



Professional Examination 3

27 November 2002

FINANCE AND MANAGEMENT CASE STUDY

Time allowed - ½ hour

From 12.40 p.m. to 1.10 p.m.

Candidates will be allowed five minutes reading time from 12.35 p.m. to 12.40 p.m.

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 those candidates displaying such knowledge.

The weightings for each question are indicated in the parentheses at the end of the question.

Candidates will be allowed to submit, as part of their script, work performed in the morning session, but they should distinguish clearly between work supporting their script and that which is to be considered a part of it.

NOTES TO CANDIDATE

- (i) Answer to be prepared as on 27 November 2002 by C. Ling, Special Projects Accountant.
- (ii) The question below is intended to test the candidate's understanding of the situation in the case.

QUESTIONS

1. Draft a briefing note in accordance with the attached memorandum for the Chief Executive who has to meet the Managing Director of Independent Trading at lunchtime today. (20%)

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**BILDING
CORPORATION**
*Building a brighter future for the
whole community*

Memorandum

To: Ray D. Haytor – Director of Finance

From: J.C. Bee - Chief Executive

Date: 27 November 2002

Subject: Parfit Warehouse

I have this morning received a telephone call from Mr. B. Rix, the extremely irate managing director of Independent Trading, the tenants of the Parfit Warehouse on the Bilding Technology Park. I have agreed to meet him at lunchtime today to discuss the Parfit Warehouse lease. Independent Trading is one of the most successful companies that we have been able to attract to Bilding in recent years. The lease on the warehouse expires on 31 March 2003 and the company has been anxious to extend the lease for a further five years. As far as I was aware, negotiations were progressing smoothly.

However, it appears that this is not the case. Estates Section has been reluctant to commit the Corporation to granting a new lease, as it is “contrary to their normal policy”. Mr Rix is adamant that Parfit Warehouse should be treated differently, as it is much larger than any other premises on the Technology Park. He says that Independent Trading only moved into such large premises in 1998 because there was room for future expansion, and he had always assumed that as an established business that relocated to Bilding for long-term growth prospects, Independent Trading would be able to renew the lease.

To make things even worse, he has sent me a leaked copy of a letter from a property company offering to lease the Parfit Warehouse on commercial terms. I have no idea how he got hold of it. He alleges that the Corporation intends to transfer the premises behind his back, leaving his company facing eviction or demands for a massively increased rent. I have been unable to contact Con Creet as he is away with some of his staff at a “team-building golf day”. The other staff in the Estates Section who are not off sick profess to know nothing about the lease. Before my meeting I need a briefing note setting out the policy position that I should adopt. Mr Rix has involved the press in the issue, and I cannot afford to stall him. I must determine the Corporation’s position today.

I therefore need the following information:

- History and background on the Incubator Rents Scheme and consideration of the Parfit Warehouse’s role, positioning and relevance alongside small incubator units;
- The company has restated its gross profit for 2001. Please compute the effect of this on the 2002/2003 rent calculation under the terms of the existing lease and compare the projected rent levels for 2003/2004 and 2004/2005 if the terms of the current lease were continued with the flat rate rent proposed by the tenant and also with the revised “partnership” basis proposed by Independent Trading in their letter of 16 October 2002;
- An assessment of whether the Corporation should renew the Independent Trading lease and if so on what basis, including consideration of whether the premises should be leased for fifteen years to Ratchett & Fleecem (see letter attached), taking account of financial and non-financial issues;
- An evaluation of the desirability of the “partnership” basis of rentals for incubator units and the advisability of pursuing alternative bases for the Incubator Rents Scheme.

Today's fiasco only confirms my initial unfavourable impression of Estates Section and the need for the Corporation to endorse a commercially responsive market-led approach to its property management.

My immediate priority is to prepare for my meeting with Mr. Rix. Your Special Projects Accountant, C. Ling, probably has the best understanding of the Technology Park issues outside Estates Section, and is ideal best person to draft the briefing note at short notice. Please ensure that I receive the briefing note from C. Ling by 1.10 p.m. today providing the information requested.

J. C. Bee

Chief Executive

Ratchett & Fleecem

MAKING ASSETS WORK HARDER

Mr. J.C. Bee,
Chief Executive,
Bilding Corporation,
Foundation Street,
BILDING.
BL1 5DG.

Our ref: DM/US/60

20 November 2002

cc Mr. C. Creet (Bilding Corporation)

Dear Sir,

Parfit Warehouse Building

Allow me to introduce myself. I am the managing director of Ratchett & Fleecem, a company specialising in developments in urban areas. We have an enviable track record of re-generating run-down parts of cities and towns up and down the land, turning them into thriving, prosperous neighbourhoods, at no cost to the local community.

We are continually looking out for new opportunities and one has presented itself to us in your town. I refer to the Parfit Warehouse, which is currently let to Independent Trading, who are, I am led to believe, attempting to renegotiate a tenancy agreement leaving you with the uncertainty of maintenance costs on the property. By contrast, I am offering to enter into a fifteen-year tenant's repairing lease for the same property.

In return for an annual payment of £60,000 and permission to modify the building, we will take on all the costs of alteration and repair and maintenance over the life of the lease. At the end of the lease, the building can either be returned to you, or we can negotiate an extension to the lease, at terms that I think you will find very attractive. Anyone who deals with us knows that we honour our obligations; there will be no coming back to you trying to talk our way out of our commitments. An added advantage is that you can forget about the building and concentrate on your core business of providing a public service.

I hope that I have said enough to interest you in my proposal and look forward to hearing from you.

Yours faithfully,

Dinah Myte

Dinah Myte
Managing Director,
Ratchett & Fleecem

Ratchett & Fleecem, Prosperity House, 7 Gutter Lane, Cladding. CL3 6NG.