

**CIPFA PROFESSIONAL EXAMINATION 3
FINANCE AND MANAGEMENT CASE STUDY EXAMINATION JUNE 2002**

**MARKDEN SWAN TRUST
TUTORIAL GUIDE**

1 General Comments

- (a) It is important that candidates answer all the questions as set.
- (b) Where illustrative figures or information are asked for in a question, or their use is implied in the data, then they must be shown in the candidate's answer.
- (c) Evasion of the terms of the question on the grounds that the situation depicted in the Case Study is unlikely to have arisen or occurred, or is improbable in concept, should be penalised.
- (d) Working papers submitted with answers should be scrutinised and used to test the candidates' line of argument in unfinished work and as a guide to the method by which the candidates have utilised their acquired knowledge to deal with the various aspects of the case study.
- (e) Detailed calculations are set out in the appropriate attached appendices. It must be emphasised that these are not 'model answer' figures but are based upon what are judged to be the 'best' assumptions made in answering the question. Candidates should not therefore be judged on whether they got the figures 'right', but on how they reached their figures and how reasonable are their assumptions and arguments.

2 Synopsis of Case

The case is set in the Markden Swan Trust, a charitable organisation in the fictional Kingdom of Illyria. The Trust, based in Markden, capital city of Illyria, was established as a result of the merger of the Swan Trust and the Osric Nursery Trust in 1991. The Trust's objectives are largely concerned with the provision of services to children under five years of age. As well as operating its own Osric Nursery in the City Centre area of Markden, the Trust also supports, through subsidy, a number of places in private nurseries throughout Markden, known as the supported places scheme. As well as providing advice and support to a number of voluntary organisations, the Trust also invites applications for, and provides grants/donations in support of revenue and capital schemes throughout Illyria, which meet the Trust's objectives. The Trust has recently completed a staff restructuring exercise which has resulted in a number of new appointments and some friction between staff. The candidate has recently been appointed to the post of Finance Secretary, a newly created post.

Nursery provision within Markden City Centre is very limited and the Trust is looking to expand its directly operated nursery provision. Property consultants, Asyew Leikett, have come forward with two main development scheme options. The first option is to demolish the existing Osric Nursery and rebuild a new one on the same site. The second involves having a nursery built to specification by MacDuff Construction as part of a major City Centre redevelopment scheme and disposing of the existing Osric Nursery site. The candidate is required to appraise the cash flow, revenue and wider fund implications of the two schemes in producing a report for the Trust Board. The Trust is currently in discussions with the City Council about possible funding towards these expansion plans, as well as additional funding for the supported places scheme.

The Trust also invites tenders from a select list of nurseries each year to provide nursery places under its supported places scheme. The candidate is required to evaluate the tenders received for 2003 in order to produce an allocation, within the funding available, which balances demand with financial and non-financial considerations as well as the City Council's constraints.

The case material also gives candidates full opportunity to show their understanding of the case, to demonstrate their ability to apply management knowledge and to display their skill at communicating relevant information clearly and tactfully.

Aims

- (a) To test candidates' understanding of the management of human resources in the context of a newly formed section with particular people problems;
- (b) To test their ability to analyse, evaluate, prioritise and plan to resolve these personal and behavioural problems in the context of building an effective team;
- (c) To test their ability under severe time pressure to prepare a briefing note on these issues for the Board Secretary.

Assessment

- (a) Analysis and evaluation of the specific people problems identified. (30%)
 - ❑ A note that productivity appears to be a general problem, but this will need to be tackled collectively and on a longer-term basis. 7
 - ❑ Identification and analysis of the staff's abilities and problems :-
 - Corrie
 - new to the organisation - needs support 4,7
 - produces high quality work and has a lot of potential - key is to develop this 7
 - wants to complete training - need to support application 4,23
 - has good interpersonal skills and is already popular with her colleagues 7
 - Tim
 - most experienced on Trust finance - need for him to share knowledge 4,7
 - on protected salary - evidence of sour grapes and lack of motivation? 1,4,7
 - been asked to help Corrie settle in, but poor response - urgent need for this 23
 - sees his job in very specific terms - should he have a wider role? 16,28
 - insular and not really a team player - longer term issue 16,28
 - unwilling to complete qualification - not an urgent issue 4,16
 - lacks inter-personal skills - listened to, but not popular with staff 4,23
 - Troy
 - has good skills - produces good quality work 7
 - displays considerable energy and initiative - very confident 7
 - has poor inter-personal skills - very unpopular 7,23,memo
 - has a cruel sense of humour - is disruptive and upsets other staff 23,28
 - lacks subtlety and is very direct with clients - complaints about his attitude 7,8
 - Cleo
 - hardworking and bright on basis of current work - real potential 7,23
 - working hard for her qualification - excellent reports 23
 - not allowed to show initiative - work heavily supervised 23
 - wants responsibility – but frustrated at present 7,23
 - now reluctant to be pro-active on work matters - needs encouragement 23
 - lacks confidence - no real belief in her own ability 23
 - as a result, feels unsuited to the work - seeking employment outside the Trust 7,memo
 - good inter-personal skills - very popular and on the Trust Social Committee 15

- (b) Identification of the most serious “people problem” and the criteria used to reach this conclusion. (15%)
- ❑ A note of the criteria against which to assess the seriousness of the people problems identified :-
 - impact upon the organisation;
 - impact upon the Trust's clients;
 - impact upon the rest of the team.
 - ❑ Conclusion that the key criterion should probably be impact upon the organisation (other arguments may be acceptable if justified fully).
 - ❑ Evaluation of the staff profiles against the criteria set for considering the most urgent people problems : -
 - a note that Corrie's main problem is her newness to the Trust and the need for initial support if she is to work to her potential;
 - Troy's main problem relates to his inter-personal skills and the need to improve his consideration of others' feelings;
 - Cleo's problem is one of belief in herself and the inability currently to fulfill her potential;
 - Tim's problems relate in the main to attitude and the need for this to be changed.
 - ❑ Conclusion that, whilst all staff members have problems, Tim's appear to be the most serious :-
 - his attitude is probably more fixed;
 - his knowledge/experience are essential, at least until Corrie is fully inducted;
 - his attitude is probably fuelled by resentment towards the Trust and Corrie, in particular;
 - he may feel victimised and be seeking to undermine the new management team;
 - with the current reliance on his technical knowledge, he could put at risk the whole team and Corrie, in particular.

- (c) A statement of the short-term actions proposed to address the key people problems identified and a brief outline of longer-term actions. (40%)

- A note of the short term actions proposed :

Corrie

- Discuss with Corrie her key areas of concern re organisational and specific work-related familiarisation;
- Provide direct personal support and/or find ways to work around Tim to satisfy Corrie's needs;
- Monitor Corrie's progress in relation to work and as a manager;
- Offer management training (too soon?);
- Support application for professional training.

Troy

- Private chat with Troy to emphasise his excellent work skills and the high quality of his output, but the need to address his interpersonal skills with staff/clients;
- Troy may not be aware of the hurt that he is causing colleagues and the reaction of clients to his approach;
- Troy has tremendous potential; if these shortcomings can be addressed, this would benefit the organisation.

Cleo

- Initial meeting with Cleo to try to raise her self-belief, stressing her abilities, her potential and that my appointment also means a fresh start for her to prove herself;
- She currently lacks confidence and is demotivated, but she is bright and might welcome a fresh start with a new approach (is this not why she wants to leave?);
- She needs empowering quickly with specific tasks and responsibilities, and needs to be given encouragement to accept these responsibilities fully and to start to express herself in her work;
- Regular ongoing meetings would be useful in monitoring her progress, giving further encouragement and gradually building her confidence;
- Again the beneficiaries would be both Cleo and the organisation.

Tim

- Tim is considered the major problem and I need to talk to him in some depth (counselling sessions);
- He needs to be encouraged to talk first ideally so that I can get as full a picture as possible and do not jump to wrong conclusions;
- There is a need to stress his pivotal role in the team, his knowledge and experience and the contribution he makes.
- He could have an important ongoing contribution to make and could have a key role in developing the team;
- I need to put to him the problems that are currently perceived. Does he agree with them? Will he own the problems?
- If there is a negative reaction and no improvement in attitude, then there is a need to go deeper and try to establish the reasons for his disenchantment - why does he view things so narrowly?
- It may be worth asking if he can see the difficulties from my point of view and what would he do in my position?

- A note of the longer term actions proposed :

- With all the staff, but particularly Tim, there is perhaps a need for horizons to be broadened in the office, through an acceptance of wider responsibilities, management and technical training and hence, job enrichment;
- The staff also need to start to work together. With my selective participation, there is a need for some team building utilising accepted practices (forming, storming, norming, performing) and the establishment of a team culture;
- These processes should establish team objectives, key tasks/result areas, standards of performance, resourcing and the monitoring of results/outcomes.

(d) Presentation, format, tact and general readability. (15%)

5,6

5,6

4. Question 2

Aims

- (a) To test candidates' ability to understand, analyse and evaluate a considerable volume of financial and non-financial data;
- (b) To test candidates' ability to appraise the cash flow, revenue and wider fund implications of two major, but very different development schemes for the replacement of Osric Nursery;
- (c) To test candidates' ability to critically appraise the results of this exercise and, taking account of all relevant financial and non-financial factors, to draw appropriate conclusions and recommendations;
- (d) To test candidates' ability to produce a well-structured and meaningful major report addressing all these issues for the Trust Board.

Assessment

- (a) Background to the report, production of a capital programme for the two schemes and analysis of the cash flow implications. (15%)
 - ❑ General background to the report and identification of the two schemes –
 - demolish and build (Scheme A);
 - dispose and have a new nursery built as part of the City Centre development (Scheme B);
 - ❑ A capital programme (phasing statement) for the years 2003 to 2005 identifying -
 - the capital costs of both schemes (A and B) on a year by year basis, covering demolition, buildings works, furniture and equipment;
 - the short-term rent costs and lottery grant (Scheme A);
 - the sale proceeds (Scheme B);
 - the total net costs of each scheme.
 - ❑ Calculation of the total net cost (capital cost, one-off rental, grant and sale income) over the period of each scheme per additional child place.
 - ❑ Using discounted cash flow techniques (DCF), calculation of the present value of the cash flows programmed above, using a 5% discount rate (ignoring other revenue net running cost differences – deemed to be insignificant for DCF purposes).
 - ❑ Calculation of the total discounted cost over the period of each scheme per additional child place.
 - ❑ A comparison of the costs per additional place.
 - ❑ Conclusion that over the period, Scheme A is the cheaper per additional place on an actual cost basis, whereas Scheme B is the cheaper on a discounted cash flow basis.

NOTE For suggested points see Appendix 2A, but note comments in 1(e) above.

- (b) Calculation of the revenue effects (staff, non-staff and depreciation) of the two schemes in 2003, 2004, 2005 and 2006, and the production of summaries for each of the Osric Nursery schemes, showing the overall impact on expenditure and the new cost per place. Calculation of the revised income for the two schemes in 2003, 2004, 2005 and 2006 (30%)
- ❑ Calculation of the additional staffing costs (nursery staff, cleaners, cover and training costs) implied by the two schemes from 1 January 2004.
 - ❑ Calculation of the additional non-staffing costs implied by the two schemes from 1 January 2004 in respect of the following :
 - repair and maintenance costs;
 - fuel and other premises costs;
 - short term lease - rent (Scheme A);
 - service charges (Scheme B);
 - nursery provisions.
 - ❑ For both schemes, calculation of the impact of the additional net capital expenditure on depreciation charges in 2003, 2004, 2005 and 2006 in respect of :-
 - premises;
 - furniture and equipment.
 - ❑ Adjustment of the base 2003 expenditure plan for 2003, 2004, 2005 and 2006 to reflect the implications of the two schemes as regards : -
 - staff costs;
 - non-staff costs;
 - depreciation charges.
 - ❑ Calculation of the overall revenue cost per place per day for both schemes.
 - ❑ For both schemes, calculation of the nursery income in the years 2003, 2004, 2005 and 2006 on the basis of a charge of £6 per day for 250 days at 95% collection rate.
 - ❑ For both schemes, calculation of the revised Council grant figures for the years 2003, 2004, 2005 and 2006.
 - ❑ For both schemes, a note of the investment income estimated for the years 2003, 2004, 2005 and 2006.

NOTE For suggested calculations see Appendix 2B, but note comments in 1(e) above.

- (c) Compilation of projected income and expenditure plans for 2003, 2004, 2005 and 2006, showing, for both schemes, transfers, the overall net movement in funds and the impact upon Osric Nursery Fund balances, together with a critical appraisal of the results of this exercise and a summary of the key figures. (20%)

- ❑ A note of the balance B/F on the Osric Nursery Trust at 1 January 2002 and adjustment of this to produce the estimated balance C/F at 31 December 2002.
- ❑ A note of the trend in the balances C/F on all the Trust's funds.
- ❑ For both schemes for each of the years 2003, 2004, 2005 and 2006 : -
 - the compilation of income and expenditure statements showing the net position;
 - calculation of the transfers in respect of bank interest and capital charges;
 - calculation of the net movement in funds for the years;
 - adjustment of the balances B/F for the net movement in funds.
- ❑ A comment that all these projections are at 2003 outturn prices and that inflation will have a further negative impact in the years after 2003.
- ❑ A note that, in terms of investment, Scheme A is the cheaper on an actual cost (per additional place) basis, but when cash flows are taken into account, Scheme B is the cheaper on an actual cost (per additional place) basis.

	Actual £	Discounted £
Scheme A	20,000	20,681
Scheme B	21,000	19,688

- ❑ For both Schemes A and B, a note of the gross revenue cost per place per day, compared with the current 2003 cost of £22.00.

	2003 £	2004 £	2005 £	2006 £
Scheme A	24.01	22.97	21.56	21.48
Scheme B	22.70	20.98	21.29	21.20

- ❑ Comment that : -
 - Both schemes increase costs in 2003 (currently £22.00);
 - Scheme A remains higher in 2004, then falls back below £22.00;
 - Scheme B is lower than Scheme A throughout and below the £22.00;
 - All costs have been calculated at current (2003) prices, and will therefore rise.
- ❑ For both Schemes A and B, a note of the net incoming (outgoing) after taking account of increased grant and nursery income, compared with the current 2003 cost of £3,000.

	2003 £	2004 £	2005 £	2006 £
Scheme A	1,928	3,968	14,585	15,152
Scheme B	8,503	9,842	7,080	7,843

- ❑ Comment that : -
 - Scheme A has a more detrimental impact upon revenue than Scheme B in 2003 and 2004 because of the earlier impact of depreciation costs and the temporary short-term lease, coupled with the delay in lottery grant receipt, and thus produces a lower surplus;
 - In 2005 and 2006, Scheme A produces a higher surplus than Scheme B.

- For both Schemes A and B, a note of the net movement in funds after taking of the respective transfers for bank interest and capital charges, compared with the current deficit of £1,650.

	2003 £	2004 £	2005 £	2006 £
Scheme A	-2,658	-17,117	848	1,980
Scheme B	3,917	4,157	-4,803	-10,548

- Comment that : -
- After drawing on fund balances initially, Scheme A produces a positive net movement in funds and thereby increases fund balances;
 - Scheme B produces a positive net movement in funds initially, but this turns negative as depreciation and capital charges on the higher capital costs have their impact;
 - Scheme B will therefore reduce the Osric Nursery fund's existing balances very quickly.

NOTE For suggested calculations see Appendix 2C, but note comments in 1(e) above.

- (d) In drawing conclusions and making recommendations, consideration of both the financial and non-financial issues related to the two schemes together with a note of any concerns about the wider financial issues facing the Trust and the level of the Trust's balances. (20%)

- A note that there are advantages and disadvantages with both schemes and that the decision between the two schemes is a close one : -
 - both schemes provide more room per child place than the present 10 square metres, but Scheme B (12.9 square metres) provides more than Scheme A (10.7); 6
 - currently demand for places in the City Centre exceeds supply and the 15 additional places provided by Scheme B are needed; 15
 - on capital costs, Scheme A is the cheaper per additional place on an actual cost basis, whereas Scheme B is the cheaper on a discounted cash flow basis;
 - in terms of net income (after taking account of additional nursery and grant income), Scheme A produces the better long term surplus – about twice that of Scheme B and about five times the current 2003 projected level of £3,000;
 - similarly, on net movement of funds (after transfers), Scheme A produces a better ongoing position – a small contribution to fund balances compared with a significant deficit on Scheme B.
- Scheme B would have a detrimental effect on Osric Nursery fund balances and would very quickly wipe these out, requiring support from unrestricted fund balances to maintain the new nursery.
- Comment that there is the possibility of increasing income - nursery charges have not been increased recently and could be raised, although further increases in Council grant look less likely.
- A note that the Trust's fund balances, and hence its available cash resources, are already under pressure and are now projected to start reducing in overall terms.

	2000 £	2001 £	2002 £	2003 £
Osric Nursery Fund	38,813	40,634	41,184	39,534
Swan Trust Fund	317,690	292,656	252,206	200,626
Unrestricted Fund	340,373	384,563	423,763	468,993
Total	696,876	717,853	717,153	709,153

- Cash resources were £359,180 and £385,043 respectively at the end of 2000 and 2001, and Scheme B, as the larger scheme (£315,000 against £200,000), will also have a greater impact upon the Trust's overall cash resources, at a time when replacement of the Trust's HQ building is also under consideration. 1,13
- In overall terms, therefore : -
 - Scheme B has its attractions in terms of better meeting the demand for places, providing an ideal environment and it also produces the cheaper cost per place both on a capital and a revenue basis;
 - however, unless additional sources of funding (income) can be assured, the decision probably has to be driven by shorter term funding considerations and the Trust's reducing fund balances.

- (e) Presentation, format, readability and general logic of approach and argument (15%).

NOTE

Of the two schemes, Option A is the cheaper on an actual cost basis, but Option B is the cheaper on a discounted cash flow basis.

QUESTION 2

								PAGE
				2003	2004	2005	TOTAL	
				£	£	£	£	
1. Revenue Costs - Base Statistics								
		Total	Addnl					
Current Places (No.)		20	0					6
Option A Places (No.)	¹	30	10					6
Option B Places (No.)	¹	35	15					6
Current Size (Sq Mtrs)		200	0					6
Option A (Sq Mtrs)	²	320	120					6
Option B (Sq Mtrs)	²	450	250					6
2. Revenue Costs – Staffing (Incremental)								
	Current	Option A	Option B					
Nursery Staffing (given)								
Manager	1	1	1					19
Senior Nursery Nurses	1	2	2					19
Nursery Nurses	2	3	4					19
	4	6	7					
Option A	Rate	Base	Addnl					
Manager	17,700	1	0	0	0	0	0	19
Sen Nursery Nurses	16,500	1	1	0	16,500	16,500	16,500	19
Nursery Nurses	15,000	2	1	0	15,000	15,000	15,000	19
Cleaners		5,800	Pro rata ²	0	3,480	3,480	3,480	19
				0	34,980	34,980	34,980	
Cover/Training	7½%			0	2,624	2,624	2,624	19
				0	37,604	37,604	37,604	
Central Administration		2,600	0	0	0	0	0	19
				0	37,604	37,604	37,604	
Option B	Rate	Base	Addnl					
Manager	17,700	1	0	0	0	0	0	19
Sen Nursery Nurses	16,500	1	1	0	16,500	16,500	16,500	19
Nursery Nurses	15,000	2	2	0	30,000	30,000	30,000	19
Cleaners	Service Charge			0	-5,800	-5,800	-5,800	6,19
				0	40,700	40,700	40,700	
Cover/Training	7½%			0	3,053	3,053	3,053	19
				0	43,753	43,753	43,753	
Central Administration		2,600	0	0	0	0	0	3,19
				0	43,753	43,753	43,753	

QUESTION 2

								PAGE
				2003	2004	2005	TOTAL	
				£	£	£	£	
1. Revenue Costs - Base Statistics								
		Total	Addnl					
Current Places (No.)		20	0					6
Option A Places (No.)	¹	30	10					6
Option B Places (No.)	¹	35	15					6
Current Size (Sq Mtrs)		200	0					6
Option A (Sq Mtrs)	²	320	120					6
Option B (Sq Mtrs)	²	450	250					6
2. Revenue Costs – Staffing (Total)								
	Current	Option A	Option B					
Nursery Staffing (given)								
Manager	1	1	1					3,19
Senior Nursery Nurses	1	2	2					3,19
Nursery Nurses	2	3	4					3,19
	4	6	7					
Option A	Rate	Base	Addnl					
Manager	17,700	1	0	17,700	17,700	17,700	17,700	3,19
Sen Nursery Nurses	16,500	1	1	16,500	33,000	33,000	33,000	3,19
Nursery Nurses	15,000	2	1	30,000	45,000	45,000	45,000	3,19
Cleaners		5,800 Pro rata ²		5,800	9,280	9,280	9,280	3,19
				70,000	104,980	104,980	104,980	
Cover/Training	7½%			5,250	7,874	7,874	7,874	3,19
				75,250	112,854	112,854	112,854	
Central Administration		2,600	0	2,600	2,600	2,600	2,600	3,19
				77,850	115,454	115,454	115,454	3,19
Option B	Rate	Base	Addnl					
Manager	17,700	1	0	17,700	17,700	17,700	17,700	3,19
Sen Nursery Nurses	16,500	1	1	16,500	33,000	33,000	33,000	3,19
Nursery Nurses	15,000	2	2	30,000	60,000	60,000	60,000	3,19
Cleaners	Service Charge			5,800	0	0	0	3,6,19
				70,000	110,700	110,700	110,700	
Cover/Training	7½%			5,250	8,303	8,303	8,303	3,19
				75,250	119,003	119,003	119,003	
Central Administration		2,600	0	2,600	2,600	2,600	2,600	3,19
				77,850	121,603	121,603	121,603	

QUESTION 2

PAGE

3. Revenue Costs - Non-Staff (incremental)

			2003 £	2004 £	2005 £	2006 £	
Option A							
	Base						
Repair & Maintenance	Given	3,500	0	-1,000	-1,000	-1,000	28
Fuel & Other Premises	Pro rata ²	7,000	0	4,200	4,200	4,200	6,28
Rent	Given	0	0	10,000	0	0	6,29
Service Charge	Given	0	0	0	0	0	
Nursery Provisions	Pro rata ¹	12,000	0	6,000	6,000	6,000	6,28
Other Running Costs	No change	4,050	0	0	0	0	28
		26,550	0	19,200	9,200	9,200	
Option B							
	Base						
Repair & Maintenance	Given	3,500	0	-3,500	-3,500	-3,500	6,28
Fuel & Other Premises	Pro rata ²	7,000	0	-7,000	-7,000	-7,000	6,28
Rent	Given	0	0	0	0	0	
Service Charge	Given	0	0	25,000	25,000	25,000	6
Nursery Provisions	Pro rata ¹	12,000	0	9,000	9,000	9,000	6,28
Other Running Costs	No change	4,050	0	0	0	0	28
		26,550	0	23,500	23,500	23,500	

3. Revenue Costs - Non-Staff (Total)

Option A							
	Base						
Repair & Maintenance	Given	3,500	3,500	2,500	2,500	2,500	28
Fuel & Other Premises	Pro rata ²	7,000	7,000	11,200	11,200	11,200	6,28
Rent	Given	0	0	10,000	0	0	6,29
Service Charge	Given	0	0	0	0	0	
Nursery Provisions	Pro rata ¹	12,000	12,000	18,000	18,000	18,000	6,28
Other Running Costs	No change	4,050	4,050	4,050	4,050	4,050	28
		26,550	26,550	45,750	35,750	35,750	
Option B							
	Base						
Repair & Maintenance	Given	3,500	3,500	0	0	0	6,28
Fuel & Other Premises	Pro rata ²	7,000	7,000	0	0	0	6,28
Rent	Given	0	0	0	0	0	
Service Charge	Given	0	0	25,000	25,000	25,000	6
Nursery Provisions	Pro rata ¹	12,000	12,000	21,000	21,000	21,000	6,28
Other Running Costs	No change	4,050	4,050	4,050	4,050	4,050	28
		26,550	26,550	50,050	50,050	50,050	

QUESTION 2

					PAGE
	2003 £	2004 £	2005 £	2006 £	
<u>3. Revenue Costs - Depreciation</u>					
Option A					
Premises					
B/F 1 January	102,564	414,925	255,377	248,993	17
Purchases (Sales -)	323,000	-153,000	0	0	above
	425,564	261,925	255,377	248,993	
Depreciation at 2½%	10,639	6,548	6,384	6,225	(iv),17
	414,925	255,377	248,993	242,768	
Capital Charges at 5% of B/F	5,128	20,746	12,769	12,450	
Furniture & Equipment					
B/F 1 January	30,333	45,300	40,770	36,693	17
Purchases (Sales -)	20,000	0	0	0	above
	50,333	45,300	40,770	36,693	
Depreciation at 10%	5,033	4,530	4,077	3,669	(iv),17
	45,300	40,770	36,693	33,024	
Capital Charges at 5% of B/F	1,517	2,265	2,038	1,835	
Total Depreciation	15,672	11,078	10,461	9,894	
Less Budgeted	5,600	5,600	5,600	5,600	3
Increase	10,072	5,478	4,861	4,294	
Total Capital Charges	6,645	23,011	14,807	14,285	

QUESTION 2

	2003 £	2004 £	2005 £	2006 £	PAGE
3. Revenue Costs – Depreciation (continued)					
Option B					
Premises					
B/F 1 January	102,564	100,000	234,000	364,650	17
Purchases (Sales -)	0	140,000	140,000	0	Above
	102,564	240,000	374,000	364,650	
Depreciation at 2½%	2,564	6,000	9,350	9,116	(iv),17
	100,000	234,000	364,650	355,534	
Capital Charges at 5% of B/F	5,128	5,000	11,700	18,233	
Furniture & Equipment					
B/F 1 January	30,333	58,800	52,920	47,628	17
Purchases (Sales -)	35,000	0	0	0	Above
	65,333	58,800	52,920	47,628	
Depreciation at 10%	6,533	5,880	5,292	4,763	(iv),17
	58,800	52,920	47,628	42,865	
Capital Charges at 5% of B/F	1,517	2,940	2,646	2,381	
Total Depreciation	9,097	11,880	14,642	13,879	
Less Budgeted	5,600	5,600	5,600	5,600	3
Increase	3,497	6,280	9,042	8,279	
Total Capital Charges	6,645	7,940	14,346	20,614	

QUESTION 2

	2003 £	2003 £	2004 £	2005 £	2006 £	PAGE
4. Revenue Costs - Summary (Incremental)						
Option A						
Base Budget 2003	110,000	110,000	110,000	110,000	110,000	3
Additions						
Staffing Costs	0	0	37,604	37,604	37,604	Above
Non-Staff Costs	0	0	19,200	9,200	9,200	Above
Depreciation	0	10,072	5,478	4,861	4,294	Above
	110,000	120,072	172,282	161,665	161,098	
Places	20	20	30	30	30	6
Cost per place/day (250 days)	22.00	24.01	22.97	21.56	21.48	15
Option B						
Base Budget 2003	110,000	110,000	110,000	110,000	110,000	3
Additions						
Staffing Costs	0	0	43,753	43,753	43,753	Above
Non-Staff Costs	0	0	23,500	23,500	23,500	Above
Depreciation	0	3,497	6,280	9,042	8,279	Above
	110,000	113,497	183,533	186,295	185,532	
Places	20	20	35	35	35	6
Cost per place/day	22.00	22.70	20.98	21.29	21.20	15
4. Revenue Costs - Summary (Total)						
Option A						
Staffing Costs	77,850	77,850	115,454	115,454	115,454	Above
Non-Staff Costs	26,550	26,550	45,750	35,750	35,750	Above
Depreciation	5,600	15,672	11,078	10,461	9,894	Above
	110,000	120,072	172,282	161,665	161,098	
Places	20	20	30	30	30	6
Cost per place/day (250 days)	22.00	24.01	22.97	21.56	21.48	15
Option B						
Staffing Costs	77,850	77,850	121,603	121,603	121,603	Above
Non-Staff Costs	26,550	26,550	50,050	50,050	50,050	Above
Depreciation	5,600	9,097	11,880	14,642	13,879	Above
	110,000	113,497	183,533	186,295	185,532	
Places	20	20	35	35	35	6
Cost per place/day	22.00	22.70	20.98	21.29	21.20	15

QUESTION 2

				2003	2004	2005	2006	PAGE
<u>5. Income - Grants</u>								
Increase from £11,000 to £20,000 in 2003								
£2,000 per place in 2004 onwards								
Option A	2,000	11,000	30	20,000	60,000	60,000	60,000	6,22
Option B	2,000	11,000	35	20,000	70,000	70,000	70,000	6,22
<u>6. Income - Nursery Income</u>								
Charge per day	6.00							28
Days per year	250							15
Estimated Occupancy	95%							28
Option A (from 2004)	30		28,500	28,500	42,750	42,750	42,750	6
Option B (from 2004)	35		28,500	28,500	49,875	49,875	49,875	6
<u>7. Income - Summary</u>								
Option A								
Grants			11,000	20,000	60,000	60,000	60,000	Above
Investment Income	Given		73,500	73,500	73,500	73,500	73,500	3,23
Nursery Income			28,500	28,500	42,750	42,750	42,750	Above
			113,000	122,000	176,250	176,250	176,250	
Option B								
Grants			11,000	20,000	70,000	70,000	70,000	Above
Investment Income	Given		73,500	73,500	73,500	73,500	73,500	3,23
Nursery Income			28,500	28,500	49,875	49,875	49,875	Above
			113,000	122,000	193,375	193,375	193,375	

QUESTION 2

	2000 £	2001 £	2002 £	2003 £	PAGE
<u>1. Fund Balances</u>					
Osric Nursery					
Balances b/f		38,813	40,634	41,184	
Change		1,821	550	-1,650	2,3,13
Balance c/f	38,813	40,634	41,184	39,534	13
Swan Trust					
Balances b/f		317,690	292,656	252,206	
Change		-25,034	-40,450	-51,580	2,3,13
Balance c/f	317,690	292,656	252,206	200,626	13
Unrestricted					
Balances b/f		340,373	384,563	423,763	
Change		44,190	39,200	45,230	2,3,13
Balance c/f	340,373	384,563	423,763	468,993	13
<u>2. Summary and Trend</u>					
Osric Nursery	38,813	40,634	41,184	39,534	
Swan Trust	317,690	292,656	252,206	200,626	
Unrestricted	340,373	384,563	423,763	468,993	
	696,876	717,853	717,153	709,153	

QUESTION 2

PAGE

	2003 £	2003 £	2004 £	2005 £	2006 £	
<u>1. Income & Expenditure Projections</u>						
Option A						
Incoming Resources						
Grants	11,000	20,000	60,000	60,000	60,000	
Investment Income	73,500	73,500	73,500	73,500	73,500	
Nursery Income	28,500	28,500	42,750	42,750	42,750	
	113,000	122,000	176,250	176,250	176,250	
Resources Expended						
Staff Costs						
Management/Administration	17,700	17,700	17,700	17,700	17,700	
Nursery Nurses	46,500	46,500	78,000	78,000	78,000	
Other Staff	5,800	5,800	9,280	9,280	9,280	
Cover/Training	5,250	5,250	7,874	7,874	7,874	
Central Administration	2,600	2,600	2,600	2,600	2,600	
	77,850	77,850	115,454	115,454	115,454	
Non-Staff Costs						
Repair & Maintenance	3,500	3,500	2,500	2,500	2,500	
Fuel & Other Premises	7,000	7,000	11,200	11,200	11,200	
Rent	0	0	10,000	0	0	
Service Charge	0	0	0	0	0	
Nursery Provisions	12,000	12,000	18,000	18,000	18,000	
Other Running Costs	4,050	4,050	4,050	4,050	4,050	
	26,550	26,550	45,750	35,750	35,750	
Capital Financing						
Depreciation	5,600	15,672	11,078	10,461	9,894	
Gross Expenditure	110,000	120,072	172,282	161,665	161,098	
Net Incoming (Outgoing)	3,000	1,928	3,968	14,585	15,152	
Transfers						
Bank Interest (at 5% of revenue B/F)	2,000	2,059	1,926	1,070	1,113	16
Capital Charges (at 5% of capital B/F)	-6,650	-6,645	-23,011	-14,807	-14,285	16,17
Net Movement In Funds	-1,650	-2,658	-17,117	848	1,980	
Balance B/F 1 January	41,184	41,184	38,526	21,409	22,257	13
Balance C/F 31 December	39,534	38,526	21,409	22,257	24,237	

QUESTION 2

PAGE

	2003 £	2003 £	2004 £	2005 £	2006 £	
<u>1. Income & Expenditure Projections (cont'd)</u>						
Option B						
Incoming Resources						
Grants	11,000	20,000	70,000	70,000	70,000	
Investment Income	73,500	73,500	73,500	73,500	73,500	
Nursery Income	28,500	28,500	49,875	49,875	49,875	
	113,000	122,000	193,375	193,375	193,375	
Resources Expended						
Staff Costs						
Management/Administration	17,700	17,700	17,700	17,700	17,700	
Nursery Nurses	46,500	46,500	93,000	93,000	93,000	
Other Staff	5,800	5,800	0	0	0	
Cover/Training	5,250	5,250	8,303	8,303	8,303	
Central Administration	2,600	2,600	2,600	2,600	2,600	
	77,850	77,850	121,603	121,603	121,603	
Non-Staff Costs						
Repair & Maintenance	3,500	3,500	0	0	0	
Fuel & Other Premises	7,000	7,000	0	0	0	
Rent	0	0	0	0	0	
Service Charge	0	0	25,000	25,000	25,000	
Nursery Provisions	12,000	12,000	21,000	21,000	21,000	
Other Running Costs	4,050	4,050	4,050	4,050	4,050	
	26,550	26,550	50,050	50,050	50,050	
Capital Financing						
Depreciation	5,600	9,097	11,880	14,642	13,879	
	110,000	113,497	183,533	186,295	185,532	
Net Incoming (Outgoing)						
Transfers	3,000	8,503	9,842	7,080	7,843	
Bank Interest (at 5% of revenue B/F)	2,000	2,059	2,255	2,463	2,223	16
Capital Charges (at 5% of capital B/F)	-6,650	-6,645	-7,940	-14,346	-20,614	7,16
	-1,650	3,917	4,157	-4,803	-10,548	
Net Movement In Funds						
Balance B/F 1 January	41,184	41,184	45,101	49,258	44,455	13
Balance C/F 31 December	39,534	45,101	49,258	44,455	33,907	

- (a) To test candidates' understanding of the supply, demand and other related issues in operating the supported places scheme;
- (b) To test candidates' ability to analyse the tenders received in the light of identified demand, the local authority's constraints and the Trust's own stated objectives, to appraise the options available and to recommend a proposed allocation of places to providers;
- (c) To examine candidates' competence in drafting a short report for discussion by the Trust's Management Team that covers all these issues.

Assessment

- (a) Brief introduction and an allocation to areas of the additional places available for 2003. (20%)
 - ❑ A brief introduction setting out the purpose of the note and brief relevant background;
 - ❑ A note of the additional funding of £100,000 to be made available by the Markden City Council in 2003; 22,29
 - ❑ Comment that the total budget available for the supported places scheme will be £735,000 in 2003; 3,29
 - ❑ A note of the City Council's requirement that the additional monies must fund at least 20 places over and above the current level of 140 places funded by the Trust; 22,29
 - ❑ A statement of the identified demand for supported places in 2003 by City area, reduced by the 20 supported places provided directly by the Trust's Osric Nursery; 15
 - ❑ A note of the factors determining allocation of the additional 20 places to the various City areas :
 - the City Council's requirement that 10 must be in the East area; 29
 - whilst the City Centre is both the Trust's and the Council's priority, the maximum supply available only allows for an additional 5 places; 25
 - demand in the South West is already being fully met; 15,25
 - the balance of 5 should therefore go to the North West.
 - ❑ A summary table showing the resulting allocation of the 160 available places to the City areas.

NOTE For suggested calculations see Appendix 3A, but note comments in 1(e) above.

(b)	A summary and evaluation of the tenders received from outside suppliers. (30%)	Page
□	A summary of the tenders from the case material, showing for each tenderer : -	25
	<ul style="list-style-type: none"> • current number of places provided; • number of places offered in 2003; • the tendered price per place; • the percentage of ethnic places at each nursery; • the total number of persons employed and the additional jobs created. 	
□	A note of the cheapest provision available in each City area :	25
	<ul style="list-style-type: none"> • City Centre Only Titania (£22.00), the current provider has tendered and only 5 additional places are offered (total 35 places); • East Mustardseed (£16.00), a new nursery - cheaper than both Peasblossom (£18.00), the current provider, and Cobweb (£17.00); • South West Moonshine (£15.00), a new nursery - is cheaper than the current provider Oberon (£18.00); • North West Thisbe (£17.00) - cheaper than the current provider, Pyramus (£19.00), but only offers 30 places against the allocation of 45 beds; 	
□	A note that, in allocating places to nurseries, there is also a need to consider : -	
	<ul style="list-style-type: none"> • quality and other related issues such as staffing levels, customer feedback etc.; • the Trust's own stated objectives as regards job creation, ethnic minorities and inner city regeneration. 	9,24 (i)
□	An analysis of these issues for the tendering nurseries in each City area :	
	<ul style="list-style-type: none"> • City Centre No options as demand exceeds supply, but Titania is well thought of by its clients. • East Cobweb is stronger on job creation (pro rata to places) and ethnic criteria and close to the City Centre, but more expensive than Mustardseed. Suggestion that provision should be split equally between the two (to cover both North East and South East parts of the area). Peasblossom is too expensive and has developed a poor reputation. • South West Moonshine is cheaper and creates 4 jobs, but it is a new nursery with no track record and a low staffing ratio. Oberon is more expensive but is well regarded and has a higher staff ratio. • North West Pyramus, the existing contractor, has a higher ethnic percentage and a better staffing ratio, but is more expensive than Thisbe and creates no additional jobs. 	10 10,25 10,21,24,25 29 10,25 10,25 24,25

NOTE For suggested calculations see Appendix 3B, but note comments in 1(e) above.

(c) A minimal cost allocation and a critical appraisal of the results achieved in the light of the quality and other non-financial issues, leading to conclusions and recommendations in respect of the 2003 allocation of supported places. (35%)

- ❑ On the basis of the already determined supply of 160 places to City areas, a table setting out the allocation to tenderers on the basis of minimum cost in 2003;
- ❑ A note that this allocation basis leaves £31,250 of the total resources available unallocated in 2003;
- ❑ A reasoned consideration of the options :
 - do nothing and take a budget saving;
 - use the £31,250 to provide additional supported places;
 - take account of quality and other non-financial issues and move away from the minimum cost allocation;
 - a combination of the above.
- ❑ A comment that the City Council will want to see its full allocation committed or returned, so the budget saving option is not feasible. 29
- ❑ A note that provision of additional places is only possible in the East (4 places). In the City Centre there is no excess supply and in the South West there is no excess demand. 15,25
- ❑ A comment that both the City Council and the Trust place a high emphasis on quality and the non-financial issues and would want these fully addressed before considering the provision of additional places. 9,24,29
- ❑ On this basis, a review of the minimum cost allocation is required :
 - City Centre No change - no choice;
 - East Split supply to meet the demand in the two sub-areas, thereby allocating 25 places to Mustardseed and 25 places to Cobweb; 24
 - South West Allocate all places to Oberon, on the basis of some concerns about the new nursery, Moonshine;
 - North West Allocate as many places as can be afforded to Pyramus, as this nursery has the better reputation.
- ❑ A summary table showing the final proposed allocation and the costs.

NOTE For suggested calculations see Appendix 3C, but note comments in 1(e) above.

(d) Presentation, format, tact and general readability. (15%)

QUESTION 3**PAGE****1. Supported Places Budget 2003**

	Places No.	Budget £	
Trust Budget	140	635,000	3,29
Additional Funding	20	100,000	29
	<u>160</u>	<u>735,000</u>	

2. Demand 2003

Supported Places Approved by Area	Approved No.	Osric Nursery No.	Net Demand No.	
City Centre	78	20	58	15
East	54	0	54	15
South West	30	0	30	15
North West	45	0	45	15
	<u>207</u>	<u>20</u>	<u>187</u>	

NOTE

Net demand exceeds supply (187 places approved for 160 supported places). An allocation process is therefore required.

3. Allocation 2003

Supported Places	Basis	Current Places No.	Additional Places No.	Total Places No.	
City Centre	Maximum supply	30	5	35	25,29
East	Local authority condition - + 10 places	40	10	50	29
South West	Demand already met in full	30	0	30	29
North West	Balance	40	5	45	29
		<u>140</u>	<u>20</u>	<u>160</u>	

QUESTION 3

								PAGE
1. Analysis of Tenders 2003		Places		Cost	Ethnic	Jobs (FTE)		
		Current No.	Offered No.	per place £	%	Total No.	New No.	
City Centre								
Titania (current)	Expansion	30	35	22.00	45	6	1	25
East								
Peasblossom (current)		40	40	18.00	30	6	0	25
Cobweb	Extended	0	25	17.00	50	7½	7½	25
Mustardseed	New	0	50	16.00	45	10	10	25
South West								
Oberon (current)		30	30	18.00	5	6	0	25
Moonshine	New	0	30	15.00	5	4	4	25
North West								
Pyramus (current)	Reallocation	40	50	19.00	25	13	0	25
Thisbe	Extended	0	30	17.00	15	5	5	25

2. General Appraisal of Tenders 2003

Providers need to be appraised on quality as well as on cost grounds.

City Centre	No options as demand exceeds supply.	10,25
East	Cobweb is stronger on job creation (pro rata to places) and ethnic criteria and close to the City Centre, but more expensive than Mustardseed. Suggested that places are split equally between the North East and South East parts of the area.	10,25
	Peasblossom is too expensive and has a poor reputation.	24
	Conclusion - Split equally between Cobweb and Mustardseed	29
South West	Moonshine is cheaper and creates 4 jobs, but it is a new nursery with no track record and a low staffing ratio. Oberon is more expensive, but is well thought of and has a higher staffing ratio. <u>Conclusion</u> - Retain Oberon	10,25
North West	Pyramus, the existing contractor, has a higher ethnic percentage and a better staffing ratio, but is more expensive than Thisbe and creates no additional jobs. <u>Conclusion</u> - Some split on provision is required dependent upon funding.	10,25

QUESTION 3**PAGE****1. Minimum Cost Allocation 2003**

				£	£
City Centre					
Titania (current)	35	places	at	22.00	192,500
East					
Peasblossom (current)				18.00	
Cobweb				17.00	
Mustardseed	50	places	at	16.00	200,000
South West					
Oberon (current)				18.00	
Moonshine	30	places	at	15.00	112,500
North West					
Pyramus (current)	15	places	at	19.00	71,250
Thisbe	30	places	at	17.00	127,500
	160				703,750

2. Resources Available 2003

Total Funding	735,000
Minimum Cost Allocation	703,750
	31,250

3. Revised Allocation 2003

			Places No.	At £	Cost £	
City Centre	No change		0	0	0	
East	Cobweb	£17-£16=+£1 per place	25	1	6,250	24
South West	Oberon	£18-£15=+£3 per place	30	3	22,500	24
					28,750	
North West	Adjust	£19-£17=+£2 per place	5	2	2,500	24
					31,250	

4. Summary Final Allocation 2003

City Centre					
Titania (current)	35	places	at	22.00	192,500
East					
Peasblossom (current)	0	places	at	18.00	0
Cobweb	25	places	at	17.00	106,250
Mustardseed	25	places	at	16.00	100,000
South West					
Oberon (current)	30	places	at	18.00	135,000
Moonshine	0	places	at	15.00	0
North West					
Pyramus (current)	20	places	at	19.00	95,000
Thisbe	25	places	at	17.00	106,250
	160				735,000

Aims

- (a) To test candidates' understanding of the Trust finance arrangements and the various fund requirements;
- (b) To test candidates' understanding of investment management and treasury management principles in the context of a practical application;
- (c) To test candidates' ability to address the other points raised in Mr Robin Goodfellow's letter;
- (d) To examine candidates' competence in drafting an easy to understand and tactful response on technical and sensitive issues to a non-financial person.

Assessment

- (a) Brief introduction and history, background to the operation of the Trust's various funds and the deficit situation on restricted funds and an explanation of the fund transfers. (15%)
 - Brief introduction acknowledging the points raised.
 - Brief statement of Illyrian trust law and the Markden Swan Trust's history, (i),(iv) explaining the requirement for the following : -
 - an endowment fund – for the capital sum bequested;
 - two separate restricted funds – one for the Osric Nursery Trust operation and one for the Swan Trust activities;
 - an unrestricted fund – for non-earmarked Trust income and expenditure.
 - A note that it is therefore not possible to combine all the funds into one.
 - An explanation of the concern expressed about the deficit on the restricted funds :- (iv)
 - the restricted accounts are supposed to be self-funding through the endowment interest and other direct income;
 - a deficit on either or both would effectively mean utilising the Trust's (iv) unrestricted fund and this is not ideal;
 - the unrestricted fund is seen as the Trust's reserve account and is used (iv) periodically to finance capital expenditure.
 - A comment that there are clear signs of the restricted funds coming under longer term pressure, even on the basis of current operations : -
 - the Swan Trust fund produced a deficit in 2001 (£25,034); 13
 - this is estimated to increase in 2002 and 2003, largely as a result of the staff 2,3,12 restructuring exercise (charity administration up from £180,886 to £213,500 in 2002 – +18%);
 - the Osric Nursery Trust is also struggling to manage within its resources and is 2,3,13 expected to move into deficit in 2003.
 - A simple explanation of the reasons and mechanisms for the transfers : - 2,3,16
 - a note that the transfer arrangements are a mechanism to reflect the various funds' use of the Trust's pooled cash resources;
 - all bank and short term deposit interest is credited initially to the unrestricted fund;
 - the two restricted funds then receive an allocation of this on the basis of their opening fund balances each year from the unrestricted fund;
 - the two restricted funds are also charged interest on their opening capital balances and this is credited to the unrestricted fund;
 - these arrangements have been agreed with the Trust's external auditors.

(b) An explanation of portfolio construction techniques and the need for diversification as well as comments on the various terms queried in the letter. (40%)

- An explanation of the term "Treasury 10% 2004" stock and the stock's price :
 - a note that this a Government stock (also called Exchequer or Treasury), which is issued in lots, usually with a face value of £100 (nominal value);
 - an explanation that collectively these are known as gilt-edged stocks or Gilts, as the capital sum involved is very secure;
 - a note that this particular stock will generate 10% interest per annum on the face value of the stock held (coupon rate);
 - an explanation that the stock matures in 2004, at which time the holder will receive back the face value of the stock;
 - an explanation that these stocks can be traded before maturity and that the price at any time reflects the length of time to maturity, the coupon rate of interest and the current level of interest rates;
 - the nearer a stock is to maturity, the closer its market value will be to its nominal value;
 - a comment that, with interest rates comparatively low, the market price at 31 December 2001 tends to exceed the stock's face value. 23
- An explanation of equities and their returns :
 - a note that equities are generally shares in companies listed on the stock exchange;
 - an explanation that the stock exchange is a market which buys and sells shares;
 - a note that returns on equities are generated from the dividends paid to shareholders by companies (when these are issued) and the increase (or decrease) in the market price of the shares held;
 - under the endowment, the dividends (equivalent to Gilt interest) would be available to fund activities, whereas market price changes would merely affect the value of the capital (endowment); (iv)
 - an explanation that shares are a riskier investment than Gilts because the capital invested falls if the share price goes down.
- Confirmation that over the long term, equities historically tend to outperform Gilts.
- A conclusion that Gilts are normally held for their income generation properties and equities for their capital growth characteristics.
- An explanation of equity terms and the need for diversification, particularly when investing in equities :
 - a comment that investing the total endowment in one equity stock would be a very risky strategy;
 - a comment that .com stocks are relatively new and, by their very nature, can be particularly volatile and high risk;
 - an explanation that beta is a measure of a particular stock's responsiveness to movements in the market as a whole - a stock with a beta of 1 moves in line with the market, so a 1.5 beta brings with it high potential volatility;
 - a note that risk is normally diversified by investing funds in a mixed portfolio of stocks, across sectors, markets and even countries;
 - a comment that this could also be achieved by investing through a pooled vehicle akin to a unit trust.
- An explanation that the types of investments chosen (the portfolio) should be matched to the Trust's cash flow needs and liability profile.
- A conclusion that, with the Trust moving from a surplus to a deficit position on its restricted funds' income and expenditure accounts, there is a need to maximise income and that, in these circumstances, Gilts are a better match than equities to the Trust's needs. 2,3

		Page
(c)	An explanation of the specific treasury management issues raised and general comments upon risk minimisation. (30%)	
	<ul style="list-style-type: none"> ❑ A general explanation of cash flow planning and its importance to treasury management ❑ A specific explanation that :- <ul style="list-style-type: none"> • the investment income on the Gilt comes in every six months in arrears on 30 June and 31 December each year; 14 • this is the main source of income amounting to over £0.5 million per half year; 2,3,12 • income from grants is usually paid in arrears and donations/bequests are haphazard in their incidence; • supported places scheme payments are made termly in advance; 25 • on the basis of the incidence of investment income, the 2001 year end cash/short term deposit figure of £385,043 is untypical of the normal level of such balances; 13 • there is probably, therefore, insufficient certainty to invest longer term. ❑ An explanation of the yield curve, noting that :- <ul style="list-style-type: none"> • the yield curve is a graph of the interest rate payable against the length of time for which the investment is committed; • the rates for investing short term are usually less than those offered in the market for long term investment; • the yield curve, therefore, normally rises with time and starts to flatten at the long dated end; • in response to certain market conditions, particularly when there are short term uncertainties in the economy, but more stable long term prospects, the yield curve reverses or inverts; • this means that short term rates become higher than longer term rates. ❑ An explanation that there are rating systems available which assess the financial and structural standing of banks, building societies and other financial institutions for investors. ❑ A note that investments would only normally be made with those financial institutions which had the highest ratings. ❑ A comment that, even then, a number of financial institutions might be used to minimise risk through diversification. ❑ An explanation that all treasury management decisions imply some trade-off between risk and return, and that the overall aim is to maximise returns, but only within an acceptable level of risk. ❑ A note that relevant guidelines, risk parameters and controls on these areas should normally be set out in some detail in a written treasury management policy statement and that this does not currently exist. 23 	
(d)	Presentation, format, tact and general readability. (15%)	