



Hinckley & Bosworth Borough Council

FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

SCRUTINY COMMISSION
COUNCIL

2 JULY 2020
14 JULY 2020

WARDS AFFECTED: ALL WARDS

HINCKLEY CREMATORIUM PROJECT UPDATE

Report of Director of Corporate Services

1. Purpose of report

- 1.1 This report reviews the progress of the Hinckley Crematorium project following the tender period for selection of a main contractor to carry out the construction phase of the project.

2. Recommendation

- 2.1 That members:
- note the tender sum of £5,070,819.24 for a 50 week programme
 - approve a revised budget of £6,915,000 for delivery of the scheme (£1,943,190 supplementary).
 - approve the updated business case and proposed in-house management model

3. Background to the report

- 3.1 HBBC accessed the Procure Partnerships East Midlands Framework to select potential contractors. Our projects estimated value sat within the £4m - £12m procurement category which contained eight contractors, all of which were informed of the tender opportunity and asked if they would be interested in tendering
- 3.2 Six contractors responded positively to the invitation to tender from the Procure Partnerships East Midlands Framework, of which four were selected to receive the tender documentation electronically.
- 3.3 Bids were sought from the four contractors based on the amended JCT Design and Build (2016) Building Contract. The tender documentation was issued to the four contractors via the Hinckley and Bosworth Borough Council's Delta site on 15th January 2020, with a return date of 26th February 2020. The return date was later

extended to 1st April 2020 following extension requests from the tendering contractors.

- 3.4 On the 13th February one of the bidders notified the project team that following discussions with the Regional Framework Team, due to the timescales involved and level of sub-consultant and sub-contractor design elements along with the costs associated to these, that they would decline the opportunity to tender for this project.

- 3.5 Three contractors successfully returned their tender to the Delta site on the 1st April.

Bidder A	-	£4,916,205.00 *based upon a 40 weeks programme
Bidder B	-	£5,829,059.00 *based upon a 40 weeks programme
Bidder C	-	£5,898,749.44 based upon a 40 weeks programme

*Both Bidders A and B have stated that they think a 40-week programme is unachievable and have based their tenders on a 50-week programme.

- 3.6 Bidder A included several clarifications and proposals in their tender submission. These have been reviewed and formal responses were issued to them on 1st May 2020. Bidder A was asked to submit their response together with an adjusted tender price by 11th May 2020.

- 3.7 Bidder B included several proposals in their tender submission, including Value Engineering options which equate to £545,000 in savings, however many of these options would require planning approval and even if these were deliverable, it was still significantly higher than the lowest tender.

- 3.8 The revised tender figures, to account for the adjustments made following the clarification process, are below:

Bidder A £5,070,819.24 50 weeks
 Bidder B £5,838,909.00 50 weeks

- 3.9 Our finance team have conducted financial background checks on each of the tendering contractors and have confirmed all contractor reports to be acceptable. Performance Bonds or Parent Company Guarantees will also be in place to help manage any future risks.

- 3.10 Members should note that there are outstanding risks where costs need to be added to mitigate such and professional fees etc. The table below gives detail of the likely project costs in total of £6,639,400.

Bidder A Revised tender submission following receipt of tender clarifications and proposals		£ 5,070,819.24
LCC Section 278 works, LCC Fees, Design costs provisional estimate	£150,000.00	
Potential Ransom over Access LCC provisional estimate	£200,000.00	

Utility Connections for supply provisional estimate	200,000.00	
Landscaping costs by Green Spaces - say Provisional estimate	£200,000.00	£ 750,000.00
HBBC Fees - internal and consultant assuming 18 months to completion	£200,000.00	
Principle designer / certification for post contract works	£15,000.00	£ 215,000.00
Total Project Cost		£ 6,035,819.24
10% Project contingency		£ 603,581.92
		£ 6,639,401.16
Cost already expended through feasibility & Planning		£ 274,814.00

- 3.11 It is therefore the Projects teams recommendation that the tender submitted by Bidder A to be the best value for money. And recommend that we appoint them as our preferred contractor to develop Hinckley Crematorium.

MANAGEMENT MODEL

- 3.12 It should also be noted by Members that there are alternative delivery routes in order to provide a crematorium facility on the preferred site.
- a) Disposal of the site to a crematorium operator. This would allow the market to deliver the crematorium facility and the Council to receive a one off capital sum for the land. This option however would not provide any ongoing revenue from the crematoriums operation.
 - b) Look to procure a partnership approach whereby an operator is appointed to deliver cremation services for the Council. This would run in a similar manner to the Leisure Provider currently running Hinckley Leisure Centre. This could be through a build and operate agreement or simply an operational model once the Council have provided the facility. This approach carries risks as the Council would be required to agree a fixed contract period during which the private supplier will manage the facility within the terms of the contract. The loss of flexibility in management of the contract is counterbalanced by the experience an existing operator may bring.
 - c) Council Run (In-house) / Wholly Owned Company run Services. It is understood that Members currently prefer one of these approaches as this provides the Council with control of the facility and the ability to balance the quality of customer experience. Whilst we are progressing with the in-house model, officers are currently awaiting VAT advice which may determine which the wholly owned company route be more favourable. If this becomes the case, a further report will be brought to members for their consideration and decision.

4. Exemptions in accordance with the Access to Information procedure rules

- 4.1 The report is to be taken in open session.

5. Financial implications (AW)

- 5.1 The update of the capital programme in February 2020 approved by council included capital expenditure of £4,895,380 expected for the development of the Crematorium, bring the total capital costs to £4,971,025 including any costs already incurred. This was based on the crematorium being operational as from the 1 February 2021 generating income of £79,523 in that year, with £333,747 being expected in the following year based on 800 cremations growing at 2% a year.
- 5.2 The total new capital cost, including contingency elements, equals £ 6,639,401 and with costs already included, this is a total capital cost of £6,914,215. This is an increase in the budget of £1,943,190 and will reduce the level of return. The current expectation, if the contractor is given the project by mid July 2020, is the crematorium will be operational as from the 1 August 2021.
- 5.3 The February budget for the scheme included £3,100,000 of reserves and capital receipts could be made available to offset borrowing costs. The current position, due to Covid-19 pressures and risks, is that at best £1.5m maybe available to offset such costs. This impacts on the net return. There is also the potential number of cremations may be high initially at 1000 a year, instead of the 800 used in February's 2020 budget. The table below summaries the impact of the changes in capital and income based on current expectations compared to the previous financial model, further analysis is given in appendix 1.
- 5.4 The tables below summarise the impact on expected costs and income between the original and revised costs of the crematorium project:
- Table 1 indicates that the increase in costs, if all debt financed, would lead to the crematorium making a forecast loss in the first five years of £131,000, compared to a gain of £563,000 as at the budget reported in February 2020. This gives an overall gain over a 20-year period of £4.5m on top of all costs, which is almost £3m lower than previously forecast. The longer term position is more favourable as cremations are expected to increase, which is a key assumption for viability.
 - Table 2 gives an investment analysis using net present value (NPV) cash flows. It assumes an average inflation rate of 2% as this is the Bank of England's Target inflation rate. A negative NPV means the investment is not viable. Both are positive and demonstrate the investment will increase the cash position of the council over a 20-year period. The revised costs lead to a reduction in NPV return of £2.2m.
 - Table 3 gives the position if some element of reserves and capital receipts are used to help reduce the financing costs of debt. This does give a positive return in the first five years of £0.4m compared to £1.8m previously hoped for. Due to the impact of Covid19 on the finances of the council it is unlikely that the £3.1m of capital receipts and reserves previously expected will be available to offset these costs. The level of such support will be closer to £1.5m, being mainly £1.25m from capital receipts. The table compares the revised position and the budgeted position.

Table 1: Change in cost performance, all debt financed

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27-2042	Total Gain to
Cost £6.91m Gain/(Loss) £000	-£48	-£59	-£34	-£9	£19	£4,694	£4,563
Cost £4.97m Gain/(Loss) £000	£40	£93	£117	£143	£170	£6,968	£7,532
Difference (£000)	-£88	-£152	-£152	-£152	-£152	-£2,274	-£2,968

Table 2: Net Present Values, all debt financed

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27-2042	NPV total
Cost £6.9m NPV calculation Cash flow (£000)	£258	£276	£293	£312	£330	£2,918	£4,387
Cost £4.9m, Cash flow (£000)	£312	£328	£345	£362	£379	£4,859	£6,584
Difference (£000)	-£53	-£52	-£51	-£50	-£49	-£1,941	-£2,197

Table 3: Using reduced level of reserves/Capital receipt

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27-2042	Total Gain to 31/3/2042
Cost £6.91m, with £1.5m use of reserves/capital Gain/(Loss) £000	£20	£58	£83	£108	£136	£6,449	£6,854
Cost £4.97m, with £3.1m use of reserves/capital Gain/(Loss) £000	£181	£334	£359	£385	£412	£10,595	£12,266
Difference (£000)	-£161	-£276	-£276	-£277	-£276	-£4,146	-£5,412

- 5.5 There is currently underway a review of the impact of the increase in cost on the VAT status of the project now the costs have increased. The increased costs may take the Council over the partial exception limit and mean that the VAT is not reclaimable on this project. This could potentially add a further 20% (£1.4m) to the costs if the council directly owns and runs the crematorium.
- 5.6 There is also the potential that the number of cremations per year has been understated. It has been suggested that the number of 1000 cremations per annum is not unrealistic, but further advice would be needed to confirm this number. This would significantly improve the viability of the crematorium project, as noted in the table below.

Cost £6.91m, but use £1.5m of capital receipts and reserves

Cremation Revenue	2021/22	2022/23	2023/24	2024/25	2025/26	15 more years	Total
Cremations per annum	1000	1020	1040	1061	1082	19093	24,297
Fee Per cremation	800	824	849	874	900		
General ledger Gain/(Loss) (£000)	£128	£223	£255	£290	£326	£10,713	£11,999

5.7 The Council has still not decided if the crematorium should be owned and run directly or held and run via a wholly owned company (the company). The company would be subject to different taxation rules. The VAT on the project should be reclaimable for the company, but corporation tax may accrue where there are profits. In addition, the council would have to loan the money to the company and charge interest, which would be a return for the council and a cost to the company. Therefore, a further report may be needed at a later date to provide the financial issues surrounding the setting up of such a company.

6. Legal implications [FA]

6.1 None arising directly from the report.

7. Corporate Plan implications

7.1 Be driven by efficiency - We will do everything we can to make sure that we provide quality services for everyone that represent good value for money and make the best use of our assets.

8. Consultation

8.1 No consultation has been necessary in the production of this report.

9. Risk implications

9.1 It is the Council's policy to proactively identify and manage significant risks, which may prevent delivery of business objectives.

9.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

10. Knowing your community – equality and rural implications

10.1 No implications have been raised at this time.

11. Climate implications

11.1 Climate considerations have been built into the specification of the build as appropriate.

12. Corporate implications

12.1 By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Human Resources implications
- Environmental implications
- ICT implications
- Asset Management implications
- Procurement implications
- Planning implications
- Data Protection implications
- Voluntary Sector

Background papers: None

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