

Pearson BTEC Level 3 Nationals Diploma, Extended Diploma

Thursday 16 January 2020

Supervised hours: 3 hours

Paper Reference **31589H**

**Business/Enterprise and
Entrepreneurship**

Unit 7/Unit 6: Business Decision Making

Part S

You must have:

Calculator, note paper and pen

Instructions

- This booklet contains material for the completion of the set task under supervised conditions.
- This booklet is specific to each series and this material must only be issued to learners who have been entered to undertake the task in the relevant series.
- This booklet should be kept securely until the start of the 3 hour supervised assessment period.
- This booklet must be issued to learners during the date and time and under conditions specified by Pearson.

Information

- The total mark for this paper is 70.

Turn over ►

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Instructions to Teachers/Tutors and/or Invigilators

This paper must be read in conjunction with the unit information in the specification, the *Administrative Support Guide (ASG)* for the unit, and the *BTEC Nationals Instructions for Conducting External Assessments (ICEA)* document. See the Pearson website for details.

The set task is undertaken under supervision in a **single session** of three hours on the timetabled day specified by Pearson.

Centres must schedule all learners in the same session and must release the assessment to individual learners only for their scheduled session.

Work should be completed on a computer.

Centres may schedule supervised rest breaks during the session.

All learner work must be completed independently and authenticated by the teacher/tutor and/or invigilator before being submitted to Pearson.

Refer carefully to the instructions in this booklet, the *Administrative Support Guide (ASG)* for the unit, and the *BTEC Nationals Instructions for Conducting External Assessments (ICEA)* to ensure that the supervised assessment is conducted correctly and that learners submit evidence that is their own work.

Learners must not bring anything into the supervised environment or take anything out without teacher/tutor and/or invigilator knowledge and approval. A calculator, note paper and pen are allowed.

Centres are responsible for putting in place appropriate checks to ensure that only permitted material is introduced into the supervised environment.

Maintaining security

- During the supervised assessment period the assessment areas must be accessible only to individual learners and to named members of staff.
- Learners can access their work only under supervision.
- Learner work should be backed up regularly.
- Any work learners produce under supervision must be kept securely.
- During any break materials must be kept securely.

Outcomes for submission

Each learner will need to complete **three** documents:

- a report
- a presentation with speaker notes or script
- an authentication sheet.

Instructions for Learners

Read the set task information carefully.

It contains all the information you need to complete both activities.

This is a **single session** of three hours. Plan your time carefully. Your teacher/tutor and/or invigilator will tell you if there are any supervised breaks.

You will complete the activities within the set task under supervision and your work will be kept securely during any breaks taken.

You may use a calculator and will have access to a computer.

You must work independently throughout the supervised assessment period and must not share your work with other learners.

Your teacher/tutor and/or invigilator can clarify the wording that appears in this set task but must not provide any other guidance to help you complete the task.

Outcomes for submission

You will need to complete **three** documents:

- a report
- a presentation with speaker notes or script
- an authentication sheet.

Set Task Information

You are working as an adviser in a business consultancy. Your client is a small business that offers building renovations (improvements), maintenance and repairs for local homeowners. The client has asked you to recommend which option it should choose for the future development of the business.

The aim of the development is to increase business profitability and value.

Option 1

Buy and renovate four existing houses to rent.

Option 2

Buy a plot of land and build three houses to sell.

On the following pages you will find information relating to the two options.

This includes data and information about:

- Market trends
- Business background
- Option 1 – Buy and renovate four existing houses to rent
- Option 2 – Buy a plot of land and build three houses to sell.

Set Task

You must complete BOTH activities.

You will produce **two** documents on a computer:

- a report
- a presentation of slides with speaker notes or script.

Activity 1

You are to produce a report that examines the two options the client is considering for developing the business.

Your report must address **both** options and include:

- an assessment of:
 - the key factors and risks
 - the implications for resources
- appropriate financial forecasts
- an interpretation of financial information using ratio analysis
- use of appropriate decision-making tools to support your recommendation to the client.

Your report must be set within the context of the business and its goals.

Your report should be presented in an appropriate format for the client.

You should present your report as a word processed document in a minimum of 12-point font.

(Total for Activity 1 = 52 marks)

Activity 2

Using appropriate software, prepare a presentation to the client.

The presentation should:

- summarise the recommendations made in your report
- give your rationale for the recommendations made.

The presentation must be accompanied by speaker notes or a script that will engage and convince the client of the viability of your recommendation.

(Total for Activity 2 = 18 marks)

TOTAL PAPER = 70 MARKS

Market trends

The demand for new houses continues to grow at a greater rate than supply. Research suggests that the UK will need at least 240 000 more houses every year from now to 2029. If there are not enough houses built to meet demand, then house prices will continue to rise. However, this may not be the case throughout all areas of the UK.

Average house prices June 2018

	UK	West Midlands
Average house price	£245 000	£190 000

Figure 1

The annual rate of increase in house prices at June 2018 was 3%. This was the lowest rate of increase since 2013. One reason for this was the increased cost of borrowing resulting from interest base rate increases in November 2017. There was another increase in interest rates in August 2018.

To encourage the building of more houses, the government introduced a number of initiatives. Two such initiatives were the £100 million cash boost for the Housing Growth Partnership, and £4.5 billion for the Home Building Fund. These initiatives provided loans to builders to help get more housing developments started.

Whether due to the government initiatives, or because of the slowdown in the growth of house prices, the number of new houses built increased (see Figure 2 – Number of new houses built 2016–2018).

Number of new houses built 2016–2018

Number of new houses built	
Year	UK
2016	169 200
2017	178 900
2018	192 920

Figure 2

The main risks to maintaining the increase in the number of houses built include:

- a potential fall in house prices
- reduced demand due to interest rate rises
- economic uncertainty.

The market for rented houses continues to be strong. Average rents in the West Midlands are about 30% of an individual's income. Rents increased by 18% from 2012 to 2018. 40–60% of young people between the ages of 18–34 rent privately-owned properties compared to 10% of adults aged 45 and above.

Business background

Tiego Building Services Ltd has over 20 years' experience in the domestic house repair market. The company is owned by Tiego Moremi.

The company builds extensions, does roof repairs, and work that is needed because of flood or other damage. Most of the building work is done by the owner and two full-time employees. For larger projects Tiego can employ workers on temporary contracts who have the specialist skills needed.

Tiego has reviewed the market and thinks there are two possible ways to develop the business.

- Option 1: Buy and renovate four existing houses to rent
- Option 2: Buy a plot of land and build three houses to sell.

Both options carry an element of risk.

The Statement of Financial Position for *Tiego Building Services Ltd* for the last full year is shown in Figure 3. This statement does not include any costs or revenues for the two options being considered for the development of the business.

Statement of Financial Position for *Tiego Building Services Ltd* at April 2019

	£	£
Non-current assets (Fixed assets)		
Property	170 000	
Equipment (including vehicles)	80 000	
		<u>250 000</u>
Current assets		
Receivables (debtors)	60 000	
Stock	35 000	
Cash at bank	<u>90 000</u>	
	185 000	
Current liabilities (bank loans, trade creditors and tax)	110 000	
Net current assets		75 000
Total assets less current liabilities		325 000
Long-term liabilities (finance lease/hire purchase contracts)		55 000
Net assets		<u>270 000</u>
Capital		
Owner's capital		100
Retained profits		<u>269 900</u>
Total capital		<u>270 000</u>

Figure 3

Option 1 – Buy and renovate four existing houses to rent

Tiego has seen a number of terraced houses in the West Midlands that have been damaged by floods. Each house is being sold for £65 000.

Tiego is thinking of buying four of these houses as a renovation project. The repair cost is estimated at £11 000 for each house, and this includes labour and materials. The timescale for the repair is estimated at three months for all four houses.

When each house has been fully renovated it could be rented to customers. Rental income should be £5 400 a year for each house, giving a total yearly rental income of £21 600.

After the renovation, the houses would have a value of £85 000 each, giving a total value of £340 000.

Option 2 – Buy a plot of land and build three houses to sell

Tiego has identified a piece of land for sale costing £175 000. The land is in a popular residential location in the West Midlands. Planning consent has been approved to build three large houses on the site. Tiego would have to employ extra staff to complete this project.

The project is estimated to take 12 months to complete. Once built, each house is expected to sell for £450 000.

In addition to the cost of land, raw material cost would be £65 000 for each house and other costs including renting additional equipment, provision of water, gas and electricity and labour costs would be £153 750 for each house.

To fund this development, Tiego could try to secure a loan against the business's assets and his own home. However, there are other forms of finance Tiego could consider.