CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC CASE STUDY

Fabula: 6 December 2022

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 (55 marks)

The Fabula Arts Complex (FAC) Board wishes to review the future of its smaller venue, The Roundhouse. As per the email of 5 December from the Artistic Director, Jibril Roy, prepare a draft report covering the following issues that the Board will need to consider:

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
Q1i)	*Discuss the performance indicators (PIs) that would be suitable for evaluating the performance of FAC, and its different business segments.* ***1 mark per developed point to a maximum of 11.*** • FAC is an arts organisation, so consideration of the artistic and cultural merit of its activities is essential and should be worked into the PIs, in line with its strategic objectives. • However, some of FAC's strategic objectives may run counter to each other (such as artistic merit versus making a surplus), and gauging FAC's performance should take into account a range of financial and non-financial measures, so an approach to appraising performance such as a balanced scorecard may be appropriate here. • It should be noted that FAC's strategic objectives were set in 2018, before the impact of the pandemic and the shift in government priorities. It is also clear that the trustees are increasingly questioning FAC's strategic direction, so before settling on PIs it would be important to reach consensus on the strategic objectives as these should drive the PIs, but at this stage the existing strategic objectives should be used to frame discussion of potential PIs. • As FAC is wholly owned by FCC, it will be pertinent to consider the Council's priorities as well, and set PIs that tie in with FCC's priorities. • The productions in the Main Stage and The Roundhouse could be assessed against the 'Dionasian Dozen' list or other round-ups of the national theatrical canon, to assess the extent to which the programme in each venue explores the diversity of the Dionasian canon. It might be appropriate to set a target for staging a certain number of plays by the 'Dozen' playwrights each year, and measure against this target. • FAC should also perform analysis of how many new works have been brought to its spaces in	11	SPD: B3 SPF: C5 SCS: A1-A4, A6, B1-B3, C1-C2, D1-D3	K: ARC, BA, FI, LSP, SBMG S: BI, C, L, PSDM B: AV, F

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	recent years, and the balance between existing Dionasian works, new works, other (overseas) playwrights, and other productions (such as concerts etc). • With regard to assessment of diversity in playwriting, PIs could include % of works by people of colour, % of works by women, % of works by disabled writers etc to assess the variety in the plays and that the playwriters are from diverse backgrounds. • FAC could devise a PI around the reviews published in the local or national press, as an (albeit subjective) view of whether it is staging 'high quality theatrical productions'. This could focus on aggregate ratings from identified respected reviewers. Given concerns around 'dumbing-down' of the Main Stage programme, it may be that The Roundhouse would score much higher on this type of indicator than the Main Stage. • Alongside review scoring, customer satisfaction regarding the shows that they have attended would also be useful information. An audience questionnaire could provide useful feedback on the experience being provided, the opinions of the local community, and so on, with some quantitative satisfaction PIs included in the surveys. • When it comes to achieving a 'loyal' audience, FAC should interrogate its sales data to understand the frequency with which audience members book for shows and how quickly they return. It should also investigate whether this information is available for repeated visits by patrons of the Cantina, gallery and shop. • FAC could also look at address data for its patrons, where permissible to do so under data protection laws, to measure to what extent the audiences are local. • In addition, it would be useful to gather metrics on cross-fertilisation of FAC's different activities, such as how much patrons attending shows in either auditorium spend in the shop / café / gallery, and how much of the spend for these units is independent of theatrical activity. • Percentage of tickets sold for events, and average ticket prices, would also provide a useful			

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	angle on performance. Turnover per seat per annum for The Roundhouse is higher than for the Main Stage, and it would be useful to know whether this is because of higher demand for shows in The Roundhouse, or higher ticket prices, or both. • A financial evaluation of each production, i.e., costs to stage versus ticket revenues, would be a useful PI to evaluate shows and types of show against one another. • As FAC has an objective around staff including cultivation and retention, it could examine the statistics around training and staff turnover for the different departments within FAC. In addition, it could devise PIs around the satisfaction ratings in staff surveys. • The creation of 'opportunities for creatives in Fabula and surrounds' objective can be partly assessed by PIs around new playwrights as above, but also by looking at the range of work featured and sold in the art gallery, specifically how regularly new artists' work is shown, how these are promoted, and so on. • For educating the community and young people, FAC could look at the numbers reached by the community outreach programmes over recent years (though obviously allowing for COVID-19 drops in activity). • As FAC's objective also mentions educating them about careers in the arts, it would be useful to contact previous attendees if possible and find out whether they have gone into the arts and to what extent FAC's programmes affected them. • Financial indicators will also be key, such as gross and net profit, return on assets and so on. The gallery and shop will also have stock levels to consider, which in the case of the gallery has the potential to be high value. • In consideration of PIs, FAC should also consider the cost of setting up systems to monitor them. Its resources are already stretched, and the financial environment is becoming more challenging, and the need to find a way to track extra metrics and report on them may create costs it cannot afford at this time – the potential benefits from PI data collection and analysis needs to outweigh the associated costs.			

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
Q1ii)	*Using 2019/20 data, evaluate the financial performance of The Roundhouse against FAC's other segments of operation, including any other financial factors the trustees should be aware of.* ***Calculations – up to 3 marks – 1 for profit ratios for The Roundhouse, 1 for comparative figures for other segments, and 1 for turnover per seat. Alternative calculations / ratios that provide a meaningful basis for analysis should also be awarded credit.*** ***Narrative - 1 mark per developed point to a maximum of 7. A minimum of 1 mark each is reserved for discussion of overheads and grant funding.*** • In 2019/20, The Roundhouse generated the biggest operating loss when compared with the other segments, and was the only segment that also generated a gross loss (turnover less cost of sales). • While the Main Stage also made an operating loss, it made a gross profit, and therefore made a contribution to management / admin charges of nearly £162k. All other segments made a surplus when measured on a gross or net profit basis. • The Roundhouse generated 19% of FAC's overall turnover in 2019/20, so a decision to close the venue and repurpose the space should not be taken lightly. • However, this analysis of segmental performance does not take into account some other cost and income items that have not been attributed to the segments, such as donations and grant income, which are material amounts, and the less material 'other' costs and income, which includes FAC's community outreach work. A full assessment of performance should consider to what extent any of these items can be attributed to the segments on a meaningful basis. • It is noted that grant funding has not been split out by segment as presumably at least some is general. However, as The Roundhouse tends to stage fewer commercial productions, and often stages community theatre, it may be that some grant funding would be lost if The Roundhouse	9	MA: B3 CFR: D2 SPD: B3 SPF: C5 SCS: A1-A4, A6, B1-B3, C1-C2, D1-D3	K: ARC, BA, FI, LSP, SBMG S: BI, C, L, PSDM B: AV, F, PS

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	ceases to operate, and this should be factored into this analysis if so. • Similarly, donations are more likely to be made by patrons of The Main Stage and Roundhouse than by patrons of the shop or café, so we would need to try and understand whether closing The Roundhouse would have a negative impact on the amount of donations collected. • Management / administration costs have been allocated to segments on a 'percentage of turnover' basis. It would be useful to come up with a more nuanced way of allocating these costs, perhaps by activity / hours spent, to assess whether The Roundhouse really drives £45k of overhead costs. It would also be helpful to have information on which costs are included under overheads, and which are classified as part of cost of sales. • It is worth noting that the Main Stage's turnover per seat per annum is £1 927, whereas The Roundhouse's is £2 428. This indicates that it would be worth looking more carefully at costs for Roundhouse productions to see whether these can be brought down. • While Covid is still having some impact, and so current performance may not be wholly representative of 'normal' conditions, this data is quite old. It would be appropriate to analyse more recent performance information and consider future projections before reaching any firm conclusions on the Roundhouse's financial performance, or making decisions about its future. • It is worth noting that the segmental analysis largely ignores any interdependence / cross-fertilisation between segments. It is difficult to quantify the impact of one segment (e.g., the performance spaces) on others (e.g., the shop or café), and to what extent such benefits are reciprocal, which places some limit on the usefulness of the segmental analysis.			
Q1iii)	*Evaluate the financial and non-financial aspects of the proposed closure of The Roundhouse and its conversion into a children's play centre.* ***Calculations: see calculations spreadsheet, maximum 6 marks.***	20	MA: B1, B3, D4 FM: C1-C3, C5 SPD: B3	K: ARC, BA, FI, LSP, SBMG

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	Narrative: 1 mark per developed point to a maximum of 14. • The NPV shows a positive result over 10 years of £249k and on that basis there is a financial case to pursue this option. • At the end of Year 1, around £100k will have been invested in the play centre, so it is necessary to also assess the impact on cashflow and whether FAC has the reserves to do this, or whether it will be necessary to borrow to cover the up-front costs. • In 2021/22, FAC's reserves were below the target set by the City Council, and going forward FAC is required to rebuild its reserves to £4m over the next two years and make a surplus over the target of £100k by the end of the decade. It feels unlikely that FAC will get back to a position of £4m in reserves, make the required surplus, and cope with the impact of up-front costs and investment for the play centre without borrowing. • The children's play centre itself is also projected as loss making – with projected income of £210k per year (from year 1), and staff costs and maintenance of £275k. It makes a net positive position due to the projected annual savings associated with closing The Roundhouse. So, while it makes less of a loss than The Roundhouse, it will still be subsidised by the other segments of the business and the donation and grant income. • There is no information on whether the removed seating or lighting might have resale value, or might save costs elsewhere (e.g., if lighting was repurposed in the Main Stage). It seems unlikely that this would just be scrapped, so this could be worth investigating. • There is no information about the volume of sales in the Cantina and shop that originate from Roundhouse patrons. We need to factor in potential lost income here, but it would also be appropriate to build in an estimate of increased Cantina sales, and potentially for the shop too, from users of the play centre. • Saving the entire £111k gross loss from The Roundhouse seems very simplistic; for example, there may be costs included in 'cost of sales' that		SCS: A1-A6, B1-B3, C1-C2, D1-D3	S: BI, C, EI, L, PSDM B: AV, F, PS

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	would also apply to a play centre. So, it would be good to review a detailed breakdown of these costs to ensure this is as accurate an assumption as possible. • In addition, this is a pre-pandemic 2019/20 figure, so we should investigate the current position more fully before making any decisions to gain a more accurate understanding of likely income foregone and costs saved. • While the analysis assumes that none of the management and administration overheads currently attributed to The Roundhouse will be saved, it will be essential to do some further analysis on whether any of FAC's overheads will reduce / cease as a result of terminating productions in The Roundhouse, and whether the play centre would cover remaining overheads. If it will not cover them, the analysis is flawed as the overhead costs will have to be covered somewhere, and are therefore not relevant to the decision to terminate. • The annual surplus, before discounting, and taking account of the foregone annual loss generated by The Roundhouse, from the play centre is £46k. This raises questions over the management/ administration overheads that are currently allocated to The Roundhouse, £45k per annum based on 2019/20 data. If these costs continue once The Roundhouse has been repurposed, the play centre would only just cover them based on this analysis. With FCC wanting a bigger return from FAC's activities, this course of action may therefore not be sufficient. • No allowance has been made in the analysis for inflation, though this may be appropriate if the discount rate is the real rate, which isn't clear. However, it might be wise to perform a more sophisticated analysis into the different possible inflation rates of the various expenditure (and income) lines in the analysis, and to use a nominal discount rate, particularly as inflation in general is predicted to increase in coming years. • It may not be reasonable to assume zero marketing costs beyond Year 1. While word of mouth between families may be quite effective, there will be new families and children becoming the right age for the play centre every year, and			

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	FAC needs to ensure they know about the centre especially as the analysis assumes usage at 83% of capacity from year 1. • Little Tykes probably has a vested interest in this decision, as it may be a potential supplier of the new equipment at least, and may be some form of franchise organisation depending on how FAC decides to run it if it is implemented. FAC must obtain further quotes or otherwise obtain some independent verification of the figures they have provided before making any decision to proceed. • There is a cost included for installing security equipment, but it is not clear how this will be monitored and by whom. It would be useful to know whether there will be any ongoing security costs. • Replacement costs / obsolescence also need to be considered for the play equipment and security system. Little Tykes have said the play equipment will last "at least 10 years", suggesting it may need to be replaced immediately after the 10 years covered by this analysis. • No cost has been given for recruiting the play centre staff, so this has not been included, but this could be significant given this is not FAC's usual area of operation so it is likely to require help from recruitment consultants. • There are other potential hidden costs related to this change. It is possible, for example, that it might affect FAC's insurance costs, as this would be a very different kind of activity and it is likely to mean a much higher number of children on the premises. • Cleaning and maintenance of the equipment has been included in the analysis, but we need to consider whether this will affect cleaning of the complex in general. For instance, if the play centre does not have separate toilets, there may need to be more regular cleaning of these facilities. It is likely that FAC will also need to provide (more) baby changing facilities. • If FAC is expecting 70% of predicted annual demand in Year 1 and 100% thereafter, this is likely to have an impact on costs such as cleaning, maintenance and so on, and possibly staff costs between those years, as there may be			

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	some variable or semi-fixed element to such costs. This has not been factored into the calculations so far. • In general, the average demand against the capacity needs to be subjected to some sensitivity analysis. This assumption does not feel wholly realistic, particularly given school terms, holidays, and the likelihood of families choosing outdoor activities when the weather is good. It is necessary to have an idea of how this will affect income and costs if this assumption turns out to be over-optimistic, or indeed, the need for some sort of booking system and turning away of walk-ins if this really is the case. • FAC's building is a heritage asset; we need to find out whether there are any restrictions on change of use, and ensure that these plans can be carried out without any damage to the structure of the buildings, and that any associated cost implications are taken into account. • There would be a period between The Roundhouse closing and the play centre opening, where the old equipment is taken away and the play equipment is installed. It is necessary to analyse what impact this lost income will have on FAC's finances. • It is not clear what assumptions are being made about any savings associated with staff working on The Roundhouse's current activities, in particular Production and Technical department staff. Given the figures provided, it seems likely that these costs are charged to Cost of Sales and therefore it would be allowed for in the analysis, but there may be redundancy costs to incur that have not been allowed for and it would be necessary to confirm that these savings would be made and that the staff wouldn't instead be redeployed to Main Stage production work. • The 3% discount rate may be a little low given economic uncertainties and growing inflation potentially leading to interest rate rises. A higher discount rate would lead to a lower NPV outcome, so it is worth doing some sensitivity testing around this assumption. • We need to consider the impact of closing The Roundhouse theatre space on grants and donations received by FAC. As The Roundhouse puts on classic plays and more innovative			

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	performances, there is a risk that the donations largely come from patrons in relation to its work rather than the main stage which does more mainstream productions or tours, and it is quite possible that its closure would have also have an adverse impact on the level of grants. • In general, too, it is necessary to consider whether the play centre fits with FAC's mission and goals. It would be a resource for the community's leisure time, and would presumably be valuable to local families, though the price for a play session may mean it is not accessible to all. • Beyond this, it is hard to argue that it meets any of FAC's other goals. In fact, in losing The Roundhouse FAC would be relinquishing one of the spaces that most allows it to meet its artistic / cultural merit-based goals. • A play centre may, though, better meet FCC's goal of catering for a diverse society including young families, so there may be pressure from FCC around this. • A further possibility is that a play centre may get people interested in the complex who would not otherwise have thought to visit FAC. It has been noted that its Main Stage productions have become more mainstream, and these might attract families more than more serious theatre with which The Roundhouse is typically associated. • FAC could look to stage some theatrical performances aimed at families, in tandem with developing the play centre, which could in turn be said to have cultural merit by getting young people interested in theatre from an early age. • There is a risk of the current customer base being discouraged from attending due to the play centre. They may come for a sophisticated afternoon/night out at the theatre, or to peruse the gallery, or to have a drink in the Cantina etc; depending what happens in the common areas, a large number of families with particularly young children, or bold signage about the play centre, may ruin the ambience of the complex and reduce demand for other FAC segments.			
Q1iv)	*Evaluate FAC's current pricing strategy when hiring out The Roundhouse, and discuss alternative pricing*		MA: B1, D3-D4	K: ARC,

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	strategies if FAC chooses to retain The Roundhouse as a performance space. ***1 mark per developed point up to a maximum of 9.*** • By charging a daily fee for hire, then charges on top for using our staff, being featured in the marketing collateral, and more again as a percentage of ticket prices, this multi-layered approach is potentially quite confusing for theatre groups and production companies to understand. This may act as a deterrent to potential customers and present an unnecessary administrative burden to FAC staff. • On the plus side the customers only pay for what they use, be it FAC's theatre staff, marketing etc., which may be particularly attractive for local community groups which may be on a tight budget, or larger production companies that may have access to their own resources in one or more of these areas. • It is not clear how the current rates were determined, and whether they are accurately based on FAC's costs or take account of the potential customer's willingness to pay. • A simpler approach may be beneficial, particularly considering that some of FAC's hirers may be local community groups without in-depth financial knowledge and the price schedule may be acting as a deterrent due to its complexity. • If FAC charges a hire fee and a separate amount for staffing costs and continues to insist that hirers use these staff, these two fees could be amalgamated to provide a single daily fee that covers the hire of the space and the staff involved. • Given FACs mission to provide for the community, it may want to consider differential pricing, and charge more for the professional touring production companies than it does for local amateur groups. • FAC could consider combining a differential pricing strategy with something akin to a marginal costing approach, for example, by offering quieter weeks of the year to local groups at a much cheaper rate, covering its staff and other direct costs as a minimum, and providing	9	FM: D1 SPD: C2 SPF: A6 SCS: A1-A6, B1-B3, C1-C2, D1-D3	BA, FI, LSP, SBMG S: BI, C, EI, L, PSDM B: AV, F

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	as high a contribution to overheads as users are prepared to pay. It could then charge higher rates for premium weeks to the professional companies that may be better able to afford them. • Alternatively, if local groups wanted, say, the same couple of weeks every year, FAC could provide some kind of loyalty discount or early booking discount, to encourage them to reserve their weeks early and commit a deposit. • Given its strategic focus on cultural / artistic merit, FAC might consider providing hire discounts for groups wishing to stage culturally-significant work in The Roundhouse, such as plays by the "Dionasian Dozen". • It seems counter-intuitive to charge production companies and groups for inclusion in FAC's brochure and website. These promotional channels should really display its full programme and everything that is going on at the complex, so there is a strong case for including this in the hire fee, which will also again simplify the pricing structure. • Alternatively, FAC could dispense with these marketing charges altogether, on the basis that it receives a percentage of all sales made, so it is in FAC's interest to promote its full programme fully to obtain its share of the ticket sales. • It seems FAC sometimes receive specific grants based on its programme of plays. It could potentially link receipt of grant with the hire charge for those plays, again allowing local community groups to stage productions more cheaply given they will be subsidised by grant funding. • As a general point, the pricing policy should align with FAC's strategic objectives, and so analysis of options for the pricing structure and price levels should be undertaken on that basis. • Further, it should be recognised that pricing is only one element of the broader marketing mix. Decisions about pricing policy should not be taken in isolation from decisions about, and consideration of, other aspects of FAC's marketing mix, such as the quality and accessibility of the venue (place), the attractiveness of the detailed service			

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	specification to potential customers (product), and the channels and messaging deployed to make potential customers aware of the offer and the potential benefits of it to them (promotion).			
Q1v)	*Conclude on your findings and make recommendations on the future of The Roundhouse, including further work to be undertaken.* ***1 mark per developed point to a maximum of 6, with a minimum of 1 mark reserved for further work to be undertaken*** • As the Artistic Director has noted, the decision on the future of The Roundhouse is complex and goes far beyond financial considerations, albeit that it seems as if financial objectives are becoming increasingly relevant for FAC and are likely to be a significant influence on decisions regarding the space occupied by The Roundhouse. • While it is true that the finances are problematic as The Roundhouse has been making both a gross and net loss (pre-pandemic), more work needs to be done to understand the overheads charged to it and what will happen to them if The Roundhouse ceases to operate and is replaced by a facility such as the proposed children's play centre, and the scope for improving its financial performance, particularly bearing in mind its relatively high turnover per seat in 2019/20. • So far, it is only the option of providing a children's play centre which has been analysed, and that does not seem to align very well with FAC's mission and cultural aims. Other possibilities for use of the space should be considered: as an arts centre, it may be possible to provide classes or workshops there, rehearsal or performance space for orchestras or choirs, etc, and there may be many other more mission-congruent options that have not been explored, including options for improving the financial return produced by The Roundhouse itself. • It will also be necessary to consider FCC's take on the options, as their strategic priorities are different from FACs - a play centre for families may be something they would support and could be more relevant to furthering their own strategic priorities than The Roundhouse performance space. The Board is charged with considering FCC priorities as well as FAC objectives, so the	6	All above refs	K: ARC, BA, FI, LSP, SBMG S: BI, C, EI, L, PSDM B: AV, F, PS

Q	Response points	Marks	Syllabus Refs	App'p Std Refs
	two need to be balanced against each other as far as possible. • The financial analysis performed has been fairly basic, based on pre-pandemic financial performance information and estimates from a single third (interested) party. A decision on the future of The Roundhouse should not be made without further financial analysis around the costs, lost income, overheads and so on. • In addition, the world is different post-pandemic, and FACs market is still recovering. While there is pressure from the council to start making surpluses, there is a strong case for seeing how the next one to two years play out, perhaps with changes to pricing as analysed in this paper, to see whether The Roundhouse's prospects as a performance venue improve. • Given the perceived 'dumbing down' of content on the Main Stage, it may be fruitful to take a holistic view of the two venues. If FAC closes The Roundhouse, it may lose a lot of its more cultural/artistic productions. Perhaps instead, it should consider that the more commercial / mainstream productions on the Main Stage cross-subsidise the performances in The Roundhouse. • Overall, the recommendation is not to proceed with the play centre for next financial year, but to consider pricing changes to see if it can improve performance of The Roundhouse while maintaining FACs cultural credentials, and to allow the tail end of the pandemic to work its way through before significant decisions are made around closing a performance space.			

Question 2 (45 marks)

The Fabula Arts Complex (FAC) Board has requested a report into the future strategic direction of the organisation. As per the email of 5 December from the Artistic Director, Jibril Roy, prepare a briefing paper covering the following issues:

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
Q2i)	*Analyse the culture within FAC using the cultural web, including any impact on strategic options and an assessment of the organisation's likely receptiveness to change.* ***1 mark per developed point, with a minimum of 1 mark reserved for each of the elements of the cultural web, and a minimum of 6 reserved for impact on potential strategic options and the organisation's receptiveness to change.*** <u>Stories</u> • Stories in the artistic departments that seem to perpetuate a disregard / disrespect of the Finance and Resources department. • Artistic Director himself acknowledges / tells stories about the split between those with artistic vision and those with their hands on the purse strings. <u>Rituals and Routines</u> • The 'Elevenses' coffee break ritual also shows the divide between artistic departments and administrative functions, as the latter choose not to attend. Work levels are cited, but it may also be discomfort around mingling due to bad feeling between employees. • Formalised routines such as the monthly management accounts are not given due attention by the artistic departments; indeed, it has almost become a counter-ritual to disregard them until chased by Finance. <u>Symbols</u> • Free tickets being available on a first refusal basis to artistic staff is symbolic of a two-tier approach to artistic versus administrative staff.	16	BCM: C1-C2 SPD: B1-B2 SCS: A1-A6, B1-B3, C1-C2, D1-D3	K: ARC, BA, LSP, SBMG S: BI, C, EI, L, PSDM B: AV, F, PS

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	• It feels as though the free tickets have been weaponised; the artistic staff complained when they could not see the comedian, and therefore may now be booking tickets they do not want in order to prevent other staff from attending events they might want to see. <u>Power</u> • Informally, it feels as though a lot of power in practice resides in the artistic departments, due in part it would seem to the Artistic Director's preference for artistic and cultural merit over financial stewardship. • The handling of the free tickets issue suggests that when artistic departments complain they get what they want, at the expense of the administrative departments. • Having said that, the board is now being seen to 'crack down' on the Artistic Director and insisting on ratifying decisions made. This is not strictly in line with their role, which should be to set strategic direction and allow the Artistic Director to decide how best to pursue it, but may indicate a shift in the power dynamics at FAC. <u>Control Systems</u> • There does not seem to be any formal process to ensure that departments complete the required monthly financial returns on time. This may be adversely impacting the effectiveness of FACs budgetary control systems and its financial performance. • It is mentioned that the Head of Finance and Resources disciplined one of her team members for following the Artistic Director's request rather than her own, which may have been heavy handed. • Aside from this, there is no mention of any disciplinary action or other action taken against artistic staff when they disregard financial requirements.			

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	• Reviews in the press could also be seen as a type of control system, but the Artistic Director seems somewhat dismissive of the bad reviews of late. It is possible that FACs strategic priorities are simply no longer in line with what local people value, so that if it keeps striving towards them it may further lose audiences and struggle even more to meet its increasingly demanding financial objective. <u>Organisational Structures</u> • Reporting lines are a little blurred, due in part to the fact that the Artistic Director does not readily agree with his department heads and may circumvent them to request input from their staff. • While perhaps not formalised in the structure, it feels very much as though the artistic departments are viewed as superior to other functions. Indeed, the use of phrases such as 'back office' (by the Artistic Director) to refer to staff outside the artistic departments suggests a perceived inferiority and a distance from FAC's mission. • Everyone in the organisation reports directly or indirectly to the Artistic Director, and this may be creating some of the issues as he is only really focused on one aspect of the strategic priorities – that of cultural and artistic merit. • A structure in which the Artistic Director and the Head of Finance and Resources are on the same level and both report directly to the board might help to alleviate some of the issues and give financial priorities more prominence in the organisation. <u>The Paradigm</u> • The paradigm at the FAC appears to be that departments and roles in the artistic space are worthy because they contribute directly to FACs mission, and that those in Finance or other administrative support functions are less important in that respect.			

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	• There is a sense that complying with financial routines and answering to Finance for variances and overspends is somehow hampering artistic merit, and this has bred a disrespect of Finance and a real 'us and them' culture. <u>Effect on strategy and readiness to change</u> • It will be more difficult to move forward and solidify a strategic direction when the staff as a whole is so divided. • It will also be difficult to decide how to balance artistic merit and financial considerations / stewardship within FAC's strategic objectives, given the level of wrangling (or outright disrespect) between artistic and administrative functions. • As a result of the pandemic, FAC's resources are more stretched than ever, and it is facing more demanding financial objectives than in the past, leading to a need for its financial management to be highly effective. This may be a problem given the overall attitude towards financial management within the non-financial departments. • It would therefore seem that FAC's readiness for change is low. Any move towards greater cultural merit in its programming is likely to meet with a lot of resistance from Finance, unless this demonstrably enhances financial returns, and any move in the opposite direction whereby decisions such as programming are based more on commercial considerations, will probably meet with resistance from artistic functions. • For change to be successful, it needs to be bought into by all stakeholders, or at the very least those with high power and/or high interest. The tension between artistic merit and the business bottom line is unlikely to mean buy in from all stakeholders for almost any change to FAC's activities. • It seems likely that FAC will need an individual who could build and communicate the case for strategic			

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	change, and at present there does not appear to be anyone in FAC who easily fits into this role. The Artistic Director is arguably too focused on one side of the argument – the case for the artistic merit of FAC's programme – with insufficient regard for financial management. The Board also may not be close enough to the artistic aspect of FAC's mission. • Whether FAC could afford to appoint an external change agent is questionable given its current financial position and challenges ahead. • This may be an area on which FAC needs to engage with FCC, especially as they will be a key stakeholder in any change programme. • In general, balanced leadership skills that take into account FAC's somewhat conflicted mission may be lacking within the organisation. It may need to assess the leadership skills of the Board, Artistic Director and Head of Finance and Resources and commit to working on this area with them and/or bringing in an external change agent to drive change forward. • Motivation is key within change, so FAC could also do with understanding what motivates its staff across the different departments and ensuring that leaders are working with this. It seems that many of the artistic departments' staff members may see their job as something of a vocation, so they may not be as motivated by traditional appraisal and reward systems.			
Q2ii)	*Perform a SWOT analysis, discussing how this analysis could be used in the formulation of strategic options for FAC.* ***1 mark per developed point, with a minimum of 2 marks reserved for each SWOT area.*** <u>Strengths</u> • Historically, FAC had a strong reputation for staging quality theatre, and The Roundhouse has upheld this reputation in recent years.	12	SPD: A3-A5 SCS: A1-A6, B1-B3, C1-C2, D1-D3	K: ARC, BA, FI, LSP, SBMG S: BI, C, EI, L, PSDM

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	• FAC has a range of facilities which appear to be complementary, as it is likely that patrons of the theatre spaces to a large extent drive sales in the Cantina, shop and art gallery. • FAC has staff that are said to enjoy their roles, particularly in the artistic departments, and that they have a strong sense of the artistic merit element of its activities. • The Artistic Director recognises some of the issues around conflict in FAC's objectives and between departments, and has taken some steps to attempt to address this (e.g., 'Elevenses', although not as successfully as hoped). <u>Weaknesses</u> • While its historical reputation is a strength, more recent reviews in the press, particularly for Main Stage productions, have been much less favourable. • The divides between staff are particularly problematic, and may make implementing new strategies difficult as there are bodies of staff that will probably resist changes towards a stronger focus on financial stewardship, and others that will resist changes towards more artistic merit with less priority given to financial objectives. • This divide may have filtered down from the top, and disagreements between the Artistic Director and the heads of administrative functions. There is no sense of unity or pulling together to achieve the mission. • The strategic objectives themselves are arguably problematic as some appear to run counter to each other. The complex has been accused by the press of 'selling out' culturally by scheduling more crowd-pleasing shows, but it has had to do this in order to have a chance of making a surplus. <u>Opportunities</u> • Coming out of the pandemic represents an opportunity for FAC. Potential audiences are likely to have missed live theatre and may be			B: AV, F, PS

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	keener than ever before to come out to see shows now that restrictions have lifted. ○ It may be able to leverage the strength of its strong historical reputation to entice audiences back to the theatre. It could consider revivals of productions that got great reviews, and use this historical feedback to attract past customers and new audiences. • Beyond these, pandemic recovery also presents opportunities to move beyond its pre-pandemic offerings, and to look at new and more innovative ways of meeting its objectives. New and innovative theatre productions and other forms of entertainment sprung up in response to the pandemic. These may lead to a change in the way that people want to experience theatre (e.g., open air or online). • FAC trialled streaming of performances during the lockdowns, and could explore continuing this alongside live performances. This could be an additional income stream, and provide a way for those living far from Fabula or otherwise not able to attend live theatre to engage with our work. • It also invested in outdoor theatrical equipment which it would appear to not now be using, so it could look at whether there is a suitable outdoor location to represent an additional performance space. • As a heritage building, it may be able to run tours during the day when there are no shows on, and/or provide activities such as backstage tours for those who wish to learn more about how FAC works and its activities. • While there is mention of 'Dinner and a show' packages with local restaurants being part of FACs existing offer, it may be able to explore further opportunities to work with local organisations, such as other arts ventures or community groups, for example collaborating with musical groups on productions, or allowing local artists to run workshops to demonstrate and teach their craft. Many organisations will be establishing a 'new normal' post-COVID-19, so it is a good time to look at potential collaborations.			

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	○ However, it is worth noting that the more innovative FAC aims to be in exploiting opportunities, the more likely it is that it will have issues in implementation, due to the lack of apparent readiness for change from existing staff, so this will need to be factored in and appropriate measures taken to give it the best chance of success with such initiatives. ○ Also, any such innovations that require significant investment may be infeasible given the increasingly challenging financial targets being set for FAC, most recent financial performance being below targets and the likelihood of increasing interest rates making borrowing to finance investment less attractive. • Now that travel links are up and running again, there is an opportunity to attract audiences from further afield such as residents of Musen and its tourist visitors. It may be possible to work with local hotels, which will presumably also have suffered severely during the pandemic, to offer show tickets and overnight stays as a package. • The complex is closed on Sundays – there may be opportunities to expand the programming or profit-making abilities by opening on Sundays even for a matinee show each week or to exploit other potential revenue streams e.g., regular family show on a Sunday. • FAC could look at cost reduction opportunities, for example by using more volunteers and fewer paid staff, relying more on productions from touring companies to cut in-house costs, and so on. <u>Threats</u> • Grant funding provided to ease the impact of the pandemic will be coming to an end, and the council expects FAC to begin making significant surpluses. ○ The weaknesses around staff divides/conflict make this a key threat. FAC's leaders will need to pull together and establish a strong vision to have a chance of making surpluses in the face			

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	of dwindling grant funding, and at the moment such a united front appears very unlikely. • The longer term impact of the pandemic on FAC's operations remains unclear. Audiences may still be nervous to come to the theatre while Covid is still circulating (and perhaps particularly seasonally, in winter. • In addition, patrons may have been badly hit financially during the pandemic, so may not be able to afford to attend FAC's productions, an issue that could be compounded if inflation rises as feared. • Covid is still affecting FACs staff, as evidenced by the Director of Finance going for a Covid test. FAC may not have contingencies in place to deal with long-term absence, or a wave of the virus through its staff. • The travel links to Musen and beyond work both ways, and the more FAC's prices have to increase due to its weak finances, the more likely it is that potential audiences may choose to go to Musen to take in a show instead. • The need, during the pandemic, for people to find forms of entertainment away from traditional theatre, may mean that FAC's customer base will have found options it prefers, safe from virus transmission, and it may not have the innovative ideas to draw these customers back to FAC. • In addition, the two smaller theatrical venues in Fabula, which have historically focused on community theatre, have the potential to compete with FAC to some extent, particularly on its objectives around cultural merit. They are likely to be charging lower prices and price could be a more important factor in people's decision-making regarding leisure pursuits in tough economic conditions. • In addition, if The Roundhouse is retained, but cannot get the pricing right for external production groups, they may move to these other venues, and FAC may not be able to fill the programme for The Roundhouse, which would make its financial difficulties even worse.			

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs

Q2iii)	*Use the strategy clock model as a basis to evaluate possible strategic directions for FAC's theatre offer.*
	
	1 mark per developed point, with a minimum of 1 per strategy clock position.
	
	<u>1. Low price and low added value</u>:
	
	• It is difficult to see how this strategy makes a great deal of sense for FAC's core theatre offer for the following reasons:
	
	  • There are the same number of seats in the auditoriums regardless of the type of production staged, which poses an upper limit to demand, except in the sense that there may be occasions when higher demand can be responded to by extending the period over which some shows run.
	  • FAC would need to do some analysis on whether a low ticket price would cover the costs of staging a theatrical production in its auditoriums but it would seem unlikely given its recent financial performance.
	  • Also, the low added value dimension of this strategic direction would significantly clash with FACs current mission around high quality productions.
	
	• There may, though, be scope to add the option of standing tickets, which is offered at some venues in the capital, for much lower prices than seated tickets, if there is sufficient space in either auditorium. It would, though, need to check insurance and health and safety requirements for the feasibility of this as an option.
	
	• Something it could potentially consider here is low price tickets for performances outside the space itself (and therefore avoiding technical costs). For instance, it may be able to run 'dinner theatre' in the Cantina where people pay low prices for, say, a one act play which they watch from their tables if space permits. With no lighting or effects, this would keep costs down to pretty much just actors, costumes and direction, so might be a way of accessing audiences who cannot afford to pay
		12	SPD: C1
			
			SCS: A1-A6, B1-B3, C1-C2, D1-D3
				K: ARC, BA, FI, LSP, SBMG
				
				S: BI, C, EI, L, PSDM
				
				B: AV, F, PS

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	the full price for tickets for the Main Stage productions. • Another option might be to allow people to purchase or rent recordings of its shows online, and watch them through an internet connection at home, or live stream them. This could be much cheaper than a ticket for attending a show in FAC, but is lower value as they would not get the atmosphere of a night out at live theatre and the quality of the production may be somewhat lessened by being broadcast online. <u>2. Low price (with moderate value):</u> • Again, the low price element may be difficult to contend with due to the reasons given in relation to route 1, but it may be that certain productions that are unlikely to sell at higher prices (such as those with cultural merit as their focus) may use this route to maximise the chances of filling the seats. • FAC could potentially look to run screenings in the auditoriums of previous shows that have been recorded. If they are FAC's own productions and out of copyright it should not have any licensing costs, so it should just be a member of staff to run projection and perhaps an usher or two, and so relatively low cost. It could therefore charge a fairly low price for this, and obtain a return, and it is moderate perceived value as customers are getting to see a production (albeit a recorded one) and have an afternoon/night out. • Another option here might be a 'season ticket' approach, whereby FAC encourages people to buy tickets for a set number of shows across the current programme and gives them a discount on all shows for doing so. <u>3. Hybrid (low price and high added value):</u> • Once again, the low price element is problematic for targeting anything at this space, and this position tends to be for initial market penetration or intense competition, neither of which is a situation that currently applies to FAC. • It may be, though, that this approach could apply to enticing people back to the theatre			

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	post-pandemic, as, in effect, the situation may be quite similar to trying to penetrate a new market. • Providing higher value than competitors might be elements such as famous actors in the cast, more impressive special effects, and so on, however these are likely to come with higher costs and therefore again make this route problematic for offering low priced tickets. • Rather than having low price tickets, it could be that FAC offers cheaper (or free) add-ons such as programmes, food and drink, or 'meet the cast' type events. These would be added value for the customer with a low overall price point. • As not all tickets sell out for every event, instead of offering them to staff, which has caused tensions, FAC could offer more last-minute deals to customers, for people to attend high quality performances for a low price. • In addition, FAC could target these deals at the local community, theatre students at school, and so on, which would align well with its mission. <u>4. Differentiation (average price and high perceived value):</u> • FAC should be able to do something significant in this space if the market genuinely does attach high value to its offer. Post-pandemic, and with the increasingly difficult economic picture, people may not have the same level of disposable income, so FAC needs to avoid high prices, but it would still want to put on high-quality shows. • This is where FAC could get innovative to offer added value. It could look at more interactive/immersive theatre experiences, perhaps using smart technologies, or partnering with other arts organisations to provide hybrid shows incorporating theatre, music, dance, and/or other forms of art, while being wary of the level of extra costs that may be associated with such initiatives. • This option makes it especially important that FAC distinguishes itself from other venues,			

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	e.g., while increasingly commercial offerings at the Main Stage have been popular, using the Roundhouse stage to put on classic plays and appeal to theatre goers in order to differentiate itself. • Theatres in the capital, Musen, represent competition for FAC as Fabula residents could travel to see a show in the capital – however, they will then incur travel costs as well as the ticket price, and a longer journey to/from the show. FAC may therefore be able to play on the idea that it stages high quality shows, but without the travel costs and time involved in getting to/from the capital. <u>5. Focused Differentiation (high price and high perceived value):</u> • This is probably not something FAC could survive on exclusively, as people's personal finances after the pandemic probably would not support repeated expensive trips to the theatre, and it would conflict with many of its objectives, in particular around community engagement and inclusivity. • However, FAC does stage touring shows and popular comedians, and this may be an area where it can charge high prices because of the high perceived value to fans of those performers, and the lack of local options for seeing these kinds of shows, short of travelling to the capital. <u>6. High price, moderate perceived value:</u> • While there is the potential for high profit margins at this clock position, it is not advised as customers will rapidly stop paying high prices for something that only has moderate value to them unless there is an absence of competition that meets their needs more effectively. • However, when it comes to touring productions, there may be a lack of competition as mentioned above, so FAC may be able to charge more for certain very popular touring shows. <u>7. and 8. Monopoly pricing/ Loss of market share:</u>			

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	• These clock areas are high price or moderate price for low value, and is only likely to be possible for essentials where the provider has a monopoly, which is highly unlikely to be applicable to FAC. Conclusion • FAC would probably be best-suited to pursue a blend of routes 3, 4 and 5, perhaps with selective use of route 2.			
Q2iv)	*Conclude on your analyses and make recommendations, including consideration of the likely achievement of FAC's mission.* ***1 mark per developed point, with a minimum of 1 for discussing the mission/strategic objectives.*** • SWOT analysis is intended to draw together the outputs of other strategic analyses such as PESTLE, stakeholder analysis, market research etc. However, there is no evidence that these other analyses have been completed so far, so the SWOT analysis is probably incomplete at best and further analytical work should be undertaken to inform the strategic position review and before strategic choices are made. • In addition, SWOT and strategy clock analysis is usually best performed in the context of competitors, but there is insufficient information available about the other two Fabula theatres or Musen's theatrical quarter, or other competitors, to achieve this at this point. It would therefore probably be worthwhile to undertake a structured analysis of competitors' offers and market research in order to maximise the insight that it can provide to evaluating FACs strategic position and identifying suitable strategies. • From the strategy clock analysis, FAC does have potential options to explore with regards to strategic direction for its shows. The cost implications of these options need further analysis in order to gauge the kind of prices that could be set from the perspective of covering costs. • It may make sense to charge more for more mainstream shows (strategy clock route 5), as	5	All above refs	K: ARC, BA, FI, LSP, SBMG S: BI, C, EI, L, PSDM B: AV, F, PS

Q	Answer	Marks	Syllabus Refs	Appr'p Std Refs
	demand for these is likely to be able to bear a higher price tag. This may make a significant contribution towards achieving better financial returns. • Alongside this, FAC could charge less for the more cultural / artistic events, and for events targeted at the community, to attempt to reach more people with these in line with their strategic objectives in these areas, and use discounts for shows that are not looking likely to sell out. • However, the overall difficulty of achieving a mission and strategic objectives that appear to include inherent conflicts should not be understated. It is clear from the cultural web and SWOT analysis that balancing artistic aims and financial aims is very challenging for FAC. The more demanding financial objectives and the post-pandemic environment are likely to add to this difficulty. In addition, the mention of enriching the lives of the local community arguably adds a third angle to the mission, and one which is difficult to assess or control. • It may be that the best way forward is to experiment with a range of different shows, particularly on the Main Stage, assess the resulting uptake and perform analyses such as customer satisfaction to gain greater insight into the scope for achievement of its existing mission. • Alongside this, FAC should be working to improve its very divided culture, impressing the importance of stewardship on the artistic teams, and working harder to bring administrative teams on board with its cultural / community aims.			