

Appendix D**Maximum Cost of PRP Scheme for 2006**

	Pay inc Oncosts £	Appraisal Score	Efficiency Enhancement	Maximum Financial Enhancement	Total Enhancement	Maximum Bonus £	Page
Gertie Dammerung	45,000	125	25%	5%	30%	13,500	2,6,25
Mo Zart	30,000	125	25%	5%	30%	9,000	2,6,25
Viv Valdi	25,000	95	0%	5%	5%	1,250	2,6,25
						<u>23,750</u>	

Note: The financial targets against which the financial enhancement percentage is computed are not validly defined for Mo Zart or Viv Valdi nor is the time period over which the improvement in performance is to be measured specified. It is therefore impossible to compute the financial enhancement percentage for these employees.

The requirement is to compute the likely cost of the scheme for 2006, but as the financial target element is not properly defined, there is no basis for the likely financial target element. The most prudent approach to adopt in these circumstances is to compute the maximum possible financial enhancement for these two employees. It appears that their profit centres are heavily loss-making, so the high bonus for Mo Zart also appears unjustified, especially in the light of operational problems in the shop.

Gertie Dammerung Financial Target:

Projected 2006 Overall Surplus:	£'000	£'000	
Restricted	63.5		App B3
Unrestricted	<u>(20.0)</u>		App B2
		43.5	
<u>Less: 2005 Overall Deficit</u>			
Restricted	(146.0)		viii
Unrestricted	<u>2.2</u>		viii
		(143.8)	
Improvement		<u>187.3</u>	
The percentage improvement is	<u>187.3</u> (143.8)	=	<u>130%</u>

Gertie Dammerung would qualify for a bonus of 5% of salary (the maximum financial enhancement). 6
 She is entitled to bonus based on improvement in Trust surplus of 130% of her salary, but this 6
 would be capped at 5%. This assumes (not stated in the PRP scheme) that her bonus is computed
 with respect to the Trust's financial year.

(c) Identification of the alternative bases for setting transfer prices and appraisal of the most suitable approach together with overall conclusions and recommendations regarding the PRP scheme proposals. **(5): A – 3; R – 2.**

- A note that separate evaluation of divisional performance is inappropriate where there is a high degree of interdependence between divisions, as is the case at the Park; iv,4
- A comment that the shop and the café reported income in respect of farm produce the Park Director's definition of gross profit failed to recognise the costs of internal transfers from the farm; 6,7,8
- A note that in the draft trading accounts for the shop and the café the transfers have been recorded "at cost" as requested by the Hon. Treasurer; 19
- A recognition that this is fairer to the farm than providing them free but that it leaves all the profit margin with the shop and café enhancing the reported performance of the shop and the café with the farm apparently making no profit contribution; 7,8,19
- With a PRP scheme based on profitability this is unfair to the farm; 8
- A comment that there are no sophisticated costing systems at the farm, so that the determination of "at cost" may be highly subjective and subject to manipulation; 8
- A note that a further alternative is to base transfer prices on market prices, but these may be difficult to determine for farm produce, as part of the marketing proposition for shop and café sales may be that the produce is home-produced;
- It is difficult to set an objective basis for a premium pricing element within a "market" price in this context;
- The demonstration farm is primarily a visitor attraction with the produce as a by-product, so its costs may be much higher than commercial producers and hence market prices might not allow the farm to cover the costs of production; iv
- A suggestion that transfer prices could be negotiated between managers, but the conditions for successful negotiation do not exist:
 - Managers lack knowledge of their own and the other profit centre's costs to form the basis of an informed negotiation based on rational reserve prices;
 - Such negotiations are likely to undermine instincts towards co-operation and engender destructive competition because the negotiation appears as a zero-sum exercise where one manager's financial reward accrues at the expense of the other manager; 8,16
 - Consequently negotiated prices are likely to absorb excessive amounts of management time to produce a result that one or both parties will feel is unfair and interdependent co-operation will be impaired. 8,16
- A suggestion that prices could be imposed by the Park Director, but there is no clear basis for such prices and such an autocratic approach is likely to undermine manager's supposed autonomy and may well cause further resentment towards the Trust's senior management;
- An overall conclusion that there is no obvious acceptable and fair basis for setting transfer prices because of the lack of costing information and the degree of interdependence of managers' performance;
- This invalidates the basis of the currently proposed PRP scheme except for the Park Director whose financial performance is measured against the overall Trust surplus; 6
- It would be better to reward the whole management team by measuring the Trust's overall performance rather than seeking to measure individual managers' performances on an arbitrary basis.

(d) Presentation, approach, structure and report format. **P – 2.**

	Page
<ul style="list-style-type: none"> • A comment that basing individual bonuses on trading accounts for their individual activities is therefore likely to result in futile arguments between managers over shares of visitor income and costs; 	7,8,16
<ul style="list-style-type: none"> • A comment that other managers are already exhibiting signs of resentment and demotivation at their exclusion from the scheme and the implicit non-recognition of the contribution of their activities to the Trust's financial performance; 	7,8,16
<ul style="list-style-type: none"> • A note that the Farm Manager is complaining that the farm is subsidising the shop and café to his detriment and the Head Ranger is also complaining that the contribution of the deer park and grounds to visitor income is unrecognised; 	8,16
<ul style="list-style-type: none"> • A recognition that the financial performance of the shop and the café includes overhead expenses as well as gross profit but the design of the scheme fails to give managers any incentive to manage overhead costs effectively as the evaluation of the financial performance element of their bonus is based only on a flawed definition of gross profit; 	2,3,6,7,21
<ul style="list-style-type: none"> • A note that there has been no financial provision for the cost of the scheme in the budget; 	2
<ul style="list-style-type: none"> • A note that additionally the cost of administering the scheme in terms of staff time could be significant and that this too has not been costed; 	5
<ul style="list-style-type: none"> • A recognition that no definitive estimate of the costs for the financial performance element of the pilot scheme can be calculated since there is no reference point in the proposed pilot scheme to define the baseline period against which to determine if there has been an increase in the divisional gross profit/overall surplus; 	
<ul style="list-style-type: none"> • A comment that the maximum cost of the scheme in 2006 is £23,750 if it were deemed subjectively that financial performance criteria had been fully met in the absence of a definitive calculation; 	2,6,25
<ul style="list-style-type: none"> • This is not affordable in the current financial circumstances given that any performance benefits appear at best uncertain; 	
<ul style="list-style-type: none"> • A comment that the scheme was only announced in March and that appraisals have been completed too rapidly properly to assess performance in the light of the scheme; 	25,26
<ul style="list-style-type: none"> • A comment that it looks as though the scheme is not being implemented fairly in the first round as none of the targets are being achieved but the Park Director proposes to give big bonuses to a few individuals on what appears to be a subjective basis; 	25,26
<ul style="list-style-type: none"> • A comment that that there appears to be inadequate evidence to support the maximum appraisal score awarded by the Chairman and President to the new Park Director as her objectives are vague and she has not been in post long enough for her performance to be assessed objectively to justify her bonus; 	25,26
<ul style="list-style-type: none"> • A tactful note that the Chairman and President do not appear to have been trained in conducting appraisals but have appraised the Park Director anyway; 	26
<ul style="list-style-type: none"> • A note that the Park Director's receiving the highest performance rating despite being in post for only a short time is likely to engender resentment and cynicism amongst other staff outside the scope of the pilot PRP scheme; 	8,16,25,26
<ul style="list-style-type: none"> • Basing the financial element of the Park Director's bonus primarily on the overall Trust surplus appears to be unsound, as most of the improvement in the overall surplus in 2006 is not related to the Park Director's performance; 	
<ul style="list-style-type: none"> • In fact, most of the improvement in overall surplus in 2006 is due to the cessation of the heavy spending on restoration of the Hall in 2005 and the decision to accumulate funds in the Restoration Fund in 2006; 	
<ul style="list-style-type: none"> • Indeed, during 2006 there has been a deterioration of financial performance on general operations from a surplus of £2.2k in 2005 to a projected 2006 deficit of £20.0k which does not support a financially-based performance bonus; 	
<ul style="list-style-type: none"> • A comment that the shop manager has received the maximum performance score without any linkage to improvement in the shop's financial and operational performance apparently in direct contravention of the stated aims of the PRP scheme. 	6,25

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

Aims

- (a) To test candidates' interpretation, appraisal and management skills to review the validity and implications of a proposal for a Performance Related Pay (PRP) scheme;
- (b) To test candidates' capacity critically to appraise the basis of a PRP scheme and the manner of its proposed introduction and pilot operation;
- (c) To test candidates' ability to explain the importance of transfer prices in the evaluation of divisional performance, to identify and assess the acceptability of alternative bases for setting transfer prices to produce fair statements of divisional results that can command acceptance by managers for the evaluation of their performance within the context of a PRP scheme;
- (b) To test candidates' competence in drafting and presenting a confidential briefing note dealing with highly sensitive issues for the Chair of Trustees.

Assessment

- (a) An explanation of the purpose of the proposal to introduce a Performance Related Pay (PRP) scheme and the basis of the 2006 pilot scheme. **(2): A – 2.**
 - An explanation that the scheme has been proposed by the Park Director with the aim of improving managerial accountability and providing managers with incentives to improve performance; vi,5,6
 - This initiative is part of the new Park Director's drive to make the Park more commercially orientated with the aim of eliminating the revenue deficit; vi,5,6
 - A note that there are two elements to the scheme, one based on managerial appraisal, and the other based on achieving income/profit targets with the aim of incentivising staff to increase profit; 6
 - A note that the scheme provides the opportunity for additional pay to managerial staff, but there are no reductions in pay for poor performance; 6
 - Non-managerial staff are not planned to be included in the proposed scheme, and in the initial pilot implementation only three of the management staff will participate; 6
 - A comment that the scheme is one element in the Park Director's attempt to modernise, formalise and standardise the management approach as part of the introduction of a broader performance development and appraisal framework. 5,6
- (b) Appraisal of the validity of the PRP scheme and the appropriateness of the pilot with an assessment of whether it is likely to promote improved motivation and performance and a quantification of the maximum 2006 cost of the pilot scheme. **(8): C – 2; A – 4; R – 2.** 26
 - A note that the scheme has been imposed autocratically with no consultation;
 - A comment that not all managers and staff have responsibilities with a direct link between good performance and generating more profit and the scheme does not consider how their performance would be measured and rewarded; 6
 - A comment that the scheme does not encourage nor reward team working and team achievements;
 - A note that the financial element of the scheme requires divisional gross profit increases for each activity to be measurable in divisional trading accounts;
 - A comment that producing credible trading accounts for the separate activities will be very difficult because of the degree of interdependence and that transfer prices for transfers of goods and services between different activities will therefore have a material impact on reported divisional results; iv,3,4,7, 8,21
 - Corollaries include the turnover of the shop and café being potentially influenced by the number of visitors to the Park – however well run these facilities might be they will find it harder to maintain their sales if there are few visitors in the Park; v,1

Appendix C.5

Concert Options Decision Tree

Values in £'s

Key:



Decision

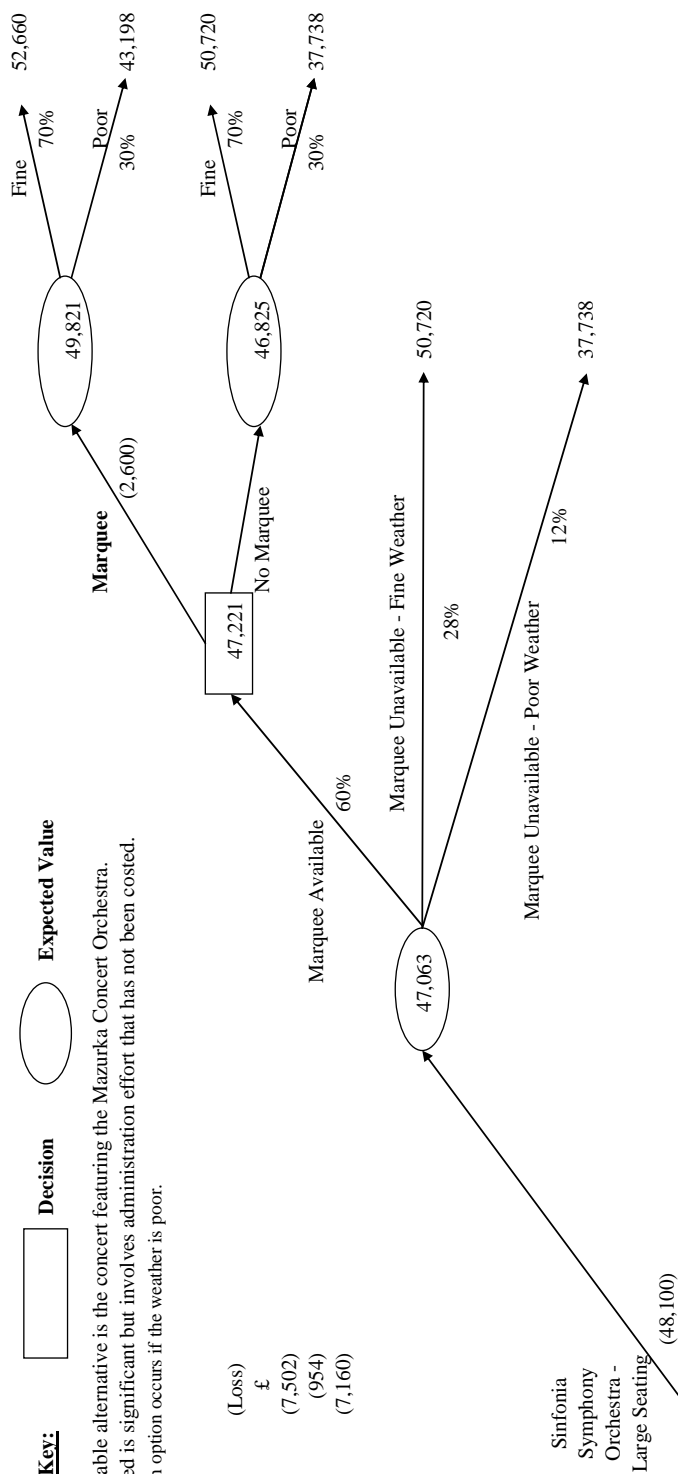


Expected Value

Comment: The indicated favourable alternative is the concert featuring the Mazurka Concert Orchestra.
The revenue generated is significant but involves administration effort that has not been costed.
The worst case for each option occurs if the weather is poor.

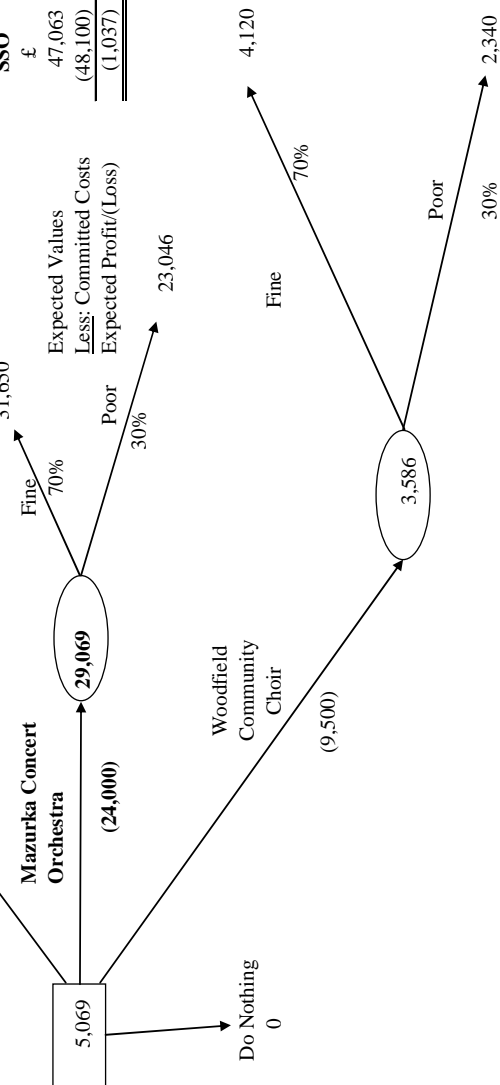
Worst case each option

(Loss)
£
Sinfonia Symphony - With Marquee (7,502)
Mazurka Concert Orchestra (954)
Woodfield Community Choir (7,160)



Summary of Expected Outcomes

SSO	MCO	WCC	Do Nothing
£	£	£	£
47,063	29,069	3,586	0
(48,100)	(24,000)	(9,500)	0
(1,037)	5,069	(5,914)	0



Appendix C4

Computation of Expected Attendances - Poor Weather

Page

Maximum capacities

	Sinfonia Symphony Orchestra Large Seating With Marquee	Sinfonia Symphony Orchestra Large Seating No Marquee	Mazurka Concert Orchestra Small Seating No Marquee	Woodfield Community Choir Chairs Only	
Maximum standing capacity	5,000	5,000	5,000	5,000	13,24
<u>Less: reduction for large stand</u>	(2,000)	(2,000)			13,24
<u>Less: Reduction for small stand</u>			(1,000)		13,24
<u>Less: Reduction for chairs</u>				(400)	17
	3,000	3,000	4,000	4,600	
<u>Less: Reduction for marquee</u>	(1,000)				13
Available standing capacity	<u>2,000</u>	<u>3,000</u>	<u>4,000</u>	<u>4,600</u>	

Attendances - Poor Weather

Seating - demand	896	896	544	156	22, App C2
Seating - capacity	1,000	1,000	500	200	12, 13, 17
Projected seated attenders	896	896	500	156	
Excess demand	0	0	44	0	
Standing - normal demand	1,420	1,420	1,200	365	22, App C2
Standing - 75% seated excess	0	0	33	0	22, 23
Standing - total demand	<u>1,420</u>	<u>1,420</u>	<u>1,233</u>	<u>365</u>	
Standing - capacity	2,000	3,000	4,000	4,600	
Projected standing attenders	1,420	1,420	1,233	365	
Excess demand	0	0	0	0	
Corporate hospitality - demand	160	160	0	0	22
Corporate hospitality - capacity	150	0	0	0	13
Excess demand	10	160	0	0	
Projected hospitality attenders	150	0	0	0	

	£	£	£	£	
Net concert revenue					
Seats	17,562	17,562	7,500	780	18, App C1
Standing	18,176	18,176	14,796	1,460	18, App C1
Hospitality	5,460	0	0	0	18, App C1
Concessions	<u>2,000</u>	<u>2,000</u>	<u>750</u>	<u>100</u>	<u>18, App C1</u>
	<u>43,198</u>	<u>37,738</u>	<u>23,046</u>	<u>2,340</u>	

Appendix C3

Computation of Expected Attendances - Fine Weather

Page

Maximum capacities

	Sinfonia Symphony Orchestra Large Seating With Marquee	Sinfonia Symphony Orchestra Large Seating No Marquee	Mazurka Concert Orchestra Small Seating No Marquee	Woodfield Community Choir Chairs Only	12,17
Maximum standing capacity	5,000	5,000	5,000	5,000	13
<u>Less: reduction for large stand</u>	(2,000)	(2,000)			13
<u>Less: Reduction for small stand</u>			(1,000)		13
<u>Less: Reduction for chairs</u>				(400)	17
	3,000	3,000	4,000	4,600	
<u>Less: Reduction for marquee</u>	(1,000)				13
Available standing capacity	<u>2,000</u>	<u>3,000</u>	<u>4,000</u>	<u>4,600</u>	

Attendances - Fine Weather

Seating - demand	1,260	1,260	700	260	22, App C2
Seating - capacity	1,000	1,000	500	200	12,13,17
Projected seated attenders	1,000	1,000	500	200	
Excess demand	260	260	200	60	
Standing - normal demand	2,080	2,080	1,800	710	22, App C2
Standing - 75% seated excess	195	195	150	45	22,23
Standing - total demand	<u>2,275</u>	<u>2,275</u>	<u>1,950</u>	<u>755</u>	
Standing - capacity	2,000	3,000	4,000	4,600	
Projected standing attenders	2,000	2,275	1,950	755	
Excess demand	275	0	0	0	
Corporate hospitality - demand	160	160	0	0	22
Corporate hospitality - capacity	150	0	0	0	13
Excess demand	10	160	0	0	
Projected hospitality attenders	150	0	0	0	
Net concert revenue	£	£	£	£	
Seats	19,600	19,600	7,500	1,000	18, App C1
Standing	25,600	29,120	23,400	3,020	18, App C1
Hospitality	5,460	0	0	0	18, App C1
Concessions	2,000	2,000	750	100	18, App C1
	<u>52,660</u>	<u>50,720</u>	<u>31,650</u>	<u>4,120</u>	

Appendix C2**Estimated Levels of Demand****Page****Estimated Demand (assuming Fine Weather):**

	Sinfonia Symphony Orchestra	Mazurka Concert Orchestra	Woodfield Community Choir	
Bookers in advance - seated	700	460	100	22
Bookers in advance - standing	1,200	1,000	250	22
Pay on the gate - seated	560	240	160	22
Pay on the gate - standing	880	800	460	22
Corporate hospitality packages	160	0	0	22

Estimated Demand (assuming Poor Weather):

	<u>% Reduction</u>				
Bookers in advance - seated	Unaffected	700	460	100	22
Bookers in advance - standing	Unaffected	1,200	1,000	250	22
Pay on the gate - seated	65%	196	84	56	22
Pay on the gate - standing	75%	220	200	115	22
Corporate hospitality packages	Unaffected	160	0	0	22

Appendix C1**Committed Costs of Staging Alternative Concert Options****Page**

	Sinfonia Symphony Orchestra Large Seating £	Mazurka Concert Orchestra £	Woodfield Community Choir £	
Policing	4,500	2,000	0	18
Stewarding	2,500	2,500	2,500	14,18
Fixed booking fee	22,500	10,000	1,000	17
Car park attendants	600	0	0	23
Staging:				
600 square metres staging @ £10 per m ²	6,000			14,18
400 square metres staging @ £10 per m ²		4,000	4,000	14,18
Seating: - 1,000 seats	6,000			14,17
Seating: - 500 seats		3,500		14,17
Enclosure fencing and lighting	2,000	2,000	2,000	13,14
Orchestra facilities block	4,000	0	0	9,14
	<u>48,100</u>	<u>24,000</u>	<u>9,500</u>	

Net Ticket Revenue:

Ticket prices - seats	£ 24.50	£ 15.00	£ 5.00	18
Less: Sinfonia Symphony Orchestra 20%	£ 4.90	£ -	£ -	9,17
Net Revenue per ticket	<u>£ 19.60</u>	<u>£ 15.00</u>	<u>£ 5.00</u>	

Ticket prices - standing	£ 16.00	£ 12.00	£ 4.00	18
Less: Sinfonia Symphony Orchestra 20%	£ 3.20	£ -	£ -	9,17
Net revenue per ticket	<u>£ 12.80</u>	<u>£ 12.00</u>	<u>£ 4.00</u>	

Ticket prices - corporate hospitality	£ 78.00	£ -	£ -	18
Less: Sinfonia Symphony Orchestra 20%	£ 15.60	£ -	£ -	9,17
Net revenue	£ 62.40	£ -	£ -	
Less: Catered cost per cover	£ 26.00	£ -	£ -	14
Net revenue per ticket	<u>£ 36.40</u>	<u>£ -</u>	<u>£ -</u>	

Probabilities - Weather Conditions

Fine weather	70%		18
Poor weather	30%		18

Probabilities - Marquee Availability

Marquee available	60%		18
Marquee unavailable	40%		18

Compound Probabilities - Marquee Unavailable

Fine weather	40% x 70%	28%	18
Poor weather	40% x 30%	12%	18

- The ticket prices for the MCO are lower than the SSO and the repertoire will be more accessible to local people; 12
- The MCO option offers the best compromise between attracting a significant audience and facing criticism for staging an elitist event;
- This option features a worst case loss of £954 but this would only arise in the 30% probability case of poor weather and whilst unwelcome, a loss of only £954 is within the affordability criteria that the Trust is prepared to risk a loss of up to £10,000; 11
- Whilst involving significant administrative effort, the MCO option should be pursued to allow the Trust to gain experience of such events;
- All the options expose the Trust to financial loss if the outcome of relevant uncertainties is adverse, especially if the weather is poor; AppC5
- A possible approach may be to offer a small discount on pre-booked tickets as the revenue from these customers is not affected by the weather so it is desirable to have a greater proportion of customers pre-booking;
- It may be possible to refine cost control and formulate even more market-attractive and profitable event packages in the future with the benefit of the experience gained from this initial event. 11

(d) Presentation, approach, structure and report format. **P – 3.**

- Application of physical constraints to projected demand by attendance mode and computation of transfers of customers to alternative attendance modes; 12,13,17,22,23
- Identification of relative probabilities for alternative uncertain outcomes and computation of consequent expected values for these uncertainties; 18,23
- A determination of the logical sequence of decisions and expected outcomes;
- Logical choice of the financially optimal decision at each decision point;
- The presentation of these decisions and expected outcomes in a decision tree;
- Calculation of the worst case result for each option if the Trust adopts the decisions indicated by the decision tree.

NOTE For suggested calculations see Appendix C1-5, but note comments in 1(e) above.

- (c) Explanation of the basis and limitations of the Expected Value approach used and an appraisal of the risks and wider considerations attaching to the options under consideration. **(9): A – 7; R –2.**
- The approach assumes that all available options have been identified; 24
 - The expected values represent an average expectation, and do not necessarily coincide with one of the actual possible results;
 - The technique looks mathematically objective, but it relies upon estimates of probability that are highly subjective and based on very imprecise market knowledge as the Trust has little experience in promoting such events;
 - The level of ticket prices has been determined on the basis of subjective data from similar but not identical events and without quantification of elasticity of demand; 18
 - The decision tree does select financially the best option to choose at decision points;
 - At expected value points only an average expectation based on probability can be determined as the relevant uncertainties (such as the weather) are not under the Trust's control;
 - The options involving the SSO will on average be expected to make a loss, largely due to the high level of expense associated with this option and the Orchestra's insistence on a share of the takings; 9,14,17
 - The SSO would attract interest from right across Sinfonia but could be seen as elitist and the ticket prices are high; 9,17,24
 - This option would attract Corporate Hospitality interest but under fine weather conditions Corporate Hospitality would be expected to result in 275 potential standing patrons (some probably local) being turned away, and this would damage the Trust's reputation and lose customer goodwill; 18,22
 - Shortage of seating would result for all the options in some prospective customers being turned away in the event of favourable demand and weather conditions, causing damage to the Trust's reputation and loss of customer goodwill;
 - The WCC would attract much less interest, but it would attract primarily local people and the repertoire would be more suitable for local people, especially those on the Woodfield Hills Estate; 17,22
 - The WCC concert would be on a much smaller scale and involves much lower expenditure on facilities in view of the lower numbers; 14,17,22
 - Whilst likely to record a loss, a low-key event involving the WCC could be held separately and would generate goodwill with local people as it would more specifically cater for their interests;
 - There is a risk that corporate sponsors may be upset by the selection of an option that does not cater for them and they may withdraw their donations if they do not derive the business advantages that they are expecting; 28
 - The MCO option would involve mainly local players and would attract a higher proportion of local customers and yield an attractive expected profit of £5,069; 12
 - This expected profit does not take into account any incremental costs arising from the requirement for the Trust's staff to organise a complex event;

5. Question 3

Aims

- (a) To test candidates' ability to locate, analyse and process financial and related data in the context of an option appraisal exercise relating to alternative proposals to stage a concert to raise funds for the Trust, increase interest in the Country Park and demonstrate its relevance to local people;
- (b) To test their ability to establish levels of demand for the proposed alternatives;
- (c) To test their ability to determine the revenue and cost implications of the available alternative proposals in the context of uncertainty using a decision tree to identify the decisions likely to produce the most favourable expected outcome;
- (d) To test their ability to appraise critically the alternative options in the light of important non-financial considerations as well as financial ones;
- (e) To test candidates' competence in preparing a report for the Trust's Management Board on behalf of the Honorary Treasurer.

Assessment

- (a) A brief outline of the reasons for holding an event, identification of options to be considered, the nature of the uncertainties relating to those options and the financial and non-financial constraints applicable. **(4): A – 4.**
 - A recognition of the need to increase interest in the Park as visitor numbers have been falling; v,vi,1,5
 - A comment that there has been some hostility to the Park amongst local residents and in the local media due to its perceived lack of facilities for local people; 24,Q1
 - A note that the Trust has decided to adopt a more commercial approach, including consideration of new activities to generate extra revenue streams; vi,1,5
 - A comment that there are considerable uncertainties surrounding the demand for tickets for any event; 11,18,22,24
 - A recognition that the proposed event should aim both to generate significant revenue and to interest local people; 24
 - An identification of the three options specifically under consideration for a concert: 12,17
 - Sinfonia Symphony Orchestra (SSO);
 - Mazurka Concert Orchestra (MCO);
 - Woodfield Community Choir (WCC).
 - A note that the financial circumstances of the Trust preclude the adoption of any option involving the risk of a loss exceeding £10,000. vi,11
 - A note of the proposed alternative configurations of the concert venue and the types of ticket to be offered; 12,13,17,18
 - Recognition of likely levels of demand for each option separately for fine and poor weather conditions; 12,17,18,22,23
 - A recognition of the inherent uncertainty of the estimates due to uncertainty about the availability of a marquee so that corporate hospitality can be considered; 13,14,17,18
 - A note of the physical capacity constraints for the various categories of attendance; 13,17
 - A comment on the alternative configurations available and the timing and sequence of the relevant decisions required; 12,13,17,18
 - A recognition of the impact of the provision of stands and corporate hospitality on the standing audience numbers; 13,23
 - An explanation of the ticket pricing structure and differences in the potential target audiences. 12,17,18
- (b) Quantification of the projected profitability of each alternative option. **(14): C – 14.**
 - Computation of the cost commitment implications of each decision alternative; 9,13,14,17,23

Appendix B5

Reconciliation of shop margins and stocks - 2006

	Total sales	Non - food sales	Page
	£	£	
Shrinkage			
Opening stock	26,000	26,000	8
Purchases and transfers at cost	81,500	45,000	3,7,8,App B4
Available stock	107,500	71,000	
<u>Less:</u> Notional cost of sales (£100,000/1.4)/(£48,900/1.4)	71,429	34,929	vii,7,8,W1
Projected closing stock	36,071	36,071	
<u>Less:</u> Anticipated closing stock	(32,000)	(32,000)	8
Expected shrinkage at cost	4,071	4,071	
Shrinkage at cost as a percentage of notional cost of sales (£4,071 x 100)/£71,429	5.7%		

W1 Calculation of non-food sales

Total sales	100,000	vii,7
Less: Food sales in shop	(24,500)	7
Mail-Order sales	(26,600)	7
Non-food sales	48,900	

Stock Length

Projected closing stock	£32,000	£32,000	8
Notional cost of sales - total	£71,429		
Notional cost of sales - non-food		£34,929	
Shrinkage - total	£ 4,071		
Shrinkage - pro rata to non-food sales (48.9% of £4,071)		£ 1,991	
Actual cost of sales	£75,500	£36,920	
Stock length based on actual cost of sales (Projected closing stock x 365)/actual cost of sales	155	316 days	

Note: The stock length ratio should ideally be based on comparison of stock with non-food cost of sales. This is because there is no stock of food items and it is therefore invalid to compute stock length by reference to cost of sales including food items. Shrinkage may well include food items not sold due to theft, short deliveries, reduced selling prices or deterioration, so it is not valid to assume that all shrinkage relates to non-food items only. Hence shrinkage should be reported as a percentage of total sales.

However, the stocklength calculation requires shrinkage to be apportioned between food sales and non-food sales. In the absence of other information, the shrinkage has been apportioned relative to sales.

Both the shrinkage and stock length are grossly in excess of what they should be. The stock is badly managed, and a thorough review of the existing stocks, merchandise range and ordering and purchasing are needed urgently. The high shrinkage indicates waste and inefficiency, possible vulnerability to shoplifting due to the shop being housed in unsuitable premises, and could also indicate staff theft. A review of the operation of all aspects of management of the shop is essential. The high appraisal score awarded to the shop manager appears not to be supported by performance.

Appendix B4Draft 2006 Trading Accounts

Page

Shop

	2006			2007			
	£	£	£	£	£	£	
Sales			100,000			102,400	vii,21
Cost of Sales							
Opening Stock		26,000			32,000		8
External Purchases	45,000			35,000			3,8
Transfer from Farm - Own Use	17,500			17,500			W10
Transfers from Farm - Mail Order	19,000			25,000			W10
		81,500			77,500		
		107,500			109,500		
<u>Less: Closing Stock</u>		<u>(32,000)</u>			<u>(32,000)</u>		8
		75,500			77,500		
Gross Profit		24,500			24,900		
<u>Less: Expenses</u>							
Staff		82,500			82,500		2
Premises		15,150			9,900		W11
		97,650			92,400		
Loss		<u>(73,150)</u>			<u>(67,500)</u>		

Café

	2006			2007			
	£	£	£	£	£	£	
Sales			140,000			140,000	8
Cost of Sales							
Opening Stock		3,300			3,300		8
External Purchases	35,000			35,000			3
Transfer from Farm - Own Use	13,000			13,000			8
		48,000			48,000		
		51,300			51,300		
<u>Less: Closing Stock</u>		<u>(3,300)</u>			<u>(3,300)</u>		8
		48,000			48,000		
Gross Profit		92,000			92,000		
<u>Less: Expenses</u>							
Staff		73,000			73,000		2
Premises		45,850			36,100		W11
		118,850			109,100		
Loss		<u>(26,850)</u>			<u>(17,100)</u>		

W10 Transfers at Cost

	2006		2007		
	£	£	£	£	
	Shop	Mail	Shop	Mail	
	Sales	Order	Sales	Order	
Selling Value	24,500	26,600	24,500	35,000	7
<u>Less: Mark-up at 40% on cost</u>	<u>7,000</u>	<u>7,600</u>	<u>7,000</u>	<u>10,000</u>	8
Transfer Value at Cost	17,500	19,000	17,500	25,000	

W11 Premises Costs

	2006			2007			
	£	£	£	£	£	£	
Stable Block							
Repairs & Maintenance	30,000			15,000			3,21
Shop 35%		10,500			5,250		7
Café 65%			19,500			9,750	7
Running Costs	31,000			31,000			3
Shop 15%		4,650			4,650		7
Café 85%			26,350			26,350	7
		15,150	45,850		9,900	36,100	

Appendix B3**Analysis of Movements on Funds**

	Restricted £'000	Unrestricted £'000	Page
Fund Balances b/f at 1 January 2006	204.4	54.9	viii
Incoming Resources 2006	63.5	1,145.2	AppB1
Resources Expended 2006	0.0	1,165.2	AppB1
Net Movement in Funds	63.5	(20.0)	
Fund Balances c/f at 31 December 2006	267.9	34.9	
Incoming Resources 2007	67.5	1,158.8	AppB2
Resources Expended 2007	0.0	1,147.0	AppB2
Net Movement in Funds	67.5	11.8	
Fund Balances c/f at 31 December 2007	335.4	46.7	
<u>Analysis of Restricted Income</u>	2006 £'000	2007 £'000	
Business sponsorship	35.0	35.0	vii,ix,4
Pledges from Trust members	18.0	18.0	vii,ix,4
Interest	10.5	14.5	4
	63.5	67.5	

Appendix B2
Draft 2007 Budget

	2006 Latest Outturn	Adjustments	2007 Draft Budget	Page
General operations - Unrestricted				
Income	£	£	£	
Entrance fees	614,000	(22,800)	591,200	7
Car park income	130,000		130,000	7
External farm sales	5,500		5,500	8
Shop	100,000	2,400 School visits	102,400	21
Café	140,000		140,000	8
Subscriptions	51,000		51,000	4
Mazurka Borough Council grant	40,000		40,000	4,15
Rent	7,200		7,200	4
Interest	1,500	(1,000)	500	4
Grant - Jerusalem Bluebird	10,000		10,000	15
Donation - Chairman	8,000	(8,000) One-off 2006	0	15
Donation - President	4,000	(4,000) One-off 2006	0	15
Annual Grant - Sinfonia Horticulturalists	8,000		8,000	15
Business sponsorship	15,000	20,000 W5	35,000	15
Licence fee - Angling Club	2,000	2,000 Full year 2007	4,000	16
Cycle hire concession	9,000	9,000 Full year 2007	18,000	16
School visit charges	0	16,000 W6	16,000	21
	1,145,200		1,158,800	
Expenditure				
Staffing	659,200	11,510 W7	670,710	
Premises - repairs & maintenance	112,000	(37,000)	75,000	21
Premises - running costs	54,000		54,000	3
Premises - grounds maintenance	12,500	6,500 W8	19,000	16,21
Transport	45,000	1,000	46,000	3
Supplies and services	269,000	(200) W9	268,800	8,21,27
Trustees expenses	2,500		2,500	
Audit fees	11,000		11,000	
	1,165,200		1,147,010	
Net surplus/(deficit) on general operations	(20,000)		11,790	
W5 Business sponsorship increase:	£			
Parfit	10,000			15
Utopia	5,000			15
Bunthorne Bridal	5,000			15
	20,000			
W6 School trip charges (80 x £200)	16,000			21
W7 Finance Officer 3 months salary reinstated				
£35,000 x 0.25	8,750			iii,1
Full year increase in infestation control overtime (360 hours - 200 hours) @ £17.25	2,760			16
	11,510			
W8 Cycle hire works	1,000			16
Health & Safety work - school visits	3,000			21
Infestation control extra materials				
5 months @ £500 per month	2,500			16
	6,500			
W9 Supplies and services				
No stock increase	6,000			8
Reduce external shop purchases	(10,000)			8
Education packs - 80 visits x 30 children x £2	4,800			21
No early year financial services costs	(1,000)			27
	(200)			

Appendix B1

Latest 2006 Outturn Forecast

	2006 Approved Budget	Adjustments	2006 Latest Projected Outturn	Page
General operations - Unrestricted				
Income	£	£	£	
Entrance fees	614,000		614,000	
Car park income	130,000		130,000	
External farm sales	5,500		5,500	
Shop	100,000		100,000	
Café	140,000		140,000	
Subscriptions	51,000		51,000	
Mazurka Borough Council grant	40,000		40,000	
Rent	7,200		7,200	
Interest	150	1,350 Error	1,500	4
Grant - Jerusalem Bluebird	10,000		10,000	4
Donation - Chairman		8,000	8,000	15
Donation - President		4,000	4,000	15
Annual Grant - Sinfonia Horticulturalists		8,000	8,000	15
Business sponsorship		15,000 W1	15,000	15,28
Licence fee - Angling Club		2,000 Half-year	2,000	16
Cycle hire concession		9,000 Half-year	9,000	16
	1,097,850		1,145,200	
Expenditure				
Staffing	664,500	(5,300) W2	659,200	1,2,16
Premises - repairs & maintenance	112,000		112,000	
Premises - running costs	54,000		54,000	
Premises - grounds maintenance	9,000	3,500 W3	12,500	3,16
Transport	45,000		45,000	
Supplies and services	263,000	6,000 W4	269,000	3,5,27
Trustees expenses	2,500		2,500	
Audit fees	10,000	1,000	11,000	27
	1,160,000		1,165,200	
Net surplus/(deficit) on general operations	(£62,150)		(£20,000)	
W1 Business sponsorship (Unrestricted)	£			
Top People	15,000			15
Parfit	10,000			15
Utopia	5,000			15
Less Top People Business Consultants withdrawn	(15,000)			28
	15,000			
W2 Finance Officer 3 months salary saved				
£35,000 x 0.25	(8,750)			iii,1,2
Increased infestation control overtime				
200 hours @ £17.25	3,450			16
	(5,300)			
W3 Increased infestation control materials				
7 months at £500 per month	3,500			16
W4 Increased advertising	10,000			5
Decrease Financial Services (£5,000 - £1,000)	(4,000)			3,27
	6,000			

	Page
<ul style="list-style-type: none"> • Expected closing stock levels at 316 days for non-food trading are quadruple the expected level of 80 days and represent wasted working capital; 	8
<ul style="list-style-type: none"> • As non-food sales are falling, it is not clear why external purchases remain so high with the already excessive stock levels; 	8
<ul style="list-style-type: none"> • Rising stock levels in the shop give cause for concern; 	8
<ul style="list-style-type: none"> • Unnecessary orders for stock may be placed due to the difficulty of identifying all existing stocks because of fragmented and chaotic storage of stocks; 	8
<ul style="list-style-type: none"> • If the shrinkage figure is correct, it may indicate shoplifting by visitors or pilferage of stock or failure to record sales by staff or volunteers; 	8,19
<ul style="list-style-type: none"> • Cluttered shelves and excessive stock levels encourage wastage (due to date expiry of perishable stocks due to poor stock rotation) and facilitate pilferage; 	
<ul style="list-style-type: none"> • A note that the shop premises are not really suitable for a shop as there are physical obstacles to the easy entry of potential customers and the internal design makes efficient merchandise layout impossible and it is difficult for staff to keep customers and stock under observation; 	iv
<ul style="list-style-type: none"> • A conclusion that an immediate stock storage rationalisation and stocktake are essential to confirm the level and existence of stock; 	
<ul style="list-style-type: none"> • A comment that a covert surveillance exercise should be considered in the shop to investigate the possibility of excessive shoplifting or pilferage/under-recording of sales by staff and volunteers; 	
<ul style="list-style-type: none"> • The reported sighting of the shop manager selling shop merchandise at a car-boot sale is suspicious and should be investigated to determine how much revenue raised has been accounted for (if any) or alternatively whether the shop manager has been pilfering stock; 	19
<ul style="list-style-type: none"> • Removing merchandise from the premises should not normally be permitted and certainly not without independent authorisation procedures and formal documentation and accounting arrangements. 	

NOTE For suggested calculations see Appendix B5, but note comments in 1(e) above.

(g) Presentation, approach, structure and report format. **P – 3.**

	Page
<ul style="list-style-type: none"> • Therefore even assuming additionally the continuation of Restricted donations at £53.0k annually for the next four years (with interest reducing in 2006 to £10.5k as the Restricted balance reduced in 2005 due to restoration spending) there appears to be a funding shortfall of around £1.25 million to complete restoration by 2009; 	v,4
<ul style="list-style-type: none"> • The Trust appears to have no strategy to overcome this funding shortfall and all the attention appears to be directed just to financing current operations; 	
<ul style="list-style-type: none"> • A statement that there is a commitment to pursue other income streams and that these have not been included in projections for 2006 or 2007; 	vi,1
<ul style="list-style-type: none"> • A warning that their main impact is likely to be confined to reducing the risk of an annual deficit rather than to raise substantial additional funds to finance necessary restoration and such ventures may not be financially successful; 	vi,1
<ul style="list-style-type: none"> • A confirmation that the Trust is not currently insolvent but that it appears unable to meet its future restoration commitments and the annual revenue outlook is fragile. 	v,viii

NOTE For suggested calculations see Appendix B1-3, but note comments in 1(e) above.

(e) Completion of trading accounts for Shop and Café and appraisal of results obtained **(8): C – 5; A – 3.**

<ul style="list-style-type: none"> • Computation of gross profit for 2006 projected outturn and 2007 budget for the shop recognising separately transfers of merchandise from the farm for shop sales and mail order at cost; 	vii,2,3,7,8
<ul style="list-style-type: none"> • Computation of gross profit for 2006 projected outturn and 2007 budget for the café recognising transfers of supplies from the farm at cost; 	vii,2,3,7,8
<ul style="list-style-type: none"> • Apportionment of stable block repairs and maintenance costs and premises running costs between the shop and the café for 2006 projected outturn and 2007 budget; 	vii,2,3,7,8
<ul style="list-style-type: none"> • Deduction of staff costs and premises costs for 2006 projected outturn and 2007 budget for the shop and the café; 	vii,2,3,7,8
<ul style="list-style-type: none"> • Computation of net profit/(loss) for 2006 projected outturn and 2007 budget for the shop and the café; 	
<ul style="list-style-type: none"> • The shop's net loss in both years is huge, with staff costs several times greater than the gross profit in both years; 	
<ul style="list-style-type: none"> • Staff costs do include the costs of collecting entrance fees, but it is unclear how much of the staff cost relates to this; 	iii,iv,4
<ul style="list-style-type: none"> • Staff time applied to collecting entrance fees should be allocated to a visitor profit centre rather than the shop but this cannot be done until a work study exercise has been performed; 	
<ul style="list-style-type: none"> • The café is also loss-making, although not as badly, with staff costs again being too high relative to sales and there are also relatively high premises costs; 	
<ul style="list-style-type: none"> • A recognition that at both the shop and the café there is the probability that staff productivity is poor; 	
<ul style="list-style-type: none"> • A note that the café already uses a significant amount of volunteer labour and that its performance would look even worse if the value of the volunteer labour were costed against its income; 	iii,21
<ul style="list-style-type: none"> • A comment that it may be possible to reduce staff costs by reducing staff numbers, particularly at slack times and/or by substituting further volunteer labour for what is currently paid staff time; 	
<ul style="list-style-type: none"> • A conclusion that far from generating funds for the Trust the shop and café are dissipating its resources due to the heavy losses incurred. 	

NOTE For suggested calculations see Appendix B4, but note comments in 1(e) above.

(f) Further analysis of the performance of the shop for 2006. **(5): C – 2; A – 2; R - 1.**

<ul style="list-style-type: none"> • Shrinkage as a percentage of notional cost of sales is far too high at 5.7%; 	8
<ul style="list-style-type: none"> • This is almost four times the anticipated level of shrinkage of 1.5%: 	8

	Page
(c) Computation of the projected revenue budget for 2007 at 2006 price level based on 2006 expected outturn. (5): C – 5.	
• Reduction of entrance fee income in line with reduced forecast for visitor numbers;	1,7
• Increase in anticipated shop sales due to school visits;	21
• Adjustment of expected interest;	4
• Removal of one-off 2006 donations not expected to be repeated in 2007;	15
• Increase in business sponsorship without any contribution from Top People Business Consultants;	15
• Increase in income due to full year contribution from angling licence and cycling concession;	16
• Augmentation of income for the effect of the introduction of charges for school visits;	21
• Adjustment to staffing budget for full year effect of Finance Officer post and full year infestation control overtime;	iii,iv,2,16
• Reduction in premises - repairs and maintenance budget in line with proposed economies;	21
• Increase in premises - grounds maintenance budget due to cycle hire concession costs, school visit health and safety improvements and further increase in spending on infestation control materials;	16,21
• Adjustment to supplies and services budget for reduction in shop purchases, no stock increase, cost of providing school visit packs and saving of all financial services charges;	8,21,27
• Increase in transport costs.	3

NOTE For suggested calculations see Appendix B2, but note comments in 1(e) above.

(d) Recognition of key assumptions and risks underlying projections and commentary on the overall financial position of the Trust for 2006 and 2007. (6): C – 2; A – 2; R – 2.	
• A comment that the projected 2006 outturn deficit of £20.0k is better than was feared and is within the balance of £54.9k as at the end of 2005;	vii,viii
• A note that therefore there will still be a positive balance of £34.9k on Unrestricted Funds at the end of 2006;	viii
• A recognition that this level of reserves is inadequate as there should be sufficient balances to cover potential liabilities and good practice indicates that the balance should represent 3 months of general operations expenditure;	vi
• A comment that there is a projected positive balance of £46.7k at the end of 2007;	
• A recognition that the modest 2007 surplus of £11.8k will do little to increase the Unrestricted Funds balance to the desired level;	
• A note that visitor numbers may drop further, unless more facilities are provided to attract a broader spectrum of patrons, with consequent further adverse impact on income;	7
• A warning that there has been no update to assumptions regarding the most significant elements of income (entrance fees and shop sales) which are dependent on visitor numbers;	
• A comment that there appears to be no evidence of regular monitoring of the number and type of visitors despite the criticality of this variable to the financial position of the Trust;	7
• A comment that the 2007 budget surplus depends on the £37.0k cut in spending on repairs and maintenance and it may not be possible to sustain such a reduced level of maintenance in future years;	21
• A warning that the Trust has not planned to finance further restoration work from Unrestricted Funds despite the statutory requirement that the restoration of the hall must be completed by 2009 and work costing £1.5 million remains to be done;	iv,v,vii
• A statement that incoming restricted funds in 2005 were only £66.5k and the remaining balance on Restricted Funds at the end of 2005 was only £204.4k;	viii

Aims

- (a) To test candidates' abilities to identify, collate, organise, adjust and present data to produce a forecast outturn statement for the current year and a budget for the following year;
- (b) To test their ability to appraise the validity of the assumptions notified and to perform a critical review of the forecast outturn position and following year budget;
- (c) To test their ability to apply cost allocation and apportionment techniques to create trading accounts for profit centres;
- (d) To test candidates' competence in drafting and presenting a tactful report for the Park Director.

Assessment

- (a) A brief introduction and background to the Trust's objectives, financial environment and current financial position **(2): A – 2.**
 - The Trust is a Charitable Company limited by guarantee and registered under the Charities Consolidation Act 1992; ii
 - An identification of the distinction between Restricted and Unrestricted Funds and a recognition that Restricted Funds can only be used for the purposes for which they were donated; v,vi
 - A recognition of the need to generate funds to comply with statutory obligations to complete the restoration of the hall and progressive removal of invasive species from the grounds; iii,iv,v,10
 - An appreciation of the difficult financial position of the Trust as there is an underlying slide into an annual deficit position; v,vi,1
 - A comment that the Park is struggling to generate sufficient income to cover annual running costs because until further restoration and development of the facilities is accomplished it is difficult to attract sufficient visitors to the Park; v,vi,1
 - A recognition that the statutory obligations divert the Trust's resources away from the development of the attractive features for potential Park users; 1
 - A tactful recognition that the Park's Management Board is not representative of potential users and that there is likely to be conflict between the aspirations of current supporters of the Park and potential new users; ii,iii
 - A comment that in particular the Park has not so far engaged successfully with the immediately surrounding community and its aspirations and is therefore failing in its aspiration that the estate should be accessible to all, and especially persons of limited financial means in the Mazurka area. 12,Q1
- (b) Computation of the latest forecast outturn for 2006. **(4): C – 4.**
 - Correction of investment income error; 4
 - Inclusion of new donations and additional grants from partner organisations; 15
 - Augmentation of projected income resulting from business sponsorship; 15
 - Non-inclusion of sponsorship income from Top People Business Consultants due to their imposition of unacceptable conditions; 28
 - Augmentation of projected income resulting from half year contribution from angling licence fees and a cycling concession; 16
 - Adjustment to staffing costs for the part year effect of Finance Officer post being unfilled for 3 months offset by increased overtime on infestation clearance; iii,vii,1,2,16
 - Adjustment to the supplies and services budget for an increase in advertising costs; 5
 - Adjustment of grounds maintenance costs for increased cost of infestation control materials; 16
 - Audit fee increase offset by reduced financial services costs. 27

NOTE For suggested calculations see Appendix B1, but note comments in 1(e) above.

Stanford Parry Tutorial Guide v 5.4

7

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

Appendix A**Liquidity Ratios as at 31 December 2005**

	All Funds	Restricted Funds	Unrestricted Funds Only	Page
	£'000	£'000	£'000	
Current Assets	203.4	204.4	(1.0)	viii,4
Less: Stock	<u>(29.3)</u>		<u>(29.3)</u>	viii,4,8
	<u>174.1</u>		<u>(30.3)</u>	
Current Liabilities	<u>33.6</u>		<u>33.6</u>	viii,4
Current Ratio	$\frac{203.4}{33.6} \times 100 = \underline{\underline{605\%}}$		$\frac{(1.0)}{33.6} \times 100 = \underline{\underline{-3\%}}$	
Acid Test Ratio	$\frac{174.1}{33.6} \times 100 = \underline{\underline{518\%}}$		$\frac{(30.3)}{33.6} \times 100 = \underline{\underline{-90\%}}$	

The Trust is comfortably solvent overall, and has no need for an urgent cash injection. However, it is having to make use of cash balances associated with the Restricted Fund in order to finance day to day activities.

As there is no requirement to ring-fence the Restricted funds, in the short term it is possible to manage liquidity on an overall basis. However, in the medium term the modest deficiency on working capital for Unrestricted purposes must be rectified or otherwise the Trust will be unable to apply all the restricted donations for their intended purpose and could be open to legal action for failure to respect donors' wishes. The Trust needs to generate a surplus on Unrestricted activities and improve management of working capital, especially stock.

Analysis of amount and value of Volunteer Effort

Volunteer Days in 2006:

Sinfonia Horticultural Society members	360	21
Café	720	21
Deer park and grounds	1,820	16
Lake (2006 only)	<u>60</u>	16
Volunteer days contributed by local community	<u>2,960</u>	
Value at £52 per day	<u>£ 153,920</u>	27

	Page
<ul style="list-style-type: none"> • A comment that input from volunteers may be lost if the Borough assumed control of the Park; • A computation of the number of volunteer days and the value of this voluntary effort; • Enforcement notices have resulted in 30% of volunteer effort in the grounds being devoted to attacking the rhododendron and Japanese knotweed infestation; • The further spread of these species has been halted and seven hectares have already been substantially cleared and are available to recreational users; • Further areas are scheduled to be cleared in line with Ministry requirements for the rate of clearance to double and this will further extend the useful recreational area of the Park; • Although attractive when in flower, the rhododendrons are a damaging invasive species and it is a legal requirement that they be cleared to promote biodiversity; • Grant funding for this activity from central government has been suspended which will increase further the financial strain on the Trust of clearance activity; • A note that without elaborate and restrictive fencing and costly staffing arrangements it is not feasible to charge for each Park attraction separately; • Selling off further tracts of the estate to raise funds to restore the remainder is not lawful; • Bare Mountain and the area around its base are closed off because there are dangerous old mineshafts there, the exact location of some of them being unknown; • The estate has been managed more effectively by the Trust than the Borough and there is no evidence that the Borough would now run the Park better than the Trust. 	 iii,16,21, 27,AppA 21 iv,10 iv,10,16 iv,10 iv,10 iii,iv,4 ii i,iv i,ii,vi
(d) Presentation, format, tact and general readability. (3): P - 3.	

	Page
<ul style="list-style-type: none"> • The Trust is not therefore late in filing its accounts with the Office of the Charity Registrar; 	
<ul style="list-style-type: none"> • A recognition that the Trust has recorded a substantial overall deficit of £143.8k for 2005, but that it is not insolvent and the Trust is not applying for a handout to “stay afloat”; 	v,vi,viii
<ul style="list-style-type: none"> • There is a small surplus on the Unrestricted Fund in 2005 and the deficit primarily relates to significant planned spending on renovation of the hall in 2005; 	viii
<ul style="list-style-type: none"> • Computation of the current and acid test ratios in the draft 2005 Balance Sheet to demonstrate that the Trust remains solvent; 	viii,AppA
<ul style="list-style-type: none"> • Confirmation that the Trust still has substantial reserves, but that these reserves are mostly earmarked for valid, specific purposes; 	viii,ix
<ul style="list-style-type: none"> • Provision of an analysis of the Trust’s Funds to explain their intended uses; 	viii,ix
<ul style="list-style-type: none"> • A comment that the Unrestricted Fund balance represents far less than three months gross expenditure and therefore fails to comply with good practice; 	vi
<ul style="list-style-type: none"> • A note that no valuation of land and buildings and the hall’s historic contents is included in the balance sheet as these assets are “inalienable” under the terms of the Heritage Protection Act 1987; 	ii
<ul style="list-style-type: none"> • This means that they have no market value as they cannot be sold and hence there is no basis for their valuation. 	ii

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

(c) A response to the allegations that the Park is operated incompetently, is not relevant to the needs of local people and should be returned to the control of Mazurka Borough Council. (8): C – 2; A – 5; R – 1.	
<ul style="list-style-type: none"> • A recognition that the attractions of the Park have not been effectively promoted and that local residents are not aware that entry to parts of the Park are free; 	1,Q1
<ul style="list-style-type: none"> • A comment that the Trust recognises that visitor numbers have been declining and intends to improve the promotion of the Park, and is considering activities that will be relevant to local people, and has already introduced cycle hire and angling; 	iv,vi,21,24
<ul style="list-style-type: none"> • The Trust has been engaged in work with local schools and has been recognised for this by an independent charitable body; 	iv,15,21
<ul style="list-style-type: none"> • An admission that the management and membership of the Trust have not been socially and ethnically representative of Mazurka and are primarily white, middle-class and middle-aged; 	ii
<ul style="list-style-type: none"> • A note that substantial resources have had to be devoted over recent years to the rectification of neglect under the previous owners, especially the Borough Council; 	iv,v
<ul style="list-style-type: none"> • In particular substantial effort has been devoted to stabilising the structure of the hall and the Trust is required to complete the restoration of the hall in the medium term; 	v
<ul style="list-style-type: none"> • The Trust has applied for funding from the Council to assist with the conservation of the contents as a preparatory stage to making them accessible for public viewing; 	8
<ul style="list-style-type: none"> • The Trust has offered to lend the moveable contents and the natural history collection to the Borough Council for display in the interim, but this offer has been declined by the Borough as it lacks premises and funds to display them; 	v
<ul style="list-style-type: none"> • Car parking charges are in line with similar sites elsewhere and could impact more on visitors from further away than on local residents, who may walk or use other transport; 	7
<ul style="list-style-type: none"> • Entrance charges have not been increased since 2004 to encourage visitors 	vi
<ul style="list-style-type: none"> • A recognition that the nature of the premises of the current café and shop is not ideal, and this does limit the scope and attractiveness of these facilities; 	iv
<ul style="list-style-type: none"> • Whilst the long-term aim is to relocate them within the hall, this has to form part of the longer term completion of the restoration of the hall; 	iv
<ul style="list-style-type: none"> • Many, over 150, of the Park staff are part-time volunteers, not full-time paid employees, which would not have been obvious to an observer; 	iii,16,21,27

3. Question 1

Aims

Page

- (a) To test candidates' understanding of the issues raised in the newspaper article appearing in the Mazurka Bugle;
- (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 factual, concise, punchy and relevant briefing note format for the Park Director.

Assessment

- (a) Brief background to the relationship of the Trust with Mazurka Borough Council and the circumstances of the Trust's acquisition of the Stanford Parry estate. **(3): A – 3.**
 - A comment that the Trust took control of the Stanford Parry estate in 1993, not in 1991 when the Trust was formed; ii
 - A note that the buildings had already been declared structurally unsafe in 1991 when the estate was still under the control of the Borough Council; ii
 - A recognition that the estate was not left to the people of Mazurka but rather was sold to the Borough of Mazurka to pay death duties; i
 - Funds raised from the sale of parts of the estate in the 1960's were used by the Borough Council to fund other priorities and not re-invested in the rest of the estate; i
 - The condition of the estate deteriorated whilst in the care of the Borough Council due to lack of repair and maintenance expenditure; i,ii
 - The estate was sold to the Trust in 1993 for a nominal amount of only £1 by the Borough; ii
 - A comment that the Borough's motivation for this was to avoid liability for the substantial costs of restoring the neglected historic buildings; ii
 - The Trust has had to meet the substantial costs of complying with an Enforcement Notice under the Heritage Protection Act 1987; iii
 - It has also had to spend considerable resources to comply with an Enforcement Order under the Biodiversity Act 1996 to remove infestation of much of the estate by invasive plant species resulting from neglect whilst the estate was in the care of the Borough Council; iv
 - The Borough Council's only financial support for the Trust has been an annual grant of £40,000 from 2001 to facilitate access; iii,4
 - The condition of the grant was free access to the deer park and outlying areas of the estate for the public. iii,4
- (b) A note of the issues surrounding the Trust's financial position and application for a grant to perform conservation work on the hall's contents and natural history collection. **(6): C – 3; A – 3.**
 - A comment that the grant application has been made to Mazurka Borough Council to conserve the contents of the hall with a view to preparing them for public display; 8
 - A note that the latest draft accounts were submitted to the Borough Council in May 2006 as a condition of the grant application; 8,27
 - A comment that the Borough Council undertook to treat this financial information as confidential and that it would not be released into the public domain; 27,Q1
 - A note that the Trust's draft accounts were included within a number of documents posted on the Council's website and thus released into the public domain due to an administrative error by the Borough Council; 27,Q1
 - The draft accounts are subject to further revision and the final audited version of the Trust's accounts will be filed by the end of June 2006 in accordance with the Charity Consolidation Act; ii,27

There is a need to revise an unsatisfactory deficit current year budget and assess the impact of new initiatives on the current year outturn, together with draft trading accounts for pilot divisions deemed to be most capable of generating more revenue. A preliminary budget for the following year is also needed.

Furthermore there is a proposal to stage a concert in the Park, but the revenues and costs are subject to considerable uncertainty. There is also uncertainty over the objectives of this event. Is it primarily to raise revenue, to engage with local people or to forge links with business sponsors and the leading inhabitants of Sinfonia? The options for the concert also have to be financially appraised under conditions of uncertainty using the appropriate financial technique (a decision tree), and a recommendation formulated in the light of risks, constraints and wider non-financial considerations.

The candidate takes on the role of the newly-appointed Finance Officer. This is a new post, introduced as part of the drive towards greater commerciality and financial awareness. Previously, the Trust has not had any in-house day-to-day financial expertise. The candidate is expected to undertake costing, budgeting and forecasting exercises, produce pilot trading accounts and review an area of particular operational and financial weakness. Also, the Candidate has to appraise and cost the PRP scheme, which has been formulated rapidly and without consultation and is seriously flawed. This review also involves consideration of the nature of the proposed profit centres and transfer pricing.

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

**CIPFA FINAL TEST OF PROFESSIONAL COMPETENCE
FINANCE AND MANAGEMENT CASE STUDY EXAMINATION JUNE 2006
STANFORD PARRY TRUST LIMITED
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

Mazurka is a depressed industrial town on the island of Sinfonia. One of the legacies of its industrial past is the Stanford Parry estate, built by a nineteenth-century industrialist with the profits from long-abandoned coal mines in the locality. The estate was sold by a later generation of the family to Mazurka Borough Council, but it became neglected due to lack of resources. Parts of it were sold off, and the historical features, including the hall and its contents, were closed to the public and abandoned to decay. However, the estate was sold to a charitable trust formed to restore the estate and to operate it as a country park for everybody to enjoy. After seven years of effort, parts of the estate were re-opened, but financial problems are mounting as visitor numbers decline and initial excitement and novelty wear off. Revenue is falling, costs are rising, including costs of complying with statutory requirements, and substantial extra funds are needed to complete the restoration of the hall.

The Trust also has a new Park Director who has a mandate to introduce a more commercial approach. Her style is autocratic. Her strategy involves marketing the park as a high-class facility for corporate users. She also intends to introduce trading accounts for individual aspects of the Trust's operations and a Performance Related Pay (PRP) Scheme, with associated appraisal and performance bonuses as part of her more commercial approach to transforming the Trust's operations and to restoring its finances. The Trust has a poor record of engagement with much of the local community, in particular the deprived and ethnically mixed Woodfield Hills Housing Scheme. This is of little concern to the Park Director but is an increasing concern of some of the Trustees and some of the other managers.