromising the ability of future generations to meet their needs.

The Sustainability Department is different from most council departments because it has both an external and an internal focus. On one hand it is involved in service delivery to citizens, businesses and visitors; on the other, it is an advisor to other parts of the council on sustainability issues. The department is concerned with how the council's operations affect the environment, and how the environment affects council operations.

Unlike most commissioners, Dylan Wilkinson has not had a career in politics or public life. For more than 20 years he was a professor of literature at Moonroyal University. He first became involved in sustainability issues in 2018 when he joined a protest over proposals for construction of apartment buildings on a city centre park which would also involve felling of dozens of mature trees. The protests were partially successful. They forced modifications to the plans which preserved many of the trees and green space.

He was approached by Jane Meldrum through a mutual friend just before the mayoral elections in 2023. She was aware of his work on sustainability issues and wanted his advice on creating a new department to focus on sustainability issues. After she was re-elected, she asked Dylan to be the first Sustainability Commissioner and lead the new department. Dylan accepted the role after agreeing to take unpaid leave of absence from his university post.

The Sustainability Department was not created entirely from scratch. There are some new elements, such as a small, core team working on developing sustainability policies and a plan for the Council to reach a target of net zero carbon emissions (“Net Zero”). This team has also been developing processes for measuring MCC’s performance against sustainability targets.

Other parts of the department were transferred in from other departments. For example, the Sustainability Department has taken over responsibility for Solar Power Expansion Scheme (SPES) from the Housing Department.

## **Solar Power Expansion Scheme (SPES)**

SPES is a national government scheme aimed at increasing the use of solar panels in dwellings of all kinds. The national government provides grant funding to local councils to fund local schemes through which residents receive subsidies for installing solar panels and replacing gas or oil-powered appliances (such as stoves and boilers) with electrical ones. These installations have useful lives of at least 20 years.

Because Heliostan is so sunny the major benefit to the householders is they can generate enough energy to more than meet their own needs. This means they no longer have to pay for electricity supplied by Heliostan Power Limited (the government-owned monopoly generator and supplier of electricity). In addition, a solar panel installation includes a smart meter that enables the householder to sell any excess electricity they generate to Heliostan Power Limited. In 2024 the sale price of electricity is £0.25 per kilowatt hour (kWh).

Each council has to develop its own procedures for the owners of properties to apply for subsidies, but the basic requirements are:

- owner-occupiers are guaranteed to receive a **mandatory subsidy grant** of 50% of the cost of installing panels, up to a maximum grant of £8,000 per dwelling.
- Lower income owner-occupiers can apply for an **additional discretionary subsidy grant**. The discretionary subsidy has a maximum of 40% of the cost of installing panels, up to a maximum grant of £6,400 per dwelling, and it is awarded based on a means test. Therefore, the maximum possible subsidy that could be paid under the scheme is £14,400 per dwelling.
- Landlords (owners who do not occupy the dwelling) receive a **landlord subsidy grant** of 25% of the cost of installing panels, up to a maximum grant of £4,000 per dwelling.

Table 3 summarises some data about the SPES up to 31 December 2023.

**Table 3: SPES data 2021 to 2023**

	<b>Owner-occupiers</b>	<b>Landlords</b>	<b>Total</b>
Number of applications received	766	47	813
Number of grants awarded	413	29	442
Total value of grants awarded (£'000)	£3.175m	£0.095m	£3.270m
Average cost of installation/dwelling	£13,976	£13,089	£13,749
Average SPES grant per dwelling	£7,687	£3,272	£7,398
Average grant as % of installation cost	55%	25%	54%

Note that grants are awarded only upon the completion of the installation.

After taking over responsibility for the SPES programme, Dylan Wilkinson stated that he wanted to increase the uptake of the scheme, particularly amongst the less wealthy. In 2021 the Housing Commissioner stated that he had produced a business plan for using the SPES to install solar panels on the dwellings (houses and apartments/flats) owned by MCC and rented to tenants as social housing with below-market rates. However, since 2021 there has been no material progress on the scheme, and it has never been included in the capital programme.

Dylan Wilkinson has also complained about the fact that most of the installations that have been subsidised under the SPES have used solar panels that were manufactured in China, even though there is a company (SunPower Limited) manufacturing solar panels in Moonroyal.

## **Candidate's role**

The candidate is Ali Sands, a newly qualified accountant working as a finance business partner in the Sustainability Department.



## Appendix: SDG 11 Sustainable cities and communities

The United Nations member states adopted the 17 sustainable development goals (SDGs) in 2015. SDG 11 is to: "Make cities and human settlements inclusive, safe, resilient, and sustainable." Important indicators for this goal are the number of people living in urban slums, the proportion of the urban population who has convenient access to public transport, and the extent of built-up area per person.

SDG 11 has 10 targets to be achieved. The seven outcome targets are:

- safe and affordable housing
- affordable and sustainable transport systems
- inclusive and sustainable urbanisation
- protection of the world's cultural and natural heritage
- reduction of the adverse effects of natural disasters
- reduction of the environmental impacts of cities
- to provide access to safe and inclusive green and public spaces.

The three means of implementation targets include strong national and regional development planning, implementing policies for inclusion, resource efficiency, and disaster risk reduction in supporting the least developed countries in sustainable and resilient building.

## Abbreviations

EC executive committee

ESG environmental, social and governance

EV electric vehicle

GDP gross domestic product

kWh kilowatt hour

LEZ low emission zone

MCC Moonroyal City Council

MP Member of Parliament

SDG Sustainable Development Goal

SPES Solar Power Expansion Scheme