



TPE MAY 2022 – Guide to Answer

Theatre Stars

The Test of Professional Expertise multi-discipline case study is designed to encourage you to provide alternative creative answers and there is no “right answer” at TPE level. This Guide to Answer illustrates the structure and the depth of analysis and explanation the examiners were seeking.

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BRIEFING PAPER

This briefing paper has been prepared for Nick Clouter, Partner to present to Samira Gauch, owner and director of Theatre Stars Limited ('TS') and covers:

- An evaluation of the Theatre Stars current year performance
- A summary of the key issues within the business along with possible reasons for any recent changes in performance and indications of potential underlying issues
- A review of the factors to consider regarding the current uniform provision and a recommendation of which course of action to take between the two options provided
- All calculations are located in Appendix 1

1. Analysis of Current Position of Theatre Stars

Evaluation of current year performance

1.1 Revenue and gross profit

	<i>8 months to 30 Apr 2022</i>	<i>Year ended 31 Aug 2021</i>	<i>Year ended 31 Aug 2021 (pro-rated 8 months)</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Membership fees – weekly training	1,942	3,110	2,073
Membership fees – Select team training	754	1,152	768
Supplementary workshops & summer schools	1,420	306	204
Uniform sales	147	213	142
Other performance fees	63	-	-
Talent management	237	73	49
Total revenue	4,563	4,854	3,236

Revenue performance appears to have significantly increased year on year when comparing the figures for 2020/21 to the 8 months of 2021/22 as the 8-month figure is only slightly lower than the figure for the prior year. As fees charged have not changed year on year, this difference will be due to changes in mix or number of students. There are several elements within revenue that require further consideration.

a) Membership fees – weekly training

Weekday training fees are reduced on the prior year. We would anticipate that fees recognised at this point in the year would be £2,073,600 from the 1,080 members, which is significantly higher than the £1,942,000 actually recognised at this point in the year. This could indicate several possibilities, the first of which could be the use of bursaries which would reduce fees for students on being awarded. It is unlikely that the difference is due to the use of bursaries due to the fact that it has been stated that they are used very rarely, and this relatively large difference would require a significant number of bursaries to be awarded.

A greater use of bursaries going forward should be considered, taking into account the changes in the economy from 2020 onwards reducing disposable income for many. This could help Theatre Stars to retain the best students in line with the company strategy.

It is also possible that there is an error in recognition of revenue which could account for the difference in revenue across the two years. Due to the lack of financial support within the business as a result of the resignation of Clive Burns and him having not been replaced there is a higher possibility of errors within the records due to a lack of financial oversight.

The most likely reason for the lower-than-expected weekly training revenue is that the teams are not currently at capacity, which is in opposition to the normal course of events for Theatre Stars. This is possibly due to children not taking up a place offered in September 2021, or due to members dropping out during the year. If a member dropped out during the year, the fees are still owed to the business and should be accrued.

However, the process of chasing up overdue fees was the responsibility of Clive Burns. It is unlikely that this activity has been continued in his absence, especially considering the time pressures on the other members of staff.

It should be considered at this point if the additional pressure on the staff to chase the fees is valid for the income it would generate. With the staff already being under significant pressure, this could become 'the straw that breaks the camel's back.' If more staff were to take sick leave as a result of stress, the costs to the business for temporary staff could outweigh any funds received in the completion of this task.

However, setting a precedence of not chasing the fees should also be considered and the message this would send to those considering withdrawing their children part way through the year. It is in the business' best interest to continue to enforce the terms and conditions of the contracts to send a consistent message.

If a waiting list is in effect, as it always has been historically, and there are spaces in the teams, offers should have been made to potential members to take up these spaces. This would have maintained the teams at capacity having both a financial and reputational effect. Spaces in the teams could indicate a reduction in the desirability of training places at Theatre Stars, which could affect demand going forward.

b) Membership fees – Select team training

Select team training fees are also lower than expected, likely for the same reason as weekly training fees, however not to the same degree on a percentage reduction (1.8% v 6.3%). This indicates that the unfilled team places would be split across both the Evolution and Select teams.

Gross profit for training services was 57% in the year to 31 August 2021, reducing to 50% in the eight months to April 2022. This indicates the cost benefits of providing the training online throughout 2020/21, but also gives credibility to the complaints from the members regarding overcharging. This should have been considered during 2020/21 as a reduction in fees could have generated goodwill with the parents of the students, possibly increasing the number of returning students for 2021/22.

1.2 Other revenue

a) Summer school and supplementary workshops

Firstly, there is £945,000 of income from the summer school bookings that should not have been recognised yet. Whilst the summer school provision will fall within this financial year, the service has not yet been provided and the income should not be recognised yet. This is also likely to be a function of the lack of oversight of the financial system within Theatre Stars.

The £945k summer school fees should therefore be recognised in the statement of financial position as deferred income, rather than in the statement of comprehensive income. Whilst the fees for the summer school will be recognised within this financial year, they should not be recognised on receipt but on provision of the service. This is indication of the lack of financial knowledge for accounting purposes within the business.

Costs for the summer school are also likely to not have been included yet as they are more likely to be incurred as the service is provided.

However, the fact that the summer school is currently fully subscribed bodes well for the business in terms of demand going forward as it indicates that there is still significant levels of desirability for this service, particularly considering that the summer school could not run in the year to 31 August 2021.

The figures would also indicate that supplementary workshops are generating more revenue in this financial year, generating £475k in the eight months to 30 April 2022 compared with £204k in the comparable period of the prior year. This is likely to be due to the increased opportunities for, and increased popularity of face-to-face workshops within the current financial year, rather than a significant increase in the importance of the revenue stream.

b) Uniform sales

Uniform sales are slightly higher than the prior year. This may be indicative of the reduced quality of the uniform, meaning that it has required more frequent replacement. This could cause greater issues with the parents as it is indicative of further reduced levels of service with greater levels of expense.

Theatre Stars have stated that they achieve a high margin on uniform sales, which is incorrect with the margin at 6.8% in the current financial year and 5.6% in the prior year. This could be indicative of the issues faced with uniform since the change in supply, but without additional historical figures this is unclear.

c) Other performance fees

The specific costs related to these performances are not provided, so we are unable to determine if they were profitable.

However, the process of putting on a Christmas concert is likely to have required a significant level of management time. Utilising this time to address the empty spaces in the teams would have generated more income for the business both in the short and longer term.

d) Talent management fees

Talent management fees have increased significantly on the prior year. However, due to the impact on the industry of the restriction of live performances and restrictions on filing in 2020/21, it is not a valid comparison. Figures from prior years would be beneficial to conduct this analysis. The comparison also does not consider the increased levels of commission implemented by Freya Jones. This increases the lack of comparability of the two years' figures

1.3 Key Issues

a) Reduction in members

The number of children continuing with their membership has decreased year on year. The continuing membership has decreased from 94% to 77% uptake. This is very concerning in respect of demand going forward and could lead to more significant problems in future years.

The number of children leaving to attend full time performing arts school has increased significantly. It is unlikely that these are all aging out of the program to attend full time performing arts school and is more likely to be indicative of changes within the industry.

This could indicate that some younger members have not returned to continue with their Theatre Stars membership, instead choosing to take up offers of full-time residential training. This needs to be considered in respect of the future of the company, as it could be indicative of a long-term change in industry direction which could impact the future provision of services.

b) Reduction in auditions

The number of children booking auditions has reduced from 1,667 to 1,280. This is a significant reduction, and whilst the number of children auditioning could still fill all of the team places, this indicates a reduction in the desirability of the places available.

1.4 Changes in performance

The service itself is a premium level service, with the cost for a child in one of the Select teams being £5,280 per year before the additional costs of uniform and supplementary workshops. If discretionary spending is being reduced due to the difficulties in the economy, it is possible that parents will choose not to continue with Theatre Stars in favour of cheaper options.

There is a worrying growth of other training programs available online at a much cheaper cost. These programs are also more convenient as there is no travelling involved. The reduction in members returning could be contributed to by the growth of these online programs providing greater levels of choice and flexibility to both the parents and the children themselves.

Alongside these industry-based changes, customer feedback is also more negative this year than received previously. This could indicate a general feeling of discontent among the parents which would reduce the number of members returning. If the issues raised are not addressed sufficiently this

could result in smaller numbers returning each year. This could have an immediate financial impact, but also a longer-term impact of reducing numbers and more work being required to fill teams to capacity as desirability of team places reduces.

No promotional videos were produced due to filming restrictions in the 2020/21 year. This would reduce visibility of the brand despite the use of the older promotional material as the videos have always been used successfully as a marketing tool. This may explain the reduction in numbers of auditionees if brand visibility has been reduced due to a lack of promotional activity. This could quite easily be remedied by the use of videos in the current year, increasing the importance of these filming weeks in the Theatre Stars programme.

The type of training provided by Theatre Stars would be classed as high-level training, but developments in the industry are moving towards residential training on a full-time basis. It is possible the Theatre Stars will lose their position in the industry by being too intense for those undertaking the training as a hobby, but not intense enough for those wishing to pursue the performing arts on a full-time basis. This would significantly reduce demand going forward and should be addressed by the business as a part of their future strategy.

There are still large parts of the UK not covered by Theatre Stars in respect of training facilities due to the nature of the training provision. This creates scope for their competitors to gain market share, albeit utilising a different type of service. Theatre Stars need to ensure that their message of tailored face-to-face training provision is emphasised in the public domain, setting them apart from their competitors.

1.5 Underlying issues

Several of the operational issues identified could have been resolved within the year if the business was sufficiently staffed, such as the vacant positions in the teams being filled to maximise revenue.

Keeping the teams full has a follow-through impact on other revenue streams such as supplementary workshops, uniform and the summer school due to the fact that there is increased demand for spaces within these additional services.

The lack of financial oversight causes concern in respect of maintaining control throughout many areas of the business. The finance manager was also responsible for many of the compliance checks within the business, and it is possible that these checks are no longer being undertaken which could result in numerous issues. There could be both financial, operational and reputational impacts if control is not maintained across all elements of the business.

If the compliance checks are not being undertaken sufficiently, Theatre Stars could end up in breach of the legislation resulting in fines and penalties, as well as reputational damage which could have a knock-on effect on many areas of the business.

The business is consistently significantly profitable and has experienced reduced costs during the period of online training as a function of the reduced overheads. It would have been in the best interests of the business to offer a reduction in fees to maintain a positive relationship with its members, showing consideration for the potentially difficult financial circumstances experienced by

many families from 2020 onwards. This may be something to consider going forward, to show goodwill to the members, and could go a long way in building and restoring relationships with both existing and former members.

This would also show a positive consideration for the ongoing development of the children within the training programme in line with the company strategy, rather than a focus on increasing turnover. This would not have a significant impact on the profitability of the business in the short term but could generate goodwill to add value to the business over the longer term.

2. Method of uniform provision

The decision as to which method of uniform provision to choose will come down to the relative importance placed on some of the criteria. The following analysis will provide commentary on the main distinguishing features between the options.

Issue	Continue with internal provision	Outsource to dance shop	Assessment
<i>Financial</i>			
Price of uniform to members	Prices to members will have to increase if the costs of goods increase as the business wants to retain the level of mark up.	Due to the relationships developed, Bright Dance have stated that they can keep the uniform prices to members at the current level.	Parents are already complaining about the cost of uniform and would be reluctant to accept increased prices without further complaint, further reducing customer satisfaction
Working capital	Theatre Stars currently holds approximately £37k of stock	No requirement for Theatre Stars to hold high levels of stock	This will free up working capital for Theatre Stars assuming the existing stock can be sold. It would be advised to pass on the existing store of stock to Bright Dance Ltd, for a mutually agreed fee, if the outsource provision is utilised.
Income to the business	Income would continue at current or increased levels with a retention of current profit levels	Income would be limited to a fixed percentage commission received on uniform sales, reducing the level of absolute income received. This percentage commission is higher than the current GP margin.	Whilst absolute income would be reduced, Theatre Stars costs would also be reduced as uniform purchases would no longer be required. The time cost to the business would be reduced as staff would no longer be spending time sorting and distributing uniform.

<i>Logistics</i>			
Accuracy of items received.	There has been a continuing issue of incorrectly sized items being received by students. It is unclear if this issue is as a result of incorrect sizes being requested, or incorrect items being sent	Bright Dance have the responsibility for issuing the correct items and have the experience and controls to ensure this is done appropriately.	The ability of members to attend one of the shops for sizing of the uniform would reduce the possibility of students receiving incorrectly sized uniform. The convenience of the online service is still available for further orders or for those who cannot attend a store.
Storage	A new storage solution would be required as uniform stocks are currently a hindrance at head office.	No storage would be required as the entire provision would be outsourced.	Sourcing new storage would increase both costs and demands on management time. If provision was retained in house and storage was not on site at head office this could increase the time cost further when addressing distribution of uniform.
<i>Operational</i>			
Quality	Quality issues require resolution as the uniform is currently subject to a high level of complaints.	Bright Dance Limited already have a good relationship with a well-known supplier of quality goods.	<p>Resolution of quality issues in house will require more management time which is currently at a premium. It is unlikely to exceed the quality that Bright Dance can source.</p> <p>Theatre Stars would have to relinquish control over the provision of the uniform, meaning there would be no control over the quality of the provision after the initial approval of samples. The use of a well-known supplier by a company with their own reputation in the market to protect should aid in the provision of a good level of service.</p>

Delivery time	Delivery time is currently 8-12 weeks in relatively large batches.	Delivery time is up to 2 weeks in much smaller batches.	Delivery time is much faster, and a smaller order quantity is required. Bright Dance are likely to order a batch of items when a particular size of an item is requested due to the low level of stock, they would need to hold to satisfy the order. The quick turnaround of orders would also get uniform to members more quickly providing a better service.
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Conclusion

Prices

Utilising Bright Dance as a supplier will keep prices of uniform at the current levels for members. This cost on top of the training fees can cause problems between Theatre Stars and parents so keeping prices at existing levels should be classed as a priority to minimise dissatisfaction. This is a key consideration in the decision as to which option should be chosen.

Non price issues

On balance, using Bright Dance Limited as a uniform supplier meets more of Theatre Stars' requirements regarding the quality, flexibility and convenience as compared to retaining the provision in house. The possibility of transferring the existing stock held by Theatre Stars to Bright Dance could enable a seamless transition in the uniform supply as Bright Dance could commence supply of uniform immediately.

Overall

Based on the above it is recommended that the uniform provision be outsourced to Bright Dance Limited moving forward. The initial time cost to set up the agreement is more than compensated in the longer term. The anticipated improvements to uniform quality and accuracy in distribution will be beneficial to the business at a time when customer satisfaction is experiencing difficulties. Theatre Stars will also still receive an income from this provision via commission.

Appendix 1 – Financial Analysis

Workings

1) **Members:**

5 locations, 9 teams at each location, 24 children in each team

At capacity $5 \times 9 \times 24 = 1080$ members

2) **Weekly training:**

All members are provided with weekly training at £240 per month (Section three)

$1080 \text{ members} \times £240 \text{ per month} \times 8 \text{ months} = £2,073,600$

Weekday percentage reduction from expected $£131,600 / £2,073,600 = 6.3\%$

3) **Select Team Training fees:**

5 locations, 4 select teams per location, 24 members per team, £200 per month fee.

At capacity $5 \times 4 \times 24 = 480$ members

$480 \text{ members} \times £200 \text{ per month} \times 8 \text{ months} = £768,000$ expected

Difference between expected and actual $£768,000 - £754,000 = £14,000$

Percentage reduction from expected $£14,000 / £768,000 = 1.8\%$

4) **Gross profit training services**

	2022 £,000	2021 £,000
Membership fees – weekly training	1,942	3,110
Membership fees – Select team training	754	1,152
Supplementary workshops (less summer school fees (note 6))	475	306
Training fee total	3,171	4,568
Creative Instructors	829	1,184
Training location costs	756	795
Total costs	1,585	1,979
Gross profit	1,586	2,589
Gross margin	50.0 %	57.0%

5) **Summer School**

5 locations, £525 per child, 60 children per week, 6 weeks

$5 \times £525 \times 60 \text{ children} \times 6 \text{ weeks} = £945,000$

6) **Supplementary workshops income**

Income from supplementary workshops and summer school - £1420k

Summer school income - £945k (as above)

Supplementary workshops income: $1420k - 945k = 475k$

7) **Gross margin uniform sales**

2022 – sales £147k less costs £137k = £10k gross profit

$10k / 147k = 6.8\%$

2021 – sales £213k less costs £201k = £12k gross profit

$12k / 213k = 5.6\%$

8) **Auditionees reduction**

$1280 / 1667 = 76.8\%$ of prior year.

9) **Reduction in members**

2021: 897 members re-enrolled. $897/958 = 93.6\%$

2022: 743 members re-enrolled. $743/962 = 77.2\%$

10) **Select Team training fees**

Weekly training for 1 child: £240 per month for 12 months = £2,880

Select training for 1 child: £200 per month for 12 months = £2,400

Total annual cost = $£2,880 + £2,400 = £5,280$

CONFIDENTIAL

Report

Theatre Stars Limited

For: Samira Gauch

Prepared by Jackson, Wiles & Brady LLP

Date: May 2023

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Appendices

Appendix 1 – Geographical Expansion

Appendix 2– Sale of Talent Management Division

1 Introduction

This report has been prepared for Samira Gauch to provide advice about the proposed changes in Theatre Stars Limited, an elite performing arts training company.

The information in this report should not be shared with any other third party without our prior written consent.

2 Executive Summary

- The geographical expansion of the Theatre Stars business should be undertaken utilising a Northern hub office instead of introducing franchising to the business. This is to ensure the consistency of training across the sites, protecting the reputation of the business.
- The staffing issues within the business need to be addressed as a matter of urgency. This includes consideration of the lack of financial knowledge within the company as well as addressing the significant level of understaffing within the business prior to the geographical expansion.
- It would be advisable to close the talent management division at the end of the financial year and not to sell to Boardlights. The risk to the reputation of Theatre Stars by the division being run with reference to the brand but without oversight is too significant. There would also be a significant administrative burden to Theatre Stars with what appears to be a reduced financial reward.
- It would be advisable not to transfer the training of the Leicester and Milton Keynes teams to the family estate. There is insufficient information available regarding the possibility of housing the training appropriately at the estate and matters such as required renovations and adherence to regulation have not been considered. More research is required on this area before a decision is made.
- Forming the performing arts school as a charity is a possibility for the business, in line with many other private educational establishments. However, the use of a charity as the commercial structure of choice would require a very different way of conducting business than the team at Theatre Stars is used to, with much more significant levels of oversight from the required Board of Trustees compared to the overall decision-making power currently held by Samira Gauch.

3 Theatre Stars Geographical Expansion

Theatre Stars intends to increase its geographical coverage by adding further branches in Cardiff, Glasgow and Belfast. There are two options available as to how this can be achieved; via a new northern hub to manage several sites with other sites being run from the London head office or via a franchising format. All calculations are shown in Appendix 1.

3.1 Financial considerations

Profit

Net profit from franchising the three initial new locations would be £434,765 annually, with the additional franchise fee in the first year increasing this to just over £600k. This compares with net profit from running the three new sites from the new Northern Hub would be £982,540.

Based on the information provided by yourselves, the income from the proposed franchising is lower than that of the Northern hub. However, franchising also results in less financial risk for Theatre Stars as it requires minimal initial financial investment. It is expected that there would be a time cost to Theatre Stars, most significantly felt in the first year of franchising due to the management input required to set up the scheme. However, the demand on management time is expected to decrease over the life of the franchises, resulting in minimal input after the first couple of years

Premises

However, you must consider if having an additional office in Manchester is necessary. The head office of the business will still be based in London, and it is not deemed necessary to have a second office for visibility. The choice of location will have a great influence on the overheads of the second office but will not generate any increase in revenue. It is a possibility that the new branches could also be run from the head office, just under an additional staff team, possibly headed by the operations director as planned for the northern hub. This could save the overhead cost of an additional office whilst also enabling you to retain oversight of all branches from the head office, but with a greater degree of staff input.

Staffing

If Emilia Dawson was to agree to take on the role of operations director of the Northern hub, it is possible that she may have to relocate. At a minimum, it is likely that she would be unable to continue to work from home on a full-time basis. The impact of the change in location on the personal life of the operations director should be taken into account as this could be a deciding factor between Emilia agreeing to take on the role in the Northern hub or not. Retaining Emilia Dawson as operations director is essential to the success of this venture due to her extensive operational knowledge and the Northern hub is unlikely to be a success without her input. In light of this, the consideration of a certain level of compensation to ensure her continued commitment to the role could retain greater value within the business and ensure the success of the new Manchester hub.

3.2 Factors relevant to franchising

Operations

The option of utilising franchising to facilitate the geographical expansion is unlikely to significantly increase long-term operational demands on the existing team in respect of logistical organisation. This is an area which is already under strain so not increasing demand on this area is therefore an important consideration.

Another important consideration is that franchising would enable Theatre Stars to gain the desired additional geographical coverage with lower initial financial investment, as no additional premises or staff are required.

The introduction of franchising to Theatre Stars would require a certain amount of management time, however it is likely that this would be at a lower level than the management time required to set up a new Northern hub as well as introducing three new training branches. By keeping the additional demands on management time to as low a level as possible it would enable Theatre Stars to focus on the current operational issues that have been identified. This approach would be beneficial to ensure that the provision of services going forward is at an optimum level with the intention of ensuring the future of the business.

One potential additional benefit of the process of franchising is that new ideas could be introduced to Theatre Stars which could further progress the business. With such a small management team in place this process could widen the input of ideas into the business and enable further development throughout the enterprise. The inclusion of several business minds to the development of one organization could result in greater levels of growth than have been experienced before.

Business model

Theatre Stars currently have no experience with franchising as a business model, and do not know what the demand would be. This could be a steep learning curve for the business and there is a possibility that it may not initially be a success as a result of this lack of knowledge.

You have mentioned that many other performing arts training providers utilise a franchising structure as their business model. By adopting this structure within your business it will lead to a lack of differentiation for Theatre Stars, in contravention of your premium ethos. However, the successful use of this model by other training providers does add credibility to franchising as an option, indicating that it may well be a success.

Franchise terms

Theatre Stars as a business currently maintain control over all elements of the business, a position that would be lost with the introduction of franchising. Theatre Stars would need to relinquish control over all elements, including audition standards and training provision which could lead to inconsistency between different team locations. This is a key consideration as there has been an emphasis on standards and consistency throughout the development of the business, emphasised by the recent decision to change the way in which the creative instructors are used. These changes

could tarnish the premium reputation of the business leading to confusion and a definite lack of differentiation. This could also impact on the success of different franchise locations, based on the reputation gained.

Franchisees

Theatre Stars would need to consider what characteristics they would require in potential franchisees. Factors you would need to consider would be elements such as whether the franchisees require performing arts experience themselves, or whether they could employ suitably qualified instructors to ensure this provision on their behalf. This factor could significantly limit the pool of potential franchisees available but could also have an impact on the level of training provision at each location. Again, this could result in a lack of consistency across locations if certain locations are being run by a franchisee with a great deal of performing arts experience compared to a location where the franchisee may simply be looking for an investment.

3.3 Factors relevant to the addition of a Northern office

Operations

It is essential that the set-up of the secondary office is fully considered and planned in detail. Any omissions in the planning process could add significantly to costs but could also delay the opening of the office. This could have a subsequent effect on the formation of the new training branches which could then have a significant impact on future income.

Going forward, the additional office may help the business address some of the customer complaints that have been raised due to staff members focusing on fewer team locations, ensuring a higher level of service across the entire organisation. This could be beneficial to Theatre Stars in the longer term as it could enable a more comprehensive service to be provided to each location, in line with the initial vision when the business was formed.

This will however pull Emilia Dawson away from working on the southern teams. She is the member of staff with all of the accumulated logistical knowledge for the southern teams and this may reduce the service provision for those teams, resulting in a greater level of dissatisfaction and customer complaints. There is no benefit to the business in improving the service provision in the north of the country and the new locations if this improvement is to the detriment of the existing locations in the south. This could lead to further and greater issues with existing members and undermine the business as a whole.

Your intention is that you take over the logistical management for the southern teams as Emilia moves to take on all logistical management for the northern teams. You have been spending less time addressing company matters and have indicated that it is your intention for this to continue, as you wish to spend more time with your family. Whilst your intention is understandable considering your current personal circumstances, it does reduce the likelihood of you being able to commit the requisite amount of time to this role in the longer-term. If you are unable to commit the required time to the southern teams, this could increase the likelihood of dissatisfaction and complaints as issues would not be sufficiently addressed. It may be beneficial to consider adding a southern manager to the head

office as a part of a new staffing structure, with you retaining oversight of both the northern and southern management teams to ensure consistency of approach.

Staffing

An important staffing consideration would be whether or not Emilia Dawson would have complete authority over the Northern office, with the ability to take and action decisions, as necessary. The lack of final say on operational decisions has hindered Theatre Stars in your absence, and this matter requires resolution if the northern hub is to be established and function effectively. It is unlikely that the goals behind setting up the northern hub would be achieved if all decisions require final confirmation from you before being actioned. This would also significantly increase, rather than decrease as intended, the operational pressure on you and your time.

3.4 Administrative and operational matters

Current staffing levels

There has been a significant level of understaffing evident in Theatre Stars, although it is unclear how long this has been an issue. The overworking of staff could lead to significant issues going forward, both legally and operationally potentially resulting in legal action by staff and penalties faced by the business. This could cause both disruption and financial loss to the business which could significantly impact on both current operations and future plans. One area that has not been mentioned is whether or not cover has been provided for Jacob Green, the operations assistant who is currently off sick. Without appropriate cover being provided there could be continued pressure on the existing staff to take on greater workload which could lead to more staff members also requiring time off due to stress.

Subsequent public knowledge of these issues may also make it difficult to recruit staff in the future if these matters lead to a poor reputation in the marketplace. This is because people are unlikely to want to work for a business with this type of history of poor staff treatment.

Financial system

The lack of financial knowledge and support within the business is also a matter for concern. The finance manager left the business eight months ago and has not been replaced. The financial records are in disarray and the accounts for the year ended 31 August 2021 have not yet been filed with Companies House. This may lead to penalties being suffered by the business if these accounts are not filed by the due date of 31 May 2022.

If the accounts for the year ended 31 August 2021 have not yet been finalised, it is likely that the corporation tax for that financial year may also not have been calculated, being due nine months and one day after the end of the financial year (1 June 2022). This would also lead to additional charges on the company in the form of interest if these deadlines are not met. All of these matters increase the level of unnecessary expenses experienced by the business at a time when funds should be safeguarded for the future expansion plans.

Creative instructors

Emilia Dawson made the decision to change the use of the creative instructors to provide more consistency in the training provision both across sites and over the course of the training year. Whilst this seems to be a decision made with a solid business bases, there should also be consideration given as to whether or not the instructors should still be classed as self-employed or whether they are now employed by Theatre Stars.

From a taxation perspective there are struct criteria to be met which will determine whether or not someone providing services of this nature to the business is employed or self-employed. The change in terms would give indication that the instructors are now employed by Theatre Stars rather than self-employed as it is unlikely that this criteria would be met. The classification is determined by factors such as the use of Theatre Stars equipment, lack of substitution and determination of the curriculum by the business rather than by the instructor.

If it is the case that this criterion is no longer met, Theatre Stars need to amend how you deal with the creative instructors if they are in fact employed. You need to address the requirements for payment through the PAYE system and the payment of employers NIC which will increase both the administrative burden, and the cost to the business. There is also the requirement to consider the need for pensions, holiday pay and sick pay for the creative instructors if they are employed, in line with the rest of the staff. An additional consideration would be the requirement to provide the creative instructors with employment contracts to safeguard both employee and Theatre Stars as the employer to clarify both terms and expectations of employment.

3.5 Recommendations

We recommend that you expand by setting up a northern hub rather than franchising. There are significant risks of franchising including a reduction in training quality.

However, to proceed with the northern hub you need to consider your staffing levels as there are significant pressures on existing staff. You may also want to consider hiring someone to manage the London office due to your other commitments.

4 Closure/Sale of the Talent Management Division

You have asked us to provide an evaluation of the option presented in respect of the sale of the Talent Management division to Boardlights, an external organisation.

4.1 Closure of the division

Operational

One of the key impacts of taking the option of closing the talent division would be that Theatre Stars will no longer be able to provide a full 'in-house' service. This could possibly make you less desirable if parents have to manage their children's training and talent management separately as it would no longer be a 'one stop shop' for all of the performing arts provision.

However, as it currently stands Theatre Stars only manage approximately 10% of the children that they train. This means that the full provision of service is only being provided for a small number of members, so the impact on desirability could be minimal with no future impact on demand.

Financial

By closing the division Theatre Stars will be losing an income stream. Whilst it is not the most significant income stream, it does contribute to profitability to some degree. The balance between contribution and demand on management time should be considered to see whether or not the contribution to profit is worth the demands from an oversight perspective.

Other matters also require consideration, such as the redundancy of the talent director, as well as the talent assistant unless they can be redeployed within the business. Redundancy could be a significant cost depending on their contract terms leading to an outflow of funds when there is a requirement to retain funds within the business to fund the proposed developments of geographical expansion and a residential performing arts school.

Staffing

However, there could be an opportunity to redeploy these two staff members within the business to cover the existing staffing gaps. Both team members have knowledge of both the business and the industry which would be beneficial and would solve the current staffing issues quickly and efficiently depending on their skillset. This could resolve issues and save costs in the form of redundancy payments providing a double benefit.

Regulatory breaches

Closure of the division will address some of the issues experienced over the last year with breaches of the legislation relating to children's working hours and so on, as they are unlikely to occur again going forward. It will also mean that you will not have to address any disciplinary issues with the talent director for the data leakage, and children's working hours breaches.

Whilst it may not be necessary to address the disciplinary issues in this case, it would be advisable that they are not dismissed without consideration. Ignoring such matters of misconduct does not send a positive message to the other members of staff in respect of how serious these issues are and could set the precedent that the rules re open to being broken for the gain of the company. This is not a message that should be encouraged, particularly if staff are to be given greater levels of autonomy to facilitate the growth of the business.

Although the breaches may be unlikely to reoccur, it is important to address these with the talent director and to review controls to avoid any breach of law or regulation. Breach of the data regulations is a serious issue, and by ignoring the matter this could emphasise the message that the rules do not always apply.

4.2 Sale of the division to Boardlights

Operational

One of the main benefits of the sale of the division would be that the students can retain their representation, meaning that the change should be seamless as far as the students are concerned. This will reduce the likelihood of complaints from parents and would limit the disruption to the children, particularly for any currently undertaking professional work.

Financial

The sale of the division to Boardlights will lead to an inflow of funds over the next 3 years to assist in the development plans of the business in terms of both the geographical expansion and the potential future development of a performing arts school. This would be beneficial at a time of greater investment, providing income to the business for minimal involvement.

The amount due to Theatre Stars at the end of each year is to be calculated by the internal finance staff at Boardlights. The terms proposed do not include a provision for oversight of these calculations by Theatre Stars to determine their accuracy. This could potentially lead to underpayments of the amounts due to Theatre Stars as these figures would not have been verified. As you have no experience of this type of arrangement, the risk is increased.

Proposed terms

By allowing Boardlights to refer to the Theatre Stars name in marketing material, the Theatre Stars name remains visible in the talent management market, retaining any competitive advantage by continuing to provide a fully comprehensive service to represented members. However, this also leads Theatre Stars open to reputational damage by being linked to another organisation in which you have no oversight or input. Any actions taken by Boardlights, even outside the arena of talent management, could have a negative impact on your brand as a function of 'guilt by association.'

There are also administrative matters to consider in respect of the sale, particularly in respect of the provision of children for representation annually. This implies an active role in the selection of appropriate children for representation by Boardlights which will require a significant level of

administrative manpower. This is not beneficial to streamlining the business and would actually contradict the aim of closing or selling the division.

Boardlights are also requesting a significant level of children to be submitted for representation, far more than are currently represented by Theatre Stars within this division (approximately 108 - calculation shown in Appendix 2). This is a significant level of input and an administrative burden for a much-reduced financial reward. The process of determining which children are suitable for submission is likely to be a similar process to assessing the children for management by Theatre Stars themselves, so there is little benefit to this particular term of the arrangement.

Representation contracts are subject to renewal annually based on performance. This implies that if a child does not gain professional work, their contract may not be renewed. This puts additional pressure on Theatre Stars in respect of the number of children requiring submission for representation, as it is likely that if a contract is not renewed, that child would not be eligible for resubmission. This could limit the pool of children available for consideration each year making it more and more difficult to meet the terms of the agreement.

The proposed terms also refer to commission from students submitted for representation by Theatre Stars. There is no reference to those Theatre Stars students who may approach Boardlights for representation independently of the submission process. It is a possibility that Boardlights could refuse to renew the annual contract of a student submitted by Theatre Stars, but then take that student on for representation independently. If that student was to subsequently gain professional work, any commission from this would not fall under the purchase price arrangements proposed by Boardlights leaving the arrangement open to manipulation.

4.3 Recommendation

Taking into account the issues experienced within the talent management division this year, it is not recommended to sell the division to Boardlights, choosing instead to close the division at the end of the financial year. The risk to the reputation of Theatre Stars by the division being run with association to the brand but without oversight is too significant and could significantly impact the business negatively going forward. There are also significant administrative considerations that do not meet the criteria of streamlining the business, and the proposed financial arrangement could be subject to manipulation, minimising the amounts received by Theatre Stars. It is likely that the non-financial risks would outweigh any financial benefit gained from either retaining the division or from selling it on to Boardlights.

5 Transfer of Family Estate

You have advised us that your parents are considering transferring the family estate to you. Your intention in respect of the property is to ultimately turn it into a residential performing arts school. However, you intend to use it as a training base for both the Leicester and Milton Keynes teams from September 2022. You have asked for our thoughts on any matters that require consideration in respect of this proposal.

5.1 Transfer of the Leicester and Milton Keynes teams to the family estate

Buildings

You have indicated that you would like for the teams to utilise the site from the start of the new financial year, which is in three-month's time. There is no indication whether or not the family estate has suitable facilities to house the performing arts tuition without renovations. The facilities need to be of a comparable standard to those currently utilised to ensure the continuity of a high level of provision, but also to maintain the reputation of the business as a high-end provider.

The utilisation of a residence for this type of service is likely to require planning permission for many of the changes necessary to make the estate suitable for use as a residential performing arts school. It is possible that planning permission may not be granted which would mean significant changes to any designs undertaken or to the services that could be provided by the school, limiting the suitability of the school as residential school, but also potentially increasing costs and timescales.

You have stated that the main building on the estate is a listed building which means that any renovations undertaken will be subject to additional regulations and approval. The use of the property as a school will also require approval. This is essential before any works are conducted as the subsequent refusal for use of the property as a school would make any subsequent renovations worthless.

You have not given any indication as to your parents' view on this proposal. The property is still owned by them, and they may not wish for their home to house the training facilities for Theatre Stars. This is a critical factor in this development plan and should be addressed as a matter of priority before any further work is carried out.

Financial considerations

You have mentioned that the main building and outbuildings will require substantial renovations. Due to the fact that the estate encompasses a listed building, these renovations could be significantly more expensive than renovations to a non-protected building to ensure that the works carried out are in keeping with the property. These matters need to be considered in any financial projections that are undertaken.

You have simply stated that renovations are 'substantial' without any further detail. It is possible that the cost and scale of the renovations may be prohibitive and that sourcing an alternative property may be more appropriate and cost effective, enabling funds to be directed to improving the provision available as opposed to renovating an unsuitable property.

These renovations will require significant levels of funding. You have not made any indication as to the source of this funding. Theatre Stars as a business has net current assets and a certain level of cash assets, but these are unlikely to be sufficient to fund substantial renovations of a listed property. It is essential that any funding required is secured prior to work commencing on any renovations to ensure that the work can be completed and to a sufficient standard.

No indication of timescales of the renovations has been discussed. Significant renovations to a listed building could take a prolonged amount of time, especially considering that as at this time no plans have been discussed or devised. How long these renovations take could seriously impact the plans to move the teams to the property in September 2022. This is a very ambitious deadline and work would need to begin immediately for there to be any possibility of this deadline being met.

Student factors

There is no indication what facilities are available for the parents whilst their children are training. It is likely that many parents use the training time as a social event, spending time with the other parents visiting local cafés and restaurants or shopping. You state that the estate is in the countryside so there may be no facilities for the parents while they wait which may deter some parents from signing up for another year. Whilst this could be considered a minor consideration, it is indicative of the range of matters that require consideration in such a significant undertaking.

You state that the estate is halfway between Leicester and Milton Keynes, which are 50 miles apart. This could potentially add 25 miles to the journey to the training facility for the members and their parents. Whilst Samira has stated that many members travel over 100 miles to training, adding another 25 miles may make it prohibitive for some members, reducing the number of returning members in the upcoming year. This is not an issue that should be dismissed with returning members already decreasing year on year.

5.2 Structuring the business as a charity

Financial

Many independent schools are structured as charities. This means that they cannot operate for profit, unless it is used for a charitable purpose, and must show that they are creating a public benefit. This is very different to the current Theatre Stars structure which has always been run as a for profit enterprise.

This change in structure could affect you personally as it means that you will not be able to withdraw profit from the business in excess of any pre-agreed salary. This is very different to your current situation with Theatre Stars where you have autonomy to make decisions on distribution of profits. It is possible that you may find this lack of financial autonomy a difficult adjustment after many years of total financial control.

Governance

A charity requires a different governance structure compared to a limited company. Whereas a limited company is run by the directors in the interest of the shareholders, a charity is governed by a board of trustees that takes responsibility for its work. Many charities are formed as limited companies, so both of these governance structures would require consideration.

This means that any significant decisions to be made regarding the running of the school will be made by the Board of Trustees as a whole, in direct opposition to your current situation where all major decisions are taken by you in isolation. This could lead to friction within the decision-making process as key decisions will be put to a vote and it is possible that you will not always achieve your desired outcome.

This could also be beneficial for you, particularly in light of your desire to spend more time with your family. The distribution of responsibilities through the Board of Trustees could alleviate some of the responsibilities from you, allowing you to retain a significant role within this business but without shouldering all of the responsibility.

From an administrative point of view, the preparation of the year-end financial statements is different for a charity compared to a limited company, with charity accounts being prepared under the Charities SORP. This is something that Theatre Stars has no experience of.

There are also different requirements in respect of external scrutiny of the accounts. The limits for qualification for exemption from audit are much lower for charities than for standard trading companies. This would result in the entity being subject to audit, another area that Theatre Stars has no experience of.

5.3 Recommendations

Moving the Leicester and Milton Keynes teams training to the family estate is not recommended. It is unclear if the estate has appropriate facilities to house the training, the additional distance may deter members for returning and there may be additional costs that have not yet been considered.

More consideration is required before deciding on whether the performing arts school should be structured as a charity. There are many factors to consider in respect of personnel requirements alongside the additional administrative requirements.

However, the greater consideration would be if a performing arts school was even possible on the estate taking into account renovation requirements and regulatory compliance.

Appendix 1 – Geographical Expansion

1) Net income from franchising

Assuming same team set up as other locations, 1 mini team, 4 evolution teams and 4 select teams with 24 students in each team.

Weekday fees: 9 teams x 24 children per team x £240 per month x 12 months = £622,080

Select fees: 4 teams x 24 children per team x £200 per month x 12 months = £230,400

Total fees per site = £852,480

Fees for 3 franchised locations 3 x £852,480 = £2,557,440

Franchise fee of 20% of franchise turnover £2,557,440 x 20% = £511,488

Costs of 3% of franchise turnover £2,557,440 x 3% = £76,723

Net franchise fee to Theatre Stars £511,488 - £76,723 = £434,765

Initial franchise fees in year 1 £60,000 x 3 = £180,000

Total franchise fees in year 1 £434,765 + £180,000 = £614,765

2) Net income from new Northern hub

Fees for 3 new sites as above £2,557,540

Creative instructors £720,000

Location fees £435,000

Hub costs £420,000

Total costs £1,575,000

Net income from Northern hub £982,540

Appendix 2 – Sale of Talent Management Division

1) Current students represented by Theatre Stars

1080 students (24 students per team x 9 teams x 5 locations) x 10% represented = 108

Email To: ethicspartner@JWBllp.com

From: DylanAccountant@JWBllp.com

Subject: Theatre Stars assignment

Date: May 2022

Dear Ethics partner,

I have been working on the Theatre Stars engagement for Nick Clouter and a number of matters have come to light that I feel I should share with you. Nick is presently on holiday.

Internal concerns

I am concerned that Nick is very focused on the level of fees we can charge the client rather than on whether or not we can fulfil the task at hand. He has indicated that he will be increasing the level of fees above and beyond the agreed charge out rates used within the firm. This is in contravention of the principles of the ICAS Code of Ethics, specifically integrity and professional behaviour.

In addition, it is unclear whether or not the administrative matters in respect of taking on a new client have been undertaken, such as completing money laundering checks. The initial work was conducted prior to 'Know Your Client' checks having been undertaken, placing the firm at risk of dealing with clients who conduct their activities in an inappropriate and potentially illegal manner. This does not demonstrate professional competence and due care.

Concerns with the client

Financial matters

Theatre Stars does not currently have sufficient financial oversight in place and may be in breach of the Companies Act due to not maintaining adequate financial records. This could indicate that the inaccurate tax and VAT returns are being submitted.

Potential breaches of regulation

The company works with children and all personnel coming into contact with these children should be subject to a DBS check. An argument between two management personnel could indicate that one of these necessary checks has not been undertaken. This is more worrying as some of the personnel utilised are temporary staff and would not be known by the company prior to utilising their services as chaperones and placing children in their care. This is a safeguarding issue and also indicative of potential issues with integrity within the Theatre Stars business if this legislation has been knowingly ignored as opposed to this being an administrative error.

There is also an issue of the Performance Regulations for Children having been actively ignored in the production of some promotional material for the business. The Mini's team are aged from 3-6, and whilst it is not clear how old the children were who were brought in to take part in the filming, it is a distinct possibility that some were aged 4 or under. This would require them to only be on set for a very limited amount of time, and as the filming days follow the holiday training days, they are likely to have been on set for far in excess of what is allowable. Not only is this a blatant disregard of the

regulations in place but also does not show appropriate regard for the responsibilities of Theatre Stars in respect of the welfare and safeguarding of the children under their care. Theatre Stars would be in a position of 'in loco parentis' whilst the children are under their supervision which is a significant responsibility. If this matter is as a result of a lack of knowledge of the relevant regulations, then there are indications of a lack of competency within the business. If the matter has arisen due to blatant disregard for the regulations then there are significant integrity issues within the Theatre Stars business.

This opens Theatre Stars up to sanctions and fines, but also significant reputational damage. This potential breach of the regulations could jeopardise Theatre Stars's position within the industry from both parents, but also in respect of their reputation within the casting and production side of the industry. This also jeopardises the reputation of the firm by being associated this client, especially when considered in conjunction with the possibility of DBS checks also not having been undertaken.

There has been one instance where personal data of the members has been inadvertently placed in the public domain. This is increasingly serious as the members in question are minors. This matter has not been addressed within the organisation as there has been no negative feedback from external parties. This would be a breach of GDPR and also a safeguarding issue.

The fact that breaches of several different regulations may well have occurred lends to this being a more serious concern as it could indicate a lax attitude to regulations throughout the business. This causes concern in respect of integrity and competence within Theatre Stars and needs to be addressed as a matter of urgency.

Staffing issues

Theatre Stars' staff are currently subject to significant levels of time pressure and stress due to the business being understaffed, with staff habitually working beyond their contracted hours without remuneration. This would be a breach of employment legislation and could result in legal action being taken against the business. There is also the issue of the creative instructors being treated as self-employed, when it is quite likely that they are employed. This leads to the possibility of fines and penalties for Theatre Stars, but also reputational damage for JWB LLP be being associated with a client undertaking these activities.

Many of these matters could be attributed to the fact that there are question marks over the competence or the commitment of Samira Gauch. It is possible that the current lack of oversight may be due to the personal issues being faced by Samira, however it is something that should be carefully monitored by JWB LLP going forward.

The matters of concern could result in significant negative publicity for the business, and we should consider if we wish to continue to act.

Kind regards,
Dylan Accountant