

	AGENDA ITEM NO.
Report Cover Sheet	
Name of Meeting:	Executive
Date of Meeting:	10 th December 2007
Report Title:	Tender for New Cremators Oakley Wood
Summary of report:	This report sets out the need to purchase; and seeks authority to tender for two new cremators together with a mercury filtration equipment and a cool room, for Oakley Wood Crematorium
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Business Unit:	Leisure and Amenities
Would the recommended decision be contrary to the policy framework:	No
Would the recommended decision be contrary to the budgetary framework:	Yes, the costs are likely to exceed current budgetary provision
Wards of the District directly affected by this decision:	Bishops Tachbrook
Key Decision?	Yes
Included within the Forward Plan?	Yes 65
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No

Date and name of meeting when issue was last considered and relevant minute number:	N/A	
Background Papers:	None	
Consultation Undertaken		
Below is a table of the Council's regular consultees. However not all have to be consulted on every matter and if there was no obligation to consult with a specific consultee they will be marked as n/a.		
Consultees	Yes/ No	Who
Other Committees		
Ward Councillors	NO	
Portfolio Holders	YES	Cllr White; Cllr Coker
Other Councillors	NO	
Warwick District Council recognised Trades Unions	NO	
Other Warwick District Council Service Areas	YES	Mark Perkins, Property Jenny Clayton, Finance Richard Hall, Environmental Health
Project partners	YES	Property Environmental Health
Parish/Town Council	NO	
Highways Authority	NO	
Residents	NO	
Citizens Panel	NO	
Other consultees	NO	
Officer Approval		
With regard to officer approval all reports must be approved by the report authors relevant director, Finance Services and Legal Services.		
Officer Approval	Date	Name
Relevant Director(s)	16 Nov	Mary Hawkins
Chief Executive	N/A	
CMT	19 Nov	
Section 151 Officer		Is relevant Director
Legal	19 Nov	Simon Best
Finance	Party to report	Jenny Clayton
Final Decision?		No
Suggested next steps (if not final decision please set out below)		
A further report following the receipt of tenders based on whole life costing of the received tenders.		

1. RECOMMENDATION(S)

- 1.1 The committee agree to seek tenders from a minimum of three tenderers to replace two cremators and associated mercury filtration equipment that will meet the published legislative requirements for emissions.
- 1.2 A further report based on the whole life costing based on the tenders received is brought back to the Executive.
- 1.3 Should there be no changes to the VAT rules the Cremators are financed by a finance lease to ensure the Council remains within its de-minimus limit for reclaiming exempt VAT, with the costs in early years being made from the capital provision already made and any contributions from the repairs and maintenance budget, with provision being made in later years for the sum in excess of the provision made to date.
- 1.4 Members agree in principle to engage Sector, our Treasury Management Consultants, to arrange the finance lease, as detailed in Paras 1.3 and 4.5 – 4.8, for a fee of 0.75% plus VAT of the cost of the asset (cremators), should there be no change to VAT regulations.
- 1.5 Future financial plans consider the extent to which future replacement of cremators can be financed from a reserve built up from increased charges.

2 REASONS FOR THE RECOMMENDATIONS

- 2.1 The cremators are eleven years old and were purchased from a Scottish company (Parkgrove 2000 Ltd) who developed and installed them. Although the company honoured the initial guarantee, there were problems that led to modification, so the work involved in their maintenance is of a specialised nature. There are three cremators and at the moment one has been out of action for much of the early part of 2007/08 awaiting parts, although it is now working. All are now reaching the end of their useful life. In that time they have been operating, we have cremated in excess of 22,000 bodies. In addition to concerns over the condition of the cremators at Oakley Wood the monitoring equipment makes it difficult to provide the necessary information to comply with the Environmental Protection Act 1990 (EPA). We are now at a stage where a decision needs to be made to replace them.
- 2.2 The government has introduced legislation to abate the release of mercury into the environment and Parliamentary Guidance notes were issued in 2004 covering mercury abatement requirements for all new crematorium and setting a time frame for existing crematoria to meet 50% abatement by 2012. The largest concentration of mercury is to be found in teeth fillings. When these are cremated mercury is released as a gas and the guidance requires that this must be collected in a safe manner rather than being released into the atmosphere. This can be done by bringing the gas into contact with activated carbon within the cremator.
- 2.3 If we were to purchase 3 cremators to replace the 3 currently in existence, the costs would be in the order of £1,000,000. However, by changing working practices only two cremators would be required, reducing capital outlay by approximately £350,000 to £400,000. This would require the introduction of a cool room at a cost of approximately £5,000, to enable cremations from late afternoon funerals to be undertaken the following morning. This is permitted under the code of cremation practice, providing bodies are cremated within 24

hours of us receiving them and the funeral service. There would be both overtime savings (as staff would not be working late into the evening on busy days) and fuel savings from cremating first thing in the morning while the cremators are still hot from the night before instead of waiting (sometimes till lunch time) for them to re-heat. The hotter the cremators are when used the more efficiently they run.

- 2.4 We have looked at three companies that manufacture cremators and supply mercury filtration equipment and visited three crematoriums where their equipment is installed
- **Furness Construction** - Manchester Crematorium Company Limited
 - **Shelton's** - Altringham Crematorium Greater Manchester
 - **Facultatieve Technologies** Sherwood Crematorium Nr. Nottingham
- 2.5 The proposed new plant is Liquid Petroleum Gas (LPG) fuelled. Each of the three systems considered is being successfully operated at multiple sites, with very favourable reports from the individual operators regarding both usability and reliability.
- 2.6 There are no particularly onerous safety regulations concerning the storage of LPG in the quantities envisaged. The maintenance is more straightforward, with manufacturer- trained service personnel, direct replacement parts and even "all in" service agreements readily available.
- 2.7 These well-proven systems are able to guarantee the compliance of their final emissions and report in a EH approved format, with modern, electronic storage and transmission of data.
- 2.8 The system demonstrated by one of them included an integrated workstation where consequent to cremation, remains could be ground and taken right through to transfer to an urn, in a sealed and dust-free environment; undoubtedly the others are able to offer similar.
- 2.9 Brand new plant would be expected to be completely free from major component failure during the early part of its working life.
- 2.10 For the reasons outlined above and in the paragraphs below continuing with the present equipment is too much of a risk.
- 2.11 It is estimated that building works in the order of £75,000 will be required to enable the new cremators to be installed.

3. **ALTERNATIVE OPTION(S) CONSIDERED**

- 3.1 The option of continuing with the present cremators has been considered. The Property Services Unit is responsible for the maintenance needs of the Cremators at Oakley Wood, and the Energy Manager makes efforts to secure the economic use fuel.

- 3.2 The Cremators at Oakley Woods are unusual in that they are electrically powered – nationally, one of only four operational sites where this is true. At the time they were installed this was considered the best way to address the unavailability of mains gas, due to the site’s remote, rural location. For whatever reason, the use of electrical cremators never became widespread and the original manufacturer is no longer trading; they have effectively been abandoned by everyone but the small circle of current users.
- 3.3 This obsolescence is becoming increasingly difficult and expensive to overcome. The absence of manufacturer’s support and spares means that they can only be kept operational by the care of independent technicians capable of adapting general mechanical and electrical components for use, with need to undertake one-off fabrication, and indeed development work, to meet constantly changing legislation.
- 3.4 A peripheral problem is that the present arrangements in the cremulator room does not comply with latest H & S requirements in respect of dust extraction and control, and are in need of extensive re-engineering if not replaced.
- 3.5 Warwick District Council has been fortunate in being able to rely on the services of a maintenance engineer, who trained with the original manufacturer, but he has clearly expressed an intention to retire in the near future and this would seriously put at risk the continued operation of the cremators.
- 3.6 To attempt to continue operating the present plant would necessitate paying a mechanical contractor to attend the repairs and maintenance undertaken in the immediate future, to thoroughly familiarise themselves with the appropriate procedures; this would be a lengthy and expensive process as they would be expected to guarantee service, with consequent emergency repairs, so could not sensibly be given total responsibility until extensive experience had been gained.
- 3.7 Beyond this the format and presentation of the records kept has been judged to be sub-standard and informed opinion is that this cannot be rectified without the introduction of new computer software, itself necessitating new hardware to run on.
- 3.8 It is estimated that at least £172, 000 as set out in the table below would need to be spent over the next few years replacing parts that are known to be at the end of their useful life, even if skilled engineers can be found to do this .

Known elements requiring replacement/renewal	£'000
Upgrade Computers	8,000
Elements	3,000
Cremator Doors	4,000
Gas Analysers	10,000
Hearth Repairs	8,100
Heat Exchangers	4,000
Exhaust Fans /Flues	7,000
Flue Shutters	2,500
Heat Exchangers	40,000
Re-brick	86,000
Total	172,600

4. BUDGETARY FRAMEWORK

Financing any replacement

- 4.1 Current indications suggest that the cost of replacing 2 cremators ranges between £600,000 and £800,000. There is £370,000 set aside in the Capital Programme for the next financial year to upgrade the Crematorium to be Mercury Compliant. In addition the cost of £75,000 for the works to the building can be met from the annual repair and maintenance budget.
- 4.2 If the Council were to replace the cremators making a single payment this would breach the de minimus limit for reclaiming VAT. This is an issue that at a national level Councils have raised with Customs and Excise. Although there has been talk of a special exemption, there is at present no such regulation.
- 4.3 Crematorium Fees are exempt from VAT, but the Council is currently able to reclaim the VAT it incurs in providing this service. There is a diminus limit set, which equates to 5% of the total VAT reclaimed by the Council in a year. All VAT incurred on non-business activities are eligible to be reclaimed on the proviso that the total for these do not exceed this 5% limit.
- 4.4 If the cremators were purchased for £600,000, the lower of the indicative costings, this would incur VAT to a value of £105,000. The table below, shows the diminus limits and levels of exempt VAT reclaimed over the last 2 financial years.

Year	5% Diminimus limit £	Exempt VAT reclaimed £	margin £
2005-06	236,646	185,627	-- 51,019
2006-07	195,390	161,211	- 34,179

This demonstrates that if the Council were to purchase the Cremators out-right, the diminimus limit would be exceeded by a margin of circa £50,000 to £65,000. Should this happen the Council would have to pay over the full amount of exempt VAT, not just that above the threshold. As an example, should total exempt VAT amount to £300,000 this would represent an additional £6.00 on the Council Tax (Band D).

- 4.5 The alternative option is to enter into a leasing arrangement, whereby the costs of the cremators are spread over several years. In this case it would be likely to be between 10 and 15 years depending on the life of the asset.
- 4.6 There are 2 types of lease. (1) An Operating Lease, which is similar to renting equipment, whereby the Council would never take ownership of the cremators. (2) A Finance Lease whereby at the end of the lease period the Council would have the opportunity to purchase for a minimal sum, which would not breach VAT limits.

- 4.7 It is recommended that the Council finance the replacement by means of a Finance Lease. This would ensure the Council has the opportunity to retain the asset. Under an operating lease the Lessor may not agree to an extension. Whilst the leases are treated differently in accounting conventions, the net effect on the Council Tax is the same. As an indication, £600,000 Capital Value leased over a 10 year period, would equate to £81,000 per year over a ten year period. Members are reminded that £370,000 has already been set aside in the Capital Programme, which can part fund, the annual installments. After which the impact on the Council Tax would be £1.60 (Band D property) if no further financing were provided from either the repair and maintenance budget or from the savings in ongoing running costs indicated in Para 2.3.
- 4.8 This preference for a finance lease, should there be no change to VAT rules is supported by Sector, the Council's Treasury Management Consultants. Sector provides a leasing service. For a small fee, they can give pre and post-tender advice, carry out the tender for the financing requirement to public sector lessors, and ensure that once the contract is awarded, the lessor is invoiced directly for the goods to remove the VAT risk. In addition, Sector will also arrange the contract with the lessor. Sector's fees amount to 0.75% of the cost of the asset purchase. Based on an indicative price of £600,000, this would be £4,500 plus VAT. Should there be no change in the VAT regulations prior to procuring the cremators it is recommended that because of Sector's expertise in Leasing and Asset Financing, that the Council engages Sector for this purpose.
- 4.9 Whilst the Council will not purchase the cremators directly from the supplier it is still procuring them to a value of between £600,000 and £800,000. As well as this, the Council will be entering into a contract with the Finance Lease Company. The total value of such a contract is likely to be in excess of £810,000. Both the procurement of the assets and the financing lease will be subject to EU Procurement Procedures. Sector will conduct the tender process in line with these on our behalf. It is likely here are only 3 to 4 suppliers of these cremators but nonetheless, it will be necessary to follow EU procurement rules for the procurement of the cremators.

Current financial position of the Oakley Wood facility

- 4.10 The Council currently makes a surplus after overheads of £278,000 on the crematorium which supports the other activities of the Council.

Full business evaluation of options

- 4.11 Paragraphs 2.3 and 2.8 set out that there could be some significant changes to working arrangements with the new cremators and it is recommended that a whole life costing approach be adopted to evaluate alternative tenders received.
- 4.12 The full life costing also needs to include consideration of replacing the new cremators at the end of their life, and it is suggested that a replacement reserve set up from additional charges might be considered.

5. POLICY FRAMEWORK

- 5.1 The Councils standing orders require that for contracts with an estimated contract value of £50,000 and above at least five formal tenders be sought from suitable contractors. There are few specialised suppliers in this market so authority is sought to seek tenders from a lower number.
- 5.2 The Council should be able to operate fewer cremators at lower operating costs and realise efficiencies, as well as keeping a vital operation available to local people meeting the highest air quality standards.