

## **FINANCE AND MANAGEMENT CASE STUDY**

**Final Test of Professional competence**

**12 June 2007**

### **QUESTION 1**

**Time allowed: 40 minutes**

**From: 12.20pm – 1.00pm**

*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 weighting of the question is indicated in the parentheses at the end of the question.*

*Candidates should submit all papers produced during the examination, but they should distinguish clearly between formal answers (including appendices) and working papers.*



**FINANCE AND MANAGEMENT CASE STUDY**

**QUESTION 1**

**NOTES TO CANDIDATE**

- (i) Answers to be prepared as on 12 June 2007 by Sam Tipeed, Special Projects Officer at Gumerichshire County Council.
- (ii) The question below is intended to test the candidate's skills and understanding of the situation in the case.

**QUESTION**

1. Draft a briefing note for the Chief Executive in response to the attached memorandum. (20%)

**(Copyright)**

---

## GAMERICHSIRE MEMORANDUM

---

**TO** : Ann Telope, Director of Corporate Services  
**FROM** : Ellie Fant, Chief Executive  
**DATE** : 12 June 2007

---

### xParrot Limited

I attach for your information a copy of an article that appeared in this morning's Gamerich Gazette – you might already have seen it. The journalist concerned has already called the press office seeking a response and, worse still, local television wants an interview on the matter this afternoon. I was pressed by the Council Leader to agree to this latter request as he wants the allegations and criticisms implicit in the article refuted wherever possible, particularly those that concern him personally, and I have now agreed.

I have a full diary this morning and even over lunch, so I will have very little time to prepare for the interview. I am not free until 1.15 p.m. and the interview is arranged for 1.30 p.m. in my office.

I therefore need a briefing note that addresses all the issues raised in a clear and succinct way. These appear to fall into three groups as follows –

- Brief background to the current situation at xParrot, and an explanation of the validity of the allegations in the article about staff departures and the County Council taking operational control of xParrot;
- The allegations about the “interest-free loan” – are there no compensating benefits?
- The matters raised about xParrot's finances and specifically the monies owed to the Council.

As many of the points raised are financial, I want figures to support my statements, wherever possible. This is particularly true on the “loan” position (use the Gazette's 5% rate and simple interest basis), sales levels and debts to the County.

At the same time, I want all facts and figures presented in a format that will be useful to me in the interview situation. The briefing note must be readily accessible, as the television broadcast will be transmitted live. I am a relative newcomer to the authority, and particularly to xParrot, so make no assumptions about prior knowledge.

Please arrange for me to receive a briefing note by 1.15 p.m. today.

**Ellie Fant**

Chief Executive

*Sam Tipeed*

*As the Head of Financial Services is on leave today, I should be grateful if you would draft the briefing note requested and let me have it by 1.00 p.m.*

*Ann Telope*

# Council's fledgling company set to fail

By Marie Bou-Stork – Political Correspondent

**Gamerichshire has its first case of bird flu! xParrot, the County's fledgling software company, looks set to fail again as its Chief Executive, Monty Python, flies the nest, two key development staff are sacked, the Council takes operational control and xParrot's financial affairs are subjected to investigation. So has Polly gone for good this time or will it survive again? More fundamentally, should this "egcentric" scheme ever have been hatched in the first place?**

Council sources have revealed to the Gazette that xParrot, the company set up by Blake Adder as part of his Technical Services department is set to fail again. It is facing a financial crisis and rumours abound that Jim Pansea, the left-wing Council Leader, is about to abandon this doomed Council-owned enterprise in order to save money, but only after his Council-paid trip to China to "promote" xParrot!

Set up in 2002 to try to sell to the private sector software specifically developed for the Council, xParrot was doomed to failure from the start. Gamerich University, an early partner, took back its seed capital and sensibly withdrew very quickly, leaving the Council to fund the enterprise. Inevitably the company failed and went into liquidation.

However, Blake Adder fought tooth and claw for the company's survival and recruited new partners, including Monty Python, to persuade the Council to support his cause. Sadly he had to promise to give away ownership of the company to these partners in the process.

Needless to say, Blake Adder went ahead and, with £½ million from the Council, xParrot rose again like a phoenix from the flames. One supposed crumb of comfort - this cash injection was not a grant, but an interest-free loan. Some comfort! The loan has no chance of being repaid and the gazette calculates that by the end of June, it will already have cost Council taxpayers almost £40,000 in lost interest at the current 5% market rate! That's £300,000 over its 12-year term! And what do we get in return? Nothing but a company that is again set to fail!

My sources suggest that the company's finances are in total disarray –

- Net trading receipts, never large, are projected to fall below 2007 levels in 2008;
- Key development work by an Indian software company is being scaled back because invoices are not being paid;
- New equipment costing £½ million is needed and the Council is being asked to fund this;
- Monies owed by xParrot to the Council will have reached almost £150,000 (on top of the interest-free loan) by the end of June, with little prospect of recovery.

No surprise then that the company is refusing to comment or lodge its 2006 annual accounts and won't allow the auditors in!

*Extract : Gamerich Gazette - 12 June 2007*