

325/01

**BUSINESS STUDIES**

**BS5a**

A.M. THURSDAY, 14 June 2007

(1½ hours)

**ADDITIONAL MATERIALS**

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

**INSTRUCTIONS TO CANDIDATES**

Answer the **one** compulsory question in the separate answer book provided.

You are advised to spend approximately 30 minutes reading the information provided and making rough notes before you answer the question.

**INFORMATION FOR CANDIDATES**

Mark allocations are shown in brackets.

Candidates will be assessed on their quality of written communication i.e. the structure and presentation of ideas; the clarity of expression; grammar, punctuation and spelling. Up to three marks will be awarded for written communication.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

1. Study the information below and then answer the question that follows.

### ONE COAL PLC

One Coal plc is one of the biggest coal-mining operators in the UK. It employs over 4 000 people in the production, sale and distribution of coal and smokeless fuels and supports thousands more jobs involved in the supply of equipment, materials and services. At the last Board meeting the Chief Executive announced that the company had suffered a loss of £5 million in the previous year.

Not everything discussed at the meeting was gloomy - independent valuers had placed a figure of £300 million on the land that the company owned. One Coal plc had recruited a Director of Property to head up a team to exploit this land for the good of the company. The first of these land assets the company would develop would be the only site it has in South Wales. This site is called New Mill.

New Mill had been closed as a coal mine by One Coal plc five years ago because of problems underground and also because of a poor environmental record. Local newspapers were, however, still full of stories about workers who had developed serious illnesses from their time at work at the site. Other people in the area still hated the company for closing the mine and taking away jobs from the local community. The area around New Mill contains some of the worst housing in South Wales. National TV programmes often give the area as an example of a depressed community with twice the national average of unemployment, high crime rates and an ageing population. Those people with jobs tend to commute to the larger towns and cities fifteen or more miles away.

One Coal plc has recently re-written the aims in its corporate plan to emphasise its commitment to:

- corporate social responsibility;
- returning to profitability as soon as possible;
- diversifying its operations.

With the new corporate plan very much in mind, One Coal plc has identified three options for the New Mill site. These are set out below.

- One Coal plc could redevelop the site in a joint venture with United Waste plc, one of the UK's specialist recycling companies.
- One Coal plc could sell the site to a UK house-builder called Lifestyle plc.
- One Coal plc could redevelop the site as a retail park.

30 **Option One – United Waste plc**

United Waste plc is one of the largest waste management companies in the UK, and works with local councils to recycle business and domestic rubbish. Its joint venture with One Coal plc would be to build and operate a recycling centre to help local councils to meet the tough recycling targets set by the government. This recycling centre would be highly automated and only a few new jobs  
35 would be created.

One Coal plc would invest £14 million in New Mill for this project. The most optimistic forecast of the returns One Coal could expect to receive from this investment over a ten-year period, once the recycling centre opened, is shown in the table.

**Table 1**

Year	Return on investment for One Coal plc (£)
Year 1	0.3m
Year 2	0.5m
Year 3	0.8m
Year 4	1.2m
Year 5	1.7m
Year 6	2.1m
Year 7	2.8m
Year 8	3.5m
Year 9	4.4m
Year 10	5.0m

40 Although the exact figures beyond this ten-year period were hard to calculate, One Coal plc was confident that profitability would continue to rise over the following fifteen to twenty years.

United Waste plc's public image has taken a battering in recent years. A fire at one of its recycling plants in the Midlands had been investigated by the Health and Safety Executive and the company had been fined. The company has consistently suffered from a number of disputes with its employees and the number of days lost through industrial action is higher than the industry average.

45 There was considerable opposition to this proposal by many people in the area around New Mill. A local pressure group had designed a website which described the possible pollution that could happen as a disaster for the area. This pollution was not only that from the recycling centre itself, but also from the need for lorries to use the site for up to fourteen hours per day.

### **Option Two – Lifestyle plc**

- 50 The second option for One Coal plc would be to sell the New Mill site to Lifestyle plc, one of the UK's newest house builders. Lifestyle plc has recently completed a development not far from New Mill. This company has won many awards for the environmentally friendly housing it builds. With a reputation for using local skilled labour whenever possible and close links with the local Further Education College, Lifestyle plc sees itself as a local builder in a national market. Because of its
- 55 approach to building houses, the company's prices tend to be higher than those charged by its larger rivals. There have been problems with the work of some of the sub-contractors in other building projects which have caused delays and put a strain on Lifestyle plc's financial position. The company had been forced to borrow heavily, as the extract from its balance sheet below shows.

**Table 2**

Item	Balance sheet as at 31 March 2006 (£ millions)	Balance sheet as at 31 March 2005 (£ millions)
Long-term loans	63.6	46.6
Share capital	31.2	29.5
Reserves	1.7	3.8
Capital employed	96.5	79.9

- 60 One Coal plc would need to spend £3 million in preparing the site, so that Lifestyle plc could begin to build new houses. Once all the houses were complete in two years' time One Coal plc would receive a one-off payment of £9 million. However, there remained concern amongst One Coal plc's Board that the project may be too much for Lifestyle plc to undertake and that it may have to invest more to keep the development going.
- 65 The local council has enthusiastically agreed that a new development, with a mixture of types of homes suitable for first-time buyers as well as families, should be a priority for the New Mill site. An opinion poll in a local newspaper suggested that 87% of its readers were behind the development and it was no surprise to hear the leader of the council say that "we will move heaven and earth to get this development at New Mill".
- 70 The Board of One Coal plc was also delighted to hear that this project would probably mean that a new primary school and health centre would be built for the local community close to this housing development.

### **Option Three - The Retail Park**

75 Building a retail park would mean that One Coal plc would lease out the buildings to other businesses. One Coal plc would not take any share of the profits that these other businesses would make, but would receive income from them. There were already two businesses which were expressing an interest in the best locations on the development site. The two businesses were called Better Price Ltd and Sports League Centres.

80 Better Price Ltd is a small but rapidly expanding supermarket chain. Its website states that “we require further sites to continue our phenomenal growth”. The site at New Mill is good for Better Price Ltd because it is close to a population of at least 15 000 people and located near to good roads.

85 Eighteen months ago another supermarket was almost built close to the New Mill site. The local council saw it as a chance to overcome the area’s poor shopping facilities. A bitter public debate developed, however, with opponents claiming that “although our area needs something doing to it, we don’t want a supermarket because it will hit our local shops”. A report was commissioned from the National Retail Planning Forum which estimated that a development similar in size to that proposed at New Mill would mean that 276 jobs in smaller shops would disappear within two years.

90 Sports League Centres provides 5-a-side football pitches with floodlights and a social centre for pay-as-you-play customers. It has a history of success in many inner cities and has attracted considerable interest from the police forces for its work in creating opportunities for participation amongst young people.

95 One Coal plc might be able to collect European Union grants to help develop the site and build the units that businesses such as Better Price and Sports League Centres would rent. Taking these grants into account, the investment costs of £15 million would be reduced to £11 million. The Finance Manager of One Coal plc had prepared income forecasts based on percentage site ‘take-up’ as shown below.

**Table 3**

Percentage of units on the retail park being rented to other businesses	50%	75%	100%
Rental income to One Coal plc each year	£1.9m	£2.4m	£3m

**Write a report (using report format) to the Director of Property at One Coal plc, comparing the three options and, on the basis of your analysis, make recommendations as to the most appropriate way for One Coal plc to proceed in order to achieve the aims set out in its corporate plan. [50]**

**N.B. Your recommendations will need to be backed up by sound arguments.**