

# **Mountsett Crematorium Joint Committee**

**7 October 2020**

## **Budget Strategy Report**



### **Joint Report of**

**Alan Patrickson, Corporate Director of Neighbourhoods and  
Climate Change**

**John Hewitt, Corporate Director of Resources and Treasurer to the  
Joint Committee**

### **Electoral division(s) affected:**

Countywide

### **Purpose of the Report**

- 1 This report outlines a range of issues that will need to be considered as part of the medium-term financial planning for the Mountsett Crematorium. The report sets out proposals to finance the planned replacement of the existing cremators. The views of the committee on these issues are sought in advance of the 2021/22 budget setting process.

### **Executive summary**

- 2 The two cremators at the crematorium were installed in December 2017 and as reported to Members in previous meetings of the Joint Committee, they need to be replaced.
- 3 There has been significant capital investment of over £1.9m at Mountsett Crematorium since Local Government Reorganisation in 2009, with further investments of over £800k planned for the coming years in line with the Service Asset Management Plan.
- 4 The cremator replacement works are estimated to cost £1.67 million and will need to be financed from a combination of earmarked reserves and prudential borrowing via a 10-year annuity loan from Durham County Council.
- 5 Fees and charges, which are harmonised with Central Durham Crematorium are currently £720 and a proposed increase of £20 in

2021/22 to £740 would still mean that they remain the lowest in comparison with all neighbouring facilities and well below the current regional average of £823.

- 6 The current level of surplus distribution to partner authorities was implemented on 1 April 2019 following Members approval of the Budget Strategy report in September 2018 and is forecast to remain at these levels for the coming years.
- 7 A robust medium-term budget forecast has been produced for the Joint Committee and this demonstrates that subject to agreement of the fee increase next year the reserve balances of the Joint Committee are still projected to be sufficient to meet the liabilities and commitments of the Joint Committee for the coming years.

### **Recommendation(s)**

- 8 It is recommended that Members of the Joint Committee: -
  - i. note and consider the contents of the report;
  - ii. approve the proposed increase in the fees and charges, as identified in the report;
  - iii. approve the proposed loan from Durham County Council, as identified in the report; and
  - iv. agree to review the budget strategy in two years' time in preparation for the 2023/24 budget setting year.

## Background

- 9 The two cremators at the crematorium were installed in December 2017 and Members agreed to replace them at the June 2020 Joint Committee meeting.
- 10 The current level of surplus distribution to partner authorities was implemented on 1 April 2019 following Members consideration of the Budget Strategy report in September 2018 and the Budget Setting report in January 2019.
- 11 Increases to the fees and charges at the crematorium, which are harmonised with Durham Crematorium, have also been kept to a minimum over recent years, resulting in the current charges continuing to be the lowest of all neighbouring facilities.

## Capital Investment at the Crematorium

- 12 Since Local Government Reorganisation (LGR) in 2009 there has been significant investment in the Mountsett Crematorium totalling £1,975,578 with the major improvement works including:

<b>Project</b>	<b>Cost £</b>
Installation of Memorial Towers	21,530
Road Widening	24,973
Tarmac Access to Car Park	62,200
Car Park Extension	88,398
Cremator Replacement and Extension	1,564,515

- 13 The estimated costs of current and future improvements, as identified in the Service Asset Management Plan are summarised in the table below:

<b>Year</b>	<b>Estimated SAMP Investments £</b>
2020/21	143,320
2021/22	29,000
2022/23	50,000
2023/24	29,000
2024 onwards	627,000
<b>Total</b>	<b>878,320</b>

## Earmarked Reserves

- 14 The projected reserves and balances of the Mountsett Crematorium Joint Committee at 31 March 2021 are as follows:

<b>Earmarked Reserve</b>	<b>Balance @ 1 April 20 £</b>	<b>Balance @ 31 Mar 21 £</b>
Repairs Reserve	(69,370)	(84,370)
Cremator Reserve	(511,995)	(384,368)
General Reserve	(286,515)	(298,328)
<b>Total</b>	<b>(867,880)</b>	<b>(767,066)</b>

## Cremator Replacement

- 15 The cremator replacement has been estimated to total £1,673,867 with a breakdown of the costs detailed in the table below:

<b>Description</b>	<b>Estimate £</b>
Cremator Installation	1,206,400
Principal contractor costs and site works	76,756
Preliminaries	155,000
Statutory fees and emission testing	21,250
Professional fees	101,429
BCIS cost index and supplier bond	19,382
Optimism Bias (Contingencies)	93,650
<b>Total</b>	<b>1,673,867</b>

- 16 The replacement costs cannot be fully financed from the existing reserves and balances held by the Mountsett Crematorium Joint Committee. Additional resources, partner contributions or prudential borrowing, would be required to fund the development.
- 17 Given the current economic climate, it is unlikely that the partner Authorities would be willing to fund the development out of their existing capital or revenue resources. Prudential borrowing would therefore seem the most likely source of funding.
- 18 The Cremator Reserve balance at 31 March 2021 will be used to reduce the amount of the loan required, as shown in the table below:

Description	£	Notes
Cremator Replacement Cost	1,673,867	
<b>Financed by:</b>		
Contribution from Reserves	(384,368)	Cremator Reserve at March 2021
Loan Finance	(1,289,499)	10-year loan repayment
<b>Balance</b>	<b>0</b>	

- 19 It has been assumed that a 10-year annuity loan from Durham County Council will need to be taken to fund the works and servicing these costs will need to be accommodated from within the revenue budget, should Members approve this proposal.
- 20 Loan repayments have been calculated with a 3.0% interest rate and annual repayments of £150,641 would commence in 2021/22. This has been factored into the medium-term budget forecasts.

### Fees and Charges

- 21 The fees and charges at Mountsett Crematorium are harmonised with those at the Durham Crematorium. A £20 (2.9%) increase was applied in 2020/21 and the current budgeted cremation fee (inclusive of medical referee's fees) is £720.
- 22 Due to the Covid 19 pandemic the cremation fees were frozen at £700 but are proposed to increase to the budgeted £720 charge from 1 November 2020, as referred to earlier in the Bereavement Services Manager's report.
- 23 The current cremation fees for crematoria across the region, shown in the table below, indicates a current average cremation fee of £823 (inclusive of medical referee's fees and environmental surcharge where appropriate) across the region:

Crematorium	Cremation Fee
Gateshead	£739
North Tyneside	£765
Stockton	£765
Middlesbrough	£790
South Tyneside	£816
Northumberland	£820
Newcastle	£842
Sunderland	£865
Hartlepool	£872

<b>Crematorium</b>	<b>Cremation Fee</b>
Coundon	£884
Darlington	£900
<b>Average</b>	<b>£823</b>

- 24 The projected number of cremations at the Mountsett Crematorium in 2020/21 is 1,623, which will be 323 more than the budgeted position of 1,300, however this year has seen increased cremations as a result of Covid-19. The number of cremations at Mountsett in the previous five years is shown below.

<b>Year</b>	<b>Cremations</b>
2015/16	1,296
2016/17	1,439
2017/18	1,396
2018/19	1,331
2019/20	1,399

- 25 The table below indicates how much additional income could be generated annually with fee increases ranging from £10 (1.4%) to £50 (6.9%) and with incremental increases in the budgeted cremation numbers, compared to the current budgeted position of 1,300.

<b>Cremation Numbers</b>	<b>Increase in Fees</b>				
	<b>£10</b>	<b>£20</b>	<b>£30</b>	<b>£40</b>	<b>£50</b>
	<b>1.4%</b>	<b>2.8%</b>	<b>4.2%</b>	<b>5.6%</b>	<b>6.9%</b>
<b>1,300</b>	£13,000	£26,000	£39,000	£52,000	£65,000
<b>1,350</b>	£49,500	£63,000	£76,500	£90,000	£103,500
<b>1,400</b>	£86,000	£100,000	£114,000	£128,000	£142,000
<b>1,450</b>	£122,500	£137,000	£151,500	£166,000	£180,500
<b>1,500</b>	£159,000	£174,000	£189,000	£204,000	£219,000
<b>1,550</b>	£195,500	£211,000	£226,500	£242,000	£257,500
<b>1,600</b>	£232,000	£248,000	£264,000	£280,000	£296,000

- 26 Should the 2021/22 cremation fees be increased by £20 (2.8%) and assuming a prudent forecast of 1,300 cremations again next year an additional £26,000 income would be generated by the Joint Committee next year and this increase has been built into the medium term budget forecasts at this stage.
- 27 The proposed 2021/22 cremation fee of £740 would remain the lowest in comparison with all other neighbouring facilities in the region.

## **Surplus Redistribution**

- 28 Members will recall that the Constitution sets out the constituent authority title deeds and subsequent surplus distribution arrangements to Durham County Council (DCC) / Gateshead Council (GC) on a 65 / 35 basis.
- 29 The current surplus distributed is £350,000 per year (£227,500 to Durham County Council and £122,500 to Gateshead Council). This was reviewed and increased in 2019/20 and prior to this the surplus distribution was £164,890 (£107,178 to Durham County Council and £57,712 to Gateshead Council).
- 30 Due to the requirement for the Joint Committee to replace the cremators, with increased costs for the associated prudential borrowing requirements it is recommended that the surplus distribution remain at the current levels and this has been factored into the medium-term budget forecasts.

## **Medium Term Budget Forecast**

- 31 In terms of financial modelling for the Mountsett Crematorium, the following working assumptions have been applied:
- Premises budgets have been adjusted for priority repair costs (in line with the SAMP requirements),
  - A capital charge budget relating to the loan repayment has been added in 2021/22,
  - Contributions from earmarked reserves to part fund the planned capital works have been built into the budget forecast,
  - A £20 increase per cremation has been factored into the income budget from 2021/22 and a modest £10 annual increase in cremation fees in 2022/23 and 2023/24,
  - No changes in the surplus redistribution to the constituent authorities has been assumed in the budget forecast,
  - Expenditure includes a 2.5% increase to reflect pay and price inflation in 2022/23 and 2023/24,
  - The estimated / budgeted level of cremations remains at 1,300 per annum across the next three years;

32 The table below provides a financial summary of the revenue budget, and forecast earmarked reserves of the Joint Committee projected for the next three financial years using the above assumptions:

Revenue Budget	Base Budget 2020/21 £	Forecast Outturn 2020/21 £	Base Budget 2021/22 £	Base Budget 2022/23 £	Base Budget 2023/24 £
Expenditure	552,745	944,354	973,962	625,859	619,980
Income	(994,425)	(1,193,540)	(1,020,425)	(1,033,425)	(1,046,425)
<b>Net Income</b>	<b>(441,680)</b>	<b>(249,186)</b>	<b>(46,463)</b>	<b>(407,566)</b>	<b>(426,445)</b>
<b>Transfer to / (from) Reserves</b>					
Repairs Reserve	15,000	15,000	15,000	15,000	15,000
Cremator Reserve	76,680	(115,814)	(318,537)	42,566	61,445
General Reserve	0	0	0	0	0
<b>Distribute Surplus</b>	<b>(350,000)</b>	<b>(350,000)</b>	<b>(350,000)</b>	<b>(350,000)</b>	<b>(350,000)</b>
<b>65% Durham CC</b>	<b>227,500</b>	<b>227,500</b>	<b>227,500</b>	<b>227,500</b>	<b>227,500</b>
<b>35% Gateshead Council</b>	<b>122,500</b>	<b>122,500</b>	<b>122,500</b>	<b>122,500</b>	<b>122,500</b>

Earmarked Reserve	Balance @ 1 April 2020 £	Balance @ 31 March 2021 £	Balance @ 31 March 2022 £	Balance @ 31 March 2023 £	Balance @ 31 March 2024 £
Repairs Reserve	(69,370)	(84,370)	(99,370)	(114,370)	(129,370)
Cremator Reserve	(511,995)	(384,368)	(58,032)	(96,698)	(154,242)
General Reserve	(286,515)	(298,328)	(306,128)	(310,028)	(313,928)
<b>Total</b>	<b>(867,880)</b>	<b>(767,066)</b>	<b>(463,529)</b>	<b>(521,095)</b>	<b>(597,540)</b>

33 The budget forecast demonstrates that having incorporated all the proposed changes, the reserve balances of the Joint Committee are still projected to increase, demonstrating a strong financial position for the coming years.

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## **Appendix 1: Implications**

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### **Legal Implications**

The proposals contained within this report have been prepared in accordance with standard accounting policies and procedures.

### **Finance**

The financial implications associated with this report are disclosed in the body of the report.

### **Consultation**

None. However, Officers of Gateshead Council were provided with a copy of the report and given opportunity to comments / raise any detailed queries on the contents of this report in advance of circulation to members of the Joint Committee.

### **Equality and Diversity / Public Sector Equality Duty**

None.

### **Climate Change**

None.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

### **Accommodation**

None.

### **Risk**

The figures contained within this report have been scrutinised and supplemented with information supplied by the Bereavement Services Manager. The medium-term financial budget forecast has been produced taking into consideration current year forecasts, future improvement costs

obtained from the SAMP and pricing structures from neighbouring facilities. This, together with the information supplied by the Bereavement Services Manager, should mitigate any risks with regards to challenge and review of the financial forecast of the Joint Committee.

**Procurement**

None.