

Advanced Material

This Advanced Material contains a pre-seen case study provided to students prior to the exam date. Students should familiarise themselves with the Advanced Material before they sit the exam. The Advanced Material provides key information and forms the basis of the requirements set out in the exam day materials. Students should carry out research into the sector and apply learning from the workbooks.

Exam: Developing Strategy and Data Analysis

Exam Sitting: December 2024

Advanced Material

Assumed date for advance material is 6 November 2024.

YOUR ROLE: You are a qualified CIPFA accountant working in the finance department at Dismouth District Council (DDC). You have been seconded to a multi-disciplinary team conducting a detailed strategic review into current and potential sources of commercial income derived from leisure, culture and tourism. The results of the review will inform the preparation of part of DDC's 2026-2030 Strategic Plan.

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Exhibit 1 – Dismouth: key information

Bryland is a small country in Europe where English is a strong second language. Its currency is the Bryland dollar (\$).

Location and layout of Dismouth

The coastal town of Dismouth is in the southwest of Bryland, near to an airport which has a network of international scheduled flights. In addition to outbound chartered holiday flights, it has inbound chartered flights bringing overseas tourists throughout the period April to late October.

Dismouth has two beaches separated by a headland. West Beach is sandy and about half a kilometre in length, backed by a promenade. East Beach, on the other side of the headland, is stony at high tide and is accessed by a winding path down a steep hill. The headland boasts beautiful gardens (Melrose Gardens).

Tourist and other facilities in Dismouth

Dismouth has the DDC-owned theatre (Pavillion Theatre), attracting production companies of national repute, and a privately owned arts and social centre (Manoel House). There are a coffee shop and a Michelin-rated restaurant in premises owned by DDC in Melrose Gardens on the headland. Dismouth hosts an annual regatta and airshow, and an annual international folk and literary festival. The town tends to be very quiet from November to March, as there are few activities, so visitor numbers fall dramatically. Thus, income for Dismouth traders and DDC from leisure, culture and tourism is currently rather seasonal.

Dismouth's population

In 2023 Dismouth had a population of 34,000, including a significant number of retired people who moved to the town from other parts of Bryland. These people are referred to locally as 'incomers'. Whilst they bring an impetus for restaurants and cultural and leisure activities that reflect the life of larger towns in Bryland, incomers also form a disproportionately ageing population. This places a burden on DDC spending.

Exhibit 2 – Dismouth District Council (DDC): commercial income

The Bryland Southwest Region Council (BSRC) part-funds local councils in the region. The councils are expected to make up any deficits in funding through prudent investments in a property portfolio and through activities which generate commercial income. Income-generating activity is defined as the provision of services or the supply of products that generate a surplus from a source external to the council, after all costs have been accounted for.

Dismouth District Council (DDC) currently generates income from:

- The Pavilion Theatre, which operates year round
- Car parking, for which it charges during the period April to October inclusive
- Rental of coffee shop premises in Melrose Gardens
- Rental of restaurant premises in Melrose Gardens
- The annual folk and literary festival in July
- The annual regatta and airshow in August
- Rental of 45 beach huts and 10 chalets from 1 April to 31 October
- Deckchair hire along the promenade from May to early October

Income from services provided in Dismouth by BSRC – for example, for the collection of green waste – are retained by BSRC.

Strategy for income generation

DDC's strategy is that, over the next five years, it will develop sufficient further income from its commercial activities to create a significant annual surplus, such that DDC will enjoy financial stability and have no deficit.

Regulation of commercial activities

Commercial activities fall under the ambit of Bryland's Commercial Undertakings Act 2018 (CUA), which does not permit a council to engage in commercial activity as an end in itself. The Act provides that councils must always use surpluses from commercial activities to enhance or maintain the provision of services which they are mandated to provide. The commercial activities that are being reviewed by DDC fall under Section 18 CUA (leisure, culture and tourism) and Section 21 CUA (parking).

The importance of entrepreneurship

BSRC acknowledges that, traditionally, public sector organisations such as DDC are risk averse, slow-moving and bureaucratic, with top-down decision making. This is in contrast to businesses, which are generally associated with an entrepreneurial attitude, prompt decision making and a willingness to manage risk, rather than simply to avoid or minimise it. BSRC has therefore provided training courses in entrepreneurship for key staff in all of the councils under its jurisdiction, which includes staff at DDC.

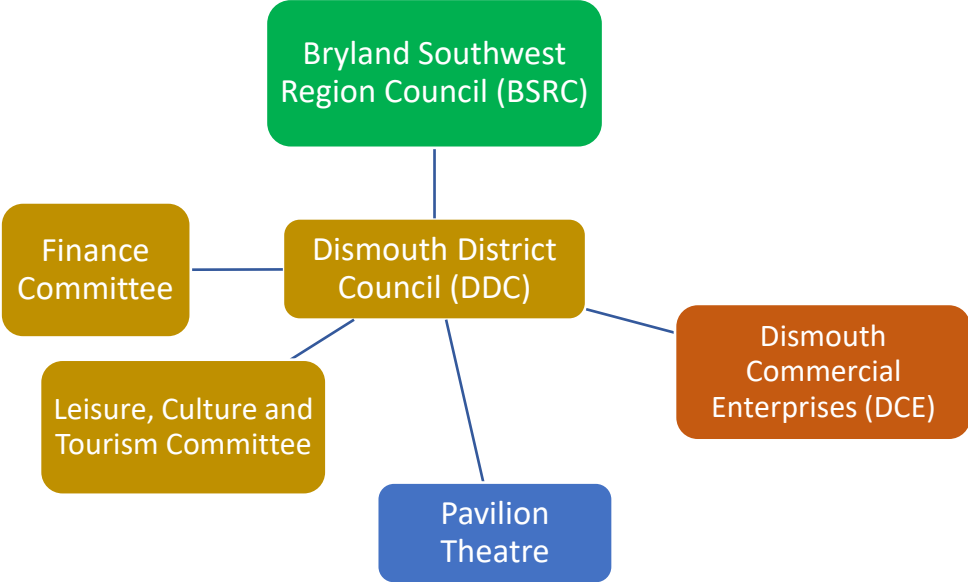
Dismouth Commercial Enterprises (DCE)

BSRC encourages councils to form a trading company to manage commercial activities. DDC thus formed a trading company – Dismouth Commercial Enterprises (DCE) – in 2024. It is intended that most of DDC's commercial activities, with the exception of car parking, will be transferred to DCE in 2025. However, the Pavilion Theatre will continue to account for income and expenditure as a separate entity. Steps are being taken to make it a private company, with the main shareholder being DDC. DCE would hold the remaining shares.

Income generated by DDC's commercial activities (\$'000)

	2019	2020	2021	2022	2023
Pavilion Theatre`	1,456	395	788	1,679	1,897
Car parking	2,789	1,989	2,497	3,456	3,529
Rental from café/restaurant	52	52	56	56	60
Folk and literary festival	34	cancelled	24	37	42
Regatta and airshow	12	cancelled	10	18	22
Beach hut and chalet rental	82	not available	86	89	92
Deckchair hire charges	71	not available	79	90	85
TOTALS	4,496	2,436	3,540	5,425	5,727

Exhibit 3 – Organisations and departments involved in DDC’s commercial activities



BRYLAND SOUTHWEST REGION COUNCIL (BSRC)

Director of Commercial Services – Yasmin Fosby

DISMOUTH DISTRICT COUNCIL (DDC)

CEO – Ingrid Malone

Commercial Activities Manager – Shane McHugh

DDC’S LEISURE, CULTURE AND TOURISM COMMITTEE

Chair – Councillor Jessica Spence

DDC’S FINANCE COMMITTEE

Chair – Councillor Fred Horrell

DISMOUTH COMMERCIAL ENTERPRISES (DCE)

Director – Becky Oslet

Exhibit 4 – Terms of reference for the strategic review of DDC’s commercial income

Transcript of statement on Bryland South West radio by Ingrid Malone (CEO of DDC).

Date: 17 June 2024

Local councils throughout Bryland face a number of challenges. Resources are limited but demand for essential council services is ever-increasing. The Southwest area is no exception and has the added issue of an increasingly ageing population who need care at home and in care homes.

The need for increased levels of council income from commercial sources

Central and regional government funding for DDC has been decreasing year on year and there are caps on the increase that DDC can make in council taxes levied on Dismouth residents. This leaves us with some stark choices – reduce essential service provision or go into deficit, with all that that implies. The last thing I want is for our council to be declared insolvent. The only solution is to further engage in commercial, income-generating activities that, within an acceptable time period, will produce a surplus. From a legal perspective, we cannot engage in commercial activity as an end in itself: we must use any surplus or ‘profits’ from our commercial activities to enhance or maintain the provision of our essential services.

In 2024 we formed DCE or Dismouth Commercial Enterprises, with a view to becoming more entrepreneurial and providing a range of services that residents and local businesses can purchase, providing commercial income for DDC. Our commercial income-generating activities will be transferred to DCE in 2025, with the exception of car parking. Also, in 2025 the Pavilion Theatre will be become a

separate legal entity, with DDC the majority shareholder and DCE holding a minority stake.

Review of income-generating activities to increase commercial income

At DDC we intend to review our current income-generating activities and explore new sources of commercial income so that we are less dependent on funding from central and regional government, and from business and residential council taxes.

I would like to stress that, whilst looking for additional income-generating opportunities, we will not lose our focus on our residents' needs and the quality of our essential service delivery.

The remit of the review team

This month we have created a multi-disciplinary review team with a remit to:

- Conduct a survey of Dismouth residents and visitors to find out their needs in terms of leisure activities.
- Review existing sources of income from commercial activities such as deckchair hire, car parking, the regatta and literary festival, for example, to determine what, if any, changes should be made.
- Identify and evaluate potential new sources of income for DDC.

Exhibit 5 – Briefing note assessing DDC’s commercial income sources

Prepared by: Shane McHugh – DDC Commercial Activities Manager

Date: 30 September 2024

Subject: DDC – income from leisure, culture and tourism activities

Detailed below are the seven key sources of income related to leisure, culture and tourism activities. We have assessed these from the perspectives of levels of income, costs and market positioning.

1. Pavilion Theatre

The Pavilion is a small theatre operating year-round. It enjoys an excellent reputation amongst the local population and visitors to the town. In December it offers a British-style pantomime and throughout the year there is a mix of theatre and musicals by professional groups from Bryland and beyond, as well as by some local amateur groups. In total around 275 different events are staged each year. During the summer it has a season of 12 plays in 12 weeks by a professional repertory company. It was closed for six months in 2020 because of the Covid-19 pandemic.

DDC has owned and operated the theatre for many years. Income is derived from ticket sales, the sale of programmes and the sale of ice creams, drinks and snacks in the bar. The theatre has no parking facilities and patrons have to use street parking or nearby car parks.

2. Car parking

Street parking in Dismouth town centre is available year-round and is free for the first thirty minutes. The car parks and street parking spaces by West Beach and on the

headland are available year-round but are charged for during April to October inclusive, from 9am to 6pm.

Car drivers pay for parking using machines which issue paper tickets to be displayed on the vehicle's dashboard. The machines only accept coins and no change is given. In an increasingly cashless society, this is problematic. In most other towns in Bryland, the machines accept card payments, so DDC is lagging behind.

Hefty fines are imposed by parking wardens if someone does not have a parking ticket or if the ticket has expired.

Three parking wardens are required to monitor payments and impose parking fines. This would not be necessary if smart parking machines were installed. The parking wardens could be redeployed to other activities.

Dismouth residents complain about the high cost of parking, especially those people with disabilities who do not qualify for special parking areas. Residents feel that fees are geared towards tourists.

3. Premises rentals

Rental income is received for two premises in Melrose Gardens, one which houses a coffee shop and the other which houses a Michelin rated restaurant. The businesses are owned by two separate entities who lease their respective premises from DDC.

Both the café and restaurant were closed for six months in 2020 because of the Covid-19 pandemic.

4. Folk and literary festival

An annual folk and literary festival is held each year in July at various venues in Dismouth: in Melrose Gardens, on the promenade and at hotels and bars. This brings thousands of people to Dismouth and is a major economic boost to retailers,

restaurants, bars and hotels. The direct income to DDC is derived from rental of stalls to sellers of crafts, food and drinks. Some events are held at the Pavilion Theatre, and this income is shown in the accounts of the theatre, not as income to the Festival.

The festival was cancelled for 2020 because of the Covid-19 pandemic.

5. Regatta and air show

A regatta and air show take place each year in August. The highlight of the airshow is the Bryland Air Force acrobatic team, however it can only operate in specific weather conditions and for the past few years these have not been favourable. The consequence is that the high numbers of people anxiously awaiting the display then go home rather than staying on into the evening and eating in the many restaurants and cafes.

DDC does not charge spectators so does not derive any income from the regatta and air show other than from car parks, which in August would be full anyway. It does incur the expense of closing the streets, diverting traffic and clearing rubbish.

The regatta and airshow were cancelled in 2020 because of the Covid-19 pandemic.

6. Beach hut rental

There are 45 **beach huts** along East Beach, available for people to rent from 1 April to 31 October.

- Fifteen huts were available for weekly hire at \$81 per week each in 2024. People must book and pay online.
- The other 30 huts were each available to rent for the whole seven-month season for \$1,250 in 2024. People are not permitted to book from year to year,

instead they must go to the bottom of the list of people waiting to rent a beach hut for the season.

There are 10 **chalets**, which are larger than the huts and have water and electricity.

The rental for the season in 2024 was \$1,800 each.

In 2020 the beach huts and chalets were not available because of the pandemic.

DDC took the opportunity to do renovations and redecorate them in that year.

A limited amount of land is available to build more huts. If huts remain the same size then a further 20 huts could potentially be built and rented out.

7. Deckchair charges

Deckchairs along the West Beach promenade may be hired for a fee from May to early October, except on rainy days. Income for DDC is derived from charges for half day and full day hire of 300 deckchairs. There are two DDC staff involved in collecting hire charges. People must pay cash and are given a paper receipt as proof of payment. DDC is looking at ways to automate this process. DDC has considered commissioning a private sector provider to deliver the service, with DDC receiving a fee. The financial benefits of doing this have not yet been calculated.

Exhibit 6 – Notes from DDC Finance Committee meeting

Date of meeting: 11 July 2024

Relevant regulation for commercial activities

All commercial activities undertaken by DDC must comply with the Commercial Undertakings Act 2018 (CAU).

Riskiness of commercial activities

Commercial activities are risky as some initiatives will succeed while others will fail, just as they do in the private sector. However, unlike the private sector, DDC is using public money to launch new commercial ventures. Assessment of risk is therefore an essential part of developing, broadening and operating DDC's commercial income strategy. DDC is audited, and members of the public scrutinise its financial results. A decision to proceed with a commercial initiative must be reasonable and must appear to be reasonable to an impartial, fully informed external person.

Risk management

DDC has put in place proportionate measures to manage risks so that staff responsible for commercial activities have clear guidelines. These not only protect DDC but also ensure that commercial initiatives are not stifled for fear of the consequences if they prove to be unsuccessful.

Risk assessment

Whenever a new commercial undertaking is being explored, key risks need to be identified and assessed. Whilst the emphasis is on financial and operational risk, reputational and legal risks also need to be assessed.

Business case and risk evaluation

A business case for any commercial activity must be prepared with the following sections: Strategic, Legal, Commercial, Financial and Operations. The risks associated with each section in the business case must be identified and evaluated.

Some of the main risks to be covered are detailed below:

- Strategic risk – fits with Council objectives and values
- Legal risk – the proposed venture is lawful
- Financial risk – costs and financial benefits are balanced
- Commercial risk – there is sufficient market knowledge of: customers and competitors; level of demand; supply chain
- Operational and technical risk – staff and other resource requirements, and how they can be met, have been evaluated

The business case must include a risk assessment and management plan, plus prevention and mitigation measures to be taken.

From 2025 all of DDC's income-generating activities will be managed by DCE with the exception of car parking and the Pavilion Theatre.

Exhibit 7 – Email regarding analysis models

Date: 16 July 2024

To: DDC review team

From: Becky Oslet – Director, DCE

Further to your request for some input about analysis models, please see my notes below.

Boston matrix

This can be a really useful tool for assessing current products and services as either stars, problem children, cash cows or dogs.

Cultural frame of reference

When we use this, we usually consider some or all of: national and regional cultures; organisational field; the organisation's own culture; functional sub-cultures; the individual.

Ansoff Growth Matrix

Using this matrix we can classify income-generating activities as market penetration, diversification, market development or product development.

6 I's model for digital marketing

When we use the 6 I's for digital marketing, we can consider: interactivity, intelligence, individualisation, integration, independence of location, and industry restructuring.

Let me know if I can be of any assistance.

Best,

Becky