TPE 2023 – Mock 1

Theme Park – Case Study Sample Solution

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Report

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Report to Lee and Katherine

North Yorkshire TOC valuation, risks of franchise business and tax and funding advice

Prepared By: Eric

Date: November Yr51

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1. Introduction

The purpose of this report is to estimate the value of North Yorkshire TOC and recommend whether to purchase the franchise. Tax and funding advice has also been provided in relation to the sale of Goody's business to fund the purchase.

This report is intended only for the purpose of providing information to you. This report should not be shown to, or relied upon, by any third party without our prior written consent.

2. Executive Summary

- The earnings-based value of North Yorkshire TOC is approximately £22,122,000 based on revised estimated earnings to include substantial costs which were not reflected in the original figures.
- The shares sale option is the most tax efficient method of sale providing net cash of £15,422,960 and would allow Fred to retain 51% of the business.
- The funding shortfall of £6,699,040 can be met through a term loan with the bank. Security would be required, and this would need to be considered given the low asset value in the franchise.
- There are substantial operational risks attached to taking on this franchise, including a lack of experience in the rail industry and in the operational running of a franchise business, within the management team.
- We recommend that bid for North Yorkshire TOC should not go ahead.

3. Earnings-based valuation of North Yorkshire TOC

Valuation

North Yorkshire TOC has been valued at approximately £22.1m using the earnings-based valuation method. The value of the company has been calculated as future maintainable earnings multiplied by the PE ratio. Details of the calculation can be seen in Appendices A and B.

The assumptions used in the calculation of estimated earnings for North Yorkshire TOC have been reviewed and adjustments made, where necessary. The revised estimated earnings are approximately £31.8m over the 7-year contract compared to £63m as suggested in the estimated earnings provided by Katherine.

Assumptions

Ticket income

Current ticket income includes a 3% inflationary increase per annum and is based on pre-pandemic passenger numbers. There is an element of uncertainty as to whether people will as keen to travel by train going forward. From December Yr55 there will also be a 10% drop in passenger income due to the new dual carriageway being opened. The earnings estimate has been adjusted for this reduction on income. This results in an overall decrease in ticket income of £21.5m over the 7-year contract.

Performance clawback

Forecasted earnings assume that there will be no performance claw-back. The conditions are demanding with increases in punctuality expected but unlikely. A performance clawback has been added in Yr54 as it is likely that the company may not met the requirement in at least in one of the years.

PE Ratio

North Yorkshire TOC is unquoted and there is no readily available share price that could be used to determine the PE ratio. Therefore, a PE ratio of a comparable quoted company has been used and adjusted for features that are different for North Yorkshire TOC, i.e. 20% reduction in ratio for lack of marketability and 15% reduction in ratio due to limitations on transferability. As North Yorkshire TOC is not listed and cannot be sold on, it is more difficult to sell the shares and these adjustments reflect that.

Corporation tax

A 19% corporation tax rate has been used to arrive at the after-tax profit. It assumes that there are no disallowable expenses or capital allowances, therefore the rate is indicative rather than showing the accurate tax rate. However, the impact of these adjustments is not likely to be significant as the company does not have many assets and it is expected that most of expenses incurred in running a franchise will be allowable.

Other

Future maintainable earnings have been assumed to be equal to the average after-tax profit earned over the 7-year period.

The valuation does not consider the fact that project will only be in place for 7 years. Generally, the earnings-based valuation considers indefinite periods, while in the case of North Yorkshire TOC generation of profits will cease after 7 years. This could decrease the valuation of the company.

4. Key commercial points on running rail franchise

New industry and company structure

Operating a rail franchise is a significant diversification from Goody's current business. This will require different skills and capabilities and this investment will carry a higher risk. Before making a decision, research should be carried out to ascertain the risks and trends in the rail industry, as well as risks associated with running a franchise.

Inability to sell

It has been noted that one of conditions of franchise is that it cannot be sold to another party during the franchise period. 7 years is a long time and consideration needs to be given as to whether it is wise to tie options in for such a long period. If during this period, for example, cash is needed to invest in another company, it cannot be generated from selling the franchise. Similarly, if the business is not as profitable as expected and does not generate sufficient returns the investment will need to remain for the whole 7-year period.

Executive management

Executive management will not be transferred over with the franchise. You need to decide whether you will be running the franchise or whether you want to recruit executive management to do so. Considering that you have no experience in running this type of business it may carry the risk to run it on your own without support from someone who has experience in this industry. Alternatively, you can hire managers to run the business, but this would be associated with additional higher costs.

Employees transfer

Employees will be transferred with the franchise. You need to consider the skills and quality of the workforce. This transfer will be subject to The Transfer of Undertakings (Protection of Employment) Regulations 2006, which state that employees cannot be made redundant simply because of the transfer. Therefore, you will have limited ability to create efficiencies by replacing the workforce.

FX rate risk

Trains will be leased from a company in the Netherlands with payments made in Euros. This exposes the franchise to currency risk. If the Euro strengthens against the Pound the cost of the lease in pounds can increase significantly.

As the amount to be paid in Euros is certain and the timing of the payment is known, the risk can be effectively reduced by entering a forward rate agreement which would allow the exchange rate to be fixed.

Fuel prices

A significant portion of cost relate to fuel prices which tend to be volatile over time. This could expose the franchise to financial losses. However, it can be mitigated by entering long-term contracts and fixing fuel price.

Key performance indicator

The franchise has a specific KPI relating to the punctuality levels of train arrivals. This is monitored closely by the Government. While the expected target of 80.1% of punctual arrivals is realistic in the light of the current level of 79.3%, the increases in subsequent years may be difficult to achieve (on average, 3% increase per annum).

The levels appear to be challenging and failure to achieve them would result in annual loss of £1,775,000 per annum.

Bid deadline

Bids need to be submitted in a month, by 1 December Yr51. This is a very short timeframe to perform risk assessment and secure the funding. External funding is required to pay for the bid. It is unlikely that this will be agreed within such a short timeframe and it would be very risky to place the bid without funding being secure.

5. Tax and funding advice

5.1 Tax effect of methods of raising finance

Trade and assets

Trade and assets are owned by the company, and the sale of the trade and assets by the company would result in a chargeable gain of £23,500,000. This is subject to 19% corporation tax, payable by the company.

To provide cash funds to you, your father needs to extract funds from the company, which creates a further tax liability which your father will pay. The most efficient way to extract the funds is by dividends, which means that the amount would be taxable at the rate of 39.35% (assuming he is an additional rate taxpayer).

After deducting corporation tax and income tax from the cash proceeds of £35m there would be £18.5m of cash funds available to give to you. Details of all calculations can be found at Appendix C.

Shares in the company

The shares are owned by your Father, Fred, as an individual. The sale of shares in the company would result in a capital gain of £19.4m after deducting selling costs and the original cost of shares.

Fred would be entitled to £12,300 of an annual exemption resulting in a taxable gain of £19.4m. This gain would qualify for business asset disposal relief which reduces the capital gains tax rate from 20% to 10% for all individuals. However, this is subject to a lifetime limit of £1,000,000 of gains. Assuming that Fred did not have any taxable gains before, and Fred is a higher rate taxpayer, the gain will be taxed at 10% on the first £1,000,000 and 20% of the remainder of the gain. This results in net cash after tax of £15.4. Details of all calculations can be found at Appendix C.

The transfer of cash from Fred to you would be free of tax charges, as a gift of cash is exempt from capital gains tax.

5.2 Funding shortfall

Based on the £22.1m valuation of North Yorkshire TOC there would be a funding shortfall. Under the sale of trade and assets option there would be a funding shortfall of £3.6m and under the sale of shares in the company option it would be £6.7m.

This could be addressed in the following ways:

- Personal investment from you or your father, although it is not clear if these funds can be met personally; or
- Term bank loan to make up the shortfall to purchase the franchise. The bank would expect a business plan to be prepared and it is likely they would impose restricting covenants. Security would be required which would be difficult as North Yorkshire TOC does not have any assets of significant value.

5.3 Practical implications on remaining group

If 49% of shares in the company are sold you will still have majority interest in the company. However, you will not have as much decision power normally expected from 51% majority shareholding. It has been noted that the agreement includes the clauses that purchaser can appoint chairman of the board who has a casting vote on any day to day operations. This is a far-reaching power that enables Scarborough to stop any decision that you would be willing to take. Therefore, even though you would hold 51% of shares, your family will lose control over the Goody's business.

This would limit your ability to use the theme park to promote your hotel. The following opportunities would be lost:

- Advertising of hotel in the theme park
- Provision of joint offers for theme park and hotel at reduced price

These could still be provided at a price paid to the new owner, however in this situation you will have less discretion over structure of offers and the likely benefit will be lower.

Any rental income for the land, received by Fred, would be subject to income tax regardless of which sale method is applied.

6. Conclusion

Based on the analysis of the tax effects and effect on the group of the two options, it is recommended that the shares sale is used.

The net cash available under the share sale is £3.1m less than the trade and asset option. However, the share sale has a lower tax charge (£3.9m) compared to the trade and asset sale (£16.5m). This is in part due to the business asset disposal relief available to Fred.

The share sale allows Fred to retain 51% of the business which will allow him to benefit from future profits.

Appendix A – Revised Earnings of North Yorkshire TOC

	Yr52	Yr53	Yr54	Yr55	Yr56	Yr57	Yr58	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Current earnings before tax	4,590	5,998	7,444	8,926	10,449	12,009	13,614	
Current ticket income	49,000	50,470	51,984	53,544	55,150	56,804	58,509	Note 1
10% drop in income Yr56 to Yr58					(6,960)	(7,168)	(7,384)	
Change in train catering as 1% of ticket income					(70)	(72)	(74)	Note 1
Maintenance costs (3% increase)	(1,000)	(1,030)	(1,061)	(1,093)	(1,126)	(1,159)	(1,194)	Note 3
Performance clawback (Assumed not improved in year 3)			(1,775)					Note 4
Adjusted operating profit	3,590	4,968	4,608	7,833	2,293	3,610	4,962	

Note 1	Yr56 based on Yr55 (£53,544 – 10%) = £48,190 Yr57 should be (£48,190 +3%) = £49,636 Yr58 (£49,636 + 3%) = £51,125
Note 2	In years 56 to Yr58 revised 1% of current ticket income
Note 3	Included maintenance costs with 3% inflation
Note 4	Assumed not improved in year 3 and clawback needed

Appendix B - Valuation of North Yorkshire TOC

P/E ratio	10	
Adjust for:		
Lack of marketability (-20%)	-2	
Lack of transferability (-20%)	-2	
Adjusted P/E ratio	**6**	
	£'000	
Future maintainable earnings	**£3,687**	See Note 1 below
Valuation of the company	**22,122**	

Note 1 - Future maintainable earnings

	£'000	
Average operating profit	£4,552	*Calculated as average profit over 7-year period based on operating profits in Appendix A*
Tax charge at 19%	(£865)	
Profit after tax	**£3,687**	

Appendix C - Tax Effect of Methods to Raise Finance

Sell trade and assets	£	Notes
Taxable amount	23,500,000	
Corporation tax at 19%	(4,465,000)	
Dividend Extracted	30,535,000	£35,000,000 - £4,465,000)
Dividends taxed at 39.35%	(12,014,735)	£2,000 @ 0% and assumed additional rate taxpayer
Net amount	**18,520,265**	

Sell share capital	£	Notes
Purchase price	20,000,000	
Less: selling costs at 3%	(600,000)	
Less: original cost	(2,500)	
Total	19,397,500	
Less: annual exempt amount	(12,300)	
Taxable amount	19,385,200	
First £1m taxed at 10% (Business asset disposal relief)	(100,000)	
Reminder taxed at 20%	(3,877,040)	
Total tax payable	(3,977,040)	
Net Cash amount	**15,422,960**	

Briefing Paper

To: Lee

From: Eric

Re: New pricing model, improvements to hotel business, Project Game Changer

1. New pricing model

Recommendation

Based on analysis of profitability and practical consequences it is recommended that Goody's implements the new pricing model. It will increase financial returns, as well as help to modernise the park and improve customer experience.

Profitability

Introduction of the new pricing model will increase profit per annum by approximately £770,800. Details of the calculation can be seen in Appendix 1.

Revenue is expected to increase by £490,800 in the year to December Yr51 from £10,002,000 (revenue for 10 months to 31 October is used as annual revenue as park is closed after end of October) to £10,492,800. There will also be a saving of £336,000 on staff costs.

This analysis does not take into account the additional capital expenditure of £1,000,000 that would need to be incurred to install automated turnstiles to operate the new pricing model. Based on expected profitability of the new pricing model the cost of capital investment would be recovered in approximately 16 months. This is a short time period and considering the fact that machines are expected to operate for 10 years, it is a valuable investment.

It must be noted that the analysis of profit is subject to the following assumptions:

- When comparing the effect of profit of new pricing structure, it is assumed that current revenues for 10 months until 31 October Yr51 are reflective of annual revenues. As the park is closed after 31 October Yr51, no additional revenues are expected in that period.
- The split of customers purchasing different types of rides has been based on discussion with colleagues in the leisure sector, which are not necessarily theme parks. Looking at current percentages of customers purchasing the rides; white knuckle attracts 50% of customers, thrills & spills attracts 27% of customers and kiddie corner attracts 23% of customers. Projected figures used in the analysis of new model are 39%, 32% and 29% for respective rides, which is different. It should be analysed further whether the model discussed with other leisure colleagues is applicable to the park or if historical percentages may give more accurate indication of interest in respective of ticket categories.

Historical figures indicate that more people would purchase white knuckle tickets, which are the most expensive category. Hence, this indicates that potentially the new model would generate even higher revenue than in our expectation if percentages would be based on historical interest in the rides in Goody's.

Practical consequences

The new model is more modern and in line with industry standards. It creates a better experience for customers, as they do not need to pay cash before each ride. This should also reduce waiting time for the ride, which will further enhance customer experience in the park.

It has been noted that if the new pricing model is introduced it is expected that number of rides per person will be much higher than the current 4.3 rides per person. This means the queues may be longer as each customer will use more rides. Capacity of the park should be estimated, and it should be verified how many rides customers can do in a day and whether expected customer numbers can be serviced by the park.

Consideration should be given to those customers that do not have smartphones as the plan is to use automated tills in the whole park and send barcodes to customers' smartphones. Alternative should be offered to them. Failure to do so could result in loss of customers. It is recommended that the park holds a stock of several smartphones that can be rented out to customers who do not have their own smartphones.

Cash can be controlled better under the new pricing model as it reduces the need to use cash and there will be less cash movements around the park. Currently the banking team collect cash from tills at individual rides twice a day, which with 28 rides means 56 till takings. This means high risk of errors and likelihood of discrepancies. Under the new system purchase of tickets is made at one central point. This will make cash management much easier and reduce risk of error, as well as, any potential misappropriation of cash by staff. Some of finance staff time will also be released which will allow them to focus on other activities that are value adding for the business.

The new pricing model is much simpler and easier to understand for customers. They can know upfront exactly how much money they will be spending at the park on rides. Additionally, they are offered a single price for unlimited rides, which creates the perception of very good value for money. This can attract higher numbers of customers to the park and help to increase revenues and profits.

It is likely that some staff roles will become redundant under the new model as some of the pay kiosks will be removed. There will be costs associated with any redundancies being made. There is scope to transfer staff into other roles within the Goody businesses such as employing them in the hotel if there are any staffing needs there. If not, it needs to be ensured that fair redundancy process is followed, i.e. it needs to be evidenced that position is no longer needed. Due to automation of the process and no need of human resources to operate it, it should be fairly easy to evidence.

Finance would need to be obtained to fund £1,000,000 capital expenditure. The bank needs to be contacted to check whether they are prepared to provide funds for this investment. Increase in bank borrowing would increase the gearing ratio, which could reduce the ability to obtain finance for other alternative investments.

Impact on hotel business

The new model allows customers to purchase a second day at the park at a very low price. It is expected that a number of customers travel to the park from other parts of the country. They are likely to need accommodation to stay overnight in such case and the hotel could benefit from that. It is recommended that the low price of the second day ticket is marketed alongside the hotel. Discounts could be offered at the hotel when purchasing the additional day theme park ticket.

2. Improvements to hotel business

Online booking system

Currently the hotel accepts bookings over the telephone only which limits the number of customers that it can attract. Commonly people search and book hotel accommodation online and it is recommended that the hotel implements an online booking system to increase the number of potential customers.

Advertising

A marketing campaign should be launched to advertise the hotel and ensure that people are aware of its offerings. It has recently been refurbished and has several leisure facilities, such as spa and swimming pool, as well as, corporate hospitality offering. As it has been closed for 18 months it is possible that some of the guests started using other hotels when they were in the area and are not aware of the re-opening. Sales of corporate packages and leisure activities have been very low, which shows that their potential is not fully utilised. The campaign could include:

- Advertisements of leisure facilities displayed in the Goody's theme park to attract the guests of the park who may consider an overnight stay
- Advertisements of leisure facilities can be made in local newspaper to attract people living in the area to use the pool even if they do not stay at the hotel – currently they may be not aware of such option

Increase in car parking spaces

The number of parking spaces should be increased to provide parking space for all guests. The number of spaces currently available is inadequate for the number of rooms. The hotel is likely to lose a significant portion of potential customers, as most people travel by car. If there is no space, alternative parking at the theme park could be offered to guests with a shuttle bus offered, if demand is high enough.

Reduction in menu

Restaurant has 45-dish menu which has resulted in high stock levels and wastage of ingredients. It is recommended to reduce the menu to 20 best-selling dishes. This will help to avoid the losses from wastage of unused ingredients. The hotel will be able to offer more fresh products as sales of each individual dish will be higher. There is little benefit from such a large menu and reduction is likely to be viewed positively by customers, as smaller menu creates a perception that everything is fresh and prepared on site. This would also help to make savings of approximately £36,000 per annum.

Cleanliness of rooms

Customers have complained over cleanliness of the rooms, which can have a negative effect on hotel reputation and customer loyalty. Given the increased awareness of the importance of cleanliness following the coronavirus pandemic, and the regular use of travel apps, guests are very likely to post opinions about hotels online and a couple of negative reviews on cleanliness will decrease interest in the hotel significantly.

It is recommended that cleaning procedures and standards are reviewed, and staff are informed about the complaints. Details of complaints should be reviewed, and appropriate corrective actions should be requested.

3. Project game changer

Recommendation

It is recommended that Goody's constructs the Wild Horse. It generates a higher NPV over a 10-year period. It can continue beyond 10 years if the relevant repairs are undertaken. The park will need to be closed to do these repairs. The potential negative reputational effect from removal of colony of bats will need to be managed.

Financial factors

Based on profitability analysis, The Wild Horse project has a NPV of £1,295,414 compared to a NPV of £400,204 generated by The Zipper Ripper. Details of calculation are included at Appendix 2.

The Zipper Ripper requires a higher capital investment (£5m) compared to The Wild Horse (£2m). The group borrowing ability needs to be considered to determine whether it is sufficient to fund £5m investment. As theme park has several high value assets (rides), it is likely that they can be used as security.

The Kiddies Corner Tea Cup ride would need to be closed to build The Wild Horse. It is a popular attraction and closure of this could have a negative effect on company revenues. Additionally, attractiveness of park to families could decrease and they could shift to competition in absence of one of the popular rides. This could decrease visitor numbers to the park.

The contractor expected to build The Zipper Ripper is based in USA, therefore it is likely that they will want to receive payment in US dollars. This would expose Goody's to foreign exchange risk and introduces uncertainty about the cost (it could increase or decrease depending on movement in GBP-USD exchange rate). This risk can be mitigated by agreeing the price with the contractor in GBP or entering a forward rate agreement to fix the exchange rate.

Non-financial factors

If the new pricing model is introduced the revenue of individual rides will not be relevant. The effect on company profitability will relate to the category price for the ride applied for the day. Both rides are expected to be in the same category. In that case attractiveness of the ride, as well as, the number of people it can service are crucial factors. The Zipper Ripper is more modern and is likely to create more interest from customers due to its large size (1.5 kilometres track). This could be successfully advertised as one of the longest tracks, which may make it a more attractive ride. The Zipper Ripper can service 235,200 rides in the year, while The Wild Horse can service 219,520, which makes capacity of the Wild Horse significantly lower.

The Zipper Ripper is made from steel while The Wild Horse is made from reclaimed wood and needs repaired every 3 years. There is much debate over whether steel or wood is more sustainable. Using wood for such a large construction means that less trees would need to be cut down, which can have a positive effect on environment. Steel may be perceived as safer and less prone to safety issues than wood is exposed to, for example, fire. The Zipper Ripper has a life of 10 years after which it is decommissioned whilst the Wild horse, as long as the repairs are carried out when required, will last much longer.

The Zipper Ripper is to be built by a USA contractor while The Wild Horse is to be provided by local firm. Using local firm is likely to generate positive reputational effect, as company will be supporting local businesses.

The Wild Horse construction requires excavation of part of a hillside at the park, which is home to a colony of bats. They will need to be removed to construct the attraction. This is conditional upon the result of a specialist bat survey; therefore, the choice of this alternative is subject to risk. If approval is not obtained the attraction could not be built. Additionally, attempting to excavate the bats, which are protected species, is likely to be met with negative reaction from environmental pressure groups. This can result in bad press and therefore harm company reputation.

Appendix 1 - New pricing model

	Cat A	Cat B	Cat C	Total	Notes
Price of pass	25	18	15	n/a	
% split of customers	39%	32%	29%		
No. of customers	187,200	153,600	139,200	480,000	
Total revenue	4,680,000	2,764,800	2,088,000	9,532,800	
No. of customers	74,880	61,440	55,680	192,000	40% of all customers
Upgrade revenue per customer	5	5	5	5	£5 revenue from upgrade
Total upgrade revenue	374,400	307,200	278,400	960,000	
Total revenue under new model	5,054,400	3,072,000	2,366,400	10,492,800	
Total current revenue				10,002,000	
Change in revenue				**490,800**	
Current rides staff costs				800,000	
Reduction in staff costs				35%	
New staff costs				520,000	65% of current staff costs
Saving in staff costs				**280,000**	
Net impact on profit				**770,800**	

Appendix 2 - Project Game Changer

Zipper Ripper

Season	**Notes**	**Yr51**	**Yr52**	**Yr53**	**Yr54**	**Yr55**	**Yr56-61**
Revenue	1,2,3	0	739,200	1,176,000	1,176,000	940,800	940,800
Costs	4,5,6	0	(147,840)	(235,200)	(235,200)	(188,160)	(188,160)
Investment		(4,000,000)	(1,000,000)				
		(4,000,000)	(408,640)	940,800	940,800	752,640	752,640
D.F	7	1.0000000	0.9302326	0.8653326	0.8049606	0.7488005	
NPV		(4,000,000)	(380,130)	814,105	757,307	563,577	2,645,345

NPV **400,204**

1	Revenue for first season: (£5 x 12 riders x 12,320). No. of rides in the year: (22 weeks * 7 days * 80 rides) Rides: (8 x 60 mins/6 mins)
2	Revenue for next 2 seasons: (£5 x 12 riders x 19,600). No. of rides in the year: (35 weeks * 7 days * 80 rides) Rides: (8 x 60 mins /6 mins)
3	Revenue for the remaining 7 seasons is 80% of revenue at full capacity
4	Costs for first season: (£1 x 12 riders x 12,320). No. of rides in the year: (22 weeks * 7 days * 80 rides). Rides (8 x 60 minutes /6 mins)
5	Costs for next 2 seasons: (£1x 12 riders x 19,600). No. of rides in the year: (35 weeks * 7 days * 80 rides). Rides (8 x 60 minutes/6mins)
6	Costs for the remaining 7 seasons is 80% of costs at full capacity
7	£752,640/1.075$^{5, 6, 7, 8, 9, 10}$

The Wild Horse

Season	**Notes**	**Yr51**	**Yr52**	**Yr53**	**Yr54**	**Yr55**	**Yr56**
Revenue	1,2,3	0	1,097,600	1,097,600	823,200	1,097,600	1,097,600
Costs	4	0	(109,760)	(109,760)	(82,320)	(109,760)	(109,760)
Investment	5, 6	(2,100,000)	0	0	(500,000)	0	0
		(2,100,000)	987,840	987,840	240,880	987,840	987,840
D.F		1.0000000	0.9302326	0.8653326	0.8049606	0.7488005	0.69655863
NPV		(2,100,000)	918,921	854,810	193,898	739,695	688,088

NPV	**1,295,414**

Notes:

1	Revenue for first 5 seasons: (£5 x 112 riders x 1,960 hours). Number of hours in the year: (35 weeks * 7 days * 8 hours in a day)
2	In year 3 revenue is reduced by 6/8 as attraction needs to be closed for 2 out of 8 months
3	Revenue for reminder of 10 years is estimated as nil as it is uncertain
4	10% of revenue
5	Build cost of £2m plus Tea Cup removal of £100k
6	Replacement of track cost

Memo

To: whistleblowing@goodyattractions.co.uk

From: Eric

Date: 1st November Yr51

Re: Ethical issues in relation to Goody's

I have encountered ethical issues during my work which I need to bring to your attention.

Inflating revenue

It has been reported by one of the employees that Lee has been bringing sizeable sums of cash into the park and distributed them to various pay stations. He instructed accounting staff to account for these as Goody's revenues. There is no evidence it is from an illegal source, but no explanation has been given for the sums of cash.

Considering that Lee is trying to sell Goody's business, inflating revenue would make the business look better than it is. This would be misleading to the potential purchaser.

We should report these findings to SOCA as no explanation has been given and if it is money laundering it is illegal.

Intimidation

It has been noted that Lee tried to intimidate the staff by using threatening behaviour. It is alleged that if his instructions to record cash through the tills as Goody's revenue are not followed, he will fire the individual.

This is a serious allegation and employment law proceedings could be initiated. Lee should be showing professional behaviour in his work, especially in the position he holds.

Transfer to L. Goody fish shop of cases of Norwegian cod fillets

Upon review of the accounts it has been noted that there were missing cases of Norwegian cod fillets written off with description 'Transfer to L. Goody fish shop of cases of Norwegian cod fillets'. No payment has been received for these goods from the fish and chips business. If the stock has been transferred to this related party business a debtor should be created for the amount owed.

Lee should demonstrate professional due competence and care regarding business transactions. This questions the position he holds.

Data protection

Katherine has sent detailed customer data, provided to Goody's as part of online survey, to her former employer. This is breach of requirements of Data Protection Act 2018 and GDPR. The information is not being used for the purpose it was collected.

If this information is used fraudulently there is likely to be a significant reputational damage to the company, as well as, regulatory fines for breach of customer confidentiality. Katherine should be informed that this data should not have been distributed. This further questions the professional competence and due care of another director.

Her former employer should be contacted immediately and asked if the data has been used.

We need to contact the customers whose data have been leaked to inform them of the situation and report the breach to the relevant authorities. To avoid this happening in the future, Goody's should create a formal policy on Data Protection and GDPR. It should be sent to all employees, so that everyone in the company is aware of responsibilities in relation to handling of confidential data.

If you wish to discuss these matters in more detail, please let me know.

Kind regards,

Eric