

CIPFA PROFESSIONAL EXAMINATION 3
FINANCE AND MANAGEMENT CASE STUDY EXAMINATION
NOVEMBER 2003

RIVER SHANTY JOINT MANAGEMENT COMMITTEE
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 candidate's 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 kingdom of Tanka, a large island in a northern sea. The case concerns the affairs of the River Shanty Joint Management Committee (JMC). The JMC is responsible for the safe navigation and operation of the River Shanty and Port Shanty yachting haven. It also has a commercial operation renting out moorings to boaters. It is a County Council sub-committee, but it operates according to the requirements of specific legislation. Its finances are ring-fenced from those of the County Council, and its members include representatives of stakeholder groups with full voting rights, although County Councillor members of the JMC outnumber these.

The County Councillor members do not generally attend the JMC, and the other members have enforced a policy of keeping charges down in respect of harbour dues (paid by all river users) and especially commercial moorings run by the JMC. However, costs have been rising, primarily due to the progressive implementation of commercial charges for the riverbed lease from Sceptre Estates. As a result, maintenance has been neglected and the JMC's Moorings Rentals Reserve has become excessively depleted.

The quick response question relates to a request for assistance from a County Councillor who receives a letter complaining about increasing charges, poor river infrastructure, alleged overstaffing and waste and containing an assertion that the JMC is deliberately pricing local boaters off the river to attract rich newcomers in their place.

The main question requires candidates to budget the cost of the JMC's operations in 2004, taking account of the need to start and fund a long-term policy of infrastructure renewal and to replenish the JMC's reserves. The costs must be allocated and apportioned between the statutory river operations and the commercial moorings operation, with calculation of user charges. These increased charges must be justified to sceptical JMC members with reference to benchmarking of charges at other havens.

There have been problems with a senior member of the JMC's staff, who has been on long term sickness absence. The Harbour Master dismisses the staff member on the basis of hearsay and without complying with the County Council's Discipline Procedures. He also appoints another staff member to the post without a proper selection and recruitment exercise. Candidates have to assess the validity of grounds for disciplinary action against the dismissed employee, assess whether he has been unfairly dismissed and recommend how to proceed.

The final question concerns the viability of a proposed maritime museum, forming part of an initiative to revive tourism in the run-down seaside resort of Shantytown. Several parties enthusiastically support the project, but candidates must assess its viability on the basis of highly subjective and speculative information. The project is clearly not viable as initially proposed either financially or operationally, and candidates must establish this and clearly communicate the facts, with proposals for improving the viability of the attraction.

The case provides candidates with ample opportunity to display their ability to acquire and analyse information, provide costings and financial analysis, and display their ability to evaluate and exercise judgement, as well as communicating potentially unpopular conclusions and recommendations both persuasively and tactfully.

3. Question 1

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Aims

- (a) To test candidates' understanding of the issues raised in a letter of complaint from the Mooring Holders Association;
- (b) To test candidates' ability under severe time pressure to recognise and analyse the facts and figures relevant to the issues raised;
- (c) To test candidates' skill in presenting this information in a clear, concise and relevant briefing note format for a county councillor member of the River Shanty JMC.

Assessment

- (a) Brief background on the arrangements for the management of the River Shanty and the relationship between the County Council and the JMC. **(3): A – 3.**
 - A comment that although the riverbed is leased by the County Council, the Joint Management Committee manages the river not the County Council; (iii)
 - A recognition that although the JMC forms part of the County Council's accounts, its funds are ring-fenced; (iii),(iv)
 - There is therefore no question of JMC funds being used to subsidise other County Council programmes; (iii)
 - A note that there is substantial representation on the JMC representing the diversity of stakeholders in the river, including a representative nominated by the Mooring Holders Association; (iii),1
 - A note that the County Council does not pay a subsidy to the JMC and has not therefore withdrawn any subsidy to the JMC; (iii)
 - The JMC maintains its own reserves but has for some years drawn on the Moorings Rentals Reserve to keep down charges to river users; (iv),1,2,4
 - The Moorings Rentals Reserve has become depleted, but this is the result of the JMC's policy decisions not those of the County Council. 2
- (b) An analysis of the past charging policies of the JMC and the impact of the increase in the cost of the riverbed lease. **(5): C – 3; A – 1; R – 1.**
 - A comparison of the annual increases in charges to river users over the last four years noting that the increases in charges for harbour dues have been at rate of inflation each year; (ii),9
 - Charges for moorings have risen by much more than the rate of inflation; (ii),9
 - The main cause of the increase in mooring fees has been the cost increase for the riverbed lease as the Orb and Sceptre Property Agents (Sceptre) increase the lease rental by £50,000 each year to bring the rental towards an annual economic rental of £600,000; (iii),(iv)
 - This is beyond the control of either the JMC or the County Council, but the current lease was negotiated to phase in the increased rent gradually in the interests of river users; (iii),(iv)
 - The rental of £250,000 for 2003 will increase further to £300,000 in 2004; (iii),(iv)
 - Although the JMC is trying to curtail any further increase, there may be an increase to £600,000 in 2005; (iii),(iv)
 - The non-lease element of the moorings charges has dropped by 38% over five years, mainly due to reduced spending on equipment and maintenance. App A1

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

	Page
(c) An analysis of the profile of river users and an assessment of whether local users are being priced off the river by increases in charges. (5): C – 2; A – 2; R – 1.	
• A comment that there is always some turnover in river users, but that there is still strong demand for moorings reflected in the waiting list;	9,12,18
• A recognition that there has been a relatively little change from year to year in the number of surrendered moorings and so there is no evidence of significant increase of mooring holders becoming unable to afford their mooring rentals;	9,10
• A comment that the publicised Shantytown Borough Council strategy to attract high-spending tourists does not determine the JMC's policies;	(v),7
• The JMC has no policy to attract rich outsiders to the river at the expense of local users;	
• A note that an analysis of the geographical profile of river users indicates that there has been hardly any overall reduction in the proportion of mooring holders who live locally over the last five years, although Shantytown users have dropped somewhat;	14, App A2
• This may well reflect broader economic distress in Shantytown;	(ii),(iv),(v)
• A conclusion that the charges to the users of Port Shanty remain low in relation to charges at other comparable havens.	30

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

(d) A discussion of the validity of the allegations of financial mismanagement and waste. (4): A – 3; R – 1.	
• A comment that there is a considerable backlog of maintenance which has had an adverse impact on the physical condition of the river installations;	1,24,25
• This has been caused by the insistence of user representatives on the JMC that expenditure be minimised in the interests of keeping charges to users low;	1,2
• Extra seasonal staff have been employed to administer the short-term moorings re-letting scheme, the revenue from which has more than covered the extra costs;	2,3,13,18
• A note that the Berthing Master has not been suspended but has been on long-term sick leave since 1 February 2003;	8
• No comment on the Berthing Master's dismissal which is confidential and may be the subject of legal action;	
• The backlog of maintenance also needs to be addressed, and will involve substantial costs;	24,25
• The JMC's Moorings Rentals Reserve is depleted below minimum levels specified in the Iceberg report and can no longer be used to subsidise current expenditure;	4,21,25
• Charges to river users will inevitably have to increase substantially to reflect these increased costs which must be recovered from river users;	1,21,25
• River users have enjoyed uneconomically low charges in recent years but regrettably charges will have to rise to reflect economic realities;	1,21,25
• Future increases in charges are primarily due to exogenous factors and previous low maintenance expenditure not poor financial management by the Harbour Master.	24,25
(e) Presentation, format, tact and general readability. (3).	

Appendix A1**Page****Increases in User Charges****Harbour Dues**

	Charge £	Increase %	General Inflation	
1999	6.45			9
2000	6.58	2%	2%	(ii),9
2001	6.78	3%	3%	(ii),9
2002	6.85	1%	1%	(ii),9
2003	6.99	2%	2%	(ii),9

These charges have risen in line with general inflation.

Moorings Rentals

	Charge £	Increase %	General Inflation	
1999	14.32			9
2000	17.80	24%	2%	(ii),9
2001	19.58	10%	3%	(ii),9
2002	21.50	10%	1%	(ii),9
2003	23.46	9%	2%	(ii),9

These charges have risen faster than general inflation. However, the main reason for this is the increase in the Sceptre lease rental.

Contribution of Sceptre riverbed lease to Moorings Rentals**Based on chargeable length of 15,000 metres****(iii)**

	Lease Cost £	Lease Costs per Metre (£)	Non-lease Costs per Metre (£)	Non-lease Costs Increase	Total Rental per Metre (£)	Total Increase	General Inflation	
1999	50,000	3.33	10.99		14.32			(ii),(iv),9
2000	100,000	6.67	11.13	1%	17.80	24%	2%	(ii),(iv),9
2001	150,000	10.00	9.58	-14%	19.58	10%	3%	(ii),(iv),9
2002	200,000	13.33	8.17	-15%	21.50	10%	1%	(ii),(iv),9
2003	250,000	16.67	6.79	-17%	23.46	9%	2%	(ii),(iv),9
Change over whole period				<u>-38%</u>		<u>64%</u>	<u>8%</u>	

Without the increase in lease costs, the mooring rentals have decreased by 38% over 5 years; inflation over the same period has increased by 8%.

This has largely been achieved by cutting spending on maintenance and equipment, and by drawing on the Moorings Rentals Reserve.

Appendix A2**Page****Analysis of residence of mooring holders**

	<u>1998</u>		<u>2003</u>		
<u>Area</u>					
North Harbourdeenshire	154	13%	156	13%	14
South Harbourdeenshire	95	8%	97	8%	14
West Harbourdeenshire	51	4%	59	5%	14
Shantytown	216	18%	156	13%	14
Waterside City	504	42%	528	44%	14
Outside Harbourdeenshire	180	15%	204	17%	14
	<u>1,200</u>	100%	<u>1,200</u>	100%	14

There is little change in the last five years. Only 17% of the mooring holders come from outside the County compared with 15% 5 years ago - not a big change. The proportion of mooring holders from Shantytown has dropped somewhat, probably due to poor economic conditions there.

Analysis of residence of harbour dues payers

	<u>1998</u>		<u>2003</u>		
<u>Area</u>					
North Harbourdeenshire	38	10%	39	10%	14
South Harbourdeenshire	35	9%	33	9%	14
West Harbourdeenshire	12	3%	12	3%	14
Shantytown	44	12%	36	10%	14
Waterside City	143	38%	147	39%	14
Outside Harbourdeenshire	106	28%	111	29%	14
	<u>378</u>	100%	<u>378</u>	100%	14

A higher proportion of these come from outside the County, but there is little change over the five-year period. The JMC's own moorings are predominantly let to local people.

4. Question 2

Aims

Page

- | | |
|---|----------|
| (a) To test candidates' ability to locate, analyse and process financial and related data in the context of a report presenting budgeted expenditure and user charges ; | 21,24,25 |
| (b) To test their ability to allocate and apportion overall expenditure between differing objective functions; | |
| (c) To test their ability to compute appropriate user charges within legislative constraints; | |
| (d) To test the candidates' ability to appraise and justify the proposed charges in the context of a benchmarking exercise; | |
| (e) To test candidates' competence in drafting a report to the Joint Management Committee for the Head of Accountancy. | |

Assessment

- | | |
|--|------------------------|
| (a) Introduction and background to 2004 budgeting exercise. (4): A – 4. | |
| <ul style="list-style-type: none"> • Background information about the responsibilities of the JMC and the required level of reserves as identified by Iceberg Maritime Engineers; | (ii),(iii),
(iv),25 |
| <ul style="list-style-type: none"> • A comment that the purposes of the report are to recommend approval of the proposed budget of the JMC for 2004 and harbour dues and mooring rentals; | 21 |
| <ul style="list-style-type: none"> • A recognition that the JMC has a statutory obligation to hold adequate reserves (separately) in respect of its Statutory Harbour Undertaking (Harbour Dues Reserve) and Trading Undertaking (Mooring Rentals Reserve) roles; | 25 |
| <ul style="list-style-type: none"> • A comment that the cost of the riverbed lease has risen much faster than general inflation due to the commercial income-maximising policies of Sceptre Estates; | (iii),(iv) |
| <ul style="list-style-type: none"> • A note that the user representatives on the JMC have imposed their priority of restricting increases in user charges; | (iv),1,2 |
| <ul style="list-style-type: none"> • A comment that consequently annual deficits have depleted the Mooring Rentals Reserve; | 1,4 |
| <ul style="list-style-type: none"> • A recognition that the County Council has no revenue or capital funding available to subsidise the JMC's activities; | (iii),11 |
| <ul style="list-style-type: none"> • A recognition that the 2004 budget exercise must include provision to restore the Mooring Rentals Reserve to the minimum recommended level to avoid exposing the members of the JMC to liability for personal surcharges; | 1,21,25 |
| <ul style="list-style-type: none"> • A comment that the JMC's policy of constraining infrastructure expenditure over a prolonged period has created serious backlogs in capital spending and maintenance that are now causing operational and safety problems; | 1,24,25 |
| <ul style="list-style-type: none"> • A note that in 2005 a long-term programme of maintenance and investment must commence as recommended by Iceberg Maritime Engineers. | 24,25 |
| (b) Computation of the Harbour and Mooring expenditure budget for 2004. (12): C – 12. | |
| <ul style="list-style-type: none"> • A recognition that the budget covers the calendar year 2004; | |
| <ul style="list-style-type: none"> • A recognition that the budget determines the total amount that must be recovered through dues and rentals and that these are calculated separately once it is known how much needs to be recovered; | |
| <ul style="list-style-type: none"> • A recognition that in addition to covering recurrent expenditure, the income from harbour dues and mooring rentals also needs to fund the following: <ul style="list-style-type: none"> • The increase in reserves required to bring them up to the level recommended by Iceberg : £60,000 for harbour activities and £96,000 for moorings adjusted for the projected level of reserves carried forward from 2003; • One fifth of the cost of the maintenance and investment programme has to be raised in each of the five years commencing in 2004 (Candidates might explain that expenditure will not start to be incurred until 2005, but the funding for this is | 1,24,25 |

to be spread evenly so that users are not unduly penalised for using the facilities in years when expenditure is particularly high);	
<ul style="list-style-type: none"> • Application of inflation increase of 2%, which is the projected rate of inflation for 2004, except for; <ul style="list-style-type: none"> • Employee expenses which are based on costs supplied by Exchequer Services, that take into account annual increments only; • Major maintenance which is based on estimated requirements; • The riverbed lease which is in accordance with the terms of the lease from Sceptre. • An analysis of the budget between costs relating to harbour activities and moorings; 	App B1, App B2 (ii) (ii), 13 App B2 24, 25
NOTE	For suggested calculations see Appendix B, but note comments in 1(e) above.
(c) Computation of harbour dues and moorings rentals charges for 2004. (9): C – 8; R – 1.	(iv)
<ul style="list-style-type: none"> • Identification of amounts to be recovered, from budget above; • A note that harbour dues are charged on each mooring, including those that are privately owned; • A comment that mooring rentals are only charged on moorings let by the JMC; • Calculation of voids on moorings; • Calculation of chargeable length; • Calculation of user charge per chargeable metre; • A note of the percentage increase in charges required; • A note that taking all of the above into account, the amounts to be recovered have increased compared to last year at a rate significantly higher than the projected rate of inflation. 	 (iii) (iii) App B3 App B3 App B3 App B3 App B3
NOTE	For suggested calculations see Appendix B, but note comments in 1(e) above.
(d) Comments on the acceptability of proposed increases in harbour dues and mooring charges for 2004. (8): C – 5; A – 1; R – 2.	
<ul style="list-style-type: none"> • A note that the increases are well above the projected rate of inflation; • Quantification of the factors causing increases in charges compared with 2003: <ul style="list-style-type: none"> ○ Change in length of private moorings; ○ Introduction of an allowance for voids; ○ Increase in cost of operations, due to inflation, increments and increase in cost of riverbed lease; ○ Increase in reserves; ○ Capital equalisation charge; • Comparison of charges with others in the area; • A comment that the charges are still very competitive and that, particularly in respect of mooring charges, the figures suggest that users have benefited from unusually low charges for some time, but at the cost of deteriorating facilities; • A comment that the increase in charges is largely due to the increase in the cost of the riverbed lease and the equalised capital and maintenance expenditure required due to low infrastructure and equipment spending in recent years. 	App B4 App B4 App B4 App B4 App B4 30, App B5 App B5 App B5
NOTE	For suggested calculations see Appendix B, but note comments in 1(e) above.
(e) Presentation, approach, structure and report format. (3).	

Appendix B1**Page**

<u>Staffing budget : establishment</u>		2004					
		Payroll Cost		Harbour Dues		Moorings	
		£		£		£	
Harbour Master	H.M. Shippe	38,000	90%	34,200	10%	3,800	13,27
Deputy HM	Q. Knarrd	28,200	60%	16,920	40%	11,280	13,27
Berthing Master	Jack Tarr	26,000	0%	0	100%	26,000	13,27
<i>Berthing Master expected to return 1 January</i>							
Asst HM 1	Chris Columbus	19,700	70%	13,790	30%	5,910	13,27
Asst HM 2	Billy Bligh	18,900	70%	13,230	30%	5,670	13,27
Asst HM 3	Fletcher Christian	18,900	70%	13,230	30%	5,670	13,27
Asst HM 4	Davy Jones	18,900	70%	13,230	30%	5,670	13,27
Asst HM 5 p/t	Mac Gellan	8,000	50%	4,000	50%	4,000	13,27
Seasonals -		10,000	0%	0	100%	10,000	2
		<u>186,600</u>		<u>108,600</u>		<u>78,000</u>	
				58.2%		41.8%	

Calculation of Mooring and Harbour Expenditure Budget 2004

	Base Budget for 2003 £	2% Inflation £	Base Budget for 2004 £		Apportioned across :		
					Harbour Dues £		Moorings £
Staffing			186,600	58.2%	108,600	41.8%	78,000 App B1
Premises	9,300	186	9,486	60.0%	5,692	40.0%	3,794 (ii),4,16,21
Transport	11,200	224	11,424	76.0%	8,682	24.0%	2,742 (ii),4,16,21
Supplies and Services:							
Environmental Maintenance	4,400	88	4,488	100.0%	4,488		0 (ii),4,16,21
Mooring Maintenance	2,600	52	2,652		0	100.0%	2,652 (ii),4,16,21
Navigational aids	3,200	64	3,264	100.0%	3,264		0 (ii),4,16,21
CCTV	28,000	560	28,560	100.0%	28,560		0 (ii),4,16,21
Inshore rescue service grant	8,500	170	8,670	100.0%	8,670		0 (ii),4,16,21
Central support services	24,600	492	25,092	75.0%	18,819	25.0%	6,273 (ii),4,16,21
Rates on land used for moorings	8,800	176	8,976		0	100.0%	8,976 (ii),4,16,21
Office expenses	17,600	352	17,952	58.2%	10,448	41.8%	7,504 (ii),4,16,21
Other services	6,900	138	7,038	58.2%	4,096	41.8%	2,942 (ii),4,16,21
Hydrographic programme			9,000		9,000		25
Harbour Infrastructure			10,000		10,000		25
Navigation marks			22,000		22,000		25
Minor Works			10,000		5,000		5,000 25
Equipment			21,000		0		21,000 25
Riverbed Lease			300,000		0		300,000 (iii),(iv),16
Gross Cost of River Operations			686,202		247,319		438,883
<u>Less:</u> Income from visitors			(15,100)		0		(15,100) 4,21
Sub-let Scheme			(14,000)		0		(14,000) 2
Net Cost of River Operations			657,102		247,319		409,783
<u>Add:</u> Required Increase in Reserves							
2003 Opening Balance					77,100		104,800 4
Forecast 2003 Deficit					(5,000)		(29,400) 21
Projected 2003 Closing Balance					72,100		75,400
Required Minimum					60,000		96,000 25
Required Immediate Augmentation					0		20,600
Required from user charges before capital equalisation charge					247,319		430,383

Appendix B3**Page****Projected Major Works/Capital Costs 2004-2008**

	2004	2005	2006	2007	2008	Total
	£	£	£	£	£	£
<u>Harbour Activities</u>						
Dredging:						
Poseidon Channel		25,000				25,000 24
Other Areas				60,000		60,000 24
Patrol Craft		16,000				16,000 25
	0	41,000	0	60,000	0	101,000

Required Funding per annum over 5 years 20,200 21

Moorings

Moorings Maintenance:						
Poor Piles 250 piles @ £50 each		12,500	12,500			25,000 24,25
Poor Piles Replacement 500 @ £500 each					250,000	250,000 24,25
Hazardous Piles 100 @ £500 each		50,000				50,000 24,25
	0	62,500	12,500	0	250,000	325,000

Required Funding per annum over 5 years 65,000

Required Revenue from User Charges

	Harbour Dues £	Moorings £	
Required from user charges before capital equalisation charge	247,319	430,383	App B2
Add: Major Works/Capital Equalised Annual Funding	20,200	65,000	
Income required from user charges	267,519	495,383	

Calculation of Voids on Moorings

Total number of moorings :	1,200	(iii)
Annual number of surrenders	60	(iii),9

Average length of time to reassign : 42 days 9

Average void time in annual equivalent moorings
 $60 \times 42/365 = 6.904$ moorings

Average mooring length is 12.5 metres (iii)

Therefore average equivalent voids
 $6.904 \times 12.5 \text{ metres} = 86.3$ metres

Calculation of Chargeable Length

	Harbour Dues Metres	Moorings Metres	
Original Gross Chargeable Length	33,000.0	15,000.0	(iii)
Add: Additional Moorings at Frigate Creek	500.0	0.0	3
Less: Void Moorings	(86.3)	(86.3)	
Chargeable Length	33,413.7	14,913.7	

Calculation of User Charges

	£	£	
Income required from user charges	267,519	495,383	
Charge per Chargeable Metre 2004	8.01	33.22	
Charges 2003	6.99	23.46	2,9
Increase	1.02	9.76	
Increase Percentage	15%	42%	

Appendix B4**Page****Analysis of increase in charges****1. Harbour dues**

	Recoverable Amount £	Charge per Metre £	Change £ %		
Base charge 2003	230,700	6.99			2,4,9
Allowance for voids on Council moorings					
Revised length 33,000 - 86.3 =					App B3
32,913.7					
2003 charge on revised length					
£230,700 / 32,913.7 =		7.01	0.02	0.3%	
<u>Less</u> additional moorings at Frigate Creek					
Revised length 32,913.7 +500 =					3,App B3
33,413.70					
Adjustment for extra 500m					
<u>Note</u> : No voids on private moorings					
2003 charge reworked on new length:		6.90	(0.11)	-1.6%	
<u>Add</u> increase in net cost of operations					
£247,319-£230,700	16,619	0.50	0.50	7.2%	App B2
<u>Add</u> capital equalisation charge	20,200	0.61	0.61	8.8%	App B3
Totals	<u>267,519</u>	<u>8.01</u>	<u>1.02</u>	14.7%	

2. Moorings rentals

	Recoverable Amount £	Charge per Metre £	Change £ %		
Base charge 2003	351,900	23.46			2,4,9
Allowance for voids					
Revised length 15,000 - 86.3 =					App B3
14,913.7					
2003 charge on revised length					
£351,900 / 14,913.7 =		23.60	0.14	0.6%	
Add back planned draw on reserves 2003	20,700	1.39	1.39	5.9%	4
<u>Add</u> increase in net cost of operations					
£(430,383 - £20,600) - £372,600, analysed as:					App B2
Increase in Sceptre lease	50,000	3.35	3.35	14.3% (iv)	
Other	(12,817)	(0.86)	(0.86)	-3.7%	
<u>Add</u> immediate increase in reserves	20,600	1.38	1.38	5.9%	App B2
<u>Add</u> capital equalisation charge	65,000	4.36	4.36	18.6%	App B3
Totals	<u>495,383</u>	<u>33.22</u>	<u>9.76</u>	41.6%	

Moorings Comparative Charges (based on 12.5 metre craft)

	Harbour Dues £	Mooring Rentals £	Total £
<u>Total Cost</u>			
<i>Port Shanty JMC moorings</i>	100.13	415.25	515.38 (iii),App B3
<i>Tidemouth</i>			
Walk Ashore	100.00	600.00	700.00 30
Mid-stream	100.00	350.00	450.00 30
<i>Swellingbourne</i>			
Mid-stream piles	118.75	443.75	562.50 30
<i>Naughtingham</i>			
Over 10 metres	120.00	900.00	1,020.00 30
<i>Port Shanty Private Marina - Sandcastle</i>			
Walk Ashore	N/A	N/A	1,500.00 18,30
<i>Port Shanty Private Marina - Frigate Creek</i>			
Walk Ashore	100.13	600.00	700.13 3,30
<i>Port Shanty Private Marina - Mudflats Marina</i>			
Mid-stream piles	100.13	562.50	662.63 30

Harbour Dues Comparatives Only (based on 11.25 metre craft)

	£	
<i>Port Shanty</i>	90.11	(iii),App B3
<i>Swellingbourne</i>	106.88	30
<i>Wavesend</i>	120.00	30
<i>Naughtingham</i>	120.00	30
<i>Docksford</i>	162.00	30

Conclusion

The proposed 2004 charges have been compared with the 2003 charges for an available sample of similar yachting havens. This exercise confirms that the 2004 charges at Port Shanty compare favourably with all other havens with the possible exception of Tidemouth, after taking account of the 2004 increases at Port Shanty. The 2004 charges at other havens will probably be higher than the 2003 rates shown above.

The analysis indicates that the river users have probably been undercharged for some years. This is due to pressure from the river users' representatives on the JMC whose priority has been to keep charges down. It is important that the County Councillor members of the JMC and representatives of all the other stakeholder groups attend the 2004 budget-setting meeting. The full JMC needs to ensure that arguments in favour of higher spending to fund proper maintenance are given due weight relative to user groups' wishes to keep charges low.

The deteriorating physical condition of the river infrastructure makes the establishment of the realistic but still highly competitive 2004 charges at Port Shanty a necessity to fund rectification work that the Mooring Holders Association itself recognises to be required.

5. Question 3

<i>Aims</i>	<i>Page</i>
<p>(a) To test candidates' ability to identify possible employee misconduct;</p> <p>(b) To test their ability to determine appropriate management responses to difficulties identified;</p> <p>(c) To test their ability to communicate sensitively with senior management, making constructive proposals to resolve a sensitive and potentially costly employee relations problem.</p>	
<i>Assessment</i>	
<p>(a) Background to the dismissal of Jack Tarr and consideration of validity of grounds for disciplinary action against Jack Tarr. (7): A – 6; R – 1.</p> <ul style="list-style-type: none"> The Harbour Master has summarily dismissed Jack Tarr on the grounds of gross misconduct because he believed that the sickness absence was not genuine and that the period of sickness absence had been excessive; An employee cannot be fairly dismissed for sickness absence unless it can be demonstrated that there has been misconduct or that it is unlikely that the employee can be expected to resume the duties expected of the postholder; "Losing patience" with an employee because of prolonged sickness absence is not therefore a valid reason for dismissal; There is some evidence that Jack Tarr's medical condition of a bad back may have been exaggerated in order to justify prolonged paid absence; <ul style="list-style-type: none"> A report of a Jack Tarr playing cricket and undertaking a sustained spell of fast bowling; Recognised when crewing on a yacht in a yacht race; Evidence that he has been seeking to collect charges in cash whilst off sick. There is evidence of disorganisation in Jack Tarr's office, and possible failure competently to discharge his responsibilities in terms of income collection; However, this is unlikely to amount to grounds for disciplinary action unless the failure has resulted in major loss to the JMC, which is unlikely; There may be evidence of possible gross misconduct in terms of unauthorised diversion of revenue: <ul style="list-style-type: none"> A mooring holder has sent in a cheque because Jack Tarr had not collected fees due in person; Jack Tarr had apparently stated that the mooring holder was receiving a discount for cash and saving paperwork, so no receipt or invoice had been issued in 2002; The mooring holder had been charged an "Introduction Fee" of £150.00 in 2002, although there is no such fee officially payable; The mooring holder appears to have jumped the waiting list for moorings as a result; This may amount to a form of corruption involving exploitation of the demand for moorings for personal benefit; The mooring holder quotes the reference number 828, which is recorded in each of the last five years as being void; The mooring holder was charged round sum amounts in 2002 for both mooring fees and harbour dues in excess of the authorised charges for that year; In addition to mooring number 828, five other moorings appear as voids every year, numbers 481/561/636/990/1081; These moorings may all represent fraudulent diversion of income by Jack Tarr; A recognition that none of these allegations can be substantiated without a formal investigation and do not currently provide valid grounds for summary dismissal. 	<p>22</p> <p>(v),6</p> <p>18</p> <p>22</p> <p>12</p> <p>9</p> <p>12</p> <p>12</p> <p>12</p> <p>12</p> <p>10,12</p> <p>12</p> <p>10</p>

- (b) The impact of new employment legislation and its relevance to an appraisal of whether Jack Tarr has been unfairly dismissed. **(5): A – 4; R – 1.**
- Brief note of the implications of the introduction of the Fairness in Employment Act (2002) and the specific requirements on employers to: (v),5,6
 - Provide written contracts of employment to employees;
 - Establish fair disciplinary procedures in accordance with guidance in the Act;
 - Recognise rights of registered trade unions to represent their members in the workplace.
 - The Act is relevant to the dismissal of Jack Tarr as it provides the legal yardstick against which to appraise whether disciplinary action was fair and reasonable;
 - Employees may take action against employers that they consider to be in breach of the provisions in the Act; (v),5,6
 - Tribunals are empowered to make awards of up to £250,000 in favour of employees whose rights have been infringed; (v),5,6
 - They may also require the re-instatement of employees found to have been unfairly dismissed; (v),5,6
 - Unfair dismissal is deemed to have occurred where:
 - An employer does not maintain a “fair and comprehensive” disciplinary procedure or; (v)
 - The employer fails to apply the requirements of the disciplinary procedure fairly. (v)
 - A note that none of the allegations concerning Jack Tarr constitutes grounds for valid disciplinary action unless they have been investigated and substantiated;
 - The County Council’s Disciplinary Procedures have not been followed in many respects:
 - No alternative approaches to the Disciplinary Procedure were explored; 5,6,22
 - The Harbour Master has at no stage consulted with Personnel officers in contravention of the Discipline Procedure, but has acted instead on his own initiative; 5,6,22
 - Jack Tarr has no contract of employment and there is no evidence that he was informed of his rights or responsibilities; 22
 - Jack Tarr should have been asked to submit to a medical examination by an occupational health practitioner to confirm the severity of the reported medical condition and the degree of incapacity involved and the extent to which he could have performed alternative duties;
 - No meeting to investigate the allegations was arranged (to which a Personnel representative should have been invited); 5,6,22
 - Jack Tarr was not given a formal statement of the allegations against him; 5,6,22
 - Jack Tarr was given no opportunity to make representations; 5,6,22
 - Jack Tarr was not given at least ten days notice of the investigatory meeting and was not invited to attend along with a representative; 5,6,22
 - Jack Tarr was not given a written statement of the results of the investigatory meeting; 5,6,22
 - The disciplinary hearing was not valid:
 - No Personnel representative present; 5,6,22
 - No independent County Council manager present; 5,6,22
 - No ten days prior notice or prior statement of the case against Jack Tarr; 5,6,22
 - Jack Tarr not permitted to have a representative; 5,6,22
 - No appeal arrangements notified to Jack Tarr. 5,6,22
 - A conclusion that Jack Tarr has been unfairly dismissed;
 - Immediate summary dismissal is only justified in cases of violence or gross breaches of health and safety procedure; 6
 - The nature of the allegations in this case would not justify such action.

- (c) A discussion of the most appropriate course of action to take in the case of Jack Tarr and the subsequent appointment of Davy Jones. **(4): R – 4.**
- The least damaging course of action is to re-instate Jack Tarr and resume payment of half salary from the date of the invalid dismissal;
 - Jack Tarr should then be suspended immediately and a proper investigation should be started into the allegations;
 - Jack Tarr may decline to co-operate and may pursue compensation for unfair dismissal, but offering re-instatement may mitigate any subsequent Tribunal award against the JMC;
 - Jack Tarr should be notified of the allegations, and be invited to make representations, if necessary involving his solicitor or trade union representative;
 - The Act requires that all recruitment and selection procedures are non-discriminatory; (v)
 - The Act also permits action against the employer by any individual who can demonstrate:
 - That their application has not been fairly considered or; (v)
 - That they have been unreasonably precluded from applying for a post for which they were suitably qualified. (v)
 - The onus is on the employer to demonstrate that recruitment and selection procedures were non-discriminatory and fairly applied; (v)
 - The recruitment and selection procedure applied in the appointment of Davy Jones did not allow other suitably qualified potential applicants to apply for the post;
 - The offer to Davy Jones should be withdrawn, with a statement that the post offered is not vacant, but that an application from him would be welcome should the post fall vacant in the future;
 - Davy Jones may be able to seek compensation as he has already accepted the post in writing, but this may be less costly than the exposure, if the appointment is confirmed, to liability to multiple claims from other excluded applicants; 22
 - The JMC would be open to claims from numerous individuals under the Fairness in Employment Act (2002) if the appointment is confirmed as it has not operated a fair and non-discriminatory selection and recruitment procedure; (v)
 - Consideration should be given to pursuing disciplinary action against the Harbour Master for ignoring the Discipline and Recruitment and Selection Procedures and exposing the JMC to a possible substantial liability for breach of employment rights; 5
 - A provision (in line with the Canute award) in the 2003 accounts would be prudent to recognise the probable liability for compensation should Jack Tarr pursue a claim for unfair dismissal.
- (d) Presentation, format, approach, report style and general readability. **(2).**

6. Question 4

Aims

- (a) To test candidates' ability to evaluate a flagship regeneration proposal;
- (b) To test candidates' ability to appraise the facts and figures relevant to the issues raised and assess the benefits and risks of the proposal within a wider context of an urban regeneration programme;
- (c) To test candidates' ability to draw conclusions and make a clear statement of intent on behalf of the JMC in respect of the proposal as presented;
- (d) To test candidates' ability to identify possible amendments to the proposal to form the basis for further negotiation and refinement of the proposal;
- (e) To test candidates' skill in presenting this information in the form of a clear and concise draft report for the Chair of the River Shanty JMC.

Assessment

- (a) Brief background on the museum proposal and the basis of the involvement of the JMC. **(2): A – 2.**
 - A note that the museum proposal forms part of the JUMP-funded Shantytown Tourist Initiative; (iv),(v),7
 - A comment that the aim of the museum is to attract more upmarket day and short-stay visitors to Shantytown; (v),7
 - A recognition that the museum will be situated adjacent to the harbour at Port Shanty and will increase the number of visitors to the river; 7
 - A comment that museums are a County responsibility and that it is not appropriate for the Borough Council to operate the museum; 7
 - A note that an annual subsidy for seven years will be available from the Borough Council's JUMP funding; 7,15
 - A recognition that the museum project must be self-funding in terms of capital and revenue, as the County Council cannot afford to finance the project, and that any deficit would have to be funded by river users through their Harbour Dues Charges and Mooring Fees which is not politically acceptable. 3,7,11,18
- (b) An analysis of the assumptions underlying the project and their validity. **(5): A – 5.**
 - A note that the projected visitor figures, and the split between full price adults and concessions are based on museums of a different nature and are therefore speculative; 17,19,28
 - A comment that the profile of arrivals over the course of the day are similarly uncertain, and that visitors will be conducted around the museum in hourly groups; 19,28
 - A note that it is assumed that 40% of visitors will be prepared to wait for an hour for the next tour if they cannot be admitted when they arrive; 28
 - A recognition that the premises are cramped and that visitor admissions will be restricted to 24 at any one time on safety grounds; 20
 - A note that there is no car parking on the site and that the type of visitor that the museum aims to attract are unlikely to want to use infrequent public transport, possibly further reducing visitor numbers; 15
 - A comment that the projected running costs are also speculative; 20
 - A recognition that there are concerns about the quality of the Admiral Lord Rodney Nelson collections of artefacts and how attractive to visitors the collection is likely to be; 20
 - A note that the JUMP loan has to be repaid in full over seven years and that the JUMP subsidy will only be available for seven years; 15,29
 - A comment that a minimum of two staff must be on the premises at all times. 17

- (c) A quantitative evaluation of the proposal on the notified assumptions. **(9): C – 9.**
- A computation of average visitor numbers hour by hour for each category of day; App D1
 - A calculation of the average number of admissions, size of queues throughout each day and the number of disappointed visitors; App D1
 - Computation of the daily revenue from visitor admissions based on the expected proportions of visitors paying full and concessionary charges; App D1
 - A calculation of the expected turnover and gross profit arising from sales of merchandise in the museum shop; App D1
 - A summary of the expected annual revenue including the annual JUMP grant; App D1
 - A computation of the annual JUMP loan repayment; App D2
 - A calculation of staffing and non-staff costs; App D2
 - A calculation demonstrating that there is a substantial annual deficit. App D2

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

- (d) An appraisal of the implications of the results of the financial projection with a summary of conclusions and formulation of statement of intent. **(7): C – 1; A – 4; R – 2.**
- A note that on category A and to a lesser extent category B days there are likely to be long queues during the middle of the day leading to dissatisfaction and complaints;
 - There will be significant numbers of disappointed visitors which may well result in many complaints, bad publicity and a reduction in future visitor numbers;
 - The project will result in a large annual deficit constituting a significant financial burden for river users which will be highly unpopular given resistance to funding other events; 18, App D2
 - The current income projections may be optimistic and the shortfall may be even larger;
 - Projected shop sales of £1 per head hardly represents the attraction of the high-spending visitors that the museum is intended to generate; (v), 7, 17
 - The JMC cannot proceed with the project on the present basis;
 - Notes of possible suggestions for improving the viability of the project including:
 - Opening only 180 days per annum, closing on 168 category D days, resulting in a reduction in the deficit of over £28,000;
 - Breaking even with a subsidy of only £25,000 looks ambitious and the more realistic level of subsidy would be £75,000 for all year opening;
 - Seeking corporate sponsorship to increase revenue;
 - Seeking to supplement paid staff with volunteers to operate the museum, although this may be unfavourably regarded by the trade union;
 - Increasing admission charges by 57% to eliminate the projected deficit:
 - The price elasticity of demand is unknown, and this calculation does not take account of reduced visitor demand;
 - However, the affluent visitors may be relatively undeterred by higher charges.
 - A note that it would be inadvisable to reduce staffing to the bare minimum of 2 as this would leave no contingency to cover sickness and holidays and may cause operational difficulties in running the museum shop;
 - A comment that the project does not appear to be viable on the current basis;
 - There are a number of possible refinements to the proposals, and the JMC would be willing to explore these further with interested parties;
 - The JMC would require a higher subsidy or an alternative method of funding the museum that does not involve a heavy annual charge against revenue, as the projected income appears to indicate a £46,000 shortfall even with £25,000 subsidy; App D2
 - The JMC cannot take responsibility for the museum without full indemnity against losses.

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

- (e) Presentation, format, tact and general readability. **(3).**

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Key to Marks: C – Calculations; A – Analysis; R – Conclusions & Recommendations

Appendix D1**Page**

Maximum museum visitor capacity	24	20
Percentage prepared to wait	40%	28
Adult admission charge	£ 2.50	17
Concession admission charge	£ 1.50	17
Merchandise margin	45%	17

	Potential visitors	Queue	Potential Admissions	Actual Admissions	Excess	Daily Revenue £	
<u>Category A</u>							
10.00 - 10.59	6.00	0.00	6.00	6.00	0.00	12.30	17,19,20,28
11.00 - 11.59	18.00	0.00	18.00	18.00	0.00	36.90	17,19,20,28
12.00 - 12.59	30.00	0.00	30.00	24.00	6.00	49.20	17,19,20,28
13.00 - 13.59	39.00	2.40	41.40	24.00	17.40	49.20	17,19,20,28
14.00 - 14.59	33.00	6.96	39.96	24.00	15.96	49.20	17,19,20,28
15.00 - 15.59	15.00	6.38	21.38	21.38	0.00	43.84	17,19,20,28
16.00 - 16.59	9.00	0.00	9.00	9.00	0.00	18.45	17,19,20,28
				<u>126.38</u>		<u>259.09</u>	
<u>Category B</u>							
10.00 - 10.59	4.80	0.00	4.80	4.80	0.00	10.08	17,19,20,28
11.00 - 11.59	14.40	0.00	14.40	14.40	0.00	30.24	17,19,20,28
12.00 - 12.59	24.00	0.00	24.00	24.00	0.00	50.40	17,19,20,28
13.00 - 13.59	31.20	0.00	31.20	24.00	7.20	50.40	17,19,20,28
14.00 - 14.59	26.40	2.88	29.28	24.00	5.28	50.40	17,19,20,28
15.00 - 15.59	12.00	2.11	14.11	14.11	0.00	29.64	17,19,20,28
16.00 - 16.59	7.20	0.00	7.20	7.20	0.00	15.12	17,19,20,28
				<u>112.51</u>		<u>236.28</u>	
<u>Category C</u>							
10.00 - 10.59	2.00	0.00	2.00	2.00	0.00	4.30	17,19,20,28
11.00 - 11.59	6.00	0.00	6.00	6.00	0.00	12.90	17,19,20,28
12.00 - 12.59	10.00	0.00	10.00	10.00	0.00	21.50	17,19,20,28
13.00 - 13.59	13.00	0.00	13.00	13.00	0.00	27.95	17,19,20,28
14.00 - 14.59	11.00	0.00	11.00	11.00	0.00	23.65	17,19,20,28
15.00 - 15.59	5.00	0.00	5.00	5.00	0.00	10.75	17,19,20,28
16.00 - 16.59	3.00	0.00	3.00	3.00	0.00	6.45	17,19,20,28
				<u>50.00</u>		<u>107.50</u>	
<u>Category D</u>							
10.00 - 10.59	1.20	0.00	1.20	1.20	0.00	2.64	17,19,20,28
11.00 - 11.59	3.60	0.00	3.60	3.60	0.00	7.92	17,19,20,28
12.00 - 12.59	6.00	0.00	6.00	6.00	0.00	13.20	17,19,20,28
13.00 - 13.59	7.80	0.00	7.80	7.80	0.00	17.16	17,19,20,28
14.00 - 14.59	6.60	0.00	6.60	6.60	0.00	14.52	17,19,20,28
15.00 - 15.59	3.00	0.00	3.00	3.00	0.00	6.60	17,19,20,28
16.00 - 16.59	1.80	0.00	1.80	1.80	0.00	3.96	17,19,20,28
				<u>30.00</u>		<u>66.00</u>	

Projected Annual Revenue:

<u>Admissions</u>		Daily		Admission		
	Days	Revenue		Revenue	Total	
		£		£	£	
Category A	79	259.09		20,468		17
Category B	30	236.28		7,088		17
Category C	49	107.50		5,268		17
Category D	190	66.00		12,540		17
	<u>348</u>					45,364
		Average Daily Sales per			Gross	
<u>Merchandise</u>	Days	Customers	Customer	Turnover	Margin	Profit
			£	£		£
Category A	79	126.38	1.00	9,984	45%	4,493
Category B	30	112.51	1.00	3,375	45%	1,519
Category C	49	50.00	1.00	2,450	45%	1,103
Category D	190	30.00	1.00	5,700	45%	2,565
				<u>21,509</u>		
						9,680
JUMP Grant						25,000
Projected Revenue						<u>80,044</u>
						7,15

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Key to Marks: C – Calculations; A – Analysis; R – Conclusions & Recommendations

Appendix D2**Expenses**

	£	£	£	Page
Loan repayment				
$\frac{£227,000 \times (1.05)^7}{((1.05)^7 - 1) / 0.05}$	=		39,230	15,20,29
Staffing costs:				
Curator	24,568			17
<u>Plus:</u> Oncosts (17%)	<u>4,177</u>			17
		28,745		
Assistant curators (2)	37,488			17
<u>Plus:</u> Oncosts (17%)	<u>6,373</u>			17
		<u>43,861</u>		
Total Staffing cost			72,606	
Promotion			1,250	17
Credit card commission (2% of 35% of admission + shop sales)			468	19, App D1
Other non-staff costs			<u>12,500</u>	20
Total costs			<u>126,054</u>	
Total revenue			<u>80,044</u>	App D1
Shortfall			<u><u>(46,010)</u></u>	

Effect of opening for 180 days per year

	£	£	
<u>Loss of 168 Category D days revenue</u>			
Admission charges	11,088		
Merchandising	<u>2,268</u>		
		(13,356)	
Savings			
50% of staffing costs	36,303		
Say 40% of non-staff costs	5,000		
Credit card commission	<u>113</u>		
		<u>41,416</u>	
			28,060
Existing projected deficit			<u>(46,010)</u>
Reduced projected deficit			<u><u>(17,950)</u></u>

Increase charges

Percentage increase in charges required to break even:		
Required increase in admission revenue	$\frac{£ 46,010}{£ 80,044} =$	<u><u>57%</u></u>
Existing income		