



TPE 2023 – Case Study Sample Solution

Skene

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Ethics email

To: whistleblowing@albabank.co.uk

From: Fred

Date: May Yr26

There are a number of ethical considerations I wish to bring to your attention.

- Firstly, there appears to be a close relationship between Pep and Robert, where Robert is being requested to be of large assistance to both Pep and Skene. As bank advisors, we should always have an independent perspective of the company and should not be involved in the day to day running and decision making. I wonder if further training in this area of independence would be wise for Robert.
- Within Skene, the business is very cash rich, which provides high opportunities for fraud. There appears to be issues within the accounting for the Tea Room, where it is possible that fraud could be committed due to increasing costs and decreasing margins in the last year. This would require more investigation, but we should be careful not to tip off the client.
- There have been errors made in the accounting for VAT within Skene, where the treatment of VAT in the returns is different to the partial VAT exemption as deemed by HMRC. I have encouraged the client to be in contact with HMRC, but we should consider reporting this potential fraud to the MLRO.
- We act for Pep as a personal customer of the bank and represent Skene. We should question whether there are conflicts of interest within our offerings, or whether ethical walls can be successfully applied. Alternatively, we should resign from one or both appointments.
- I have been asked by Pep to be involved with 'Project A' and feel rather uncomfortable about this. Robert has formed a property company, of which Pep is a director, in order to try to purchase a building that is to be coming on the market in the near future. I have been offered a cut in the business if I can assist Robert in raising the funding from the bank. This constitutes both insider trading and goes against the independence requirements between bank and client. I have not completed any work on Project A as I do not wish to be involved with this project. I suggest that Robert is removed as branch manager responsible for acting for Skene, and that consideration is given as to whether we wish to continue to provide financial assistance to a client such as Pep, who could bring the bank into disrepute.
- Within Project A, the SACI Property Developments are expected to be interested in purchasing the same property. Thus, the Project would conflict against one of the bank's customers. Robert should be removed from all dealings with SACI Property and his future considered by the bank's senior management, since going against a client would not be the correct procedure for a bank.

I have been provided with detailed information over the funding requirements of Project A, however these have not been dealt with as I do not believe that we should be involved with the project.

As Alba is in a regulated sector and some of the information might provide grounds for a suspicion of money laundering, this information must be passed to Alba's Money Laundering Officer.

I hope this is helpful. If there is any more I can do, please contact me on 0123456789.

Many thanks

Fred

Report

PRIVATE AND CONFIDENTIAL

Report to Peppyr Lawson, General Manager

Review of Skene Park Country Club's current state of affairs and overdraft extension

Prepared By: Fred, Alba Bank

Date: May Yr26

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1. Introduction

This report has been prepared to provide Peppyr Lawson with Alba Bank's view on Skene Park Country Club (Skene) and their request to extend the overdraft facility.

In producing this report, we have relied on the information provided to us in order to produce our advice, and should any of this information be incorrect, we are not responsible for any consequent errors in our advice.

2. Executive Summary

- Alba bank will not extend the overdraft offered to Skene until the full bank review is completed in August Yr26.
- Key business risks are falling membership, insolvency, poor weather and loss of bank funding. Without considering these, the board will not improve the future of the club.
- The board requires to be altered in order to ensure the company is run in an effective manner, an off-the-shelf accounting system would also improve the financial running of the company by providing more accurate accounting information and providing a control.
- Accepting the festival would provide the club with much required cash in the short term, removing the requirement for overdraft support from the bank.
- A key factor affecting the bank support is the lack of asset security available. Changing the articles to allow this to be offered would reduce the interest rates offered by the bank.

3. Current Position and Business Improvements

Skene has been running a country club since the 1920s, focussing on providing leisure and recreation services for their retired and redundant employees and their families. While this has been successful in the past, the current and future situation for Skene does not look so hopeful. In order to assess the current situation, we have discussed different areas of the business below, considering the current situation and improvements that could be made to assist in the recovery of the business.

3.1 Accounts

The accounts of Skene show a steady decline, both between prior and current year and between budget and actual for the current year, as a direct result of a declining membership. This can be improved by the membership improvements suggested below.

Income

Income is down 9% on budget in the current year due to a decline in expected membership, tearoom takings and bar takings. Skene should consider whether the forecast figures were unachievable or whether issues have come from declining numbers in the current year. Covid may have played a small part in this, but we do need to consider other factors.

The tearoom has fallen from a gross profit margin in Yr25 of 60% to 5% in Yr26. Improvements to the tearoom have been considered below. Theft has been mentioned and should be taken seriously. Better controls are required around the payment of food in order to ensure that theft is minimised.

The gross profit margin on the bar has fallen from 61% in Yr25 to 57% in Yr26. This high gross margin will attract large levels of profit to the club, even if it has reduced slightly in the current year. This revenue stream should be focussed upon in order to ensure that the club continues to make a profit going forward.

Grant income for tennis holiday coaching and rose trials have no associated costs. The conditions of the grant should be closely monitored in order to ensure that grant funding is not withdrawn and should be focussed upon in future years in order to establish this source of income.

Expenditure

Expenditure remains largely consistent with prior year when extrapolated to 12 months. Repairs and maintenance and depreciation continue to be the largest cost for the club due to the service offered. Hire-purchase contracts should be reviewed and renegotiated with owners of the asset, to see if repairs and maintenance costs can be borne by the owner instead of Skene.

As suggested below, if assets are offered as security for the bank loans, interest charges would be reduced by the bank.

High salaries should be reviewed in more detail, comparing salaries paid to market salaries for these job types, as reductions in this area would improve the overall surplus position.

Balance Sheet

As mentioned above, there are high levels of non-current assets held on the balance sheet.

Land and buildings have not been revalued since the 1970s. Revaluation could strengthen the balance sheet since land values have appreciated in recent years, as well as providing additional security upon which the bank can secure funding (if voted through by a special resolution of the members). The depreciation expense would, however, increase.

High levels of stock are held both for non-clubhouse and for the clubhouse and tearoom. Detailed breakdowns have not been provided, but consideration should be made to the cost of storage and wastage that occurs due to holding high stock levels.

Receivables balance is high and is considered to be due to memberships outstanding. Incentives could be offered to attract faster payment of memberships going forward, for example a 5% discount if fees are paid within 30 days.

Overdue VAT payments will continue to attract interest and fines, up to 15% of the VAT due each quarter. Combined with the VAT error noted by the auditors, the overall cost of an incorrect overdue liability to HMRC could be substantial and should be settled as a matter of urgency. VAT is not forecast to be paid until 15/6/Yr26, for an amount well below the outstanding liability, which brings into question the inaccuracy of the budgeted cash flows.

Current ratio of 0.77:1 shows that the club does not have enough current assets to cover liabilities as they fall due.

Cash Flow Forecast

The assumptions on which the cash flow forecasts have been prepared need to be reviewed in order to assess the accuracy of the cash flow. For example, an increase in salaries and wages does not have a corresponding increase in PAYE and NIC, highlighting that the accuracy of the cash flow forecasts is questionable and will hamper future bank loan funding.

It seems as though the business is struggling to keep on top of cash flow. This needs to be managed better. There is an error regarding the VAT amount scheduled to be paid as discussed above.

Tearoom purchases forecast outweigh the profit forecast highlighting that there are concerns over the running and accounting of the tearoom.

3.2 People and Structure

Board Structure

The current board structure at Skene is a volunteer board elected by the members of the club, which consists largely of retired members, elected at the AGM and often only serving for one year. While democratic and fair for a club structure, the current business structure is that of a limited company by guarantee, thus the board set-up is ineffective and would be recommended to be changed.

A company board should be run by experienced individuals who control the operations over the company. While members will bring opinions to the board, there may be a lack of business experience in operating and running a company. We would recommend that the board structure be revised, with less members elected each year and more experience brought in.

The board is currently a volunteer board, thus there are no salary payments made. However, there may be people in the community with large levels of experience that would be willing to 'do their bit' for the community and sit on the board in order to provide an experienced opinion. This would provide constructive challenge to the current running of the club in order to ensure that decisions are made in a commercial manner as well as in the best interest of the members.

3.3 Business Risks

Loss of Members

There is a risk that membership will continue to fall within the club. This is due to members no longer being satisfied with the facilities on offer or because they are disillusioned with the board and management, largely as a result of the recent Chairman scandal that has featured largely in the press. Skene will not be able to sustain the company without the continued support of members through the payment of their subscriptions, thus it is vital that members are satisfied with the club's offerings. Methods of improving membership levels and discussions around board controls are discussed in business improvements in order to ensure that membership levels are maintained.

Payment of Membership fees

Skene have actioned member and auditor suggestions to install card payment facilities and standing order monthly membership payment methods. There is a risk surrounding monthly membership payments that members will not pay each month, thus increasing administration time and effort in order to chase payment. Skene should consider charging a supplement for members who wish to pay in monthly instalments in order to ensure that this additional administrative time is not an expense to the club. This will have to be carefully considered as members may cancel their membership altogether if the monthly supplement is considered excessive.

Insolvency

There is a risk that the company will become insolvent if it continues to be loss-making. Where current liabilities outweigh current assets, the company is technically insolvent as debts cannot be met as they fall due. Since the bank overdraft is short term and the bank loan is not secured, either of these being recalled may cause the company to collapse, as there would not be the cash available to meet these debts. In order to improve the situation, Skene will have to increase the cash inflow to the business through business improvements suggested below.

Loss of funding

There is a risk that bank funding will be withdrawn if the forecast situation cannot be improved. With a full review of bank loans due in August Yr26, Skene will require to show the bank that the future situation is more positive than the current outlook. With cash balances forecast to continue to decline and a dwindling membership, Skene will require to show the business improvements that are to be implemented in order to show the company is in a going concern position. This can occur by considering our business suggestions below.

Cash payments to staff

The auditors have raised concern over the payment of staff members in cash to ensure that correct information is held by the company. This could be an issue for Skene if HMRC were to investigate the payroll information held by Skene. An off-the-shelf accounting package has been suggested below in order to improve the quality of accounting information. This system would also allow for electronic information to be stored on each employee to ensure that information is up to date. Skene should review all employees currently employed in order to ensure that valid paperwork is up to date for all employees.

Weather

There is a risk that inclement weather will impact on membership levels if poor weather conditions occur in summer months. This is due to the large levels of outdoor activities offered by the park. The tearoom is the only indoor activity, which will require to be focussed upon in order to improve the indoor activities on offer in the short term. In the longer term, Skene could consider offering more indoor activities, such as craft or exercise classes, initially using the tearoom as a base if it was considered in demand by members.

3.4 Business Improvements

Asset security

We suggest that the articles of the company are amended to allow assets to be utilised as security for bank loans. While this is a change in direction for the company to operate within, more security over the loan granted is being offered to the bank. This will assist in reducing the interest charged by the bank since lending money to Skene is not deemed to be of such high risk due to the bank being able to seize assets if loan repayments are not made. This would assist Skene's financial situation by reducing interest payments, improving the

overall cash flow and profitability. In order to complete this, a 75% special resolution will require to be passed at the AGM or extraordinary general meeting.

Membership

We suggest that the membership of the Country Club be extended to more than retired and redundant employees and their families. This would provide Skene with a larger income through increased memberships and will allow for the club to remain open going forward. Extensive market and membership research would be required in order to ensure that the current members would not stop being members, as well as ensuring that there would be other members of the community who are willing to be members. However, given that the Club is set in a local community, offering membership out with the current membership requirements will allow for more people to come and enjoy the facilities on offer, providing more income to the Club which could prevent it from closing.

Different types of memberships could be introduced, for example day and week members, thus visitors to the local area can take advantage of the facilities on offer. This would allow Skene to benefit from increased summer members, taking more income during busy months.

School holiday clubs could be considered, for example running week long tennis coaching schools during the summer holidays. Market research would require to be undertaken to ensure there was uptake for classes of this type, as well as ensuring that local members could still access facilities that have been paid for by their membership. New members to the club may be found through this method, as well as an alternative source of income from yearlong memberships, which would improve the cash flow situation.

Aim

We suggest the aim of the Club be revised to ensure that the key focus of the club is what the members are expecting. There are currently a number of different activities offered within the park, some of which may not be what the members wish to be in the park. By completing market research of current and potential members, focus could be placed on offering the services that are likely to take in the most income. By offering relevant services and retiring facilities that are not in demand, costs could be focussed on the right areas of the park; ensuring members are satisfied and continue their memberships.

Advertising

In order to attract and retain members, an advertising campaign in the local area is recommended. While this has an associated cost, the benefits of a good advertising campaign will outweigh the cost of the advertising. The facilities on offer and the opening times of the garden should be widely published through local media – newspapers, radio and TV adverts.

In addition, Skene already have an information website in place, which could be further used to show what the club has on offer. Social media could be used as an extension of this, with photos of the current facilities used to promote the facilities.

New joining discounts could be offered in order to entice new members to join the Club. This would assist the cash flow and profitability situation by bringing more membership fees into the club.

Festival

Accepting the offer to host a music festival in exchange for £50,000 is an offer that requires careful consideration by the board. While this is different to how the ground is normally utilised, there is a large amount of cash on offer to Skene. Members would not be able to use the facilities for the weekend, and consideration must be given to the security of the park's facilities during the weekend, as damage to the facilities would be costly for Skene to repair.

Members may not like the idea of the festival taking place in their park, especially since it is not an expected event to occur, however the financial inflow of £50,000 would be very beneficial in Skene's current situation. We would recommend that the festival be accepted to the park in order to ensure the future of the park. This opportunity for a large amount of money to inflow is rare and will ensure the park does not close in the short term.

In order to minimise the impact to members, free tickets should be considered as an offering to all members. Additionally, legal paperwork should be drawn up between festival organisers and the board in order to ensure that the park is restored to its original condition after the festival, with any damage payable by the organisers.

Tearoom

Focus should be made on improving the tea room offered within the Park. Currently garden centres and tea rooms are busy places, attracting many different types of people. This income would be welcome for Skene. Staff should remain in the tearoom and not utilised throughout the rest of the park during peak times. This will ensure that service is on offer when members arrive and should reduce the amount of goods stolen which will improve profitability.

The tearoom offers a facility during the poorer summer weather and is required to sustain the park if the summer weather is not positive. An attractive menu should be designed and advertised on the website page in order to bring in custom. Detailed income and expenditure should be monitored in order to ensure that only profitable foods are offered.

The auditors have raised issues around the reconciliation of sales in the tearoom. A till system should be introduced to track each item purchased by each individual to ensure that reconciliations can be performed. With more accurate financial information gathered, the true profitability of the tearoom can be monitored. This is further expanded in the systems and controls section.

Systems and controls

The current system within Skene is highly paper based and manual. This may not produce accurate financial information. The use of a basic accounting package is not overly expensive as it can be purchased off the

shelf and installed with little difficulty, if the internet and hardware is up to date within Skene. Training will require to be completed for administrative staff, but the benefit of the system should outweigh this cost.

Up to date financial information should be extracted more easily from the system, providing more reliable information to base decisions on. This will remove the large manual element of the current system, thus ensuring information is more up to date and correct. It also removes the possibility for paper to go missing.

Controls are more difficult to introduce in a small business where there are not lots of different people over which to spread control. Pep as general manager can provide a more supervisory role to the accounting information, where if administrative staff enter the information into the system, Pep can authorise payments, review information and compare to budgets. This control step can be introduced in order to minimise fraud and error within the accounting information.

VAT

The auditors have discovered a number of errors within the VAT returns. A different approach has been taken in recent months by the club in the approach to exemptions. We would recommend that dialogue is commenced with HMRC immediately over the issue, in order to clarify the position Skene is in. Errors in the VAT return will attract fines and penalties, up to 15% of the VAT due each quarter, so a prompt disclosure to HMRC is required to minimise these. After discussion with HMRC, clarity on the VAT stance will be achieved in order to ensure that VAT charges are correct going forward.

4. Terms and Conditions

If Alba bank is to continue to support Skene, additional terms and conditions would be implemented in addition to those already in place. This is to reflect the increase in risk that the bank is taking on due to the worsening position of the financials presented by Skene.

As discussed previously, offering asset security to the bank would be welcome. This provides a guarantee of some return to the bank if loan payments are defaulted upon.

Alba may look for a seat on the board at Skene. This ensures that the repayment of the loan and the future of the club are always considered, with the bank able to add an opinion as to the commerciality of decisions.

The bank may look to renegotiate the term life of the loan considering the future strategy of the park. Without a long-term future, the bank will look to ensure that the loan is recoverable while the company is still in a cash positive position.

The bank may also increase the interest rate offered to the club if the loan is considered to be of higher risk.

5. Overdraft Extension

Based on the discussion above, Alba Bank will not support Skene since the company is considered to have too many business risks and improvements required to be implemented. The current future is too uncertain for the bank to invest further. It is suggested that the profit improvements are taken on and implemented by the

board, as well as hosting the festival to improve cash flow. With the improvements implemented and festival taken on, the requirement for the overdraft extension is removed.

The long-term renewal of the loan will be dependent on the board showing that they are innovative and can consider implementing change in order to turn the company into a more profitable position. Changes to the board are the first step in this process, as well as providing an up to date business plan and evidencing change. Up to date and full financial forecasts will be required.

6. Marketing Perspective

The park has a variety of facilities on offer – bar, tearoom, tennis, football, bowling green and extensive gardens with award winning roses. These facilities are all attractive to members in the local area. Discussion above has suggested improvements to promotion in order to attract an increase in the number of members, with discounts to price and different membership products offered to extend the facilities to other groups.

The tearoom as a collection of products presents an obvious opportunity that could be made from the current facilities in order to increase income. Since many coffee shops and garden centres offer a tearoom service, there is a larger income to be made in this area if energy is put into running the facility more effectively.

Regarding the product offered by Skene, the space taken up by the tearoom could be adapted in order to run an indoor facility. This would mitigate the business risk of poor weather since currently the tearoom and bar area are the only indoor activities. Classes such as exercise classes or craft classes could take this space to run, with minimum costs required to convert the current building.

Regarding promotion of Skene, the increasing use of the internet provides a marketing opportunity for the club, as discussed above, with the opportunity to utilise social media at no additional cost.

There has been poor media attention in recent months which will require to be counteracted in order to ensure that membership does not decline in the long term.

Report

PRIVATE AND CONFIDENTIAL

Report to Tessa Major

Evaluation of future options for Skene Park Country Club

Prepared By: Fred, Alba Bank

Date: May Yr26

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- 2 Cost and income of castle wedding business

1. Introduction

This report has been prepared to provide background information and evaluation on two options presented by Pep at Skene, on behalf of the board. Both options are evaluated considering the risks and rewards and lending conditions that would be attached to each.

The contents of this report are intended only for the addressees. In producing this report, we have relied on the information provided to us in order to produce our advice and should any of this information be incorrect, we are not responsible for any consequent errors in our advice.

The tax advice is based on legislation at today's date. If any actions take place in the future it will be necessary to confirm the tax position at that time.

2. Executive Summary

- Currently the bank would not provide funding for either option presented by Pep.
- Option one of selling ground to the hotel would be considered by the bank in the future. It will increase cash flow for the club if planning permission is achieved however the bank would require seeing more operational changes made to Skene in the first instance, as discussed in previous report sent to Pep.
- Option two of entering the wedding market requires experience beyond the staff's current levels, with the castle option providing less income than the bar currently by around £40,000.
- VAT could be reclaimed on the building work if Skene opts to tax, which would result in subsequent lets of both the wedding business and football pitches being subject to VAT charges at 20%.
- The tearoom should stop trading. There is currently no value in the business as it stands.
- Utilisation of tearoom staff should be considered elsewhere in the club. This may avoid redundancy procedures and costs from closing the tearoom down.

3. Option one – Land sale to National Hotel Chain

Option one involves selling a piece of land to a national hotel chain for an amount of £200,000 to be received in instalments.

Cash inflow

This proposal would increase the cash receipts to Skene through the sale of ground. The timing of the payment from the hotel is staggered over an estimated 12-month period; however, this is unpredictable as if the planning process is to take longer, Skene will have to wait longer to receive the cash. This is a risk as the cash flow of Skene will require to be funded for longer until the cash is received.

If planning permission is not granted, Skene are likely to still receive £10,000 which is a positive cash inflow and would be welcome in the income and expenditure account. Skene should ensure that a guarantee is included within the contract to ensure that if the hotel company is to go bankrupt during the planning process that all cash due to them is guaranteed – otherwise, the hotel could remain half-built and no income be received by Skene.

It is considered that all football income will continue, with the expectation that this can be increased in future. Customer research will require to be carried out in order to assess whether customers will continue to use the site during its period of transition and renovation. In fact, discounts may be required to be offered to football teams that cannot use the facility while it is reduced in size, the opposite to increasing revenue.

Cash outflow

In order to build the hotel, an access route is required to be built across the current football pitches. This will limit the football facilities on offer to existing members and may see members cancelling their membership. This change in facilities will also see the football pitches being required to be moved at a cost of £100,000 including VAT. This is a large cost for Skene to have to pay, over a short timeframe of six months. This requires to be paid out before the majority of the income from the hotel is received and will require to be funded by Skene. This work will be required to be completed in the short term in order to meet the hotel's timeframe.

In order to move the pitches, a different part of the park will require to be renovated. Consideration has to be given as to whether there is space in the club to complete this, or what other facilities will be hampered by moving the site. The size of the site will also be required to be considered in order that all current members can continue to use the facility.

During the period of transition, consideration will require to be given to how current members can continue to use the site, with a reduced number of pitches. If there are not enough pitches for all members and groups, members may go elsewhere and will not return when the new site is developed, thus future membership will be lost.

Non-financial considerations

A number of non-financial considerations will be required to be considered before the overall benefit of this deal can be considered.

Firstly, how are the members going to react to part of the ground being sold to a hotel? Customer research should be undertaken in order to assess whether the membership levels will drop significantly by selling the ground since this could affect the future income of Skene. If members expect a reduction in fees due to reduced facilities, the income taken by Skene would be lower in future and will require to be carefully considered to ensure that profits can be maintained.

The football pitches will be operated next to the building site for a while. How will the safety of members be protected during this time? This is particularly relevant for children who use the site during holidays.

Does the hotel expect to use the facilities within the park for its residents? This could provide a secondary source of income for the club by charging the hotel for use of its facilities, but the impact of this on existing members would require careful consideration. If facilities are busier with hotel guests, will members continue to join, or would they expect fees to be reduced in order to account for more people using the facilities?

Building extra football pitches will only attract additional income if there are increased users to pay for the sites. An extension of the customer research discussed above should be utilised in order to assess demand for this service.

Loan costs

A loan of £100,000 is required to complete this option, in order to fund the transfer of the football pitches. This loan would be required to pay the costs of the football pitches over six months of reconstruction (£16,667 per month). This loan will only be repaid by the end of the year if the hotel building receives its planning permission and it completes according to the draft timeline, else the repayment of the loan will be delayed.

Monthly interest rates of 0.683% equate to an annual interest rate of 8.196%, a cost of approximately £8,196 annually on £100,000. This is a high interest rate loan and will add to the loan profile of Skene, especially since there is already a loan in place with Alba for the renovation of the football pitches the previous time. The total annual cost of the loan could be approximately £10,000 when considering annual interest and the arrangement fee.

4. Option two

There are two options within option two, both which focus around developing the park for a wedding market, either competing in the local hotel market or to rival a local castle. Appendix one shows the cost and income to rival the hotel trade and Appendix two shows the cost and income to rival the castle.

Offering a hotel style wedding would provide an income of £60,000 a year, while the castle wedding would provide an income of £180,000 a year. While both options provide a large income of money each year, both have risks and considerations which are similar.

Experience

Moving into the wedding business is a drastic change in strategy for Skene. Where is the knowledge to run a business like this within the existing structure? The organising and running of a wedding venue is an in-depth business which requires a lot of organisation. If this skill and knowledge set is not currently in the staff set up, recruitment will be required to run this side of the business. This will require a salary to be paid to at least one member of staff, although with 40 weddings a year, it is likely that a team of staff will be required to run the business. This staff cost, and associated NIC cost has not been included within the calculations.

Reduction in bar

By offering a wedding facility, the current bar area would be lost. This provides a lost facility to the members of the club, and the reaction of this must be considered. In the twelve months to June Yr25, the bar took in a gross profit of £190,000, larger than the income from either option offered by a wedding facility when renovation costs are considered. This means the company will lose more money through lost bar income than it will receive in wedding income, unless the bar is reallocated to a different site within the club at an additional cost.

By reducing the facilities on offer, consideration will again be required to be given to member reaction as discussed under option one. A reducing membership may continue to decline if the bar is withdrawn, reducing income from memberships going forward.

Market research

Before a drastic move like this can be considered, extensive market research will require to be considered to ensure that there is demand for at least 40 weddings a year to be held. Without this research, the venue could be constructed at considerable cost only to lie empty when no wedding bookings are made.

Time

This venture requires a much lengthier timeline than option one. Before weddings can be held, the venue will require planning permission and building. This could take several years. Couples often book weddings several years in advance but will require to see the wedding venue before booking, therefore weddings would not be expected to be held for at two or three years. During this time, the building work will require to be funded, thus this project is much more long term than option one but will provide an annual income rather than a one off.

5. Tax considerations

Option one

The VAT cost suffered on the moving of the football pitches is non-recoverable due to the current status of the VAT of the pitches remaining. The club could opt to tax the football pitches in order to allow some of the VAT suffered to be reclaimed based on their partial exemption status. However, this opting to tax would force Skene to charge VAT on top of the rental price to members. This additional cost would have to be carefully considered as it would increase the cost of pitch hire by 20%. This VAT charge would be submitted through the VAT return and passed to HMRC.

Option two

The VAT suffered under option two is reclaimable in full as catering and bar income are currently charged standard rate VAT. The wedding business will require to charge VAT on its services offered. This has been factored into the calculations in Appendix one and two.

6. Recommendation of Options

While option one has the potential to bring in £200,000 cash, large disruptions to the park will occur by building a new access route and relocating the football pitches. Skene are required to cover the cost of relocating before the majority of the income is received from the hotel. The timing of income is also based on an estimated timeframe.

The bank would consider funding option one where a hotel is built on the grounds of the park in the future, however Skene must provide detailed cash flow statements and forecasts showing the current financial position and future expectations in order to prove that the board have implemented day to day cash flow efficiencies before investing in a more radical project such as this, since without firm foundations, this extension will not contribute to long term success.

Option two provides a change in the direction of the company, who is looking to enter the wedding market, an opportunity that does not seem to play to the strengths of current management. The option is long term since building planning permission will be required for building work to commence before weddings can be held. This option is at the expense of operating the bar, which currently brings in a larger profit than either option of holding weddings would offer.

The bank would not provide funding for option two as Skene would reduce profits from the bar without increasing profits on weddings. The requirement for an additional loan would not make this investment worthwhile when Alba has an increased chance of receiving loan repayments if the bar is maintained.

Similar issues regarding the lack of security over assets would affect both options. The bank would be looking for this, particularly due to the uncertainty of the planning permission in option one.

7. Tearoom closure

In order to close the tearoom business, Skene will be closing part of their business. There are two options for Skene;

- close the tearoom; or
- pass it on to a third party to operate.

Skene may be happy with a third party running the tearoom. This could be an asset to Skene as the tearoom would continue to operate and bring in trade to the park, without requiring the day-to-day management from Skene. Skene could negotiate to receive either a share of the profits or receive rental income from the third party. However, with Skene currently making gross profit of £759 and a gross loss of £977 forecast in the cash flow, it may not be an attractive business opportunity.

Skene could close the tearoom down. There are no winding up costs associated with this, as it is not operated as a separate business. The staff were not employed directly by the tearoom, thus if they could be utilised throughout the rest of the park, there would be no costs associated with the closure of the tearoom. However, if the staff were not required going forward, redundancy could be considered.

We would recommend that legal advice is sought in order to assist with redundancy in order to ensure that it is done properly. In order to complete this, the job would require to be made redundant and not the individual. Based on our understanding, the employees are employed under general club employment contracts, thus redundancy may not be an option.

The stock could be used in the bar area of the club, where possible, but it is likely the majority would be thrown out due to sell by dates and the nature of the stock.

Appendix one – consideration of option two (Hotel Market)

Refurbishment:

Bar	£25,000	
Clubhouse	<u>£200,000</u>	
	<u>£225,000</u>	required every 5 years

Income	£250,000	40 weddings, £50 a head, 150 guests – after VAT
Expense	(£90,000)	40 weddings, £15 a head, 150 guests – zero-rated
Chef and catering staff	<u>(£100,000)</u>	
Income	<u>£60,000</u>	per year

Appendix two – consideration of option two (Castle Market)

Refurbishment:

Bar	£50,000	
Clubhouse	<u>£500,000</u>	
	<u>£550,000</u>	required every 5 years
Income	£400,000	40 weddings, £100 a head, 120 guests – after VAT
Expense	(£120,000)	40 weddings, £25 a head, 120 guests – zero-rated
Chef and catering staff	<u>(£100,000)</u>	
Income	<u>£180,000</u>	per year

Email

To: Peppyr Lawson

From: Fred, Alba Bank

Date: May Yr26

Subject: Inheritance tax and investment of funds

Flagging: Normal

To Peppyr,

Following our discussion this morning, please find below comments regarding inheritance and investment of funds. You have been left £300,000 in cash after the payment of taxes from your Aunt. You are looking to provide a flat for your daughter at the cost of £300,000.

Flat Purchase

Stamp Duty Land Tax ('SDLT') will be payable when the flat is purchased in Manchester. Assuming the flat costs approximately £300,000, the first £125,000 of the property purchase price is taxed at 0%. Thereafter SDLT is payable at 2% on £125,000 and 5% on the remaining £50,000. You will need to factor this into your budget as it will be required to be paid on the date of signing the purchase.

The income from the rental of the other rooms will be subject to declaration and income tax on your personal tax return as you will own the flat. Tax payable will depend on the tax bracket you are in. If your daughter were to own the flat (achievable if the £300,000 bequest was left to Maria and she buys the flat), there is a chance she would pay less tax on the income since she is a student and is likely to have a lower income.

When the flat is sold, a capital gain will be released on the property, being the difference between the sales proceeds and the market value of the flat when purchased. This capital gain will require to be declared on your personal tax return. There would be no relief on this as it is not your main residence. Tax will be due at 18% or 28% depending on the tax bracket you are in. Again, if your daughter were to own the flat, there is a chance she would pay less tax on the income since she is a student and is likely to have a lower income. In addition, it would be her main residence and principal private residence relief would be available.

If you want to discuss this further, please do not hesitate to be in contact.

Kind regards, Fred