

# STRATEGIC CASE STUDY

## Strategic Stage

### ADVANCE MATERIAL AND EXAM DAY MATERIAL

**02 June 2020**

**Time allowed: 3 hours 30 minutes**

*All questions must be answered. The weightings for each question are indicated.*

*The examination has been prepared on the assumption that candidates will not have any detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded to those candidates displaying such knowledge.*

# STRATEGIC CASE STUDY

## Strategic stage

### NOTES TO CANDIDATES

i) Answers to be prepared as on 02 June 2020 by Alex Holst, Finance Manager for Rowandale Charitable Trust.

ii) All calculations and diagrams provided in source materials should be assumed to be arithmetically correct.

### QUESTIONS

		Marks
1	Prepare a draft report for the board of Rowandale Charitable Trust evaluating the proposal from the Branchwood Corporation concerning the building of new facilities for the Trust.	60%
2	Prepare a briefing paper for the Chief Executive of Rowandale Charitable Trust which analyses the Trust's income position	40%

#### SCS June 2020 exam statement

*Candidates are reminded that while Strategic Case Study examinations are inspired by real organisations and real events, they should not draw on real events that are not referred to in the exam documentation. The June 2020 case study exam was finalised before the impact of the COVID-19 pandemic and candidates should not assume the existence of the COVID-19 pandemic in their answers. No credit will be provided to any candidates who refer to the impact of the COVID-19 pandemic in their answers.*

## **Filandia**

Filandia is an independent country with a population of approximately 45 million people. The national currency is the Filandian pound (£), which has parity with the United Kingdom (UK) pound. It is a parliamentary democracy, and members of the national parliament are elected for a term of up to five years in single-member constituencies. Filish is the primary language spoken and used for business. Filandia has a high standard of literacy and numeracy, though this is more variable in city areas, and in communities where Filish is not the first language.

Filandia has a proud history of significant state provision, including a national health service, housing provision, and education. These services are funded through income taxes on residents and companies and local property taxes administered by subnational government organisations.

Education is compulsory for all Filandian children aged 4 to 16 years and school education is available for free for all children aged 4 to 18 years. The overwhelming majority of children aged 4 to 16 years are enrolled at a state education provider, though a small, and growing, number of children receive education from other sources, including fee-paying private sector schools, private sector tutors, home schooling by families and units for children excluded from schools when their behaviour becomes too challenging for a school to manage.

Filandia has a globally significant stock exchange, and is therefore an affluent country. However, it also has areas of significant deprivation, with problems such as anti-social behaviour, low educational attainment and poor levels of health amongst the population.

Globally, markets and economies have been suffering a period of significant uncertainty over the last few years. Investment has slumped and governments, public and private sector organisations have been looking for ways to cut costs on non-essential services.

## **Rowantown**

Rowantown is the capital city, located in central Filandia. It has a population of around 4 million, of which 75% reside in the city's urban areas and the remainder live in the surrounding rural areas, woodlands and villages. Rowantown is a significant financial centre, and this is reflected in the affluence of a large proportion of its residents. However, some of its suburbs are economically deprived, particularly those that have grown up around the many industrial estates. In general, Rowantown has problems with a lack of affordable housing, highly stretched ageing infrastructure, significant traffic congestion and high levels of pollution.

Rowantown has a unitary local government organisation, Rowantown Local Authority (RLA), which has a strategic mission to improve the lives of its residents through delivering high quality, inclusive services. RLA's key strategic priorities include providing access to excellent education, training and employment opportunities, protecting children and young people, providing good quality affordable housing, and promoting a vibrant and cohesive community. The continuing global economic situation means that RLA, as with central government, is cutting back on all non-essential spending and is attempting to find innovative ways to improve services and residents' lives while saving money.

RLA is the local education authority (LEA) for Rowantown and its surrounding rural areas. A LEA distributes education funding to schools and other bodies in its area, and is responsible for certain administration functions across schools, such as hiring teachers and maintaining school land. It also has responsibility for different learning needs (DLN) provision, both within schools and through third parties. DLN provision focuses on children and young people who need extra support in their education because they find it harder to learn than other children and young people of a similar age. Some examples of DLN are: communication/speech problems, behavioural difficulties, emotional and social difficulties, autism spectrum disorders, dyslexia and Attention Deficit Hyperactivity Disorder (ADHD). DLN provision comprises a wide variety of interventions and tailored support to assist children and young people with DLN to learn effectively.

## **Rowandale Charitable Trust**

Rowandale Charitable Trust (RCT) is a charity, which owns an area of woodland and a number of attractive historical buildings on the outskirts of Rowantown. The buildings comprise specially adapted teaching facilities, accommodation blocks, and large, flexible spaces for plays and other events. The site also includes the administrative headquarters of the Trust.

RCT's main mission is to enrich the lives of disadvantaged and disabled children, and those with DLN. The Trust aims to achieve this mission through a variety of activities:

- Day courses for children (aged 4-18 years) from Rowantown schools. Children are selected by their school teachers, and are usually those who are struggling with literacy,

numeracy, and/or social skills. The day courses at RCT are quite unlike a 'normal' school day; the children are outdoors in RCT's woodland environment interacting with nature wherever possible, taking part in team-building activities and other forms of innovative and highly interactive learning. RCT's Education team, led by Head of Education Roy Silver, is particularly skilled at encouraging and motivating those pupils who struggle to remain focused and attain key milestones at school. Day courses are provided free of charge.

- Residential courses for children (aged 4-18 years) focused on specific areas of need. Residential courses may be for whole classes of pupils from disadvantaged areas, in which case their teachers accompany them. Other residential courses are aimed at those with autism spectrum disorders, ADHD, and anti-social behaviour problems. These courses aim to increase concentration, improve communication skills, bolster self-confidence and encourage exploration of emotions and reactions in a safe space. Residential courses currently run from Monday to Friday. Schools sending pupils and teachers on residential courses pay for their accommodation and meals at Rowandale; the educational activities are provided free of charge.
- Historical education, in the form of plays and other interactive events, held at the charity's woodland headquarters, aiming to educate disadvantaged children on different periods of Filandian history in a fun and engaging way. These plays and events are based on a core of scripts, and use actors contracted on a day rate to deliver them, while the Trust's in-house Administration department handles bookings, and the in-house Premises team assists with technical aspects as required. Tickets for plays and events are sold to schools as block bookings, and as optional add-ons for schools with children on residential courses.

The courses are highly tailored to the needs of the school and the individual children. For day courses, residential courses and historical education events, the schools concerned are responsible for organising and paying for the costs of travel to and from RCT's premises. Day course and historical education attendees bring their own packed lunches. RCT provides the teaching and support staff to run the activities and are responsible for the care of the children while the children are at RCT.

Rowandale's charitable activities (the day courses, residential courses and historical education) run for 10 months of the year, excluding July and August which are school holidays in Filandia. At weekends (Saturdays and Sundays), and for the whole of July and August, the Trust can hire out some of its indoor and outdoor spaces for weddings, parties and corporate events.

### Governance of RCT

RCT is governed by a board of nine trustees. The board is responsible for the overall control and strategic direction of the Trust, and meets formally four times per year. The trustees delegate the day-to-day running of RCT to the Chief Executive, Viktor Stewart.

### RCT's mission and strategic goals

<i>Mission</i>	To provide innovative education services, rooted in nature and history, to help disadvantaged and disabled children, and children with DLN, to engage with learning and explore their passions.
<i>Five-year plan goals</i>	
Reach more children:	Through our educational courses, historical plays and other innovative provision, to enable more children to benefit from the services we offer.
Encourage repeat visits:	To develop structures and courses that enable children with particularly complex needs to return to us several times per year, so that we can provide a longer term intervention.
Seek increased support:	To be less insular in our approach, marketing what we do more widely and seeking financial and other support from organisations and individuals, particularly in Rowantown and its surrounds.
Develop supportive partnerships:	To work with other educational bodies, charities and private sector bodies to support new ways of working to benefit our children and young people.
Ensure sustainable finances:	To bolster and diversify our income streams, and to carefully

and sensitively manage costs, to enable us to increase our reserves and, in time, fund the development of new services for disadvantaged and disabled children.

### RCT's income sources

The Trust receives income from a variety of sources, as follows:

- Charges to schools for accommodation and catering on residential courses.
- Ticket sales income for historical plays and events.
- Central and local government grants, usually categorised as restricted in that they have to be allocated to activities specified by the grant awarding body, and therefore with conditions attached. Grant audits may also be required.
- Grants from other charities, both local and national, but mainly located in Rowantown, which are usually unrestricted (i.e. not related to specific activities).
- Donations from businesses and individuals, again largely local to Rowantown:
  - RCT is in regular contact with three significant corporate donors (referred to as 'key sponsors'), who, between them, have donated an annual total to RCT of £125 000 - £150 000 for many years.
  - The balance of donations comprises typically much smaller amounts from both local businesses and individuals, many of which are one-off or highly variable in terms of timing and amount.
- One or two large legacies every year, which in recent years have been between £20 000 and £50 000 each. In general, RCT is not notified when someone includes the charity in their will.
- Income from hiring out its woodland spaces and buildings for events, such as weddings, birthdays and corporate team-building activities etc. Due to the weather and the school holidays, typically half of this income relates to the four summer months (June to September), while the rest is spread fairly evenly throughout the other eight months. The Trust is operating very close to capacity for weddings at weekends, and is receiving an increasing number of enquiries from couples wishing to hold their wedding on a Friday during school term times, particularly in the spring (March to May) and autumn (October to November) months. To date, these potential bookings have been turned down due to the need to earmark the space for educational courses and historical plays.
- The Trust also receives donations of goods and equipment, such as books, teaching aids and sporting equipment. Some of these are co-branded; for example, a Filandian sports clothing manufacturer provides sweatshirts for the Trust's staff, with both organisations' logos featured.

Filandian charity law dictates that charities must keep track of restricted funds separately from their unrestricted funds (general resources that can be allocated as the Trust's management see fit). In practice, this means that if a donation or a grant is made for a specific purpose (e.g. for the Trust to provide ten places on courses to pupils with a particular medical condition), the Trust must hold this amount separately from unrestricted funds in its financial records and ensure that it is only used for that purpose. It is not possible to change the purpose of a restricted fund unless documented permission is obtained from the original donor/grantor.

### The candidate

The candidate is Alex Holst, RCT's Finance Manager. Alex started at RCT at the end of April 2020, and reports to the Director of Finance and Resources, Marianne Wolff, whose background is more in human resources than in finance. Marianne reports to RCT's Chief Executive, Viktor Stewart. Alex manages one member of staff, the Finance Officer, Simona Calhoun.

### Current facilities at RCT

The woodlands owned by the Trust are ideal for providing its adventure and exploration activities to children, however the historical buildings that house the classrooms and boarding facilities, while attractive in appearance, are considered to be in need of significant renovation. A condition survey by a local chartered surveyor and building company has suggested that the buildings are no longer fit for purpose, and may soon be unsafe to use. The company's estimate to make the minimum level of needed repairs to the roof, plumbing and electrical circuits is £200 000 and the works would need to be completed by the end of 2021 to address the safety concerns. The condition survey has not been independently verified.

The poor state of repair of the buildings is also beginning to have an impact on the charity's activities. In very poor weather it is harder to use the outdoor spaces, and the indoor spaces can be rather cramped when the courses are at capacity. Staff who deal with wedding bookings are reporting an increased number of enquiring couples being discouraged by the poor state of repair inside some of the buildings, and also by the lack of parking available for larger numbers of guests.

In addition, RCT's Information Technology (IT) infrastructure is several years old, and there is limited potential to install the needed upgrades due to the historical fabric of the buildings and space considerations. There are also problems with internet broadband connectivity in the area, and RCT often struggles to obtain a reliable connection and download speed.

### Potential new facilities for RCT

One of RCT's key sponsors, a private housebuilding and Private Finance Initiative (PFI) company, the Branchwood Corporation (BC), has approached RCT with a proposal to build new facilities for RCT 30 miles away in rural Banfield, still just inside RLA's administrative boundary. The new facilities would be state-of-the-art, built sympathetically into the woodland, eco-friendly and would provide greater capacity so as to allow more children to attend both day and residential courses. It would also create a bigger space for larger audiences for the historical plays and other events. If RCT signs a contract with BC by the end of June 2020, the facilities should be ready to move into in January 2022. Once operational, BC would provide ongoing maintenance and upkeep of the buildings, grounds and IT systems in exchange for an annual PFI charge to the Trust. The arrangement also involves RCT signing ownership of the current site over to BC at the point that RCT moves to the new site, with the understanding that BC would then build 100 new houses on RCT's current site.

Banfield is a fairly remote and hilly area close to the boundary with the neighbouring local government organisation, Wilhelm City Local Authority (WCLA). Wilhelm City is 40 miles from the Banfield site, and it has just over half the population of Rowantown. The area under WCLA's jurisdiction is similar in demographics and deprivation to Rowantown, but is more sparsely populated outside of the city itself.

### RCT's finances and opportunities

RCT's resources have been increasingly stretched and government grant funding has come with more and more conditions attached of late. The Trust's policy is to hold a minimum of three months of total forecast expenditure in its reserves, and it has achieved this comfortably in previous years, but marginally missed the target in 2019.

The Trust therefore wants to generate more income, including from donations and commercial activities, in order to restore its reserves and provide more services. To this end, two new trustees have joined the board, both from commercial backgrounds: Nico Ferrara and Yvonne Haines. Nico Ferrara is currently the Chief Executive of the Rowantown Tourist Board, and was formerly a successful businessman in the retail sector. He is something of a Filandia celebrity and brings status and exposure to the Trust's work. Yvonne Haines owns two luxury boutique hotels on the outskirts of Rowantown, and is passionate about education for disadvantaged and disabled children.

The new trustees have various plans and suggestions about how to generate more income and exposure for the Trust, through marketing drives and new initiatives, and both are firm believers in the value that can be derived by applying analytical tools to such strategic issues facing organisations. For example, Yvonne Haines is keen to explore expanding the historical plays as ticketed events for the wider local community, and to work to increase venue hire for weddings and corporate events. These ideas have not yet been evaluated in any detail and no new marketing plans have yet been developed.

There is also the prospect of receiving a large central government grant, linked to providing digital services to disadvantaged young people across the country. The Trust currently has a computer room on site where it mainly uses third-party educational and learning support software with the

children who attend on site. Due to a lack of similar facilities across the country, central government has requested that RCT investigate the possibility of expanding into provision of similar services digitally (online), to support disadvantaged and disabled children in other parts of Filandia.

RCT's financial year is from 1 January to 31 December. Its summary 2019 outturn and 2020 budget are attached as Appendix A.

### RCT's staffing

The trust has a core staff of 50 full and part time workers. In general, staff members are passionate about education and supporting disadvantaged and disabled children, whether they work in the Education department or in RCT's support functions. Regardless of job role, all staff are carefully vetted to comply with Filandian children and young people safeguarding standards. The dedication of the staff and their passion for education has led to a strong nurturing culture and a united and dedicated work ethic at RCT; staff turnover and sickness absence are very low.

RCT's departments, including their number of full time equivalent (FTEs) staff, are as follows:

- Education (responsible for courses and historical plays) – 8 FTEs
- Welfare (pastoral care and counselling) – 6 FTEs
- Fundraising – 6 FTEs
- Events – 5 FTEs
- Premises – 4.5 FTEs
- Finance and Human Resources – 4 FTEs
- Administration – 3 FTEs
- Marketing and Public Relations – 2 FTEs
- Chief Executive's Office – 2 FTEs

### RCT's Education department

The Head of the Education department at RCT, Roy Silver, was previously a headteacher in a prestigious private sector school, and is extremely knowledgeable and experienced in education interventions and working with disadvantaged and disabled children. However, due to the increasingly challenging and diverse nature of the childrens' needs, he has been complaining of late that his team are extremely stretched in organising and delivering RCT's charitable activities, and that 'either the administration suffers, or the kids' experience suffers'. His team's recording of orders made and income received has, for example, been receiving less attention in recent months.

### RCT's public relations

A recent public relations drive to inform local communities about RCT's activities and to seek donations has created unforeseen issues for the Trust. Local residents have begun to complain about their own children not being able to access the services that the Trust provides. An article from the local newspaper, the Rowantown Record, is attached as Appendix B.

## Appendix A – Rowandale Charitable Trust 2019 outturn and 2020 budget

	<b>2019 outturn (January – December) £</b>	<b>2020 budget (January – December) £</b>
<b>Income</b>		
Grants – restricted	290 000	312 000
Grants – unrestricted	540 000	480 000
Donations – restricted	97 230	110 000
Donations – unrestricted	328 754	290 000
Legacies – unrestricted*	85 000	100 000
Venue hire (weddings, corporate etc)	520 460	560 000
Interest income	346	346
Charitable activities (i.e. contributions from schools)	923 510	980 000
<b>Total Income</b>	<b>2 785 300</b>	<b>2 832 346</b>
<b>Expenditure</b>		
Charitable activities:		
- Teaching	(761 241)	(760 000)
- Welfare	(570 325)	(575 000)
- Premises	(494 867)	(494 000)
- Administration/support	(328 952)	(330 000)
Fundraising	(236 920)	(250 000)
Non-charitable trading (weddings and events)	(421 925)	(420 000)
Financing costs (interest paid)	(2 458)	(2 458)
<b>Total Expenditure</b>	<b>(2 816 688)</b>	<b>(2 831 458)</b>
<b>Surplus / (Deficit)</b>	<b>(31 388)</b>	<b>888</b>

\*To date, RCT has not received any restricted legacies.

## **Appendix B – article from Rowantown Record**

### *'Charity' makes big bucks on weddings at the expense of local children*

A group of Rowantown parents is furious about the activities of the Rowandale Charitable Trust, which aims to offer educational courses and adventure holidays for local children.

The parents, whose children mostly attend Rowantree Private School to the north of the city, have raised their concerns after the Trust's latest advertising drive.

Mike Nuff, the spokesperson for the informal parents' group, said: "When we saw these glossy adverts about the great activities the Trust runs for children, we got together to try to find out how our children could get involved. I looked at the Trust's website, and discovered that it's funded by central and local government grants, so effectively we are all paying for it through our taxes. We were hoping to send our children to weekend or summer holiday camps at the Trust, to do woodland courses and survival skills and that sort of thing.

"But it turns out that the Trust doesn't even run courses for children at the weekend – instead it runs weddings and corporate events. I spoke to the Trust's Chief Executive, and he said schools are selected for weekday and residential courses based on local demographics (whatever that means), and that the Trust approaches the schools which has pupils it thinks will benefit the most from the Trust's work. Our school hadn't been selected because it didn't fit the criteria. I don't see how they can claim that our children wouldn't benefit from learning the same kinds of skills as children from inner city areas.

"When I then pushed him on it, he said that schools can approach the Trust themselves if they wish to send pupils there, but that they might have to pay more for these courses as they are discretionary and that the Trust currently has no capacity to run additional courses anyway. And yet there they are, hiring the place out for weddings and the like most weekends and all summer, and no doubt making a fortune from it.

"We are not against the Trust's work – it looks great. But we are all paying for a public service that our children cannot access. How is that fair to us as taxpayers, and to our children?"

It is understood that the parents' next move will be to contact Rowantown Local Authority to complain about the Trust's activities.

### Question 1 Requirements (1/5)

The Rowandale Charitable Trust (RCT) has received a proposal from the Branchwood Corporation (BC) concerning building new facilities for the Trust, and the decision must be made by the Trust's board in June 2020. RCT's Chief Executive, Viktor Stewart, requires a draft report for the board evaluating the proposal, as follows:

		Marks
i)	Analyse the financial aspects of the proposed deal with BC, critically evaluate the results, and discuss any related financial issues that will need to be considered by the Trust's board.	15
ii)	Evaluate the extent to which the proposed Private Finance Initiative (PFI) partnership with BC would assist RCT to meet the goals in its five-year plan.	12
iii)	For RCT's major stakeholders, assess their possible reactions to the proposed PFI partnership, and discuss how the stakeholders should be managed if RCT decide to go ahead with it	12
iv)	Discuss the risks involved in entering the proposed PFI partnership with BC, and suggest mitigations as appropriate.	17
v)	Provide conclusions on whether RCT should proceed with the PFI partnership.	4
		<b>60</b>

## Chief Executive Email - BC proposal assumptions (2/5)

### Email

From: Viktor Stewart, Chief

Executive To: Alex Holst,

Finance Manager

CC: Marianne Wolff, Director of Finance and

Resources Date: 1 June 2020

Subject: Branchwood Corporation (BC) proposal

- assumptions Alex,

I have received BC's proposal to build new facilities for us in Banfield. I am excited by this and the possibilities it holds for the Trust, but I want to be sure I understand all the implications.

We only have a short period to get board sign-off by the end of June. I need some insight into the impact of the proposal on our future finances. Given our current struggles around income, I would like to demonstrate to the board that this is a sound investment for the Trust.

We have also had some difficult press lately, so I need a section of the report to focus on our stakeholders and how we manage them, should we go forward with this.

I attach the summary of BC's proposal. Please assume the following:

- The additional capacity provided by these plans would be fully utilised for courses, plays and weddings/events.
- The payment of the unitary charge to BC would reduce RCT's annual premises spend on staff and contractors by 80%.
- We would need to make the Premises team (i.e. all existing caretaking staff, groundskeeping staff and IT support staff) redundant as of 1 January 2022. This will affect six permanent staff and is expected to cost £120 000. I have checked with our legal representatives and redundancy would be necessary and legal.
- Our costs for moving to the new premises are likely to be £175 000, which includes specialist removals and staff overtime to assist in moving to, and setting up at, the new site. I expect we would move over a weekend and run courses immediately from the new site. As it is school holidays for the last week of December, I do not expect the move to adversely impact our income in 2021.
- Any problems with the building identified in the 10 years of the contract would be BC's responsibility to fix under a snagging contract.

Given our current concerns around the achievability of our 2020 budget, which I know you are looking at separately, please use 2019 outturn figures when calculating the savings. Our standard discount rate for appraising investment options is 3.5%.

Thanks,

Viktor

## **BC proposal (3/5)**

### **BC Proposal**

BC proposal summary:

BC proposes to provide new, state-of-the-art facilities for Rowandale Charitable Trust (RCT) in Banfield, 30 miles from RCT's current facilities in Rowantown.

Benefits to RCT:

- These facilities will provide increases in the maximum available capacity for RCT's activities as follows:
  - 25% extra for day and residential courses and historical education events
  - 20% extra for weddings/events.
  - BC will use its expertise to source contractors to provide project management services for the build and fitting out of the new facilities.
  - On the date of the move to the new facilities (1 January 2022), BC will sign over ownership of the new Banfield site and facilities to RCT in perpetuity, subject to payment of a unitary charge for the first 10 years (see below).

BC will be responsible for the maintenance and upkeep of the buildings, grounds and IT systems for a minimum of 10 years from the date the buildings are operational (1 January 2022).

Remuneration for BC:

- On the date of the move to the new facilities (1 January 2022), RCT will sign over ownership of the Rowantown site and buildings to BC in perpetuity.
- For the first 10 years of operation (to 31 December 2031), RCT commits to pay a unitary charge of £400 000 per annum to BC. This charge will be payable at the beginning of each year (1 January 2022 onwards) and covers the following at the new Banfield facility:
  - Premises upkeep and caretaking
  - Grounds maintenance
  - IT systems maintenance and support (provided via an off-site call centre).

## Income and Expenditure Detail (4/5)

### Email

From: Simona Calhoun, Finance

Officer To: Alex Holst, Finance

Manager

Date: 1 June 2020

Subject: Income and expenditure details

Alex,

Please find below some details on our 2019 outturn, for you to use in evaluating the impact of the Branchwood Corporation proposal.

### **Charitable activities income 2019 outturn breakdown:**

Charitable activity	£
Courses – day	428 420
Courses – residential	400 670
Historical plays and other events	94 420
Total	923 510

### **Premises expenditure 2019 outturn breakdown:**

Premises	£
Staff	96 440
Contractors (electricians, plumbers etc.)	57 427
Buildings depreciation	341 000
Total	494 867

Thanks Simona

## Discount factors (5/5)

Year	Discount factor (3.5%)	Cumulative discount factor (3.5%)
1	0.9662	0.9662
2	0.9335	1.8997
3	0.9019	2.8016
4	0.8714	3.6730
5	0.8420	4.5150
6	0.8135	5.3285
7	0.7860	6.1145
8	0.7594	6.8739
9	0.7337	7.6076
10	0.7089	8.3165

## Question 2 Requirements (1/4)

The Rowandale Charitable Trust (RCT) board is growing increasingly concerned about the Trust's income position. The Chief Executive, Viktor Stewart, requires a briefing paper covering the following issues that the board will need to consider:

		<b>Marks</b>
i)	Analyse the variances in the income received in the year to date against the profiled 2020 budget. Discuss possible reasons for the variances and evaluate the implications of the variance analysis, including an assessment of the income areas at most risk.	14
ii)	Identify and discuss potential sources of increased income for RCT.	16
iii)	Assess the applicability of the marketing mix model in relation to RCT seeking to generate increased income from donations.	10
		<b>40</b>

## **Income variances (2/4)**

### **Email**

From: Marianne Wolff, Director of Finance and

Resources to: Alex Holst, Finance Manager

Date: 1 June 2020

Subject: Income variances

Alex,

The Chief Executive has asked this morning for figures on our current income position, so Simona has run a report showing what we have recorded so far in 2020. As I understand it, for prudence, we recognise income only when received.

I am very concerned by the figures (see Table: Income to end of May 2020 attached). We are almost halfway through the year, but have only received about a quarter of our budgeted 2020 income. The Chief Executive wants to know if we are on track and I do not really know what to tell him, as I am aware that my quick assessment may be too simplistic. At least, though, our charitable activities income looks to be reasonably on track.

Could you perform a variance analysis on this please and explain the reasons for the differences between what is budgeted and what has been received?

Simona also passed on some further details as follows:

"The unrestricted grants are from central government and a couple of large charities. The arrangement with each is that we receive this money in equal instalments quarterly, in arrears, and the quarters line up to our financial year. "The restricted grants are from Rowantown Local Authority, and are received monthly, in advance, in equal instalments. We have to submit a quarterly return at the end of March, June, September and December outlining how we have spent the grant, in order for it to continue. This is usually done by the Head of Education, Roy Silver."

Thanks,

Marianne

## Income to end of May 2020 (3/4)

**Table: Income to end of May 2020**

Income source	2020 Original Budget (January-December) £	Year-to-date actuals (to end of May 2020) £
Grants – restricted	312 000	78 000
Grants – unrestricted	480 000	120 000
Donations – restricted	110 000	48 500
Donations – unrestricted	290 000	54 175
Legacies – unrestricted	100 000	500
Venue hire (weddings, corporate etc.)	560 000	123 600
Interest income	346	346
Charitable activities (i.e. contributions from schools)	980 000	397 400
<b>Total</b>	<b>2 832 346</b>	<b>822 521</b>

### Working Table: Income end of May 2020

Please note that extra columns have been added below to the income table from above. You can copy and paste the table below into your answer box and add your own content to these new cells.

Income source	2020 Original Budget (January - December) £	Year-to-date actuals (to end of May 2020) £				
Grants – restricted	312 000	78 000				
Grants – unrestricted	480 000	120 000				
Donations – restricted	110 000	48 500				
Donations – unrestricted	290 000	54 175				
Legacies – unrestricted	100 000	500				
Venue hire (weddings, corporate etc.)	560 000	123 600				
Interest income	346	346				
Charitable activities (i.e. contributions from schools)	980 000	397 400				
<b>Total</b>	<b>2 832 346</b>	<b>822 521</b>				

## **Income sources (4/4)**

### **Email**

From: Marianne Wolff, Director of Finance and

Resources To: Alex Holst, Finance Manager

Date: 1 June 2020

Subject: Income sources

Alex,

The Chief Executive caught up with me again this afternoon and asked about the potential income shortfall issue. I said you are preparing a briefing paper, but he is definitely worried and has asked for more detail.

I understand that the new trustees have been suggesting ways of increasing and diversifying our income. You are already aware of Yvonne Haines' proposals, but the other new trustee, Nico Ferrara, has also suggested some ideas to me. He proposes the creation of a new holiday village on part of the (new or existing) site to sell holidays to families. He has also suggested that a 'tuck shop' is opened on RCT's site where the visiting children can buy snacks and drinks, and possibly RCT merchandise. I would be grateful if you could include a section in your paper on how we might increase income, either by increasing the amount received from existing sources or by exploring new sources. As we need to bolster our finances whether we move to the new site or not, please assume that we are staying at our existing site for the foreseeable future in your analysis.

The Chief Executive also mentioned something about donation income having been falling for a while, and Nico also referred to the marketing mix as a possible tool to use. I would be grateful for a section in the paper on how we might increase donation income using this model.

Thanks,

Marianne