



**Professional Examination 3
2002**

26 June

FINANCE AND MANAGEMENT CASE STUDY

Time allowed – 6 hours

Morning Session Part 1: From 10.00 a.m. to 12.30 p.m.

Morning Session Part 2: From 12.40 p.m. to 1.10 p.m.

Afternoon Session : From 2.00 p.m. to 5.00 p.m.

Candidates are to work on the information contained in the Case Study during the first part of the morning session.

The preparatory session will end at 12.30 p.m., at which time Question 1 will be distributed. At 12.35 p.m. candidates will be given 5 minutes to familiarise themselves with the task required of them. Answers to this question will be collected at the end of the morning session.

Nothing may be taken from the examination room during the lunch interval, nor may anything additional be brought into the afternoon session.

The remaining questions on the case study will be distributed at 1.55 p.m. so that candidates may familiarise themselves with the tasks required of them.

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.

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.

MARKDEN SWAN TRUST

Background

Markden is the capital city of the Kingdom of Illyria, an independent state in Central Europe. The capital city is by far the largest conurbation in the country and, as a result of its position, has attracted a large number of refugees over the years. The population of Markden, therefore, is a mixed one, dominated by the native Illyrians, but also with a significant number of ethnic minority groups living in comparative poverty. Local services are all provided by Markden City Council.

The Markden Swan Trust

Formed by the merger of the Swan Trust and the Osric Nursery Trust in 1991, the Markden Swan Trust's stated objectives are as follows.

- ❑ To promote services for children under five years of age;
- ❑ To develop such services particularly for ethnic minorities;
- ❑ To create jobs and employ local people;
- ❑ To promote City Centre regeneration.

The Trust's Headquarters (HQ) is at Hathaway House in Markden's Stratford area.

History

The **Swan Trust** became operational from 1 January 1990 on the basis of a large charitable bequest on the death of Sir Billy Swan, who made his fortune in Markden after arriving as a penniless refugee from Cygnia in 1943. Its funds are used to work nationally, offering small grants in support of appropriate schemes that meet the charity's objectives, as well as providing support and advice to similarly focused charitable bodies. However, its main centre of operation is Markden, where it supports places for the under-privileged in several private nurseries.

The **Osric Nursery Trust** was established by a bequest from Lord Hamlet in the mid-1980s and its funds are used to operate Osric Nursery. By 1990, the administrative costs involved in running this small Trust were becoming a strain on resources and, with the agreement of the respective trustees and the receipt of formal approval, the two Trusts merged in 1991 to form the **Markden Swan Trust**. Under trust law, the two bequests (endowments), which provide revenue for the respective Trust operations, have to be treated separately within the new Trust.

Governance

A Board of five trustees governs the Markden Swan Trust. Four of these have served on the Board since its formation. The other original trustee, Sir John Falstaff, retired on ill-health grounds in March 2002 and was replaced by Mr Robin Goodfellow. The current Markden Swan Trust Board is as follows.

- ❑ Lady McBeth (Chair)
- ❑ Sir Toby Belch (Vice-Chair)
- ❑ Miss Katherina Shrew
- ❑ Ms Elsie Nore
- ❑ Mr Robin Goodfellow

General Background

There is no Value Added Tax in Illyria and the Illyrian Pound (£) is equal to £1 Sterling. The Trust operates on a calendar year basis (1 January - 31 December).

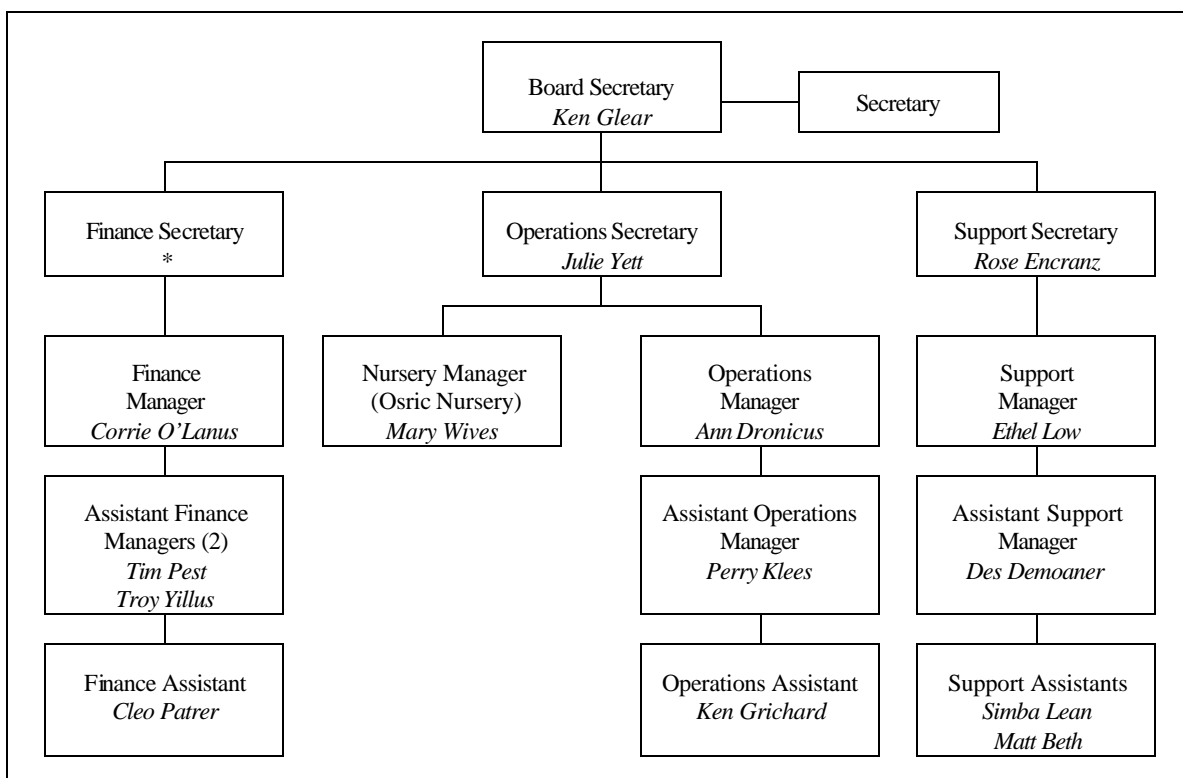
THE ORGANISATION

Management Review

The Trust's paid officers are headed by the Board Secretary, Ken Glear. During 2001, the Trust's management structure was reviewed, largely as a result of comments from the Trust's external auditors and funding partners about the need to strengthen the finance function. The old structure was based upon two divisions dealing with Support and Operations respectively, and the finance function formed part of the Support Division, headed by Rose Encranz, who is not a qualified accountant. The new structure, effective from 1 January 2002, is based upon three Divisions, with responsibilities as follows.

- ❑ Finance Financial planning and control; budgeting; accounting; investments; treasury management; statutory returns; financial advice and support to other bodies.
- ❑ Operations Fieldwork; grant applications; monitoring the performance of grant-aided bodies; managing the Trust's own nursery.
- ❑ Support General policy and strategy; secretarial and administrative services; human resources; property; payments; agency services.

All HQ employees were required to apply for jobs within the revised structure, with internal appointments completed in December 2001. Staff morale, already adversely affected by the restructuring process, declined even further when some senior posts were then advertised and filled externally. The resultant structure is as follows.



In the review, Julie Yett and Rose Encranz retained their posts as Operations Secretary and Support Secretary respectively, but with revised responsibilities. The Finance Secretary (*) was one of the external appointments. Your name is M Lett and you took up this post on 1 May 2002. The Trust's Management Team comprises the Board Secretary and the three Divisional Secretaries.

OPERATIONAL BACKGROUND

Osric Nursery

The Osric Nursery is situated in the City Centre and is the only day nursery operated directly by the Trust. Its manager is Mary Wives. The premises, part of the old Osric Infants School in the now run-down Windsor area of Markden, were acquired on a long lease from Markden City Council and refurbished in the mid-1980s. They have remained largely unchanged since that time, apart from replacement of some plant in the mid-1990s. The nursery provides places for 20 under-privileged children and operates for 250 days each year (5 days per week for 50 weeks). It is highly subsidised with parents merely paying a nominal charge (currently £6 per day).

Demand for places at the nursery easily exceeds the number of places available and it has already been recognised by the Trust that action needs to be taken to address this shortfall if resources allow.

Supported Places Scheme

In addition to funding the places provided in its own Osric Nursery, the Trust supports a number of places for the under-privileged in private nurseries within the Markden City area. The Trust's budget for this is currently being used to support 140 places. The operation of the supported places scheme involves establishing relationships with both private nurseries as the providers of places to the Trust and potential clients to whom the subsidised places will be awarded.

The Trust purchases places in private nurseries on the basis of an annual tendering exercise, with all contracts awarded commencing on 1 January and ending on 31 December each year. The private nurseries in Markden are all very eager to be selected by the Trust to provide places under the scheme. In most areas, the private nursery market is very competitive, with new nurseries opening each year. The supported places scheme not only gives private nurseries certainty in terms of the take-up of places, but also gives them a regular and guaranteed cash flow.

Clients find out about the Trust's supported places scheme from three main sources.

- The Trust's own publicity and literature;
- The private nurseries involved with the scheme;
- The Social Welfare Department of the Markden City Council.

All potential clients are required to complete an application by the end of May each year, assessed as to their ability to pay, and prioritised as regards their needs. This exercise establishes the demand for supported places, although the demand usually exceeds the number of places that can be funded.

Grants & Other Contributions

In addition to the supported places scheme within Markden, the Trust allocates a budget for small grants in support of appropriate revenue and capital schemes throughout Illyria, which meet the Trust's stated objectives. Grants are awarded throughout the year on the basis of applications received.

External Funding

There is no Central Government support for nurseries either directly, or indirectly to individual users. Markden City Council is not allowed to provide nursery places directly, but is permitted to give revenue grants to voluntary bodies offering this service.

FINANCIAL BACKGROUND

Endowment - Both bequests stated that only the investment income from the capital sums bequested could be used to support the Trusts' activities.

- The capital sums therefore have to be maintained in a separate endowment fund and any capital gains or losses on those investments must be credited or debited to that fund.
- Endowment fund investments are pooled, with 93% of investment income credited to the Swan Trust fund and 7% credited to the Osric Nursery fund, reflecting the respective sizes of the original bequests.

Unrestricted - General donations, fund-raising and any other non-specific income is credited to the Trust's unrestricted fund, and expenditure concerned with general Trust fund-raising and publicity is charged to this fund.

- This fund, built up considerably since the Markden Swan Trust was formed, is unrestricted in its use, but it is seen as the Trust's reserve account and is used periodically to finance capital expenditure.

This is the Trust's extended income and expenditure account and must be analysed to show the financial performance of the three different types of funds detailed above, and the overall position. More specifically, this statement must show :-

- ## Tangible Fixed Assets

Fixed assets such as premises and furniture & equipment are maintained at historical cost, less an appropriate provision for depreciation. Within the Trust, depreciation is charged on assets using the reducing balance method as follows.

- Fixed assets held for investment are shown in the balance sheet at market value, with any gains or losses reflected in the Statement of Financial Activities.