

Level 3 Cambridge Technical in Business 05834/05835/05836/05837/05878

Unit 3: Business decisions

INSERT

Monday 12 June 2017 – Afternoon

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Moorside Animal Rescue Centre

The business

Moorside Animal Rescue Centre (MARC) is a registered charity. It was set up by husband and wife Colin and Jane Simpson after learning that their local branch of the RSPCA was full to capacity, and regularly had to destroy healthy animals. In 2009, with the aid of a grant from an animal welfare trust, Colin and Jane bought a derelict farm located on the edge of a large town in the North East of England. A dedicated group of volunteers helped renovate the farmhouse and the outbuildings. Five of Colin and Jane's friends also agreed to be charity trustees, making seven trustees in total.

The principal aim of *MARC* is to rehome as many animals as it can, and to care for any that it cannot for the rest of their natural lives. The first animals arrived in 2010. Since then the charity has rescued over 2000 dogs and cats, 40 horses, 25 goats and numerous other animals, large and small. No animal in need is ever turned away. The charity's policy is to never destroy a healthy animal.

The rescue centre is open to the public for two hours each afternoon on weekdays and from 1pm to 4pm on Saturdays and Sundays. This is to allow people to view the animals available for rehoming.

MARC has 10 acres of land. Some of this land is used as paddocks for the animals but most is not used by the charity. The charity does not employ any paid staff and relies entirely on volunteers. Jane works full-time as an engineer for a large chemical company, Colin works part-time at a local supermarket. Colin and Jane devote much of their spare time to running the charity. A team of volunteers, managed by Colin, look after the animals and run the rescue centre each day.

Saanvi is a trustee of the charity. Since her retirement from teaching in 2014 Saanvi has taken on the role of charity treasurer. Saanvi is responsible for the charity's financial and administrative duties. This involves not only the day-to-day management of income and expenditure but the preparation of the annual accounts and trustees' annual report. These documents must, by law, be lodged with the Charities Commission each year, and be available to members of the public on request.

John is another trustee who works very hard for the charity. John is a mechanic for a local garage. He has taken on the role of chief publicist for *MARC*. He has little marketing experience, but lots of enthusiasm. He has set up a website for *MARC* and opened Twitter and Facebook accounts on behalf of the charity. John keeps these up-to-date and uses them to advertise the animals currently available for rehoming.

All of *MARC*'s trustees are very keen to find ways of increasing the charity's income and raise awareness. However, they do not want to put too heavy a burden on unpaid volunteers or regular supporters.

The problem

MARC relies on donations from members of the public and on fundraising activities for its income. In 2016, for the first time, the charity's expenditure exceeded its income. Whilst the reserves held by the charity were able to cover this, the bank account is now almost empty and no emergency funding is available. Over 50% of the funding received by *MARC* is from regular supporters, who pay their donations monthly by direct debit. In 2016 the total amount received by direct debit fell. Research conducted by Saanvi showed that a high percentage of all current donators are over 75 years of age.

In contrast, demand for the charity's services is higher than ever. *MARC* nearly always operates at full capacity. The charity's policy of never turning away an animal in need means that animals frequently have to be housed in spaces which are not really fit for purpose.

The trustees are all in agreement that the barn used to house the larger animals needs a new roof and the kennels and cattery are too small. The charity does not currently have any additional funds available and is struggling to afford the daily expenses of caring for the animals.

The trustees are considering the following three options with a view to implementing one of them.

Option 1 – Extend and repair

MARC could raise the £55 000 required to fix the barn roof and extend the kennels and cattery, by taking out a specialist charity loan.

MARC would qualify for an immediate charity loan with a variable interest rate of 3.5%. The loan would be paid back over 20 years, with monthly payments currently estimated to be £319 per month.

John is confident that *MARC* could easily cover the additional monthly payments. John suggests increasing the number of fund raising events held at the rescue centre, focussing through social media on events that should appeal to 16 – 24 year olds.

The newly enlarged and smarter kennels and cattery would be able to house far more rescued animals and should be more appealing to the public who visit. This would help *MARC* to continue its policy of never turning away an animal in need of care.

Option 2 – Commercial boarding kennels/cattery

In addition to obtaining a charity loan for £55 000 to fix the barn roof and extend the kennels and cattery, *MARC* could build another kennel and cattery for commercial use, which would accommodate paying boarders.

Colin and Jane have researched this option and believe that it would bring in much needed income. They believe that the rescue centre has sufficient volunteers with expertise to look after the boarding dogs and cats at the same time as the rescue animals. However, research suggests that the charity would need to employ a paid manager to run the kennels and cattery, as the increased workload would be too much for Colin and Jane to manage. The kennel manager's wages would increase revenue expenditure by approximately £18 000 per annum.

Some of the trustees have concerns about asking volunteers to work in the profit-making boarding kennels and want assurances that all profit will be ploughed back into the charity.

Jane estimates the cost of building the additional kennel and cattery for commercial use to be £100 000. The full amount will need to be funded by an additional loan. The charity's bank has quoted a fixed interest rate of 5.5% for a loan with a five year term.

Capital investment appraisal for this option suggests a payback period of six years, with an ARR of 16% over the first five years of trading.

Option 3 – A children's farm

In addition to obtaining a charity loan for £55 000 to fix the barn roof and extend the kennels and cattery, *MARC* could open a children's farm at the rescue centre.

Saanvi believes that opening a children's farm would generate a large amount of extra income for the charity. The farm would be a pleasant place for families and schools to visit in the spring and summer months. Visitors would be charged entry to the farm and there would be additional opportunities to gain revenue through a café and gift shop. Many of the animals that would be popular on a children's farm already live at the rescue centre. The rest could be made up of rescued farm animals, in keeping with *MARC*'s aim of helping animals in need.

The capital budget spend for this option is estimated to be £450,000. The full amount would need to be funded by borrowing. A base rate tracker mortgage, with an interest rate of 2% above base, would be used to fund 70% of the cost of this option. The remaining 30% would be funded by a six year bank loan with a fixed interest rate of 5.5%.

A new barn would need to be constructed to house the larger farm animals. In addition, the rooms in the old farmhouse which are not currently used for office space would be converted into a visitor centre with café and gift shop. Outside, new paddocks would need to be created and a children's adventure playground constructed. A farm manager would also need to be appointed. The farm manager's wages would increase revenue expenditure by approximately £24 000 per annum.

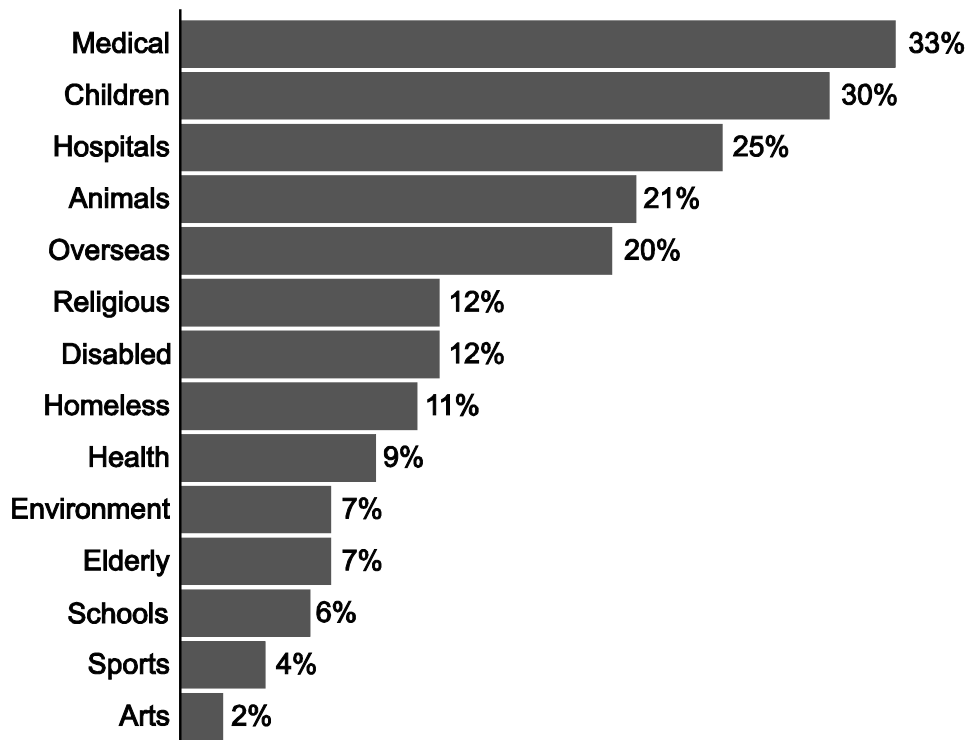
Saanvi believes that the charity would still attract dedicated volunteers who would be willing to look after the rescue animals and work in all areas of the farm. This is primarily because the purpose of the venture would be to raise money to fund the care of animals in need. Furthermore, Saanvi is sure increased visitor numbers will greatly help *MARC* in its principal aim of rehoming as many animals as possible.

Capital investment appraisal for this option suggests a payback period of approximately 10 years, with an ARR of 7.77% over the first five years of trading.

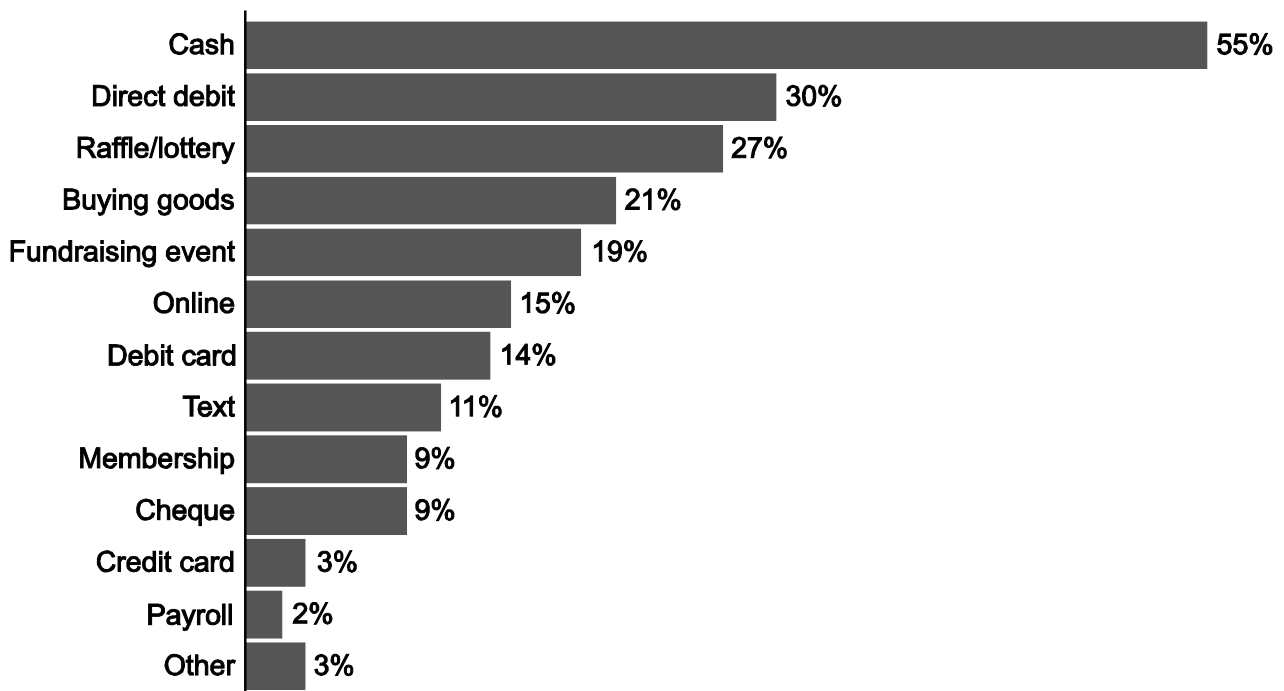
Appendix 1

Charity giving in the UK

Charity donations from UK residents in 2014, by category of charity



Charity donations from UK residents in 2014, by payment method



Appendix 2

UK Charitable Giving

The 'UK Charitable Giving Study' shows 44% of the UK population reporting to give money to charitable causes in a typical month. This equates to approximately 22.9 million adults. This is comprised of both direct donations to charity and sponsorship of individuals, with 40% making direct donations. Furthermore, 70% of people report giving to charity in the last 12 months. This 'giving level' aligns relatively well to Mintel's 'Charitable Giving in the UK Report' which found that 76% of Britons donated money to charity in the previous 12 months. The 'Halifax Giving Monitor' states a similar annual giving rate, with published figures suggesting that 75% of UK adults had donated to charity in the previous 12 months.

Older people are more likely to donate to charity, either directly or through sponsoring someone. Half of those aged 65 and over donate every month, compared to only 30% of those aged 16-24.

It is of interest, however, that quarterly results show a spike in direct donations in the 16-24 age group during August 2014 (32% compared to an annual average of 26%). This coincides with when a fundraising initiative called the Ice Bucket Challenge was at its most popular. At the time, research by the Charities Aid Foundation found 30% of young people reporting that they had taken part in the Ice Bucket Challenge compared to an average of 17% across the total population.

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