CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC CASE STUDY

Strategic stage

ADVANCE MATERIAL AND EXAM DAY MATERIAL

08 March 2022

Time allowed: 3 Hours 30 minutes

All questions must be answered. The weightings for each question are indicated.

The examination has been prepared on the assumption that candidates will not have any detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded to those candidates displaying such knowledge.

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NOTES TO CANDIDATES

i) Answers to be prepared as on 8 March 2022 by Jordan Smit, a newly qualified accountant in the Finance team at Ellasam College who reports to the Finance Director, Mac Mills.

ii) All calculations and diagrams provided in source materials should be assumed to be arithmetically correct.

QUESTIONS

1	Prepare a draft report for Ellasam College's Senior Management Team on the proposed establishment of a new Information Technology department.	55%
2	Prepare briefing papers for the Chief Executive Officer of Ellasam College concerning issues associated with the implementation of the new Information Technology department.	45%

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The country of Jeanania

Ellasam College is situated in the town of Jeanville, 150 kilometres north of the capital city of Jeanania, a middle-income country with a population of 80 million. Jeanania, which had historically been seen as a poor and backward country, saw tremendous growth in the 1960's and 1970's as the government took control of the country's oil wealth and began a process of development and investment in infrastructure. Despite this, the population has remained traditionally inward looking and conservative; the majority of the population of Jeanania have never been outside the country. The national language is Jeananian and foreign language skills are poor among the population. The finance markets of the country are limited in scope, and many of the more advanced financial products commonly found in the major economies of the world are lacking in Jeanania. Interest rates have been kept low by the government in order to help businesses, but inflation, while currently 2%, is forecast to rise as a consequence of a predicted increase in economic activity, and many economists are also predicting interest rates to rise in the near future. The currency is the Jeananian £, which is equivalent to the United Kingdom £.

Ten years ago, the government of Jeanania commissioned a report into the future prospects for the country. The report referred to major challenges facing Jeanania. There had been a drop in the world price of oil in the preceding period and that trend was expected to continue. Further, the report highlighted that the desire around the world for reductions in the use of fossil fuels would mean that the long term prospects for the country's oil exports were not good. The conclusion from the report was clear, Jeanania had to adapt to become far less reliant on oil exports or face terminal decline.

In response to the report, the government of Jeanania embarked on a mission to diversify the economic base of the country, and in particular to develop the information technology (IT) skills of its population. Initially, there was a surge in interest in IT, and the number of people who had access to the internet at home increased dramatically. All children were taught the basics of computer use at school and use of the internet developed quickly. A number of suppliers sprung up over the last decade in Jeanania to supply the more straightforward components used in IT, but so far no one supplier has managed to grow to the level where they can dominate the Jeananian market. However, in recent years it has become clear that while most of the population is comfortable using the internet and most people except older generations possess at least basic IT skills, the country as a whole still has limited capability in the more advanced IT skills that are prominent in more developed economies, and the government is keen to address this problem.

A combination of factors, including the impact of the Covid-19 pandemic and the associated worldwide reduction in economic activity, has resulted in an increased level of borrowing by the Jeananian national government in recent years. The government is now actively trying to reduce public expenditure.

One of the effects of the pandemic has been an increase in the number of people working from home (albeit from a very low base), and that appears to be continuing to some extent since the pandemic restrictions have been eased. In addition, the pandemic stimulated a further increase in interest in the use of IT in Jeanania. The government of Jeanania is keen to support the further development of IT skills and usage and has embarked on a policy of educating and training the population in this developing industry. For example, grants have been made available to organisations for training staff in computer coding, and tax breaks have been offered to companies operating in this area. One recent development, prompted by a rise in demand for qualified staff in this industry, has been the increasing numbers of private and public sector colleges offering courses in various

aspects of IT, though, so far, few have focused on coding. Evidence suggests that salaries in the IT sector are rising at a significantly higher rate than in other parts of the economy.

The educational environment of Jeanania

Historically, there has rarely been more than one further education college in towns in Jeanania, meaning that students have typically had little choice about which college to go to, and this is the case in Jeanville. Also, despite the increased use of IT in business and in the home, and during the recent pandemic, there has been little development of online tuition in Jeanania.

All further education colleges are required to be accredited by the Jeananian Ministry of Education (JME) and to adhere to its code of conduct; once accredited, colleges are free to offer any courses they choose. Additionally, the JME supports colleges in a number of other ways; for example, it provides them with guidance on staff salaries in the form of a detailed salary scale that reflects length of service and levels of responsibility. The JME has also often emphasised, for instance, the importance of adhering to inclusive policies on recruitment and promotion, and of having fair and transparent policies on pay and conditions. JME also advises colleges to use the nominal discount rate of 8%, set by the government's Ministry of Finance, when evaluating long term investment opportunities. This rate is reviewed by the government each quarter, taking into account expected changes in inflation, interest rates and the general economic outlook.

Obtaining JME accreditation is important because businesses in Jeanania use it as a mark of quality, and finding a job is much easier if the qualification obtained is from an accredited education provider. Securing accreditation is a significant undertaking, as a college has to be able to show that its courses have been running successfully for at least two years, and that its teaching has been to an acceptable standard. In addition, as part of the JME's code of conduct, a college also has to show that it has supported the moral and physical development of its students, has promoted the national values of Jeanania, and has made a sustained positive contribution to the local community and society in general. In effect, therefore, a college has to be operating for two years before accreditation can be granted. This means that since a college would find it difficult to attract many students before it gains accreditation, very few new colleges have opened in Jeanania since the accreditation system was introduced 25 years ago.

Once granted, accreditation lasts for ten years, when it is reviewed by the JME; if a college is found to have let its standards slip then the accreditation can be withdrawn. This would have such an enormous impact on a college and its students that in practice most colleges make huge efforts in the year leading up to the review process to ensure they will be re-accredited. In the period since the accreditation system was introduced, no college has had its accreditation withdrawn at the ten-year review.

A much more pressing problem for colleges, and one that has resulted in accreditation being withdrawn for some colleges, are instances when there have been JME investigations into the operation of colleges, in particular focused on the moral and physical development of younger students who tend to make up the majority of the student base of colleges. These investigations are often prompted by complaints from students, parents or in some cases from the wider community.

The accreditation system was originally set up by the government as a way of protecting the traditional college system from the risk of foreign competitors setting up in Jeanania. However, significant shortages of qualified staff in many industries together with the

recent increase in interest in online courses has led to a government rethink on the way in which colleges are regulated.

Last year the JME announced the outcome of a pilot scheme which resulted in the accreditation of a small number of foreign online colleges that specialised in electrical and civil engineering. The colleges involved in the pilot scheme had worked with the government of Jeanania to ensure that the form and content of their courses was tailored to the needs of the students from Jeanania, and it was found that the efforts required to meet the accreditation process were not as difficult as first thought.

In a recent press release on the pilot scheme, the JME stated that the course structure and delivery provided by the foreign online colleges for participants in other countries over the previous two years had been assessed by JME officials and found to be acceptable. This meant that the colleges concerned were accredited before they opened up operations in Jeanania. The JME press release also included the announcement that it was looking to extend the new accreditation process to a range of other industries in which there was a shortage of suitably skilled workers and the expectation is that foreign online colleges in other sectors will soon be applying for accreditation in Jeanania.

One of the key features of these online classes is that much of the basic tuition element is in the form of recorded lectures which the student can access whenever they wish. One important issue here for a foreign based online college is that while it would still be costly to translate an existing online course from another language into Jeananian, they would still find it significantly cheaper than creating and delivering a new course in Jeananian.

College funding

Throughout Jeanania, further education colleges have two main sources of funding: course fees, which is by far the most significant source of funds, and donations from businesses and individuals in their locality.

The government pays the course fees of younger students who attend a college immediately after leaving school, while older students either pay their own course fee or have some or all of their course fees paid for by their employer.

For younger students, in the age range 16-18, the JME pays the full course fee directly to the college on the first day of the new academic year, which for each college is split into two semesters. These fees are set by a college in accordance with JME guidelines and are calculated to cover the salaries of lecturers and other staff, as well as the cost of materials and equipment that students would expect to use in their course. This means that the fees that the college can charge, and which the government will then pay, can vary by course, but in practice for any individual college there is usually relatively little difference in fees between its courses.

The level of fees charged for older students is a policy decision for each individual college, as is the timing of payment.

There is another aspect of the fee structure that is common to all colleges in Jeanania: the fee for courses that last one semester is more than half of the fee for courses that last two semesters, despite the fact that one semester courses are much shorter in terms of contact time with lecturers, and are run for the most part as part time evening courses. Each college in Jeanania operates a two-semester academic year.

Recently, in an effort to encourage greater expansion of the education and training sector, JME allowed further education colleges to borrow money from the private sector for the

first time, either by issuing bonds or by taking out loans from financial institutions, though few colleges have as yet taken this up. A college's level of new borrowing in any one year is limited to 10% of the course fees received in the previous year, and the total level of debt at any time must not exceed 50% of the college's total annual fee income. As this is a new initiative, no college has come close to the 50% limit, but it is believed that if any college exceeded this level, it would be sufficient cause for an investigation by the JME into the financial situation of the college.

All further education colleges in Jeanania are treated as charities, and they do not have to pay tax on any surplus they generate. Colleges are allowed to budget for a surplus as long as the amounts generated are earmarked for future investment in the college's educational activities, such as upgrades of facilities and equipment.

Ellasam College

Development and facilities

Ellasam College was opened in Jeanville as a mechanical trade college in the 1920's and started also offering more academic subjects in the 1950's. With the boom of the oil industry in the 1960's and 1970's in Jeanania, the College flourished as successive governments adopted policies designed to reduce the reliance on foreign skilled labour. However, while oil companies are still a major employer in the area, employment levels in the oil industry have been falling, meaning that there has been a significant reduction in students from this sector attending courses at the College. However, Ellasam College has been quite successful in diversifying its course offer to offset this decline in demand from the oil industry.

The College gained JME accreditation soon after the current accreditation system was introduced and its senior leaders are highly conscious of ensuring that its decision-making always involves a rigorous assessment of any risks to its accreditation status. As part of this approach, the College has developed an approach to corporate social responsibility articulated in the statement included at Appendix 1.

The College was built around a central campus of four main buildings, and added to over a number of years particularly during the 1970's. The lecture theatres vary in size, with maximum capacities ranging from 50 to 150 students. However, some of the buildings, lecture theatres and facilities have become somewhat tired and dated, and are in need of modernisation and refurbishment, though they are all still structurally sound.

To the north of the College's central campus lies Seaby's Green, a 50-hectare expanse of land that is currently underused. The land was originally gifted to the College when it was founded; at that time, the College was on the outskirts of Jeanville, and the land was not seen to be particularly valuable. However, the College is now mostly surrounded by housing, and a 15-hectare plot of land nearby was recently sold for £800 000 for housing development. Seaby's Green includes four full size football pitches, an athletics field, an area that was originally intended for use as an ornamental garden, and a large area of parkland. Over time the parkland has become something of a local amenity, as local residents have increasingly taken to using it for recreational use – for children to play on, people to walk their dogs and so on. A recent article in a local newspaper revealed that, when asked, many people were not aware that it is actually private land, rather than common ground.

Three years ago, there were considerable objections from local residents when a private contractor attempted to buy part of the Seaby's Green from the College with the intention of building a large number of houses that would then be sold for profit. The threat of losing

what people viewed as a local amenity galvanised nearby residents into action. A letter writing campaign to local newspapers resulted in a television interview which brought the issue into the wider public consciousness, and several local councillors wrote a letter to JME raising the issue and insisting it would be an abrogation of the College's responsibility to destroy the only sports grounds the students could use for exercise when the issue of obesity was of such national concern. Eventually the College abandoned the plan, claiming it had only ever been a fact-finding exercise as part of a wider review of assets. Since then, new government legislation has been introduced, meaning that in any housing development, a set proportion of houses must be built for sale at "affordable" prices, and must be sold to individuals earning less than a nationally set amount - this legislation was introduced specifically to address the problem of attracting people to relatively low paid industries, and has already been widely applied across the country.

While the football pitch and athletics field at Seaby's Green are rigorously maintained they are very underutilised, the ornamental garden has been allowed to run to seed, and the parkland area is only mown sporadically. Part of the problem with the land is that it is rather remote from the rest of the College grounds, and little is ever done to promote its use by students.

Course structure

The number of students at Ellasam College varies a little from year to year but in recent years has typically been around 8 000. Its course lengths are either:

- One semester – typically, these courses are either one element of a longer term vocational course, or are specialist courses lasting one semester.
- One year – these are complete courses leading to a recognised qualification.
- Two years – these are academic courses leading to a public exam needed for entry to university.

The College's courses are run as either full time or part time. Full time students take courses for part of each weekday, with these sessions supplemented by weekly small group seminars where students can discuss their progress with a tutor, ask questions on topics they find difficult and be assessed on classwork. Part time students are split between courses run on one day a week or a number of evening classes each week. The College currently has no courses that are delivered online.

In common with most further education colleges in Jeanania, students at Ellasam College can be categorised as follows:

- People who left school at 16 wanting a college where they can learn a vocation or study higher national exams prior to going to university. Such students usually pursue a two-year course, and around 60% of the College's students are in this category.
- Older people who are looking for a qualification, often because they want a change of career. Usually, such students pursue a one-year course, and around 20% of the College's students are from this category.
- Employees of organisations that want to train their staff in new skills. Such students normally attend a one semester course, and around 20% of the College's students are from this category.

Younger students, in the age range 16-18, typically tend to enrol on the full time courses, while the older students tend to enrol on the part time courses.

Funding

In common with other colleges in Jeanania, Ellasam College derives most of its funding from course fees, a total of £33m in the most recent year. The current average course fees are:

- £5 000 per year for a one-year or two-year course
- £2 800 for a course lasting one semester.

The College also obtains a steady amount of funding from donations. In addition to receiving regular donations from local businesses and individuals, the College maintains an extensive database of past students who are written to periodically to ask for donations. Such fundraising campaigns usually relate to one-off projects, such as the development of a new suite of lecture theatres or to support the purchase of new equipment. In the past some senior staff of the College have raised concerns where donors of significant sums have attached particular conditions to their donation.

So far, the College has not taken advantage of the option now available to Jeanania colleges to borrow to finance developments.

Management structure of Ellasam College

Ellasam College has 450 teaching staff across five faculties and 90 staff in administration and management roles. The five faculties are: art and performing arts; humanities and modern languages; science and engineering; health and childhood studies; hospitality and catering. Faculties are split into subject-orientated departments. Faculty heads oversee the operation of departments within their faculty, each of which is run on a day-to-day basis by a departmental head. The departmental heads ensure the smooth running of the courses in their department. The five faculty heads each manage between four and twelve department heads, who in turn manage between four and thirteen lecturing staff. Over many years, the College has experienced very low staff turnover in all departments, with the majority of staff departures being due to retirement.

The College's board of governors has ultimate responsibility for how the College is run. It consists of seven non-executive members, currently:

- Anne Ashworth – chair of the board and a member of the board for five years. She is also on the board of a local building company.
- Belinda Binkley – has been involved with Ellasam College for virtually all of her working life, first as a lecturer, then five years ago on her retirement she was invited to join the board.
- Colin Crabtree – recently joined the board. He is a senior manager in a local business that has on a number of occasions made sizeable donations to the College.
- Delia Davenport – a former lecturer at the College. She retired early three years ago, and since then has devoted herself to volunteering in various capacities for many local organisations. Her husband is a lecturer in the carpentry and joinery department of Ellasam College.
- Eric Epworth – a small business owner who became interested in the College when his daughter was a student of the College 17 years ago. Following a large donation he gave to the College 15 years ago, he was invited to join the board by the then Chief Executive Officer (CEO) Noah Newhey.
- Francis Farley – retired as head of the College's science and engineering faculty and very soon after joined the board two years ago.
- Georgina Golf – recently retired as Treasurer at the local authority, Jeanville Council. A qualified accountant, she has been on the board for eight years.

Operational management at the College is the responsibility of the Senior Management Team (SMT), which consists of the CEO and four executive directors, as follows:

- Lionel Linklater, CEO – leads the SMT, line manages the other four directors and provides monthly reports to the board on the College's performance. The reports highlight any problems that need addressing and suggest policies for board approval to deal with issues that may be considered long term or significant in nature. He joined the College four years ago, his first role in an academic institution after a number of years leading successful companies in many different sectors.
- Mac Mills, Finance Director – manages and controls the finances of the College and produces the monthly and annual reports on financial performance for the SMT and board.
- Oliver Orton, Marketing Director - manages a team of four staff who travel around the local region making schools and employers aware of the range of courses available at the College. Since 2008, the Marketing Director has also been responsible for the maintenance of the College's website, and in 2012 the College established a new post responsible for managing the College's social media activities, which also reports to the Marketing Director.
- Peta Patel, Faculties Director – all faculty heads report to the Faculties Director. The Faculties Director is the person most involved in the approval of changes to individual courses or the introduction of new courses. Before a course can be changed or introduced, it has to be approved first by the department head, then by the faculty head before reaching the Faculties Director.
- Rochelle Ren, Human Resources (HR) Director – manages the HR department, which has two principal tasks: managing the employment contracts of all College employees, and running the administrative services of the College.

A significant part of the role of the HR Director is the maintenance and development of the College's staffing establishment. All staff are on a particular pay grade and there are currently over 40 such grades in the College. In respect of the employment contracts, by far the most time-consuming processes for the HR department are those dealing with annual pay increments, (which are determined in accordance with JME standard guidelines on fair pay policy) and handling requests for promotion. The JME guidelines do not have the force of law, but are taken to be accepted practice, and whilst the staff regularly raise concerns about the restrictions placed on pay rises, there is a begrudging acceptance that the guidelines apply to all staff, and are therefore generally seen as being fair.

Currently the annual pay rise for College staff is limited to the rate of inflation. In addition, there are increments that arise because of changes to an individual's responsibilities; this often leads to requests by those individuals for a pay rise and subsequent appeals if those requests are initially unsuccessful. The College's pay appeals process is perceived by staff to often be lengthy and tortuous, and appeals made by senior managers and senior lecturers can end up being dealt with by the board of governors. At any given time, about a quarter of the teaching staff are requesting, or appealing against, a decision in respect of their pay grade. At the moment, the HR department is facing a significant backlog of requests for pay rises and appeals, which is leading to increased levels of frustration from staff.

Additionally, the administrative staff of the College, in whichever faculty department they work, report to one of three HR managers who in turn report to the HR Director. The three HR managers are responsible for secretarial staff, student liaison staff, and maintenance staff respectively. The administration function managed by the HR department is a service centre that charges out the cost of its staff to the faculties in which the staff work. The

administrative staff are not accountable to the management of the faculty departments in which they work. This structure has been in place for some time, and was introduced to increase efficiency – the rationale at the time was that underemployed staff in one faculty department could more easily be reallocated to another department as required if the administration function is managed centrally by the HR directorate. However, there have been a number of recent instances whereby administrative staff have continued in their role in a faculty department despite complaints from faculty heads to the relevant HR manager about the performance of particular administrative staff members, which in turn has led to a degree of friction that has been growing over the last few years.

Management control system at Ellasam College

The College has a centralised structure which means that any proposed changes to courses or the introduction of new courses must first be approved by the head of department, then the head of the relevant faculty. If it is approved by them, and subsequently by the Faculties Director, the proposal is passed to the Chief Executive for approval, which is usually a formality for relatively minor changes to courses. Any such decision that is deemed to be strategic in nature, (i.e., anything that is likely to affect the College in the longer term, such as the introduction of new courses or a change to the organisational establishment) then has to be passed to the board of governors for approval.

The College structure and governance processes have been designed to ensure stability and continuity. This has sometimes been criticised, for example by staff in exit interviews, as creating a culture that is slow to respond and resistant to change, meaning that the College can sometimes miss out on business opportunities. One such instance, a few years ago, involved a proposal to open a new engineering design department for 50 students in a proposed collaboration with a car manufacturer located midway between Jeanville and the town of Leviford 50 kilometres away. The proposal took over a year to be finalised and approved by the College. By the time the College was able to agree to the proposal, a college based in Leviford had agreed terms with the car manufacturer, and, within a year, its department had doubled in size and was being praised in the local and national press.

The College's performance management system focuses mainly on cost control. Due to the relatively stable environment that the College has faced and to provide certainty to faculties, every three years, medium term budgets are set for the next three years. As part of the medium term budgeting process an annual bonus is also calculated. At the end of each year, if a faculty head manages to keep costs below budget, then the faculty head is paid the bonus. Each member of the SMT also receives a bonus, which is equal to the average of the bonus payments paid to faculty heads. This medium term budget is re-assessed each year, though major changes to it for the rest of the three-year period are very rare, unless there has been a significant change in key assumptions such as a new course being offered.

When considering any long-term investments, the College has so far followed the guidance from the JME, including the use of its recommended discount rate when evaluating capital investment proposals.

Proposed new IT department at Ellasam College

Ellasam College is now considering the establishment of a new IT department. Following preliminary analysis of the IT education sector and the IT industry generally, the College is considering the establishment of an IT department which would specialise in computer coding in a small number of widely used industry languages. The proposal is to start off with four lecturers and offer face-to-face courses to full-time students. In addition, the proposal involves the development of online courses for students who for whatever reason do not wish to study full time; this may be because the individuals are already working

and want to extend their skill set, or it may be that they do not wish to take all of the courses but simply pick and choose the courses that are of most relevance to them.

This latter aspect of the proposal is becoming increasingly popular in Jeanania, and a number of colleges have already been developing these kinds of flexible courses. Indeed, a number of colleges throughout the country have found online courses to have been much more popular than originally envisioned; while this may be due in part to the effects of the Covid-19 pandemic, reports in the press indicate that many people intend to pursue online working and studying even after the pandemic no longer has such an effect on day-to-day lives. Many colleges are finding that the ideal combination seems to be to have most of the classes online but to offer a small number of weekend classroom sessions throughout the year as a chance for students to catch up with any aspects of the course that are proving difficult.

The CEO of Ellasam College believes that the establishment of the IT department can be accommodated within the current infrastructure. The department would be included within the science and engineering faculty which currently has a staff of 100, and includes academic disciplines (mathematics, physics, and chemistry) as well as the vocational disciplines of building trades engineering (carpentry and joinery, fabrication and welding, and electrical engineering) and mechanical engineering and motor vehicle maintenance. In order for the costs and impact of the proposed department to be considered in detail, the College's existing medium term budget has been reviewed and a revised draft budget has been developed which includes the proposed IT department, based on estimates provided by the CEO and Finance Director.

Of late, some departments of the science and engineering faculty have struggled to attract students, in part because the view of many students is increasingly that professions such as carpentry and joinery do not pay well and are therefore unattractive as career options. As its number of students has fallen in each of the past three years, the carpentry and joinery department is being considered for closure. It has been decided that if the proposed new IT department is established, then the carpentry and joinery department will definitely close to free up teaching space. This would involve the redundancy of eight members of staff. The two administrative staff who currently work in the carpentry and joinery department would transfer to the new IT department.

One finding from the College's preliminary review of the industry is that the salaries paid to IT professionals are on average much higher than the pay level stipulated in the JME framework for college salaries. Ellasam College believes that it will be essential to recruit IT professionals with up-to-date experience in order to deliver the courses to be offered by the new department even if they may have little experience of teaching. Consequently, the proposal for the new department refers to the likelihood that the College will need to be flexible when setting salaries, because of the high pay expected by employees working in this sector.

The board of governors is keen to ensure that a robust business case is developed and scrutinised before committing to the investment to set up the new IT department, including a thorough assessment of the competitiveness of the sector. There has already been much discussion about the wisdom of the proposal to set up this new department, due in part to a previous unsuccessful attempt by the College to set up a new IT department in 2014/15. Attached as Appendix 2, is an email from one of the College's governors, who was involved in the previous attempt by the College to establish an IT department.

Appendix 1

Extract from Ellasam College's Corporate Social Responsibility Statement

We at Ellasam College view Corporate Social Responsibility (CSR) as a term used to describe how we look beyond our initial duty to our staff and students, and acknowledge that our actions have a wider impact on a wide range of stakeholders. Undertaking a programme of CSR activities encourages our organisation to operate in more sustainable, ethical and charitable ways.

The College's staff, governors and students and take our corporate social responsibilities very seriously and see this as an integral part of our business. As a large further education college and employer, we have a major role to play in the social and economic welfare of both our local and wider environment, and an ethical responsibility to our planet. We are committed to being an inclusive, equal opportunity employer, and to ensuring that all our staff are paid fairly.

As part of their experience at the College, students are encouraged to consider their own social responsibility through the lecture and seminar programme covering Jeananian values, which are also embedded in the College's mission and values. We encourage our students to be healthy, stay safe, achieve, enjoy a good work-life balance, and make a positive contribution to society. Social responsibility also underpins many of the activities supported by the College's Student Liaison Team, and the College nominates a number of charities each year to support, through both fundraising and volunteering activities by its staff, governors and students.

We are committed to working positively to expand, develop and evaluate our sustainability programme to make sure that it contributes to the efficiency of the College. We believe in educating staff as well as students about sustainability issues to help encourage a lasting behavioural change. We encourage all staff and students to recycle waste and we have regular environmental group meetings to look at how we act with an increasingly strong focus on sustainability.

The College works closely with businesses in the local community in a variety of ways. One example is through our Business Development Team, which works continually to develop enduring relationships with regional organisations, to ensure that we directly meet their training needs and to maximise the employability of our students.

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Appendix 2

Email

From: Eric Epworth, Governor

To: Jordan Smit, Accountant

Date: 25 January 2022

Subject: The previous attempt to establish an IT department

Jordan,

You asked me what happened the first time we tried to establish an IT department.

From midway through 2014, there were many meetings between two or more of the CEO (Noah Newhey), the marketing director (Dave Duggan), the HR director (Tony Tape) and I. Communication about progress was patchy, and it seemed that assumptions kept on changing – the size of the class, the length of the course, and so on – and nobody really took charge. The CEO admitted that he knew nothing about IT, and frankly I don't think he wanted to. Meetings were regularly postponed, and in the end, there was no budget until December 2014, by which time a load of IT equipment had been purchased.

Another thing was the regular disagreements between Dave and Tony about the computing language to be taught on the course. Dave was keen on an application development tool – Laticscript – but Tony insisted it would be impossible to recruit anyone able to teach it as such people were in huge demand. Tony wanted us to instead teach Latic - apparently, the languages are very different. Dave's argument was that none of the local employers wanted Latic so the course would never sell. Tony even interviewed some potential lecturers before hearing that the course was to be changed back to what Dave wanted. Tony was furious. It didn't help that the CEO couldn't decide who to side with.

Then there was another big argument when the prospectus was published. Tony had ensured that it referred to Latic, and when Dave found out he was furious; they had to publish an errata sheet later on. It was March 2015 before the language was finally agreed as being Laticscript and the course finalised.

Also, Tony kept warning the CEO that we would have to breach the standard pay scales to recruit lecturers. However, we never knew how much we would have to pay until the candidates had been offered jobs; it was much more than anyone expected, and there was uproar. At one point, other staff started demanding higher pay, and there was talk of industrial action. In the end, we all agreed that if we had known how much it was going to cost, we would never have approved the set-up of the IT department in the first place. So, it was abandoned, Noah quit, and now we are thinking of doing it again.

If I recall any further details, I will pass them on to you.

Eric

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Question 1 requirements

The board of governors of Ellasam College have requested a report on the proposed establishment of a new Information Technology (IT) department. The Chief Executive Officer (CEO) requires a draft report for the Senior Management Team to consider before the next board meeting, covering the following issues:

		Marks
a)	Assess why the project of establishing an IT department was unsuccessful the first time it was attempted by the College, and discuss how a more formal approach could have helped overcome the problems identified.	15
b)	Using Porter's Five Forces model, evaluate and provide conclusions on the competitive environment facing Ellasam College if it wishes to enter the computer coding educational sector.	15
c)	Taking into account the specific requirements detailed in the CEO's email of 7 March, critically evaluate the financial implications of the proposed new IT department.	25
		55

Analysis required

Email

From: Lionel Linklater, CEO

To: Jordan Smit, Accountant

Date: 7 March 2022

Subject: Draft report – analysis required

Jordan,

The board is excited about the prospect of the new IT department, but requires some additional analysis before it is ready to sign off on the proposal. It is particularly keen to ensure lessons are learned from the previous attempt to establish an IT department. Also, the board wants a more detailed and structured review of the competitive environment.

In addition, as the Finance Director, Mac Mills, is now on long term sick leave, I need you to do some work on his financial analysis, which I will forward to you separately. I am not sure that the analysis is sound and think he may have been too pessimistic, so I want you to analyse the impact of changing two of the assumptions made in his analysis.

First, I think the market is very much waiting for our offer, especially online, and we will attract more students more quickly than Mac assumed. Please therefore assess the impact of attracting the following online student numbers:

	Year 1	Year 2	Year 3	Year 4	Year 5
Online students	20	60	100	140	180

Second, on fees, those assumed for the first year seem about right, but I think we can assume that they can be increased by 5% a year for face-to-face and online students.

I need this done quickly, so do **not** change any of the other assumptions built into the calculations. However, as some of Mac's assumptions seem questionable, in your report please discuss concerns you have about any of them. Included in this, I would like your views on the discount rate used in the analysis; I thought that we usually use the JME's rate, currently 8%, but Mac has used 10%. He may have good reason for using the 10% rate so do not change it when doing the revised calculations, but please discuss what rate would be appropriate. I was also talking recently to one of the governors, Eric Epworth; he said that borrowing was always the preferred option at his company for financing investments such as this. So, please include some discussion as to whether borrowing to finance this investment should affect the discount rate we should use for this appraisal.

Regards,

Lionel

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Finance Director's assumptions

Forwarded email to Jordan Smit from CEO on 7 March 2022

From: Mac Mills, Finance Director

To: Lionel Linklater, CEO

Date: 28 February 2022

Re: Financial analysis of proposed IT department

Lionel,

Attached is my financial analysis of the proposed new IT department, giving a negative net present value of £653 200 analysed over five years. The assumptions made when producing this analysis are:

- The discount rate is 10% to reflect added risk associated with the project.
- The set-up cost includes the cost of refurbishing a new lecture theatre within the science faculty buildings to accommodate classes of up to 100 students in suitably modern facilities, and the redundancy costs of eight lecturers, average salary of £40 000, from the carpentry and joinery department which would be closed if the IT department opens.
- The annual fee throughout the period for face-to-face courses is £5 000 and for online courses it is £2 500.
- Numbers on face-to-face courses are assumed to grow to the maximum imposed by the size of the lecture theatre by year 3. There is likely to be only a small number of people who will take up a course online, since traditionally Jeananian students lack access to or interest in online courses. Assumed numbers are:

Student numbers	Year 1	Year 2	Year 3	Year 4	Year 5
Face to face students	20	60	100	100	100
Online students	10	50	90	90	90

- The staff costs for the IT department include four lecturers and two administrative staff throughout the period. Salaries for IT lecturers are assumed be 50% higher than average pay for other College lecturers and, to keep pace with industry expectations, the pay for IT lecturers and administrative staff is assumed to increase by 10% and 5% per year respectively.
- It is assumed that student numbers for the carpentry and joinery department would have grown by 10% a year if the department had been kept open.

Regards,

Mac

Finance Director's analysis

Financial analysis of IT department

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Set-up cost	(2 200)					
Face to face fee income		100	300	500	500	500
Online fee income		25	125	225	225	225
IT department staff cost		(280)	(306)	(335)	(366)	(400)
Staff cost savings from closed departments		320	320	320	320	320
Forgone fee income from closed departments		(80)	(88)	(97)	(106)	(117)
Total net income	(2 200)	85	351	613	573	528
Discount factor 10%	1	0.909	0.826	0.751	0.683	0.621
Present Value	(2 200)	77.26	289.93	460.36	391.36	327.89

Net present value = (653.20)

All monetary amounts in £'000's.

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Phone call

Notes of phone call between Eric Epworth (EE) and Jordan Smit on 7 March 2022 during which EE gave further details on the College's previous attempt to set up an IT department

NN = Noah Newhey; DD = Dave Duggan; TT = Tony Tape

17 June 2014: meeting of NN, DD, TT and EE. NN announces intention of creating an IT department to teach coding. No details provided, but asked EE and DD to prepare a rough outline of what it would look like. Part way through the meeting NN leaves, and asks DD to take charge. DD says courses should focus on Laticscript.

2 September 2014: meeting of TT and EE. TT says courses should use Latic as Laticscript staff would be very expensive. Agreed TT should immediately start process of recruiting staff. TT informs publications team to include course in 2015 prospectus based on Latic.

29 September 2014: meeting of DD, TT, and EE. TT announces two lecturers have been offered the jobs as Latic lecturers. DD and TT have a heated discussion about which language should be taught.

26 October 2014: meeting of NN, DD and EE. NN agrees with DD that the course should be Laticscript. NN said he would tell TT to write to the job applicants asking them to teach Laticscript or the job offer will be withdrawn.

1 December 2014: meeting of NN, DD, TT and EE. NN says board of governors want details of the new department by the end of the week so it can be reviewed and approved at their next meeting. NN has committed to purchase of new IT hardware for £80 000 in order to take advantage of a pre-Christmas discount.

15 December 2014: board of governors approves new department and course, but asked for further analysis of whether Latic or Laticscript should be taught.

1 May 2015: New IT lecturers report that the equipment bought before Christmas will not be appropriate for the Laticscript course. New computers will be needed. NN approves purchase of new computers costing £100 000.

30 May 2015: board of governors demands explanation on why costs are so far in excess of budget.

1 September 2015: Only three students enrolled on the course. Course cancelled. Students say they will complain to Jeanania Ministry of Education (JME). IT lecturers made redundant. They reveal their pay and conditions to colleagues – other lecturers in uproar over preferential treatment of IT lecturers.

8 September 2015: JME announces investigation into Ellasam College and NN resigns.

1 October 2015: JME investigation report was highly critical of the College's management of this project, but stopped short of removing accreditation.

Question 2 requirements

		Marks
a)	The Senior Management Team (SMT) is meeting soon to discuss the expected implementation of the new IT department. For that meeting, as detailed in his email of 7 March, the Chief Executive Officer (CEO) requires a briefing paper covering the following issues: (i) Discuss and evaluate the alternative methods available to the College to finance the establishment of the new IT department as identified in the CEO's email of 7 March. (ii) Evaluate the appropriateness of the College's structure and control systems in respect of the new IT department, identifying and discussing potential changes to them which may help to facilitate the success of the IT department. (iii) Assess the potential implications of the College's plans for staffing the new IT department.	 15 12 6
b)	Recently there have been concerns in the media about the performance of the College from a corporate social responsibility (CSR) standpoint. The CEO intends to meet with the Chair of the board separately ahead of the next board meeting to discuss these issues and, as detailed in his email of 7 March, requires a briefing note for the meeting with the Chair. The note should provide an analysis of the issues that may lead to concerns about the application of the College's CSR statement and the ethical issues that should be considered by governors, in respect of potential decisions regarding: - the development of the new IT department - the sale of Seaby's Green - accepting the donation from Dippernib.	12
		45

IT department implementation issues

Email

From: Lionel Linklater, CEO

To: Jordan Smit, Accountant

Date: 7 March 2022

Subject: IT department – implementation issues

Jordan,

It seems likely that the board will soon formally approve the proposed new IT department, so we need to consider some of the key details of its implementation.

We need to evaluate the options for financing the estimated set-up costs of £2.2m. The local company, Dippernib, is offering the College a £1m donation to help finance the new IT department. It is an option we must consider, but I have reservations. Dippernib makes most of its money from online gaming and social media, then two years ago it moved into online gambling, and it is now one of the highest earning companies in Jeanania. It has, though, found it difficult to recruit enough qualified staff and is therefore proposing a partnership with the College. In exchange for the donation, Dippernib requests that:

- Students on the new IT department's courses aged 16-18 would work at Dippernib as unpaid interns in the summer holidays
- The main lecture theatre should be called the Dippernib Room
- One of Dippernib's senior managers would join the College board of governors
- Dippernib staff would be involved in the design of the IT department's courses.

Also, please consider the sale of Seaby's Green and different borrowing options as the other ways that we could finance the establishment of the new department.

When analysing the organisational structure and control issues, please focus on the potential implications for the IT department of our current approaches in these areas. I do not particularly want to make major changes in these areas in order to accommodate the new IT department, but if we are likely to need to make some changes for the new department to be a success then it would be helpful for you to signal that now, and to provide some suggestions on changes that may be beneficial.

In your paper for SMT, please do **not** cover the CSR and ethical issues relevant to decisions on establishing the IT department and how it may be financed; instead, I want to deal with these issues separately by first discussing them with the Chair of the board, so I need a separate briefing note covering them. Governors have not seemed too concerned by adverse reports in the media about the College's performance. My worry is that the governors don't fully appreciate their obligations with regard to CSR and ethics and will not seriously consider these aspects when deciding on the new IT department and its financing. If your analysis of these issues also leads to any general concerns about our governance arrangements, please also refer briefly to them in this note.

Regards,

Lionel