

Hinckley and Bosworth Borough Council

Crematorium Business Case

Internal Audit Report – Advisory

24 June 2019

Andrew Smith

Head of Internal Audit

T: 0161 953 6900

E: andrew.j.smith@uk.gt.com

Zoe Thomas

Internal Audit Manager

T: 0121 232 5277

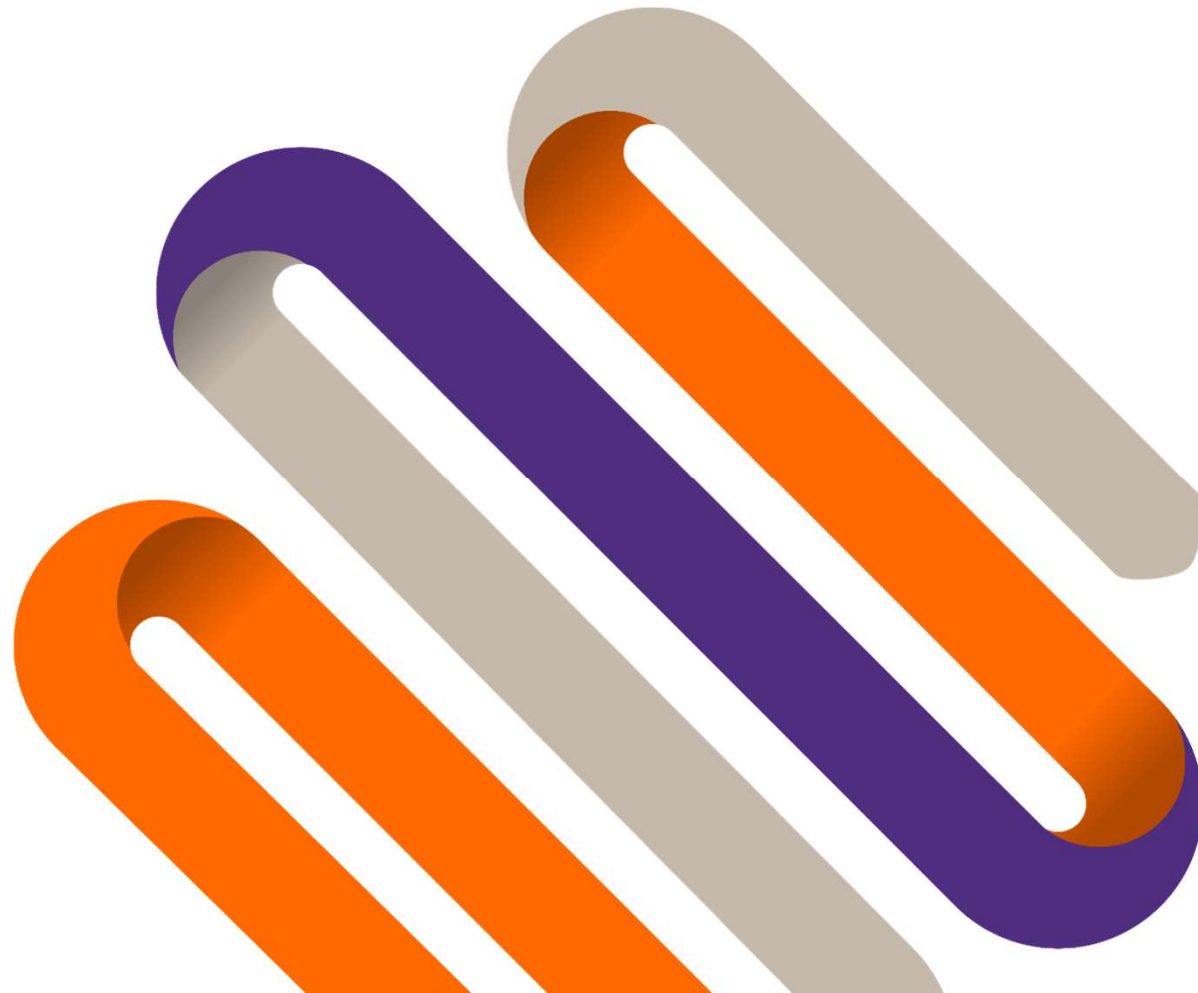
E: zoe.thomas@uk.gt.com

Dave Rowley

Internal Auditor

T: 0121 232 5225

E: david.m.rowley@uk.gt.com



Contents

1 Executive Summary

2 Key Findings & Recommendations

3 Appendices

Report distribution:

For action:

- Head of Finance (S151)
- Estates manager

Responsible Executives:

- Director of Corporate Services

This report is confidential and is intended for use by the management and directors of Hinckley & Bosworth Borough Council. It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of the Council's management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.

Executive Summary

Background

In December 2017, the Council agreed to set aside £4.7 million in the capital programme and submit plans to develop a new crematorium on the land east of Leicester Road, Hinckley (A47). The capital programme approved in February 2018 reflects this decision and the prudential borrowing to cover the capital outlay. The capital programme indicates that the majority of the expenditure will take place in the 2019/20 financial year, reflecting the Council's plans for the scheme to be completed by Spring 2020.

The Council commissioned a feasibility study which concluded that there was a demand for such a facility in the area. The Council has since conducted consultation with local residents on the design and facilities provided and also with other specialists as part of the planning process. The proposal was submitted for consideration for planning permission in August 2018, and a final decision was expected in Spring 2019.

The report considered by Council in December, included financial modelling. It is key that the financial implications of the project are accurately assessed and delivered within the agreed financial envelope. In addition to the operational benefits of a new facility, there is an underlying assumption that the project would provide an annual income to the Council of at least £280k from year 12 onwards.

The project is currently being managed in-house and a project manager has been appointed. A project initiation document has been prepared which sets out the outline business case and project plan for the scheme, and formalises key areas such as project responsibilities, governance and risk management arrangements.

Since the completion of our fieldwork, planning consent has been received and the project manager has confirmed that a formal business case will be prepared which will provide a fuller consideration of delivery and operational models than in the feasibility study, before the project moves to the next stage.

The findings and conclusions from this review will feed into our annual opinion to the Council. This report does not constitute an assurance engagement as set out under ISAE 3000.

Objectives

The objective of the review is to provide an advisory review of the business planning process adopted to date for the development of a new design and build crematorium. As agreed with officers in the Audit Planning Brief, we considered the following risks:

- Appropriate oversight and scrutiny of the 'business case' has not been undertaken.
- The outline business case is not clearly structured or it does include all of the necessary elements of a fit for purpose business case. For example, the benefit to customers and the Council is not clearly identified and articulated.
- Reasonable financial assumptions have not been made for the initial capital expenditure, financing costs, income and operating expenditure.

We achieved the objectives of our review by:

- reviewing key documents presented to members and officers
- interviewing key staff to gain an understanding of the work undertaken to date and future plans
- understanding professional advice sought and sources of information used to inform the underlying assumptions
- assessing the process adopted against good practise guides and council policy and procedure documents.

Limitations in scope

Please note that our conclusion is limited by scope. Our findings and conclusions will be limited to the risks outlined above. The scope of this advisory review does not allow us to provide an independent assessment of all risks and across the entire crematorium project.

Executive Summary

Conclusion

We have reviewed the Council's feasibility study for a new crematorium, project management arrangements to date and proposals to take the project forward.

We have concluded that:

- The Council appropriately prepared a feasibility study, obtained appropriate external specialist support, and engaged appropriate members and officers in progressing the project to date.
- Project management arrangements to date have been good.
- The Council has not provided robust evidence that it followed its own financial procedures in appointing the external specialist, as the value of the work meant that officers should have complied with contract procedures and gone out to tender for the work rather than obtaining quotes.
- The Council should ensure that in drafting a business case to take the scheme forward, there is a more detailed assessment of possible options and the associated costs, which is appropriately considered and approved.

Good practice

1. The Council has demonstrated good project management arrangements to date.
2. There is good officer and member involvement with appropriate teams in place for oversight and to ensure good progress.
3. Appropriate external specialist advice has been sought to support the Council developing the proposal and getting it to planning stage.

Areas for development

1. Officers should ensure they always follow agreed contract procedures for all external procurements. Where arrangements are unusual or it is unclear what procedures should be followed then any judgements should be evidenced and signed off by the relevant Director.
2. The feasibility study focusses on the preferred option for the design, build and operation of the crematorium to be undertaken in-house, because it is believed that this option maximises future revenues. Appraisal of other options is limited within the feasibility study, although there is a recognition that this in-house approach presents the most risk of the five options. Financial projections considered to date are based on the model within the feasibility study. We note that this will be re-appraised at completion of the planning process, where other operational models will be more fully considered and costed in the next stage of the project.
3. The decision on whether to progress with the project is largely dependent on it providing a strong future net revenue stream (surplus). There are some potential additional income and expenditure considerations which have not yet been factored into the financial model projections. The Council should consider seeking further advice in some specific areas before progressing.

Recommendations

Based on our findings, we have raised a total of six recommendations, of which one is high risk. We have also raised two improvement points.

	High	Med	Low	Imp
Detailed findings	1	3	2	2

Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>Appropriate oversight and scrutiny of the business case has not been undertaken.</p>	<p>Key findings</p> <ol style="list-style-type: none"> 1. A consultant, CDS, was appointed to support the Council on the project up to planning approval stage. The consultant has previous experience in supporting organisations in developing projects of this type. Employing a specialist consultant in a scheme of this type is good practice and it is evident that the consultant has been very engaged in progressing the project to date; for example he has attended the routine team meetings. 2. However officers did not fully comply with contract procedure rules in recruiting the consultant because the contract was over £50k (C£90k) and it did not go to open competition. Potential consultants were identified as having relevant experience and were approached by officers. Specifications were issued to four suppliers and responses were received from two, both of whom were interviewed, one appointed. The selection process included assessing against a standard criteria including a financial appraisal, which again is good practice. 3. The work is specialised and so an argument could be made that the approach adopted is reasonable in view of the number of potential suppliers. Furthermore, some of the costs are effectively 'pass through' costs as the consultant is dealing with other suppliers on behalf of the Council. However, there is no evidence that a Director agreed that to not go out to open tender was appropriate in the circumstances, nor was there a waiver approved by the S151. 4. The Council is highly dependent on the advice of the consultant for preparing the feasibility assessment, financial projections and supporting the project team. There are other suppliers in the market. It is possible that if officers had gone to open competition, a different consultant would have been interviewed and appointed. 5. At other Councils we have seen that its is standard practice where fewer than three responses are received then the advice is to approach the market again. This should be incorporated into Council procedures at Hinckley and Bosworth. 	

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
Appropriate oversight and scrutiny of the business case has not been undertaken.	<p>Recommendations</p> <p>Issue identified: Officers have not complied with the Council's contract procedure rules in the award of the contract to CDS</p> <p>Root cause: The contract was awarded for £92k against a limit of £50k for direct quotes (contract procedure rules apply rather than financial regulations). The work is specialist in nature and as a consequence officers considered it to be sufficient to approach suppliers with relevant experience direct</p> <p>Risk: There is a risk that by not going to open competition the council has not considered an alternative and potentially better supplier for the work. The costs incurred may be higher than otherwise. The Council leaves itself open to suggestions of bias or fraud in the appointment of contractors.</p> <p>Recommendations: Staff should be reminded of the need to comply with financial rules and procedures. Officers should review procedures to provide further clarity in such circumstances.</p> <p>Overall conclusion: There is evidence of non-compliance with contract procedure rules. We consider this to be a high recommendation.</p>	<p>Management commentary: The contract procedure rules are in place. In this instance quotes were obtained at different dates and were for amounts below the tender threshold.</p> <p>Awareness to be raised where there are linked transactions with the same supplier that may go over the tender threshold.</p> <p>The obtaining of quotes ensured that the costs were value for money</p> <p>Responsible Officers:</p> <p>Malcolm Evans (states & Asset Manager); Ashley Wilson (Head of Finance)</p> <p>Executive Lead: Julie Kenny (Director (Corporate Services) Monitoring Officer)</p> <p>Due date: 30 Septembers 2019</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
Appropriate oversight and scrutiny of the business case has not been undertaken.	<p>Key findings</p> <p>Management oversight:</p> <ol style="list-style-type: none"> 1. A project board has been established which has director and member representation. Progress reports are considered and there is an up to date risk register and a summary of costs incurred to date. Beneath this sits a project team which meets monthly. This includes appropriate officers and the consultant. There is an agenda for this meeting, papers and minutes prepared. This structure ensures that there is strong operational oversight of the project to ensure that it is progressing and being delivered as planned. Key members, Directors and other key officers have appropriate oversight and are well placed and informed to make decisions in a timely way. <p>Approval Timeline:</p> <ol style="list-style-type: none"> 2. The first report on the proposal went to members for consideration in December 2017. This was supported by a summary feasibility study, needs assessment and financial projections. The information was provided by the consultants, and reviewed by officers including the finance team. The proposal had previously been considered by the scrutiny committee. Members were asked to approve the project and the decision suggests that members favoured option 1 (an in-house scheme) however the decision was delegated to officers. Discussion with the project manager suggests that the proposal will go back to members (whether to proceed and what model of operation to follow) following planning approval. 3. The estimated capital costs are included in the approved capital programme in February 2018. 4. A paper was considered by members in November 2018, proposing that the Council should dispose of its current retail investment and use the capital receipt for this project, avoiding the need to borrow, as originally planned. 5. No further reports have been presented or are scheduled to be presented to members because decision making is delegated to the project Board. 	<p>Actions:</p> <p>The intention was to take a report back to members in due course, this has been noted to Internal Audit. This will expand on the principles of the 2017 and 2018 report and options noted.</p> <p>Responsible Officer: Malcolm Evans (states & Asset Manager)</p> <p>Executive Lead: Julie Kenny (Director (Corporate Services) Monitoring Officer)</p> <p>Due date: 31 March 2020</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
Appropriate oversight and scrutiny of the business case has not been undertaken.	<p>Key findings (continued)</p> <p>Financial monitoring</p> <p>6. Reports to the project Board include financial spend to date. CDS as the appointed consultants raise invoices for the majority of costs and the project manager checks that these are in line with CDS initial estimate before being approved for payment. Invoiced costs to January 2019 were over £90k. The approved capital programme includes £4.7m for the crematorium. We have not seen where the development costs, which may ultimately need to be written off to revenue if the project does not proceed, were formally approved, although we have been told by officers that this did happen. Financial progress reports include invoiced costs only, not the costs of officer time, as these are included in other budget headings.</p> <p>7. Overall, we consider that there are good project management arrangements in place with good oversight by officers and key members who are supported by appropriate specialist advice.</p> <p>Recommendation</p>	The capital programme approved in February 2019 had a budget for the crematorium of £5,055,621, which covered all the costs expected, therefore approved. In any capital programme there is a risk that some costs may hit revenue if the scheme does not proceed, this has been noted at the project team meetings.
	<p>Issue identified: It is unclear what the revenue budget for the whole scheme up to planning approval was and monitoring is therefore not against a separately approved budget – although it is against the CDS quote. Monitoring does not include the costs of officer time. The CDS report highlights potentially considerable further costs including the costs of any judicial review.</p> <p>Root cause: There is some lack of clarity around the full scheme development costs as costs are included in separate budgets and do not include the costs and overheads of in-house staff.</p> <p>Risk: Whilst officer time is allocated to budgets and will be written off to revenue in due course by not allocating time to the project there is a risk that officers and members are not fully sighted on the potential and actual costs of the development of the scheme.</p> <p>Recommendations: Procedures should be updated to ensure there is approval and clear reporting in relation to the full budget for capital schemes.</p> <p>Overall conclusion: Transparency around potential sunk costs could be improved. However, the Council has good arrangements in place to oversee and involve appropriate members and officers in the project. Therefore we consider this to be a low recommendation.</p>	

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>Appropriate oversight and scrutiny of the business case has not been undertaken.</p>	<p>Key findings</p> <p><i>Review of the feasibility study</i></p> <ol style="list-style-type: none"> 1. Members agreed to progressing with the project based on a feasibility study rather than a business case. It was appropriate and necessary to prepare a feasibility study and this document has supported the council achieving planning permission. Much of the scope of the feasibility study was predominantly driven to meet the very specific planning criteria for a crematoria and by its nature does not contain all the elements that is contained in a business case. Officers have confirmed that is the intention to prepare a detailed business case once planning approval has been awarded. 2. The feasibility study is focussed on making a case for the crematorium and includes considerable analysis to support the planning application because planners must be satisfied that there is a 'need' in the area for a new crematorium taking into account a number of factors such as existing crematoria, and time taken to reach proposed facility against alternative locations and providers. There had been a proposal for a crematorium in Hinckley some years ago, however a private supplier succeeded in getting the project off the ground first. Officers are relatively focussed on getting this scheme in place quickly so that other suppliers do not enter the market again before the Council. 3. Invitation to tender documents show that the consultants brief included considering alternative delivery options. The feasibility study does refer to alternative options but the assessment of alternatives is very brief. The financial appraisal in the feasibility study relates to option 1 - the in-house model, although there is recognition that the in-house option provides the most risk but has the most potential reward. 4. There are a number of options for development ranging from the council designing, building and operating the crematorium through to it being built and operated by a private provider on council land. The study considered 5 alternative delivery models. It is evident from the papers supplied and discussions had with officers that 'option 1' an in-house scheme was favoured from the outset as this is regarded as having the potential to provide most net income for the council. It seems that the scheme is being pursued primarily for income generation purposes, with the need for a new, local and higher quality facility being an important but secondary consideration. Should the project not be considered as having good income generation potential then it is likely that the project would not progress. 	

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>Appropriate oversight and scrutiny of the business case has not been undertaken.</p>	<p>Key findings (continued)</p> <ol style="list-style-type: none"> It is worth noting that the Competition and Markets authority have highlighted that since January 2008, 46 crematoria have been opened, of which only 4 have been opened by local authorities - 3 of which replaced older ones. Hinckley is therefore somewhat of a vanguard Council to be planning to build and operate a crematoria. We have been assured by officers that when the Council formally consider approval to proceed with the project, which will happen after planning approval and tenders received, there will be further investigation and assessment of alternative delivery models. <p><i>Financial appraisal</i></p> <ol style="list-style-type: none"> The capital programme approval is based on the estimate provided by consultants, although this will be revisited once tenders are received. The financial appraisal was prepared by the consultants with a check and challenge by officers including the finance team. As the potential revenue stream is a primary consideration for the Council in the project, the adequacy of the assumptions within the financial model are crucial and are considered further below. <p>Recommendations</p> <p>Issue identified: The Council has not yet undertaken a detailed options appraisal which has been approved</p> <p>Root cause: A key objective of the proposal is to achieve a good revenue stream as well as providing a high quality facility for local people. The in-house operating model is regarded as having the highest potential revenue stream whilst having the highest risk. The Council does not have experience of running a crematorium. The urgency around the scheme may lead to the council taking short-cuts which could expose the Council to greater risk.</p> <p>Risk: The Council may expose itself to operational and financial risks which could have been mitigated by considering an alternative proposal.</p> <p>Recommendations: Once planning permission is achieved the Council should further investigate and consider all the available options for building and operating the crematorium before formally approving the project.</p> <p>A detailed option appraisal is put before members to include the cost benefit of alternative delivery models, before a formal decision to proceed with the project is made.</p> <p>Overall conclusion: There is a risk that the Council may pursue a course of action which is not the best value option for the council without undertaking a full options appraisal. Therefore, we consider this to be a low recommendation.</p>	<p>Actions:</p> <p>The majority of crematoriums are owned and run by local authorities, so this is not vanguard, but note the increased interest of private providers with a profit motive. The intention was to take a report back to members in due course, this has been noted to Internal Audit. This will expand on the principles of the 2017 and 2018 report and options noted.</p> <p>Responsible Officer: Malcolm Evans (Estates & Asset Manager)</p> <p>Executive Lead: Julie Kenny (Director (Corporate Services))</p> <p>Monitoring Officer</p> <p>Due date: 31 March 2020</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
Appropriate oversight and scrutiny of the business case has not been undertaken.	Key Findings <ol style="list-style-type: none"> 1. The feasibility study sets out a high level timeline. However, the actual timeline is dependent on the planning approval process and whether there is a judicial review. We have been assured by officers that the proposal will go back to members for further consideration of options and approval but we have not seen that further reporting to members is built into a plan. 2. The original approval by members involved delegation of decision making to officers but its not 100% clear what decision is actually being approved nor what, if anything, should be brought back for further member approval. 	Actions A timetable should be put in place which includes appropriate further involvement of members in the approval process Responsible Officer: Malcolm Evans (states & Asset Manager) Executive Lead: Julie Kenny (Director (Corporate Services) Monitoring Officer) Due date: 31 March 2020
	Recommendations Issue identified: It is unclear if there will be further reporting to members. Root cause: The minuted decision made by members was that further decision making would be made by officers. Risk: There is a risk that members are not fully sighted on the potential and actual costs of the costs and current benefits of the project. Recommendations: Now that planning stage has been reached, a timetable should be put in place which includes appropriate further involvement of members in the approval process. Overall conclusion: The Council has a project plan and is keeping to time, subject to factors outside local control. Member involvement should be included in further timelines. Therefore, we consider this to be an improvement point	

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
The outline business case is not clearly structured nor it does include all of the necessary elements of a fit for purpose business case.	<p>Key Findings:</p> <ol style="list-style-type: none"> 1. As referred to above the decision by members to proceed is based on the feasibility study and financial model presented to members in December 2017. The feasibility study makes reference to alternative delivery models however the options appraisal is very limited and the financial modelling considered is based on option 1 – in-house operation as this is regarded as the option providing the greatest revenue stream, although is recognised as having the most potential risks. 2. As this is a feasibility study rather than a business case it does not contain all the elements or in sufficient detail as we would expect to see in a true business case. The feasibility study takes the council up to completion of planning stage and provides an indication of options for build and operation, but the costings are relatively simplified and assumes that the Council builds and operates the facility, once approved. 3. As discussed with officers and referred to above, we understand that a business case will be prepared which will set out areas for consideration not currently contained in the feasibility study, before the decision to proceed with the project is made. <p>Recommendation</p> <p>Issue identified: the Council has commissioned a feasibility study and this is what has been presented to members. Whilst this contains some elements that we would expect to see in a business case not all considerations that we would see in a business case have been clearly articulated.</p> <p>Root Cause: development of a crematorium is a relatively complex project and in order to be approved by planning it has to be demonstrated that there is a local need for the scheme and that planning considerations are met. The focus of a feasibility study is therefore different from a business case and thus there is currently insufficient information communicated to decision makers on factors such as strategic need, value for money, delivery options nor has there been robust sensitivity in financial modelling.</p> <p>Recommendations: Once planning permission is obtained, the Council prepares a fully costed business case for the scheme which more clearly sets out the case for the development by Hinckley and Bosworth Council, the benefit to the council and residents and options for development and operating model.</p> <p>Overall conclusion: The council has not yet prepared a business case and therefore not all the elements we expect to see in a business case have been clearly set out.</p>	<p>Actions: Covered by responses above.</p> <p>Responsible Officer: Malcolm Evans (Estates & Asset Manager)</p> <p>Executive Lead: Julie Kenny (Director (Corporate Services) Monitoring Officer)</p> <p>Due date: 31 March 2020</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
Reasonable financial assumptions have not been made for the initial capital expenditure, financing costs, income and operating expenditure.	<p>Key Findings:</p> <p>Financial modelling</p> <ol style="list-style-type: none"> 1. The financial modelling within the feasibility study is relatively simplistic and is based on the council operating the crematorium in house. The revenue is based on 700 cremations per annum at a flat fee of £800 per cremation. Assumptions are made around inflation to provide financial projections. Assumptions are also made about other related supplies and built into the model. The £800 fee is based on a judgement around what would be acceptable in the market (relative to both private sector and public sector providers). It is believed that the local private supplier in Nuneaton charges too much and there is evidence of low satisfaction with the service on offer. At a lower price and if a higher quality of service is provided (longer timeslots) it is assumed there will be a good demand for the service to be offered at Hinckley and 700 per annum has been estimated as reasonable by the consultant. This is considered to be a modest assessment by officers, and it is a key judgement in the financial model. Assumed growth in the number of cremations is relatively modest in the financial model. The assumptions around charges and inflation are relatively prudent. 2. The revenue modelling is relatively unsophisticated in that a flat charge is assumed, although it is known that other providers will vary the price charged at different time of day - for example if the 'customer' accepts an early morning (unpopular) timeslot then a cheaper price is charged. 3. There is some risk to assumptions due to the ongoing competition and markets review. Their initial report highlights that the cost of cremations are too high nationally and have risen too quickly and are unacceptably high. It has stated that it will undertake a formal review of the market (currently ongoing). This could ultimately result in a need to have more flexibility in prices or could present some risk to the assumed 'market' price if there is downward pressure on fees. Alternatively, the review could lead to changes in the sector which could be beneficial to this proposal. The Council should be mindful of the ongoing review and potential risks or opportunities. 4. Further consideration should be given to the current assumption around fees. As a discretionary Council service, the service should seek to only recover costs. To make a 'profit' from the service the Council should consider including the service within some form of delivery model and should seek legal advice to cover considerations such as 'state aid'. There is a risk that the Council could be acting outside its powers and should seek appropriate advice. 	<p>Actions: Covered by responses above.</p> <p>Responsible Officer: Malcolm Evans (Estates & Asset Manager)</p> <p>Executive Lead: Julie Kenny (Director (Corporate Services)) Monitoring Officer</p> <p>Due date: 31 March 2020</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>Reasonable financial assumptions have not been made for the initial capital expenditure, financing costs, income and operating expenditure.</p>	<p>Key Findings:</p> <p>Financial modelling (continued)</p> <p>5. The Council should undertake some more sophisticated financial modelling as part of the preparation of a business case. This should include scenario modelling with changes in costs, fees and demand modelled– i.e. worst case, balanced case and best case scenario. Whilst officers have stated that they feel that the current modelling is relatively prudent because the demand for the service will inevitably grow and the market could absorb higher charges this needs to be properly modelled.</p> <p>Recommendation</p> <p>Issue identified: Assumptions made around income and in particular fees are key to the financial case. Further check and challenge of these assumptions should be undertaken as there is some risk that assumptions are overly simplistic and are at risk of downward pressure on fees by regulators.</p> <p>Root cause: The fee model used has been provided by the consultant and deemed reasonable compared to local providers. The Council should be satisfied that setting fees which provide an assumed surplus are acceptable within the Council's powers and that the risk to assumptions from the current regulator review has not yet been considered.</p> <p>Risk: The Council has made unrealistic or unsustainable assumptions around income, including fees.</p> <p>Recommendation: The Council should undertake a further check and challenge of the assumed fees and usage within the model.</p> <p>Overall conclusion: The council is reliant on the view of a single advisor on the level of demand and price for cremations. As revenue is a key consideration as to whether or not to proceed with the project, the Council should seek further advice on whether the estimates are reasonable, particularly in the context of the current mergers review, the outcome of which is likely to be downward pressure on fees in the market.</p> <p>Therefore we consider this to be a medium risk recommendation.</p>	<p>Actions: This was done for the project team, but further analysis to be completed as part of the responses to recommendations noted above. The fee charge modeled is low compared to other crematoriums.</p> <p>Responsible Officer: Malcolm Evans (Estates & Asset Manager)</p> <p>Executive Lead: Julie Kenny (Director (Corporate Services) Monitoring Officer)</p> <p>Due date: 31 March 2020</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
Reasonable financial assumptions have not been made for the initial capital expenditure, financing costs, income and operating expenditure.	Key recommendation	<p>Actions: The status of the crematorium as either directly owned or owned</p> <p>Responsible Officer: Malcolm Evans (Estates & Asset Manager)</p> <p>Executive Lead: Julie Kenny (Director (Corporate Services) Monitoring Officer)</p> <p>Due date: 31 March 2020</p>
	<p>Issue identified: The running of a crematorium may be considered a discretionary service which has some restrictions on what costs can be recovered</p> <p>Root cause: A primary outcome of the project is for issues in relation to this service being a discretionary service being built into the financial model</p> <p>Risk: Assumptions around fees may not be justifiable or there may be other legal issues to consider</p> <p>Recommendation: Further advice should be sought whether an alternative delivery model should be established as part of the option review.</p> <p>Overall conclusion: Fees charged should take the discretionary service restrictions onto consideration.</p> <p>Therefore, we consider this to be an improvement point.</p>	

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>Reasonable financial assumptions have not been made for the initial capital expenditure, financing costs, income and operating expenditure.</p>	<p>Key Findings:</p> <p><i>Expenditure assumptions</i></p> <ol style="list-style-type: none"> 1. Assumptions have been made around operating costs, and the finance team has considered these and made reasonable challenges. Overall there is some considerable reliance on the expertise of the consultant. 2. Other factors such as the need to replace the cremator (potentially after 15 years) , depreciation and repairs and renewals costs do not appear to be reflected in assumptions within the model. <p><i>Financing</i></p> <ol style="list-style-type: none"> 1. The report to members suggests annual income of £280,000 from year 12. This assumes that the scheme will be built by the Council and financed by borrowing (MRP and interest are factored into the model). The facility will be run by an in-house team, although the Council has no current experience. A cumulative net gain of £5m will be achieved by 2036. If the Council opts for a different delivery model this will impact on the potential revenue stream. 2. The November private report to members, proposes that retail property will be sold and the capital receipt would be invested in the crematorium, replacing the need to borrow, with an annual saving of £306,000 per annum - leading to a higher profit. The argument is reasonable in that retail is a poor investment currently and a crematorium is likely to be a better investment. Clearly investment of capital receipts in this way does mean that they are not available for other capital schemes for the Council and thus there is an 'opportunity cost' of the investment which should be factored in to the scheme costs. 	<p>Actions: The whole project is being reviewed now that Block C will not be sold, and a revised business case report produced for members consideration. This has been the intention of the project team and this had member representation included.</p> <p>Responsible Officers: Malcolm Evans (states & Asset Manager) Ashley Wilson (Head of Finance, Section 1 Officer)</p> <p>Executive Lead: Julie Kenny (Director (Corporate Services) Monitoring Officer</p> <p>Due date: 31 March 2020</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>Reasonable financial assumptions have not been made for the initial capital expenditure, financing costs, income and operating expenditure.</p>	<p>Issue identified: Expenditure assumptions may not include all costs to the Council. We have identified that capital assumptions such as repairs and renewals have not been factored in so it is possible that someone with more experience in the sector would identify further costs.</p> <p>Root cause: Officers are reliant on the assumptions made by the consultant in preparing financial projections, although have made some challenges to assumptions.</p> <p>Risk: The costs of capital assumptions may be optimistic or not reflect all costs to the Council</p> <p>Recommendation: Officers should revisit the model as part of the options appraisal referred to above.</p> <p>Overall conclusion: As referred to earlier in the report, the financial modelling should be revisited to ensure that reasonable assumptions around running and repairs and renewal costs have been made.</p> <p>Therefore we consider this to be a medium risk recommendation.</p>	<p>Actions: Covered by responses above</p> <p>Responsible Officers :Malcolm Evans (states & Asset Manager) Ashley Wilson (Head of Finance, Section 1 Officer)</p> <p>Executive Lead: Julie Kenny (Director (Corporate Services) Monitoring Officer</p> <p>Due date: 31 March 2020</p>

Appendices

Appendix 1 – Staff involved and documents reviewed

Staff involved

- Malcolm Evans – Estates Manager
- Ashley Wilson S151
- Ilyas Bham deputy 151

Documents reviewed

- Council papers and minutes
- Feasibility study (CDS) and appendices
- CDS website
- Institute of Cemetery and Crematorium Management (ICCM) website
- Tender documents supplied
- Agenda and papers from Project team/ board
- Contract procedure rules, financial regulations
- Capital programme
- Crematorium risk register
- Competition and market authority interim report

