



**Hinckley & Bosworth  
Borough Council**

**FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING**

**SCRUTINY  
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 or via a council wholly owned company depending on the VAT response obtained from Her Majesty's Revenue and Customs (HMRC).

**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
		<b>£ 6,639,401.16</b>
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 £3,17m 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 of the project. There is also the potential number of crematoriums may be higher initially at 1000 a year, instead of the 800 used in February's 2020 budget. The table below gives local information on nearby crematoria, showing that 1000 cremations a year is not an unreasonable assumption.

<b>CREMATORIA</b>	<b>Cremations 2019</b>	<b>January 2020 Basic Cremation Fee</b>
Countesthorpe	<b>1,367</b>	<b>£950</b>
Great Glen	<b>1,023</b>	<b>£915</b>
Leicester	<b>1,785</b>	<b>£870</b>
Loughborough	<b>1,558</b>	<b>£1,035</b>
Nuneaton	<b>2,098</b>	<b>£1,070</b>

- 5.4 The tables below summaries the impact on expected costs and income between the original and revised costs of the crematorium project:



- Table 1 Compares the budget as agreed in February 2020 with the revised position. 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 £3.17m 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. However, if the impact of Covid 19 is not as detrimental on the finances of the council as expected, there is up to £1.5m in reserves to off set these capital financing charges.
- Table 2 give 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 1: 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
<b>Cost £6.91m</b> , with £1.5m use of reserves/capital Gain/(Loss) £000	£20	£58	£83	£108	£136	£6,449	£6,854
<b>Cost £4.97m</b> , with £3.1m use of reserves/capital Gain/(Loss) £000	£181	£334	£359	£385	£412	£10,595	£12,266
<b>Difference (£000)</b>	<b>-£161</b>	<b>-£276</b>	<b>-£276</b>	<b>-£277</b>	<b>-£276</b>	<b>-£4,146</b>	<b>-£5,412</b>

**Table 2: Net Present Values, all debt financed**

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

- 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 council directly own and run the crematorium.
- 5.6 There is also the potential that the number of cremations per year has been understated. It is possible that the 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.

<b>Cost £6.91m, but use £1.5m of capital receipts and reserves</b>							
<b>Cremation Revenue</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>15 more years</b>	<b>Total</b>
<b>Cremations per annum</b>	1000	1020	1040	1061	1082	19093	24,297
<b>Fee Per cremation</b>	800	824	849	874	900		
<b>General ledger Gain/(Loss) (£000)</b>	£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. As part of this planning, we need to consider the impact of VAT and corporation tax.
- 5.8 Each year the Council has to check that it does not breach its partial exemption threshold on VAT. As the Council is VAT registered it comes within the scope of partial exemption when it has supplies of both a taxable and an exempt nature. VAT cannot be charged on an exempt supply and equally any input VAT incurred directly in making the exempt supply cannot usually be recovered. This is unless it is at a relatively low level, less than 5% (£1.4m) for HBBC. The capital expenditure on the Crematorium has a risk of pushing us over that limit. This would add 20% to the cost of the project. We will be writing to HMRC to ask for advice and hopefully a set aside of the normal calculation for the limited period of the building of the project, but this may not be possible and we will not get a response in the period needed for members to reflect this in the decision made. Therefore, as part of the council's effective tax planning members should confirm now that their intention is either to continue with the in-house operation, or via the wholly owned company, based on the advice of HMRC as the best way to proceed.
- 5.9 The use of the wholly owned company will attract corporation tax at 19% on any gains, but will require a loan and repayment mechanism for the company to proceed, which will entail an interest return at a commercial rate to the council. Therefore, a further report may be needed at a later date to provide the financial modelling for this if needed.
- 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

Contact Officer:	Malcolm Evans	
	Estates & Asset Manager	extension 5614
	Ashley Wilson	
	Head of Finance	extension 5609

Executive Member: Councillor K. Lynch