

		Insert name and date of meeting in this box. EXECUTIVE 19 TH SEPTEMBER 2008	Agenda Item No.
Title		Replacement cremators business case and tender selection	
For further information about this report please contact		Mary Hawkins (01926 45600) Richard Hall (01926 456700) Nigel Bishop (01926 456211) <i>crematorium management issues</i> Mark Perkins (01926 456037) <i>technical issues regarding the technology & equipment</i>	
Service Area		Environmental Health	
Wards of the District directly affected		Bishops Tachbrook	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006		No	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 meeting when issue was last considered and relevant minute number		10 th December 2007 (Min 710)	
Background Papers			

Contrary to the policy framework:	Yes
Contrary to the budgetary framework:	Yes
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes Ref 108

Officer/Councillor Approval		
With regard to officer approval all reports <u>must</u> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Relevant Director	Joint author	Mary Hawkins
Chief Executive		
CMT		
Section 151 Officer	Joint author	
Legal		Simon Best
Finance		Mike Snow/Roger Wyton
Portfolio Holder(s)		Cllr Kinson
Consultation Undertaken		
None		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

- 1.1 This sets out the business case for the replacement of the cremators at Oakley Wood. The current cremators are at the end of their useful life, and do not meet new mercury emissions standards. The report also recommends that a contract for £767,354.31 be awarded to Facultatieve as a result of the recent tendering exercise. Due to a lifting of the requirement to calculate a VAT partial exemption limit the previous decision to finance the works through a finance lease is rescinded.

2. RECOMMENDATION

- 2.1 A contract for £767,354.31 is awarded to Facultatieve, for the provision of two new cremators at Oakley Wood Crematorium, and a further sum of £5,000 is provided for the gas storage facility.
- 2.2 The works be financed by increasing charges by 10% for both 2009-10 and 2010-11 so that at the end of this time there is no net effect on the Council Tax.
- 2.3 The previous decision to use a finance lease is rescinded (Para 7.14)
- 2.3 The arrangements for managing the project as set out in Paragraphs 7.15 to 7.18 and the risk and opportunities register at Appendix B are noted.

3. REASONS FOR THE RECOMMENDATION

- 3.1 The recommendations are made in order to ensure that the Council continues to operate a crematorium, and to minimise the impact on the Council Tax.

4. ALTERNATIVE OPTION CONSIDERED

- 4.1 This is covered in the business case in Para's 7.4 and 7.7.

5. BUDGETARY FRAMEWORK

- 5.1 This is covered in the business case in Para's 7.8 to 7.22.

6. POLICY FRAMEWORK

- 6.1 The replacement of the cremators will enhance the air quality, and ensure that the highest environmental standards are met, in line with the Councils objective to provide high standards of environmental services across the district delivering a sustainable and quality environment.
- 6.2 At its last meeting the Committee agreed to seek tenders from only three tenderers as opposed to five required by standing orders due to the small number of specialists in the market.

7. BACKGROUND & BUSINESS CASE

The need for replacement cremators

- 7.1 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 this was

deemed to be 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. 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.

- 7.2 The Council has been fortunate in being able to rely on the services of an independent maintenance engineer, who trained with the original manufacturer, but he has clearly expressed an intention to retire in the near future and this will sharply exacerbate the problem. 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 himself with the appropriate procedures; this would be a lengthy and expensive process as he would be expected to guarantee service, with consequent emergency repairs, so could not sensibly be given total responsibility until extensive experience had been gained.
- 7.3 There are further problems with the current operations;
- the present arrangements in the cremulator room do not comply with latest Health & Safety requirements in respect of dust extraction and control, and are in need of extensive re-engineering if not replaced, and
 - the site struggles to comply with basic emissions legislation, and in spite of the best endeavours the readings are at the very limit of what the Environmental Health Inspector is prepared to accept.
 - The equipment relies on extremely old computers to work, they could fail at any time, which would mean the cremators could not work
- 7.4 The Council has obtained an estimate a couple of years ago from the engineer familiar with the plant of essential works totalling £172,000, that would be required over the next ten years. In addition significant additional expenditure of at least £100,000 would be required to address the problems outlined in Para 7.3. Given the lack of expertise to carry out work given the unique nature of our cremators as explained in Para 7.1, the potential for long shut down periods as spares are identified or made (which we have already been subject to), it was felt that pursuing this option was too risky and uncertain, and so it was not evaluated further.

The outcome of the tendering process

- 7.5 Appendix A in the private and confidential part of the agenda sets out a summary of the tender evaluation of the three companies who bid:-
- Facultatieve
 - Shelton
 - IFZW

It can be seen that not only was the Facultatieve bid the lowest, even after taking account of the cost of a shutdown which would add approximately £25,000 to the costs, it also did not include any provisional sums, and in all aspects of the evaluation it is therefore recommended as the best bid. In addition to the bid from Facultatieve the Council has been advised by the gas suppliers that the original

hard standing will need to be upgraded to meet current safety requirements and this is estimated to cost approximately £5,000. This brings the total cost to £772, 854.

Whole-life costing

- 7.6 The impact on the revenue budget , ignoring any funds already put aside for this scheme, at current prices is anticipated to be as follows IF there is no increase in crematorium fees, and assuming that the number of cremations remains constant, and assuming a 15 year life:-

	08-09 estimated budget (current)	08-09 estimated budget (replacing cremators)	09-10 and following 14 years (replacing cremators)
Expenditure	£'000	£'000	£'000
Salaries	173	173	165
Premises	95	95	123
Supplies & Services	123	123	123
Additional financing costs			73
Sub-total	391	391	484
Income			
Cremations	-813	-788	-813
Other	-40	-40	-40
Net before contribution to overheads	-462	-437	-369
Overheads	61	61	61
Net cost (+ve)/Net income (-ve) before depreciation/asset rental	-401	-376	-308

There is a reduction in income in the current year of about £25,000 while the crematorium is closed for a couple of weeks. In later years there is a small saving on non-contractual overtime, but costs are increased by an ongoing maintenance agreement, estimated higher fuel costs and the costs of financing the capital expenditure over a 15 year period.

- 7.7 It can be seen in the table in 7.6 that the option of closing the cremators would leave the Council in a worse position than replacing them, as overall the service makes a contribution to the Council's overheads.

Affordability

- 7.8 There are four potential sources of financing the costs:-
- Reducing the ongoing revenue costs by using the £370,000 set aside in the capital programme
 - Reducing the ongoing revenue costs by using the £75,000 set aside in the corporate repair and maintenance budget
 - By increasing charges per crematorium
 - By allowing for growth in the revenue budget and funding from the Council Tax

- 7.9 In the current year the cost of a cremation for a WDC resident is £420, and for others it is £450. Our lowest price compares to others as follows:

Crematorium	Cost
Oakley Wood	£420
National average	£441
Nuneaton	£520
Coventry	£444
Banbury	£515
Solihull	£433

We have no information on how price sensitive the market is, but our instinct is that it is not particularly sensitive unless the prices are way out of line with other facilities. Some other operators who have replaced cremators have highlighted an additional element of charge that is due to costs of mercury abatement, to help explain the additional costs. Cremations are currently running at an average of 1875 per year, slightly in excess of the original budget for this year. The following calculations are based on this number of cremations.

- 7.10 The ongoing net additional cost to revenue at current prices is £93,000, (£401k minus £308k in table 7.6). Cremation fees are forecast to increase by 4% to £437, and £468 for WDC and non-WDC residents respectively, to cover basic cost increases. Any subsidy would be used to reduce the additional financing costs. If the whole of the ongoing additional costs are borne by crematorium users in addition to this increase then the additional cost per cremation based on the different levels of potential one-off subsidy from either the capital programme and/or the maintenance budget would be as follows:-

For WDC residents			
Amount of subsidy	Total annual additional cost	Additional cost per cremation	New cost (rounded)
Nil	£93,000	£47.58	£485
£75,000	£85,920	£43.95	£481
£370,000	£58,073	£29.71	£467
£445,000	£50,993	£26.09	£463

For Non WDC residents			
Amount of subsidy	Total annual additional cost	Additional cost per cremation	New cost (rounded)
Nil	£93,000	£50.95	£519
£75,000	£85,920	£47.07	£515
£370,000	£58,073	£31.81	£500
£445,000	£50,993	£27.94	£495

- 7.11 This would represent fee increases as follows:-

Amount of subsidy	WDC		Non--WDC	
	New cost	% increase	New cost	% increase
Nil	£485	15.48	£519	15.33
£75,000	£481	14.52	£515	14.44
£370,000	£467	11.19	£500	11.11
£445,000	£463	10.23	£495	10.22

Last year the highest increase in cremation fees was 29.55% in Newcastle-Under-Lyme whose fees were increased to £460, but only five crematoria out of 253 had fee increases in excess of 15.5%. If a further 4% inflationary increase is to be added in 2010/11 it can be seen that an increase in the order of 20% would be required over two years.

- 7.12 Given the Councils current financial situation it is not recommended that any element of the additional cost is borne by Council Tax payers in the long run. It is recommended that over a two year period the prices are increased so that by the second year the additional costs are all being borne by the users. If the fees are increased by 10% per year, representing an overall 10% price increase for each of the years 2009/10 and 2010/11. This would have the following impact on prices and Council Tax levels.

	08-09	09-10	10-11
Price (local resident)	£420	£462	£508
Price (Non-WDC)	£450	£495	£544
Net cost to Council tax payers	£25,000	£45,400	Nil - a negligible gain
Council Tax impact	£0.48 one-off	£0.87 one-off	As above

However, as the Council has set aside some capital provision this has already been taken account of, so it will not drive any further increase in the tax, and from 2010-11 there will be a benefit to the revenue budget from the capital financing charges that are then being met in full by users. The additional cost in 2008-09 should be met from the additional income from users in excess of the original estimate.

Financing

- 7.13 By adopting the approach to financing the scheme set out above, there can be an immediate release of £75,000 to the repair and maintenance budget, which will be spent on high priority jobs that are currently programmed for next year. As the Councils budget forecasts had already taken account of the capital expenditure, there will be a benefit over previous projections of approximately £38,000 from 2010-11 onwards.
- 7.14 On 4 August Revenues and Customs wrote to local authorities to advise that for the year ending 31 March 2009 local authorities will not be required to make a partial exemption calculation. We will all be treated as though we are below the 5% ceiling. As a consequence there will be no financial penalty for breaching the previous limit, and so the arrangements for purchasing the cremators by way of a finance lease are no longer necessary and the arrangement fee will be saved.

Achievability and Project Management

- 7.15 There are two key issues to manage the project successfully
- Ensuring the works are completed by 31 March
 - Managing the shut-down period with customers
- 7.16 Property services are responsible for letting the contract and have already had discussions with the Facultatieve to ensure that works can be completed before 31 March. They are aware of the VAT situation and have confirmed this will be done. The planned shutdown will be in December/January

- 7.17 Local undertakers have already been advised of the plans being put in place to replace the cremators. Although the facility will be shut over 3 weekends and for 10 working days in between, it is anticipated that disruption will be limited and income kept up by taking every opportunity to cremate before the closure. In addition the closedown period is generous, and there is penalty for extending it. In practice we should be able to book cremations for the first week of opening, from midweek of the second week of closure, minimising downtime.
- 7.18 Some details of the new facilities were given in the original Committee report. One of the cremators will be a larger cremator, to deal with some of the larger coffins necessary today.
- 7.19 This is being run as a project using Prince 2 principles. Richard Hall, Head of Environmental Health is the project manager, and Mary Hawkins, Strategic Director is the Project sponsor. The Councils procurement manager has been a member of the project team throughout its life. The current risk and opportunities register is attached at Appendix B.
- 7.20 In terms of considering the longer term outlook the new cremators will be capable of cremating up to 3000 people per year, an increase of 50% on current rates. The repair and maintenance costs are guaranteed for five years and will then only rise at the rate of inflation. Although the costing is done over 15 years, it would be hoped that the useful life of the cremators would be at least 20 years.
- 7.21 The two replacement cremators are LPG fuelled, and will be installed complete with compatible abatement plant. A computer-controlled emissions monitoring system will ensure compliance with all pertinent legislation and report critical readings direct to the Environmental Health Officer, in the approved format. A refrigerated coffin storage area will allow an extended working day, and is the initiative that will allow two proposed cremators to undertake the same workload currently requiring three.
- 7.22 The building work covers the removal and re-instatement of a section of the Cremator Room roof to allow craned placement of the principal items of plant, and all sundry building work required to accommodate the re-ordering necessitated by the new equipment. A new enclosure for the LPG fuel tanks will be established, slightly further from the main building than the original, to comply with current regulations.