

STRATEGIC CASE STUDY

Rowandale: 2 June 2020

MARKING SCHEME

The answers detailed below show some but not all possible answers that were accepted by the marking team. Marks were awarded for other valid answers that might not be included in this document.

Key to marks:

Calculations or the manipulation of numerical data.

Most calculations will be straightforward such as the creation of accounting ratios to interpret financial performance, or assessment of the sensitivity of particular estimates.

Some specific calculation marks may be allocated but candidates should not be judged solely on whether figures are 'correct', but on how they reached their figures and the reasonableness of their assumptions and approach.

Narrative

The candidate will be required to demonstrate in their narrative responses an assessment of the impact and implications of the analysis performed and application of appropriate elements of the syllabus as part of further critical evaluation. Narrative responses should demonstrably inform decisions being faced within the case scenario.

Marks will be awarded for the evaluation of the information given in the context of the specific issues raised by the case scenario. It should demonstrate consideration of an appropriate breadth of issues, such as financial and non-financial perspectives, stakeholder considerations, ethical considerations, strategic risks and the strategic objectives and environmental context of the organisation. Candidates will be expected to demonstrate professional judgement in drawing from this evaluation appropriate conclusions, making practical and relevant recommendations and focusing their answer to suit the user(s).

The allocated marks should again be seen as a guide. Some additional credit may be awarded (within the total marks available for the section concerned and subject to the requirement for appropriate coverage of a breadth of relevant issues) for points which have been developed with particular insight or cogency.

The marking scheme will identify (in bold) points of particular significance for which marks will be ring-fenced. This will limit the marks awarded to candidates who miss the most salient issues.

Reasonable credit may also be given for any points which have not been included in the marking scheme but are clearly valid in the context of the candidate's own calculations or preceding analysis.

General comments:

It is essential that candidates answer all the questions as set and meet the requirement to achieve a minimum of 25% of the marks available for each question.

Any attempt to evade the terms of the question on the grounds that the situation depicted in the examination scenario is unlikely to have arisen or occurred, or is improbable in concept, should not be awarded any credit.

Question 1 (60 marks)

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 board in June 2020. The Chief Executive, Viktor Stewart, requires a draft report for the board evaluating the proposal, as follows:

Q	Response points	Marks	Syllabus content	App'p Std.
Q1i)	<p><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.</i></p> <p>Calculations – 6 marks – see Excel document Narrative - 1 mark per developed point to a maximum of 9</p> <ul style="list-style-type: none"> • The results of the analysis suggest a positive net cash inflow from the move to the new site, of £271k (or £486k non-discounted), though with a number of significant risks attached. • Despite the risks, it should be noted that the Trust is struggling with dwindling income, so from a financial perspective this is, at least on the surface, an attractive proposal. • However, the assumptions used in arriving at these figures may be optimistic. BC has identified the likely increases in capacity for RCT's charitable activities and it is assumed that this would lead to a corresponding increase in income. It is not clear what knowledge BC has of RCT's service offer, and the relationship between, say, more physical space and capacity to accommodate people, in particular children. We should therefore seek to verify these increases in capacity and then re-calculate the figures if necessary. • The calculations on the increase in income from increased capacity have effectively assumed that RCT would be operating at maximum additional capacity from day one, which also may not be reasonable. It may take time for it to book in additional service users. • In addition, this is a completely new site which presumably will not be able to be viewed (e.g. for wedding bookings) until it is operational. This may adversely affect some of RCT's income streams for at least the first year. • There are upfront moving and redundancy costs, which are not paid back by savings/additional income until year 9 (in discounted cash flow (DCF) terms). • This payback period is likely to mean RCT would have to borrow to fund these initial 	15	FM C1, C2, C5; SPF C3	K.ARC, BI,FI, SBMG; S.BI, PSDM B.AV,PS

	<p>costs, which would create additional financing costs, hitting its bottom line.</p> <ul style="list-style-type: none"> • It is worth noting that the Education department under Roy Silver is already stretched providing courses. We should not automatically assume that RCT can increase capacity on day courses, residential courses and historical plays without needing additional staff. Should RCT need, say, two or three additional staff members to deliver this increased activity, it could wipe out the potential surplus entirely. • As it only includes cash movements, DCF analysis excludes depreciation. However, as RCT would be transferring the current site to BC and assuming ownership of the new site at the beginning of 2022, there will be an impact on fixed assets and depreciation in its accounts that would need to be considered. • Linked to this, RCT will incur legal costs during this process: firstly, to transfer assets between RCT and BC, and secondly to ensure the ongoing contract for provision of premises and IT support is appropriately drafted. It would be useful to obtain an estimate of these costs and factor them into our analysis. • If RCT do not move sites, it is estimated that it would need to spend at least £200 000 by the end of 2021 on essential repairs. This has been included as an opportunity cost saving, but the figure has not been independently verified. It should also be determined whether these works definitely will not need to be done before the move. • <i>(Note: If the £200 000 has been deliberately omitted from the calculations, the commentary should stress that this has been done for prudence and because the estimate is both unverified and not entirely clear whether the work might need to be done before the move.)</i> • It would be useful to project the calculations beyond year 10. RCT could, for example, bring premises back in-house at this point, in which case the PFI charge would cease, though it would be likely to face some upfront training costs for a new premises team. • Alternatively, if the deal continues beyond year 10, it may continue to provide a net positive position for RCT; though it would depend on the new terms negotiated with BC or a different partner. • RCT's current premises cost consists of staff, contractors and depreciation only. It would be beneficial to have an understanding of how utilities costs might change in an eco- 			
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	<p>friendlier building, compared to our current property; there might be savings in this area.</p> <ul style="list-style-type: none"> In addition, given that premises staff currently provide technical support to the events, it is worth checking what allowance has been made in the assumptions for this activity at the new site given that the premises staff are assumed to be made redundant. 			
Q1ii)	<p><i>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.</i></p> <p>1 mark per developed point to a maximum of 12, with a minimum of 1 mark reserved for each goal and a maximum of 3 marks per goal</p> <p>Reach more children</p> <ul style="list-style-type: none"> The new facilities will have increased capacity for day courses, residential courses and historical plays, which means that, at least in theory, more children can be accommodated overall. Regarding 'other innovative provision', if RCT can negotiate with BC over how the new facilities are laid out, it may be able to plan for some new and different activities in the future. The new location may be beneficial. Rowantown has issues with traffic and pollution; removing RCT from this environment may make it easier for rural schools to visit, and may increase visits from schools from other places. A caveat to this is that we have no information on how many schools would be within, say, a 30-mile radius of the new site. If it is particularly remote and rural, it is possible that fewer schools would feel able to make the trip, particularly for the day courses and plays. <p>Encourage repeat visits</p> <ul style="list-style-type: none"> Due to the increased overall capacity, it is likely to be more possible to have the same pupils returning for repeat visits. If RCT ensures that the facilities are built as flexibly as possible, this should support its ability to develop new programmes and longer term courses to support pupils with more complex needs. Again, though, the new location and distance from schools might make this trickier. If RCT wanted to run 'day release' style courses where the pupils come for the day once a month or once a fortnight, the distance may 	12	SPD B3; SPF C5	K.ARC, BI,FI, SBMG S.BR, PSDM B.AV,PS

	<p>prove prohibitive for some schools and parents.</p> <ul style="list-style-type: none"> • It is also worth noting that there may be an inherent conflict between this and the previous aim, in that if the Trust were particularly successful in securing repeat business it will limit the number of new children that they can accommodate even with the increased capacity. <p>Seek increased support</p> <ul style="list-style-type: none"> • In general, a significant change such as this provides an opportunity for public relations and marketing efforts, as RCT could engage with local or national media to publicise what it is doing and what the new facility will offer. • An increase in capacity may enable RCT to receive additional grants from government bodies and other partners, which would assist in delivery of its charitable aims. • This may in turn encourage people to support RCT: there could be specific fundraising campaigns to assist with covering the moving costs, provided RCT are careful about the regulations around restricted funds. • However, this goal heavily emphasises Rowantown. RCT should be aware that moving its provision further away from Rowantown may make it more difficult to seek support from Rowantown organisations. • RCT will need to check with RLA whether this move will affect any grants. RCT should also contact organisations local to the new site, to appraise them of the plans and seek support. <p>Develop supportive partnerships</p> <ul style="list-style-type: none"> • The PFI deal with BC is a partnership in itself, which may well lead to improvements in services and new ways of working, given the greater capacity of the site and more modern buildings. • As the contract is not yet signed, it is the perfect opportunity for RCT to specify exactly what facilities it would like to see at the new site. While BC would be responsible for the technical design, there is no reason RCT should not specify its needs and the general 'feel' of the buildings in advance of their construction. • A significant change such as this provides an opportunity to open dialogue with other potential partners on how RCT could work with them; there may be an argument for contacting target organisations now and asking for input on design/desired facilities at the new site. 			
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	<ul style="list-style-type: none"> • RCT should be aware of how much internal resource planning the new site, marketing and course development will take. It is possible that it may not have the staff capacity to work on developing partnerships, and the plans will require significant investment of time. <p>Ensure sustainable finances</p> <ul style="list-style-type: none"> • If RCT can fill the additional capacity at the new site, this would appear to be positive for its financial future, as it would generate an additional c. £335k of income per annum. • In addition, the premises unitary charge is only for the first 10 years; from then, RCT could insource premises or contract with another company to perform it, and it is likely to be cheaper as the unitary charge to BC will include some consideration for the PFI design and build. • In addition, a more genuinely rural location may be more attractive for wedding parties and other events, and RCT may be able to use this effectively in marketing communications. • If the contract is tightly written, having a flat fee for premises for 10 years may assist with financial planning and it means that any issues ('snagging') encountered as a result of the build will be dealt with by BC rather than by RCT. • Given its financial picture and unreliable income, it is unlikely that RCT would be able to fund a build at a new site, or even a complete renovation of the existing facilities, though this depends in part on the sale value of the current site. Entering a PFI contract with BC would enable it to upgrade its capacity and provision with a fairly low upfront cost. • However, it is worth noting that RCT's ability to fill the additional capacity has not been robustly assessed. While RCT is currently over-subscribed, the continuing economic picture and the more remote location of the new site cast doubts over whether RCT would always be operating at full capacity, and by signing up to the unitary charge it would have lost the ability to cut the premises cost base for the next 10 years, should demand fall. It would be worth speaking to some of key customers, as well as schools near to the new site, to gauge reactions and likely demand levels at the new site. 			
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Q1iii)	<p><i>For RCT's major stakeholders, assess their possible reactions to the proposed PFI partnership, and discuss how the stakeholders should be managed if RCT go ahead with it.</i></p> <p>1 mark per developed point to a maximum of 12, of which up to 7 for stakeholder reactions and up to 7 for actions to manage them and a maximum of 3 marks per stakeholder, with the total capped at 12 if only focused on external stakeholders.</p> <p>External</p> <ul style="list-style-type: none"> • Schools: Given RCT's customer base is currently focused around Rowantown, it should be prepared for some initial reaction about the move to be negative. Schools arrange their own transport, so it is likely that this move may cost them more if they wish to continue using RCT's services. <ul style="list-style-type: none"> ○ Collectively, schools are a key player and should be treated accordingly. RCT should involve them in the plans from an early stage, communicating the benefits of the new provision and attempting to get them excited about the new possibilities the site offers. Close relationships should be maintained to ensure early awareness of any negative reaction that is likely to adversely impact demand. • Pupils/parents: As the ultimate end-user of RCT's services, pupils may be the stakeholder that will most see the benefits of the new facilities. However, individual pupils/parents have relatively little power to influence the decision, unless they are so unhappy with the changes that they refuse permission for their children to travel to the new site. <ul style="list-style-type: none"> ○ Pupils/parents should be kept informed, and encouraged to engage with RCT during the design phase of the project regarding what they would like to see at the new site. ○ If RCT can get the children and their families excited about the potential of the new site, it may find that this will improve the engagement of their teachers and schools. • Trading customers: Those who will use RCT for weddings and corporate events have relatively high power (collectively at least), as they provide a significant proportion of the Trust's income. Their reaction is likely to be mixed – they may see the potential of the 	12	BCM B1; SPD B1; SPF B1	K.ARC, BI, SBMG S.BR,BI, PSDM B.AV
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	<p>rural site, but a modern suite of buildings may not be as appealing for some events as the period buildings RCT currently owns. Corporate customers with recurring bookings will certainly have high power; individual corporate bookings and weddings will have less power individually.</p> <ul style="list-style-type: none"> ○ Existing customers with bookings to the end of 2021 should be kept informed, and reassured that this will not affect their booking. ○ Any bookings taken beyond 2021 would need to be consulted and revised or cancelled, depending on their preference. RCT should be sure to understand any contractual/financial implications of cancelling any bookings. ○ RCT could possibly offer discounts to people holding weddings or events at the new facility in the first six months to a year, perhaps in exchange for photographs for marketing purposes. <ul style="list-style-type: none"> • Local government: As the new site is still within RLA's boundary and facilitates increased provision and at a site with potentially more suitable facilities, it is to be hoped that RLA would view the move fairly favourably. BC's plans to develop housing on the old site may help here, as Rowantown suffers from over-crowding and a lack of affordable housing. However, RLA may be concerned at the increased distance from the main areas of population in Rowantown. <ul style="list-style-type: none"> ○ RLA is a key player, and RCT needs to consult them as soon as possible and throughout the process. Most crucially, RCT needs to understand whether the grant funding would be unaffected, or would reduce through lack of proximity to the town, or would even increase due to the additional capacity at the new site. ○ In addition, as RCT is now close to the boundary of another local authority, it should approach them to ask whether they could offer support so that schools in their jurisdiction can be supported too. • Filandian central government: Central government is high power but probably low interest when it comes to this decision, as RCT's service provision should be largely unaffected or improved by the move. They may be supportive if RCT can build in plans to 			
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	<p>roll out online services to the wider Filandian population, which is unlikely to be feasible at the existing premises due to the internet access problems experienced there.</p> <ul style="list-style-type: none"> ○ Central government should be consulted on the plans, particularly as regards any move to provide online services to the wider population. RCT should also seek to confirm with them that the plans will not affect the central government grant funding in any way. <ul style="list-style-type: none"> ● Other charities, businesses and individual donors: This is one of the most difficult stakeholder groups to manage, as they will all be supporting RCT for different reasons and may therefore have varying reactions to the proposed move. RCT's position and standing with these organisations and individuals may also be jeopardised by signing such a significant contract with a large company, particularly the other two key sponsors; some donors may feel RCT is moving away from its charitable objectives in doing this. <ul style="list-style-type: none"> ○ This group is potentially a key player and needs to be carefully managed and involved. RCT should communicate the benefits and flexibility of the new site at the earliest opportunity, as well as make it clear why this is financially desirable, and that the contract is tightly negotiated to ensure the best deal for the Trust. ○ RCT should also open up dialogue with potential businesses, charities and individuals local to the new site, to replace any donors that may drop out as a result of this move. ○ One to one discussions with the key sponsors are advised to seek to reassure them about how the new site is consistent with its mission and to reaffirm the value of the relationship with them despite the new arrangement which would be in place with BC, the other key sponsor if the PFI proposal went ahead. <p>Internal</p> <ul style="list-style-type: none"> ● Staff: RCT's staff are dedicated, long-standing and enthusiastic about the aims of the Trust. They may see the educational and financial benefits of the move, but it is more likely that they will feel unsettled or angry about the changes. Assuming they live close to the current site their journey to and from work each day will be significantly increased. 			
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	<p>The proposed redundancies are likely to have a major disruptive impact on the team as a whole, not just those at risk of redundancy. As RCT is a service organisation, staff wellbeing has a significant impact on its service as a whole.</p> <ul style="list-style-type: none"> ○ RCT needs to consult with staff and engage them at the earliest opportunity. It should be as transparent as possible over the reasons for considering this move, and seek their honest feedback and concerns. ○ Of particular importance will be management of the teams that would be made redundant. RCT is likely to need to inform them of their redundancy quite far in advance, due to the need to sign the contract as soon as possible, and should be prepared for loss of morale, absences and probably resignations in the area concerned and possibly within the wider team. RCT will need a plan to cover premises at the existing site should this occur. However, RCT should also speak to BC about the possibility of their employing RCT's existing staff at the new site, if the staff are amenable. 			
Q1iv)	<p><i>Discuss the risks involved in entering a PFI partnership with BC, and suggest mitigations as appropriate.</i></p> <p>1 mark per developed point to a maximum of 17, of which up to 9 marks for risk identification and up to 9 marks for mitigation</p> <ul style="list-style-type: none"> • A significant risk for RCT is the impact on service delivery and its reputation of poor contract negotiation and management. Internationally, there is a history of the public sector being landed with poorly-designed, constructed or operated assets because the private sector is generally considered better at negotiating a contract in their favour. There is no reason to expect that RCT have had any prior experience in such matters. <ul style="list-style-type: none"> ○ Mitigation: RCT must ensure that it has access to legal expertise before signing the contract with BC and for the duration of the agreement, and specify in detail how issues such as contract overspends, overruns or breaches will be dealt with. 	17	BCM A1, B2; FM C5; SPF A5, B1, C3	K.ARC, BI,FI, LSP, SBMG S.BI,EI, PSDM

	<ul style="list-style-type: none"> ○ RCT needs to ensure it allocates appropriate management capacity to contract negotiations, and ongoing contract performance monitoring. Any additional cost linked to providing this capacity and expertise should also be included in the financial assessment. • Given that BC is a key sponsor of RCT, there is a risk of conflict of interest here. BC may have a greater knowledge of RCT's service offering than other potential PFI providers. RCT also faces the risk of a self-interest threat to its objectivity, as if RCT choose not to go ahead with this, BC may no longer wish to donate to RCT. <ul style="list-style-type: none"> ○ Mitigation: RCT needs to ensure that the procurement follows all relevant procurement guidelines and legislation, and that BC are handled on an arms-length basis during contract negotiation and management. There is little that RCT can do to mitigate the threat that they will stop being a key sponsor if RCT do not agree to the proposed deal to this, but RCT should be careful of how any such decision is communicated to them. • There are risks around the new location adversely affecting demand and alienating existing regular customers (i.e. Rowantown schools), thereby having an adverse impact on income and service delivery. Rowantown is Filandia's capital city, and contains areas of deprivation where disadvantaged children are located. If RCT moves away from Rowantown, it may be going too far from current and potential customers, particularly given that the schools provide their own transportation to and from the site. <ul style="list-style-type: none"> ○ Mitigation: RCT should contact existing regular school customers, particularly those farthest from the new site, and seek to understand how they would react to this change and whether they would still use the facilities after the move, particularly for day courses and historical plays, and factor this into the financial analysis accordingly. ○ RCT should devise a detailed marketing plan to appraise potential new customers of the move, to replace any lost income from existing customers unwilling to travel to the new site. ○ RCT should consider ways to diversify income to offset any teething problems or loss of customers. The central 			
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	<p>government grant for digitalisation may be more accessible if the new site enables better IT systems and higher broadband speeds, so RCT should consider the options for this and ensure it is fully allowed for in contract negotiations with BC.</p> <ul style="list-style-type: none"> • Even if RCT can retain all existing customers, there are risks around filling the additional capacity. The positive NPV is based on filling all of the additional available capacity from day 1 after the move (there may be teething problems and even one month's delay could result in a significant loss of income). Also, as the unitary charge is not dependent on activity level, RCT could be left financially exposed if it does not achieve this increased level of demand. <ul style="list-style-type: none"> ○ Mitigation: RCT should conduct market research to ascertain whether the new location will be within reach of schools that do not currently use its services, and plan marketing to them as appropriate. RCT could also look at providing modest discounts to customers using the new facilities in, say, the first 3-6 months of operation, to bolster the client base as quickly as possible. ○ Given the new purpose-built facilities, it may be reasonable to increase prices for some or all of its income-generating activities. It might be worth doing some market research and analysis around optimal pricing to assess this. ○ RCT could ensure that, if the build is delayed, it can continue to operate at the old site until it is ready. It may therefore need to avoid taking bookings at the new capacity until a completion date is assured, and work the impact of this into our financial analysis. • Staff issues: due to the necessary redundancies in the premises team, the remaining staff may feel unsettled or angry about the move. This will be compounded by their likely need to travel further each day, of the order of 60 miles if they live close to the current site. There is a risk of staff resignations, and general damage to the current strong morale. This in turn could damage the quality of RCT's service provision (even before the move if staff are very unhappy or resign early), and even threaten 			
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	<p>business continuity if RCT struggle to retain or recruit appropriate staff in the new location.</p> <ul style="list-style-type: none"> ○ Mitigation: early, honest and frequent consultation with staff is essential, to ensure that they feel a part of the process as much as possible and not 'done to'. RCT should communicate the benefits of the move, why it is felt to be necessary, and ask for their concerns so that appropriate actions can be considered. ○ If financially viable, it might be wise to offer transitional help with travel expenses or relocation allowances. RCT could investigate whether BC have any housing developments local to the site and whether RCT could negotiate discounts for staff wishing to relocate. ○ RCT's work culture is a major strength, so it should devote ample time to consideration of these staffing issues and ensure that it is as supportive of staff as possible during these changes. In addition, RCT will need to consider how to on-board BC premises staff to ensure that they adopt the Trust's working culture and do not regard themselves as separate from RCT's own staff after the move. <ul style="list-style-type: none"> ● Economic climate: the unsettled economic picture is causing organisations to seek to reduce or eliminate non-essential spend. While the Trust largely funds its activities rather than the schools, the schools still have to pay for transport and some of residential costs. It is possible that some of these costs will be passed on to the parents, but it is not likely that all parents could afford to fund them, so there is a risk that schools will deem this non-essential spending and demand will drop, right at the time when RCT's capacity and costs are increasing. ● The economic climate could also affect income from commercial sources – both corporate bookings and corporate donors – and even income from individual sources such as donations and wedding bookings. <ul style="list-style-type: none"> ○ Mitigation: RCT needs to analyse the likely additional costs to schools of longer journeys to and from the Trust, and potentially conduct market research to establish whether schools would be likely to pay this to send their pupils. ○ It may also be beneficial for the board to discuss its attitude to schools such as Rowandale Private School, who 			
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	<p>have expressed interest in sending children to RCT but who do not fit the current criteria in terms of need. It may be acceptable to provide services to these schools to raise additional funds to help others, as a way of mitigating the effects of economic pressures on schools in more deprived locations.</p> <ul style="list-style-type: none"> ○ RCT should communicate to corporate clients and corporate and individual donors about the changes early, and re-iterate the need for their support and the benefits the move will bring. <ul style="list-style-type: none"> ● Threat to income streams: both grants received from local charities and donations from businesses and individuals are largely focused on the Rowantown area. This poses significant risks to this discretionary, unrestricted income if RCT moves 30 miles from Rowantown, as these organisations and individuals may no longer feel able or willing to provide support. <ul style="list-style-type: none"> ○ Mitigation: RCT should contact major donors to assess the likelihood of them continuing to provide support if it moves, and check the conditions of any grants to see if they are location-limited. Any financial impact should then be worked into the forecasts. ○ RCT should devise a detailed and sensitive relationship management plan to communicate the benefits of the move and reiterate the need for their ongoing support. ● Threat to supply chain: the financial analysis has not considered the impact on RCT's supply chain. For example, the food provided to pupils, and the suppliers used for weddings, may be local Rowantown companies; making this move may mean that RCT can no longer use these companies as suppliers, or they may charge more to deliver to the new site. <ul style="list-style-type: none"> ○ Mitigation: RCT should consult with its major suppliers now, to understand what impact this would have on future dealings. If it is discovered that RCT will be unable to use some of the suppliers or that the cost will rise, it should investigate alternative suppliers located around the new site. ● Safeguarding issues: the provision of premises and support by a third party raises safeguarding issues. All of RCT's existing staff have been carefully vetted as they may be coming into contact with children on site. 			
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	<ul style="list-style-type: none"> ○ Mitigation: RCT will need to discuss with BC how this process will work for their contracted staff. RCT cannot allow un-vetted staff or casual workers on to a site with children. • Attractiveness: RCT's current site comprises attractive period buildings. While the prospect of custom-built, 'cutting edge' facilities is appealing, RCT should bear in mind that it may lose some of its character and possibly some of the appeal of the current provision, particularly for wedding bookings. <ul style="list-style-type: none"> ○ In contract negotiation and management, RCT needs to be sure it can review and sign off plans for the site, to ensure that the site remains as attractive as possible for all of its income-generating activities. • Public relations (PR): there is a risk of diluting RCT's brand by allowing the PFI partner to be involved in aspects of the Trust's overall services, and due to the redundancy programme. The Trust has already been subject to some negative press in recent months, and there is a risk the media could look unfavourably on this move (particularly local Rowantown news outlets). <ul style="list-style-type: none"> ○ Mitigation: RCT will need a sensitive PR plan for communication with media outlets and the public. This will need to be closely tied to the staff communications programme, to head off any possible information leaks and avoid staff finding out through informal channels. • Performance of BC's premises staff: due to the strength of RCT's current staff culture, it is hoped that BC's staff on site would buy into the Trust's ethos, but this is not guaranteed. Should they fail to perform their roles effectively, it could put RCT's IT services at risk, and even the health and safety of the children if they are not maintaining equipment and outdoor spaces appropriately. <ul style="list-style-type: none"> ○ Mitigation: the appraisal system for these new members of staff needs to be clearly designed and should involve a lot of input from RCT. There needs to be some form of reporting line into RCT so that problems identified can be swiftly addressed, without necessarily having to revert to BC every time. The contract should contain clear performance indicators, and strict penalties for failing to meet them. This may include a poor performance break clause enabling RCT to bring premises 			
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	<p style="text-align: center;">back in-house in serious circumstances.</p> <ul style="list-style-type: none"> • End of the contract: it is not clear what will happen at the end of the 10-year contract period. It may be that RCT could keep on the BC premises team if they are doing a good job, but it will require contract re-negotiation and BC may decide to charge more at this point. Alternatively, the BC provision may cease, and RCT would need to recruit and train up a whole new premises team, which raises questions around business continuity. <ul style="list-style-type: none"> ◦ Mitigation: assuming that nothing is written into the contract beyond 10 years, RCT needs to maintain a dialogue with BC about what will happen at the end of the contract and be prepared for increased costs and/or recruitment of a new premises team. It may be appropriate to plan for on-boarding of a new team during the final year, so that there is some cross-over between teams and business continuity is more assured. • BC's stability: given the difficult economic picture, there is a risk that BC may suffer financial difficulties and even go into liquidation during the course of the build or the 10-year contract, particularly given they tend to operate with all their costs up-front and only recoup from partners (and homebuyers) at the end of the build. This could leave RCT without a completed new site (if it was to happen in the next 18 months), or suddenly without premises support if it occurred during the 10 years of operation. <ul style="list-style-type: none"> ◦ Mitigation: measures to address this risk are fairly limited, short of fully assessing BC's financial statements before signing the contract. Once operational, RCT should ensure that the premises team have all their procedures and activities fully documented, in case it needs to replace them quickly. • Major incidents/changes and responsibilities: the contract needs to be clear on where responsibility will lie for problems related to major incidents or changes in the business environment in the areas covered by the PFI deal e.g. a cyber-attack; an IT systems crash; major flooding or fires; a pandemic; issues with the new site (e.g. unexploded bombs, contamination); major damage to the facilities (criminal or accidental); legislative change (e.g. relating to carbon emissions, minimum wage etc.). Without this clarity, 			
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	<p>there is a risk that RCT could be liable for most changes to scope and unexpected events, which has historically been a problem with public sector PFI projects.</p> <ul style="list-style-type: none"> ○ Mitigation: clarity is needed within the contract on these points and any others that may adversely affect service provision, on where responsibilities for additional costs will lie. Where the costs lie with RCT (in part or in full), it should consider insurance measures to protect itself financially. Insurance should cover both repairs of any damage done, and loss of income while repairs take place. • Changes in demand levels/type of use: 10 years is a fairly long time, given changing political priorities and an uncertain economic picture. Should RCT no longer wish to maintain the activity levels forecast in the financial appraisal, or should new types of service provision become desirable, there is a risk that the contract will be too restrictive in relation to, for example, falling demand or the need for new services. <ul style="list-style-type: none"> ○ Mitigation: in contract negotiation and management, there needs to be a clear division between the back-office premises support provided by BC, and the services provided by RCT. RCT should seek to avoid, for example, any restrictions placed by BC on the number of courses or events that can be held in the year, or when these can take place. • Contract delays: 18 months may prove a tight timescale for building the new facility (it perhaps appears so based on the need to sign a contract for this so quickly). If RCT publicises the move and takes bookings for the new facility from January 2022 (as will be necessary given the assumption that it will be fully operational from then) and then it is not ready in time, RCT risks breaching contracts with customers and exposing itself to bad publicity. <ul style="list-style-type: none"> ○ Mitigation: delays to completion of the new facility need to carry penalties for BC, to at least the value of both lost bookings and lost goodwill should the site fail to be ready in time. • Cost of capital: the cost of capital in PFI projects is often higher than public sector borrowing rates, as the private sector usually has less favourable rates available to it. It is unclear how applicable this might be to a charity, but the risk is that this may be 			
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	<p>expensive, compared to funding a new site directly itself. RCT would be paying BC the unitary charge for 10 years and signing its old site over to them. It is possible that this arrangement is disguising RCT paying well over the odds for the new facility.</p> <ul style="list-style-type: none"> ○ Mitigation: RCT need to have the current site and the new site valued, and produce a public sector comparator (PSC) as soon as possible to check the overall financial outcomes of this project. While RCT may struggle to fund the upfront costs itself, and PFI is an attractive solution to this, RCT should be aware of how much more it would be paying for this option (while losing the ability to choose and service the new site itself). 			
Q1v)	<p><i>Provide conclusions on whether RCT should proceed with the PFI partnership.</i></p> <p>1 mark per developed point to a maximum of 4. Other conclusions will be accepted if appropriately argued and based on the financial and non-financial analysis performed.</p> <ul style="list-style-type: none"> • The new site has clear benefits in terms of capacity, given that RCT is currently over-subscribed, and in terms of the flexibility afforded by having its own purpose-built facilities. In addition, it should prevent RCT having to make repairs to its existing facilities. • It should also enable RCT to raise more funds through its trading activities, provided the new spaces are attractive for weddings and other events, and this will help to support its income at a difficult time. • However, some of assumptions in the analysis may not be robust, and there is a lot of work to do to ascertain whether there would be demand for this additional capacity given RCT would be operating from a different location. • Overall, the proposal clearly has merits, and the Trust should consider proceeding, but only after the following has taken place: <ul style="list-style-type: none"> ○ Market research to assess number of schools local to the new site that would be interested in the provision ○ Consultation with existing customers, funders and suppliers to gauge their reactions and likelihood of support for this decision ○ Research procurement rules and perform thorough due diligence on BC, given they are a key sponsor and the 	4	SPD C3; SPF C3	K.ARC, FI,BI, SBMG S.BI, PSDM B.AV,PS

	<p>potential conflict of interest this creates</p> <ul style="list-style-type: none">○ Access to strong contract negotiation and management expertise to ensure that RCT obtains the best terms in the contract with BC.• Given the need for this additional analysis to take place, and the very constrained timescales RCT should not proceed on the proposed basis and instead should revert to BC to enquire whether the agreement deadline (and therefore probably the move-in date) could be moved back while this work is undertaken.			
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Question 2 (40 marks)

The Rowandale Charitable Trust (RCT) board are 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:

Q	Response points	Marks	Syllabus content	Appr'p Std.
Q2i)	<p><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.</i></p> <p>Calculations - 5 marks - see Excel document 1 mark per developed point to a maximum of 9</p> <ul style="list-style-type: none"> • The income sources have been profiled for the first five months of the year, to reflect the fact that we do not receive each income source evenly across the whole year. • The profiling of income has reduced the total variance for the first five months from a £358k deficit to a £301k deficit. This deficit is still significant, at over a quarter (27%) of our expected income for the year to date (YTD). • Ring-fenced grant is showing a £52k deficit. This is exactly equivalent to two months' worth of grant. As this grant is supposed to be received monthly in advance, this suggests no grant was received for two months or the year so far, possibly for April and May, and the reason will need to be investigated. • It is possible that this is simply an error by the local authority or a miscoding by RCT, but it should be noted that this grant is dependent on the submission of a quarterly return. We should check as a matter of urgency that the quarterly return was done and submitted by the Head of Education for Jan-March, particularly as his team is overstretched and this may not have happened. • General grant is received quarterly in arrears. Assuming receipt of the second quarter's income at the end of June, this is on track. • It is not clear whether donations and legacies should be assumed to be spread over the year, but, on that basis, these are collectively presenting a £105k deficit for the YTD. • Legacy income in particular may be unpredictable and this amount is based on 	14	MA D1; SPF B5, C5	K.ARC,BI, FI,SBMG S.BI,PSDM B.PS,AV

Q	Response points	Marks	Syllabus content	Appr'p Std.
	<p>only one or two large legacies a year, which are difficult to forecast. That said, it is concerning that in five months we have received only £500 in legacies, against a budget of £100k.</p> <ul style="list-style-type: none"> • Restricted donations are slightly in surplus, but unrestricted donations are showing a negative variance of around £67k. This is concerning, as unrestricted income is key to deliver on the Trust's aims, whereas restricted income may be difficult to deploy if the use restrictions on these funds are significant. • For this analysis, it is assumed that the PFI deal is not going ahead, but it is worth noting that BC is one of the key sponsors, and it is possible that their regular donations will cease if the PFI deal is not progressed. • Around half of the venue hire income is typically received in June-September, though the variance here is still around £51k deficit after profiling. This should be easier to forecast as there should be bookings in advance, so more work could be done on this to establish the likely outturn for the year. • For bank interest income the entire budgeted amount has already been received. This may mean that it is a particular financial instrument(s) that has already paid out for this year, but this should be confirmed, although it is not a material income item. • After profiling, income from charitable activities is not on track as Marianne has suggested. The reason is that RCT does not run these activities in July and August, so the income already received should be higher to take account of this. On profiled income, there is a deficit of around £93k YTD. • It is possible that this position is due to the general negative economic picture in Filandia, which may be causing schools to have to reduce their spending and not book with RCT. We should compare these figures to volume figures from the Education department to see whether this is due to a decrease in course attendees, historical education attendees, both, or some other cause (e.g. charging less per place). • The income sources that carry the most risk appear to be: donations and legacies, as these are entirely unpredictable and already lagging well behind target; income from charitable activities, as this is entirely demand-led; income from venue hire, though this should be somewhat more predictable, 			

Q	Response points	Marks	Syllabus content	Appr'p Std.
	<p>particularly for weddings; and ring-fenced grant if the Trust does not exercise control around claiming this.</p> <ul style="list-style-type: none"> It is noted that income is only recognised when it has been received, for prudence. While this is appropriate for lines such as donations and legacies, we might adjust this policy for grant income, for instance where we know it is received quarterly in arrears it could be accrued income each month, to avoid large and misleading variances. In addition, it should be noted that Roy Silver's Education department is overstretched. It is possible that some income received has not been appropriately recorded, and this should be investigated with the Education department as a matter of urgency. 			
Q2ii)	<p><i>Identify and discuss potential sources of increased income for RCT.</i></p> <p>1 mark per developed point to a maximum of 16</p> <ul style="list-style-type: none"> There is the possibility of a central government grant related to providing online tools to disadvantaged and disabled children across Filandia. The benefits of this would be an increased income stream, and potential for good marketing collateral linked to reaching more children with RCT's services. The disadvantages of this would be that it is almost certain to be restricted funds, so it is unlikely to help RCT fund existing activities any more robustly than is done currently. It may also not be possible at RCT's current site, given the internet accessibility issues. Nico Ferrara has suggested the creation of a holiday village, for families to use the facilities at weekends and in holiday periods. The benefits of this would be that RCT is currently close to affluent areas and Filandia's financial centre, and some of Rowantown's private school parents have expressed a keen interest in being able to access the Trust's facilities for their own children. The disadvantages of this would be the possibility that it is seen as contrary to the Trust's aims, as it would be unlikely to be disadvantaged families purchasing these holidays; it would be likely to require significant up-front investment; it raises safeguarding issues by having non-vetted adults on site on a regular basis; that it is questionable given Nico heads up the local 	16	SPD B3, C3; SPF A4, B5	K.ARC,BI, FI,SBMG S.BI,PSDM B.PS,AV

Q	Response points	Marks	Syllabus content	Appr'p Std.
	<p>tourist board; and that it is potentially cannibalising income from weddings and events, as RCT may have to sacrifice space to make it happen.</p> <ul style="list-style-type: none"> • Nico has also suggested the creation of a tuck shop on site, for pupils to purchase snacks, drinks and RCT merchandise. The advantages of this would be that it should take minimal space and investment to get it up and running, and it is possible that the children would be in favour. • There are many disadvantages to the tuck shop idea: the children who visit RCT are largely disadvantaged, and may not have the money to access this service, which might make them feel less connected with the work of the Trust; selling merchandise may be seen as mercenary, particularly if this is a net income generator as Nico clearly intends; the trust would probably have to employ a new member of staff, at least part time, to run the shop and this may well not be covered by the receipts; and it poses risk of cash theft and fraud, requiring development of additional controls etc. • Yvonne Haines has proposed expanding the historical plays and running them as ticketed events for the local community. The advantages of this are as follows: it may require minimal investment, as the Trust already has the plays and the actors, props etc., so it could perhaps run these on a marginal cost basis, for example in the evenings if the actors are willing to work longer shifts; it is more in keeping with the Trust's charitable objectives than some of the other suggestions, as families can bring their own children and therefore access the service if their school is not involved with the Trust; and the Trust could run a trial fairly easily to gauge possible demand and feedback from audience and engage with families whose children do not currently benefit from the Trust's work. The Trust could, perhaps, offer a free ticket for a child for every adult ticket purchased, which would be in line with the charitable aims to reach more children. • Disadvantages are that it would change the contracts of the actors and any affected support staff so the Trust would need to be sure they were amenable and that their costs would be covered; safeguarding issues if these are run at the same time as day or residential courses; and that it might encroach on the Trust's income from 			

Q	Response points	Marks	Syllabus content	Appr'p Std.
	<p>weddings and other events if it has to use prime slots to get interest from the public.</p> <ul style="list-style-type: none"> • Yvonne has also expressed a desire to increase our revenue from weddings and other events. The advantages of this would be: the Trust already has the staff and processes in place to cater for these events; they take place in 'down time' from the Trust's other activities which means they do not detract from its charitable objectives; they appear to be quite lucrative; and would make more people (guests and delegates) aware of the Trust's facilities and activities. • The disadvantages are: RCT is already operating close to capacity for weddings, so there are limited slots to book in many more events. RCT could consider allowing wedding bookings on Fridays as there have been many enquiries about this, but this conflicts with the Trust's charitable activities (courses and plays), so would be difficult to justify from a strategic aims point of view. As they are operating near to full capacity it may be possible to increase prices, though the concerns over the facilities, such as its poor state of repair, may make this infeasible. • In addition, it is likely to require increased marketing effort to obtain more wedding and events bookings, which will probably mean advertising in places not already used (e.g. wedding fairs, corporate publications) which will cost additional resource; and, given that Yvonne is a local hotelier, it could be seen as self-interested to increase events bookings. • In general, it would be useful to perform some analysis of the options for weekend and holiday use of the facilities. While RCT currently only uses the facilities for events and weddings in these periods, it is possible that it could offer paid holiday camps for children, as interest has been expressed in this possibility by some private school parents in Rowantown. • The Trust should be cautious about straying too far from its mission, for example by building a holiday village on site or running a tuck shop. It is important for a charity to be seen to be using grant funding and donations appropriately and in line with the giver's expectations, whether the funds are restricted or not. • Similarly, RCT could provide paid activities, classes etc. for children at weekends, particularly in the winter months when it will not be so popular for weddings or outdoor 			

Q	Response points	Marks	Syllabus content	Appr'p Std.
	<p>events. It would be worth analysing potential income from all of these sources, and whether it could do a combination: for example, weddings and events are likely to be booked several months in advance, so the Trust could look ahead at the calendar to see what else could be fitted in when there are no weddings or events booked.</p> <ul style="list-style-type: none"> • The Trust may consider reaching out beyond the school sector with which it traditionally works. Though the numbers are not likely to be large, it is clear that some children which are not registered in state schools may benefit from the Trust's services, for example home schooled children and children attending units that cater for those excluded from mainstream schools. • In general, RCT should be seeking to increase unrestricted income sources: i.e. grants from charities, donations from businesses and individuals, legacies (where unrestricted), and trading income. Restricted grants appear to have caused problems in the past and can be difficult to claim. • The Trust's most significant income stream is from charitable activities, such as the contribution from schools towards accommodation costs. However, this is not an income stream that it can look to increase without substantial risks around reducing demand, especially given the current economic climate. • The Trust also receives donations of goods and equipment. While these may be useful, RCT should ensure there are strict policies about what can be accepted, and co-branding is a risk if the private sector partner experiences any bad press. • It is vital that the Trust meets the requirements of the grants it currently receives, and this should be impressed upon any staff responsible for claims. It should review whether the already stretched Education team is the right place for grant claim compilation given the current concerns. • Lastly, though more diverse and more predictable income is certainly important, RCT should also seek to scrutinise its cost base, which is just as important to the Trust's financial sustainability. 			

Q2iii)	<p><i>Assess the applicability of the services marketing mix model in relation to RCT seeking to generate increased income from donations.</i></p> <p>1 mark per developed point to a maximum of 10, with a minimum of 1 and maximum of 2 marks per element of the marketing mix.</p> <p>Product</p> <ul style="list-style-type: none"> • With regard to donations, the 'customer' is not actually benefiting from the product or service directly themselves. In this instance, focus on the 'product' will involve communicating to potential donors what the Trust does, what needs it meets, and why this is so important. • The product could also be said to be the feeling the donor gets from giving to the charity, as well as the potential for positive publicity for corporate donors, for example, as part of their corporate social responsibility stance. RCT could perform analysis of the most successful fundraising campaigns or surveys of existing donors to ascertain what is most important to them. • There is a risk that potential donors may be deterred from donating if there is a perception that the Trust is heavily reliant on government funding. The marketing activities do therefore need to carefully highlight RCT's distinctiveness from taxpayer-funded mainstream schools. <p>Price</p> <ul style="list-style-type: none"> • Regarding donations, the 'price' may be effectively set by the customer, as they can choose to donate however much they like. • However, RCT could consider the 'prices' of any services it promotes; for example, with messages such as "£45 could pay for one disadvantaged pupil to attend a day course and learn essential skills" etc. It may be that setting the 'price' quite low, e.g. a £2 per month donation, might increase donations as people would feel this is affordable within their monthly budget. • A further option that the Trust could consider is to link specified levels of donations to something more tangible received by the donor, such as their name on a plaque or a ticket to an event. 	10	SPD C2; SPF C1	K.ARC,BI, SBMG S.BI,PSDM B.AV
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	<p>Place</p> <ul style="list-style-type: none"> • As a lot of RCT's donations currently come from individuals and businesses located in Rowantown, place clearly has an impact on people's willingness to donate. RCT could market based not only on the benefits to the children, but the benefits to the area as a whole from the work that it does. • This element also applies to places and methods for donating to RCT; the Trust should make donating as accessible as possible, perhaps by providing coin collection points in Rowantown supermarkets, and by making it easy to donate over the internet or through texting. <p>Promotion</p> <ul style="list-style-type: none"> • For RCT, this is about the ways it publicises its work and seek support, and the messages conveyed to possible supporters. It might consider different media: direct mail-outs, email, posters and TV/radio advertisements. Again, the Trust should analyse previous campaigns to see what has worked well in the past. • The recent newspaper article indicates that some parts of the community do not understand the Trust's key values and work, which suggests a need to improve the effectiveness of such initiatives. <p>People</p> <ul style="list-style-type: none"> • When it comes to donations, the most significant aspect is likely to be its fundraising team, and the people who interact with potential donors. It is important that any such personal interactions are a positive experience for potential donors, whether it is proactive fundraising campaigns (such as direct calling or street collections) or in reactive situations when a donor contacts the charity to seek to make a donation. • In addition, and as the quality of our services also may persuade potential donors to provide support, it is key that the Trust's frontline education staff have the appropriate credentials and are enthusiastic. It may be appropriate to draw on such attributes directly by involving the frontline staff in promotion activities. 			
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	<p>Process</p> <ul style="list-style-type: none"> • When it comes to donations, the key process(es) will be how the Trust takes the money from donors, and how they are dealt with throughout the donor experience. RCT should ensure it has removed any barriers to donation; for example, the donation webpage needs to be slick and have minimal steps to sign up as a donor, as people tend to drop out of a process if it proves difficult to complete (and especially where they are attempting to voluntarily part with their money). • Other donation options with simple processes should be considered, such as direct debit options which also encourage regular more predictable income flows. • The process should also give confidence that the donation method is secure and donors' personal details are safe. <p>Physical Evidence</p> <ul style="list-style-type: none"> • For the Trust marketing to potential donors, reviews from schools and testimonials from children helped would probably be the most compelling form of physical evidence, coupled with images of the children taking part in its activities. • RCT could also offer donors of higher amounts a chance to look round the facilities or to observe its work (with appropriate safeguarding measures), so that they can see where their money goes. It might also provide them with a Trust newsletter or magazine. <p>The marketing mix model is applicable to donations, in that it is about the blend of efforts in all of these seven areas that drives RCT's donation receipts. It encourages RCT to think carefully about how to message and evidence its work to potential donors, to maximise their confidence in, and desire to support, the Trust.</p>			
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