

Report

Greater Gwent Crematorium Joint Committee

Part 1

Date: 19 January 2022

Subject **Review of Budget Performance 21-22 and Budget Proposals for 2022-23**

Purpose To provide supporting information relating to the budget performance in 21-22 and to present the draft budget proposals for 2022-23.

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Ward General

Summary To review and consider the budget performance 21-22, and the budget proposals for 2022-23.

Appendix:

| | |
|------------|------------------------------------|
| Appendix 1 | Detailed Monitoring Position 21-22 |
| Appendix 2 | Fees for consultation 2022-23 |
| Appendix 3 | Draft budget proposals 2022-23 |
| Appendix 4 | Distribution summary |

Proposal The Committee is asked to

For 2021-22,

- note the revised forecast activity, and approve the budgeted distribution of £950k, and use of reserves to meet that level of payment as needed

For 2022-23,

- agree to retain cremation fees at 2021-22 levels
approve the budget proposals for 2022-23, and the current indicative dividend payment recommended of £450k, subject to review in year, based on financial performance

Action by Head of Finance

Timetable

1. Any fee increases would be implemented from 01 April 2022
2. Draft budget proposals, fees and charges and distribution level to be agreed for 2022-23.

This report was prepared after consultation with:

- Head of Finance
- Service Manager for Environment and Leisure
- Team Manager-Bereavement
- Head of Law and Regulation
- Head of People and Business Change

Signed

Background

It is necessary for the Joint Committee to review the financial position of Gwent Crematorium for the coming year in light of the recent increase in competition in S.E. Wales area. The fee options are detailed within this report, along with the draft budget proposals for 2022-23, which show a planned surplus of £236,024, prior to any distribution, or fee increase, which indicates we will be unable to sustain the current level of distribution going forward.

Financial Summary

Forecast Position 2021-22

The following summary monitoring predictions, are reflective of November financial activity extrapolated to year end. The more detailed monitoring position is included in Appendix 1.

Forecasts based on actual cremations Apr-Oct (772) and Nov-Mar (649)

Total 1421 cremations + 15k per month other income eg memorials/inscriptions/rent etc

| | 21/22 BUDGET | 21/22 FORECAST | VARIANCE (+adverse) |
|--|-------------------|-------------------|------------------------|
| INCOME | -1,391,040 | -1,368,481 | 22,559 |
| Employees | 334,139 | 318,617 | -15,522 |
| Premises | 350,184 | 408,565 | 58,381 |
| Transport | 1,010 | 400 | -610 |
| Supplies + Services | 180,623 | 172,528 | -8,095 |
| Capital Financing | 53,161 | 53,161 | 0 |
| EXPENDITURE | 919,117 | 953,271 | 34,154 |
| (SURPLUS)/DEFICIT prior to distribution | -471,923 | -415,210 | 56,713 |

The predominant cause for variances are as follows

Employees – Net employee underspend £15k caused by part year vacancy saving of a Crematorium Assistant post, and reduction in the requirement for overtime, due to decreased volumes

Premises – the overspend of £58k can be attributed to the essential maintenance required in July on the heat-exchangers, which are used to cool the exhaust gases from the cremators via a water jacket. The gas temperature need to be controlled to allow the removal of heavy metals from the exhaust stream. Premises costs have been rising significantly in the past few years, due to the age and nature of the equipment.

Supplies & services – The significant variances are £8k underspend due to there being no bulk purchase of burial memorials during the financial year. These are ground level vaults, that hold up to 2 sets of remains, with inscribed granite fascia plaques, and are currently priced at £1,463 including a 20 year lease. The purchases are demand driven, but due to their nature and cost, they are purchased in bulk. The last purchases were in March 2020. Also, attributing to the variance, is the upgrade to the Wesley music/speaker system, allowing for visual tributes, which was agreed as part of the improvements programme.

Income - The reduced budgeted income levels for 2021-22 of £1.36m have been provided by Cremation service colleagues and are reflective of an average cost of £828 per service and 1421 services (taking into account bank holidays and vacant service times). This is a material change to historic income levels, and is reflective of heightened choice in the area following the opening of 2 private crematoria facilities. In competing with those private concerns the service has increased the duration of cremation ceremonies, from 20 minutes to 45 minutes, consistent with those private enterprises. This has had the effect at arresting volume declines, but does restrict the number of services annually such that historic income levels are no longer attainable.

The budget initially agreed for 2021-22 presumed £472k surplus. This would have been insufficient to accommodate the annual dividend of £950k, however at the budget setting meeting, the Head of Finance recommended, and the Committee agreed, to use reserve balances (£478k), to offset any shortfall, and maintain the distribution for the current financial year. The latest monitoring forecast implies an even greater reliance (extra £56k) on reserve usage, to sustain the anticipated dividend at historic levels for 2021-22, and it is felt that this is still within acceptable parameters of the reserves, and there are no other material issues which affect the position.

b/f reserves 1,437,303

| | Budgeted | Revised |
|-------------------------------|----------|---------|
| Distribution | 950,000 | 950,000 |
| Impact on Reserves | 478,077 | 535,000 |
| Reserves Balance c/f to 22-23 | 959,226 | 902,303 |

Therefore, for 2021-22 it is recommended we maintain the budgeted dividend of £950k, but as discussed at previous meetings, we need to think carefully about dividend payments for 2022-23 and beyond, to bring them more in line with out-turn position and financial sustainability.

2022-23 Budget

The Committee is required by law to set a balanced budget every year.

With the continuing financial pressures and demands, the Committee must consider options for ensuring service/financial sustainability in the increasingly competitive market, to achieve future requirements.

We are facing continuing financial challenges, namely: increasing costs around pay (inflated by 4%), contract prices and greater competition from private crematoria, with consequential decreasing cremation numbers / income levels. Due to the age, nature, and cost of the equipment, which is fundamental to the running of the crematorium, maintenance costs have been increasing over the last few years, to a level which is no longer sustainable within the existing premises budget. This also adds a degree of volatility to the dividend administration which isn't preferable. In order to minimise this impact, it is recommended that the proposed refurbishment works will be capitalised and will be proportionately incurred/recorded over the next 15 years. An equivalent budget has been created for such. Going forward a change of accounting approach is also proposed to use a repairs and renewal fund to absorb the impact of future significant adhoc repairs. The 2022-23 budget includes an estimated

contribution to this specific repair fund of £100k. Further work is required to establish future costs based on discussions with the crematorium manager and supplier estimates. However should the repair fund grow to a level that regularly exceeds the level of annual repair liability, this Committee will be able to consider a rebalancing of that fund level through the issue of an extraordinary dividend and reducing the annual contribution accordingly. The approach is designed to give a greater certainty about the extent of general dividend annually.

An incremental budget setting approach has been adopted reviewing the traditional budget levels for staff and running costs, and factoring in reduced income levels more akin with expectation.

Appendix 3 provides an analysis of the various fees charged in the region, together with an understanding of historic activity levels. This shows that Gwent crematorium fees are equitably priced, occupying the arithmetic median position in comparison to nearest alternatives, and importantly pitched at a level that bisects those of the private competition in the area.

There is an argument for increasing fees annual to take account of expenditure inflation. Appendix 3 also models a 4% increase in fees to derive an extra £45k income. However, this is potentially risky whilst there is new capacity elsewhere to cope with cremation numbers.

Income levels are based on no fee increase and 1,370 cremations @ £828 which is takes into account bank holidays and vacant service times + £120k other income e.g. memorials/inscriptions/rent. These figures have been prepared in conjunction with service colleagues, and it is proposed to retain fees at 2021-22 levels i.e. £828 per service.

There is further indication of a need to undertake £193k worth of refurbishment work, which could be treated as a one off 2022-23 cost and which would illustratively reduce the reserve balance to £709k. However it is assumed to instead capitalise such costs, resulting in an annualised revenue cost over 15 years, reflective of the life of the asset.

The 2022-23 draft budget indicates a net surplus of £236k, a reduction of £236k on 2021-22 levels.

Risks

| Risk | Impact of Risk if it occurs* (H/M/L) | Probability of risk occurring (H/M/L) | What is the Council doing or what has it done to avoid the risk or reduce its effect | Who is responsible for dealing with the risk? |
|---|--------------------------------------|---------------------------------------|--|---|
| Budgeted income level is unachievable with the increased competition | H | H | Consider reducing the budgeted income level | Head of Finance |
| Projected cremation numbers continue to fall, resulting in deficit position | H | H | Further draw down on reserves or reduced distribution | Head of Finance |

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

The overall aim of the budget proposals is to ensure the on-going delivery of the Cremation service whilst also providing an income source to Gwent Councils.

Options Available and considered

There are options available for consideration, for both fees and distribution levels

All the following assumptions are based on reduced cremation numbers of 1,370 projected for 2022-23.

Fees

- a) No fee increase, would provide no opportunity for additional income
- b) A 4% increase, could result in total additional income/surplus of £45,000 if cremation numbers remain stable

Distribution

There is question mark on the sustainability of historic dividend levels based on reduced income levels, the combined effect of increased competition in the sector, and adjustments to service times to compete. This was highlighted in the Committee's budget report for this current year, back in the January 2021 meeting. There is also increased adhoc repair incidence as plant/machinery approaches the end of its useful economic life.

The 2021-22 budget agreed presumed £472k surplus, and was insufficient to provide a dividend of £950k for Gwent partners without also utilising part of reserve balance. From a budget planning point of view, this distribution can be sustained for this financial year, but is no longer sustainable without ultimately expiring the reserve balance.

In order to provide financial certainty to Gwent Councils, the Head of Finance confirms that reserves could be used in 2021-22 to provide the budgeted distribution of £950k to Councils. This would then need to be reduced for 2022-23 onwards to a more sustainable level – in the region of £450k for 22-23, and even further at some point in the future, to a level which would require no drawdown on reserves, which on current financial data, looks to be around £250k. This would also require Councils to reduce their own income budgets/forecasts from this distribution.

As the information in Appendix 1 shows, this still leaves a good level of reserves available for funding improvements to the site and service, which are needed to maintain 'the offer'.

A key component in enabling this approach is the establishment of the renewals reserve for operational equipment so that these don't become an unbudgeted pressure on the budget and adversely impacts on the crematorium general reserve. This allows us to potentially take that general reserve 'down' to a lower level than current levels to fund the dividend payments outlined here. We will then review the position annually and when the general reserve has reduced to a lower, but still prudent level, any future dividend then needs to match or be within the annual surpluses made, with the general reserve maintained for dealing with unexpected financial and service issues.

Preferred Option and Why

It is recommended that there be no fee increase in 2022-23. Having improved the service provided, by increasing service times in line with the competition, and offering visual tributes, it is felt that Gwent Crematorium is now well placed in the current market, and is attracting increased business from funeral directors and families.

Distribution

It is recommended that the Committee agree a distribution of the budgeted £950k for 2021-22, with any shortfall to be taken from reserves to fund that.

Then review the position, starting in 2022-23 so that future dividends revert to levels consistent with the annual surplus generation, rather than necessitating any annual distribution of the reserve balance, which ought to remain sufficient as a risk mitigation against unanticipated cost volatility.

Comments of Chief Financial Officer

A dividend of £950k is recommended for 2021/22, partly funded from reserves. From 2022/23, the dividend is recommended to reduce to a more sustainable level but there is some scope to draw from reserves to maintain at c£450k in 2022/23 at least and potentially, longer, dependant on financial performance.

At some point however, the use of the reserves will no longer be prudent and sustainable and then the dividend will need to match the surpluses made in any particular year. These are substantially lower than current levels.

The use of the renewals reserve is integral to the above and the accuracy of identifying a renewals timetable is key to that. Further work is required to finish that but is deemed sufficient at this point to agree the budget. As happens in many renewals programmes, slippage can happen but the annual contribution into that reserve is required to maintain the integrity of this mechanism.

Comments of Monitoring Officer

There are no comments from the Monitoring Officer

Comments of Head of People and Business Change

There are no HR or People and Business Change related matters arising from this report.

Comments of Cabinet Member

There are no comments from the Cabinet Member

Scrutiny Committees

n/a

Fairness and Equality Impact Assessment:

- **Wellbeing of Future Generation (Wales) Act**

In preparing this report, the Wellbeing of Future Generations (Wales) Act 2015 has been considered by balancing short-term needs with the need to safeguard the ability to also meet long term needs. We are considering options to provide a service which will allow us to withstand the competitive market, and meet our future wellbeing goals and objectives, and in doing so, understand the importance of involving those with an interest in achieving them, and ensuring that those people reflect the diversity of those to whom we provide a service.

- **Equality Act 2010**
- **Socio-economic duty**
- **Welsh Language (Wales) Measure 2011**

The council has a number of legislative responsibilities to assess the impact of any strategic decision or policy on people that may experience disadvantage or inequality. The Council is a trustee in the application of a proportion of Gwent wide fund, and therefore would not be able to use this funding for other laudable activities.

Crime and Disorder Act 1998

Section 17(1) of the Crime & Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area.

APPENDIX 1 – DETAILED MONITORING POSITION 21-22

Forecasts based on actual cremations Apr-Oct (772) and Nov-Mar (649)

Total 1421 cremations + 15k per month other income eg memorials/inscriptions/rent etc

| Gwent Cremation Service | 21-22 BUDGET | 21-22 FORECAST | VARIANCE (+ adverse) |
|-------------------------------------|-------------------------|---------------------------|---------------------------------|
| Pay | 250,315.00 | 243,813.00 | -6,502.00 |
| National Insurance | 22,393.00 | 21,063.00 | -1,330.00 |
| Pension | 53,067.00 | 49,741.00 | -3,326.00 |
| Overtime | 8,364.00 | 4,000.00 | -4,364.00 |
| Employees | 334,139.00 | 318,617.00 | -15,522.00 |
| Contract Buildg Maint | 128,048.00 | 193,245.07 | 65,197.07 |
| Gas | 55,650.00 | 55,650.00 | 0.00 |
| Electricity | 36,225.00 | 28,893.00 | -7,332.00 |
| Rates-General | 114,444.00 | 109,140.00 | -5,304.00 |
| Rates Water/Sewerage | 3,637.00 | 3,637.00 | 0.00 |
| Building Cleaning | 12,180.00 | 18,000.00 | 5,820.00 |
| Premises | 350,184.00 | 408,565.07 | 58,381.07 |
| Fleet Workshop | 1,010.00 | 400.00 | -610.00 |
| Transport | 1,010.00 | 400.00 | -610.00 |
| Tools, Furniture + Other Equipment | 3,418.00 | 27,057.00 | 23,639.00 |
| Plants/Seeds/Shrubs/Hort Sundries | 2,500.00 | 4,360.00 | 1,860.00 |
| Purchase of Urns | 16,000.00 | 12,000.00 | -4,000.00 |
| Inscriptions | 10,797.00 | 9,225.00 | -1,572.00 |
| Purchase of Burial Memorials | 38,000.00 | 9,829.00 | -28,171.00 |
| Protective Clothes | 1,056.00 | 817.00 | -239.00 |
| Printing / Stationery | 2,500.00 | 2,439.00 | -61.00 |
| Refuse Collection/Disposal | 5,512.00 | 5,512.00 | 0.00 |
| Fees-Other Professional | 91,810.00 | 91,810.00 | 0.00 |
| Telephones General | 4,500.00 | 5,253.00 | 753.00 |
| Computer Purchase + Computer Relate | 3,030.00 | 2,726.09 | -303.91 |
| Subscriptions | 1,500.00 | 1,500.00 | 0.00 |
| Supplies & Services | 180,623.00 | 172,528.09 | -8,094.91 |
| Capital Financing | 53,161.00 | 53,161.00 | 0.00 |
| Net Expenditure Total | 919,117.00 | 953,271.16 | 34,154.16 |

| | | | |
|--|----------------------|----------------------|------------------|
| Fees+Charges | -1,387,795.00 | -1,365,236.00 | 22,559.00 |
| Rent Income | -3,245.00 | -3,245.00 | 0.00 |
| Income | -1,391,040.00 | -1,368,481.00 | 22,559.00 |
| (SURPLUS)/DEFICIT prior to distribution | -471,923.00 | -415,209.84 | 56,713.16 |

APPENDIX 2 – INCOME/FEE EXAMINATION

1. FEES in 2021-22

The table below shows the current cremation fee in Gwent, in relation to our geographically nearest competitors.

| | Basic adult Cremation fee* 1 Nov 21 |
|-------------------------------------|--|
| BRIDGEND | 707.50 |
| ABERDARE | 721.00 |
| PONTYPRIDD | 721.00 |
| CARDIFF | 740.00 |
| SIRHOWY VALLEY (PRIVATE) | 790.00 |
| GWENT | 828.00 |
| HEREFORD | 856.00 |
| LANGSTONE VALE (PRIVATE) | 875.00 |
| BARRY | 890.00 |
| GLOUCESTER | 912.00 |
| FOREST OF DEAN | 940.00 |

* Cremation fee, plus medical referee's fee and environmental surcharge

2 STATISTICS – Council Crematorium Volumes

| Financial Year | Actual cremations |
|-------------------------------------|--------------------------|
| April 2013 – March 2014 | 2781 |
| April 2014 – March 2015 | 2893 |
| April 2015 – March 2016 | 2872 |
| April 2016 – March 2017 | 3013 |
| April 2017 – March 2018 | 2850 |
| April 2018 – March 2019 | 2352 |
| April 2019 – March 2020 | 2257 |
| April 2020 – March 2021 | 2097 |
| April 2021 – March 2022 (projected) | 1421 |
| April 2022 – March 2023 (projected) | 1370 |

Increased service times were introduced in July 2021, so the cremation numbers in 21-22, do not reflect a full year operating at the reduced volumes, therefore we are projecting a further reduction in cremation numbers in 22-23, to account for quiet times/Bank Holidays etc.

3. CREMATION FEES for 2022-23

The following table shows the impact of various increases in the fees, based on the projected 22-23 cremation numbers of 1,370

Based on cremation numbers of 1,370 (projected for 2022-23)

| % increase / decrease | Revised Fee | Impact on adult cremation fee | Impact on income levels |
|------------------------------|--------------------|--------------------------------------|--------------------------------|
| 0% | £828 | £0 | £0 |
| 4% | £861 | £33 | £45,210 |

APPENDIX 3 - DRAFT BUDGET PROPOSALS 22-23

**Income based on no fee increase and 1370 cremations @ £828 + 120k other income
eg memorials/inscriptions/rent**

| | 21/22 BUDGET | 22/23 DRAFT BUDGET based on no fee increase £828 | Difference |
|--|-------------------------|---|-------------------|
| INCOME | -1,391,040 | -1,254,360 | 136,680 |
| Employees | 334,139 | 317,822 | -16,317 |
| Premises | 350,184 | 350,000 | -184 |
| Repairs and Renewals Reserve | | 100,000 | 100,000 |
| Transport | 1,010 | 1,010 | 0 |
| Supplies + Services | 180,623 | 181,782 | 1,159 |
| Capital Financing | 53,161 | 67,722 | 14,561 |
| EXPENDITURE | 919,117 | 1,018,336 | 99,219 |
| (SURPLUS)/DEFICIT prior to distribution | -471,923 | -236,024 | 235,899 |

| | 21/22 BUDGET | 22/23 DRAFT BUDGET based on no fee increase £828 | 22/23 DRAFT BUDGET based on 4% inflationary increase £861 | 23/24 DRAFT BUDGET |
|--|-------------------------|---|--|-------------------------------|
| INCOME | -1,391,040 | -1,254,360 | -1,299,734 | -1,254,360 |
| Employees | 334,139 | 317,822 | 317,822 | 324,178 |
| Premises | 350,184 | 350,000 | 350,000 | 350,000 |
| Repairs and Renewals Reserve | | 100,000 | 100,000 | 100,000 |
| Transport | 1,010 | 1,010 | 1,010 | 1,010 |
| Supplies + Services | 180,623 | 181,782 | 181,782 | 182,236 |
| Capital Financing | 53,161 | 67,722 | 67,722 | 67,722 |
| EXPENDITURE | 919,117 | 1,018,336 | 1,018,336 | 1,025,147 |
| (SURPLUS)/DEFICIT prior to distribution | -471,923 | -236,024 | -281,398 | -229,213 |

APPENDIX 4 – DISTRIBUTION SUMMARY

| | Population 1996 | % share | Traditional Dividend 950,000 | Revised Dividend 450,000 | Revised Dividend 250,000 |
|--------------------------|--------------------|---------------|---|---------------------------------------|---------------------------------------|
| Blaenau Gwent | 77,400 | 17.59 | 167,114 | 79,159 | 43,977 |
| Caerphilly (Islwyn only) | 66,800 | 15.18 | 144,227 | 68,318 | 37,955 |
| Monmouthshire | 81,200 | 18.45 | 175,318 | 83,045 | 46,136 |
| Newport | 120,900 | 27.48 | 261,034 | 123,648 | 68,693 |
| Torfaen | 93,700 | 21.30 | 202,307 | 95,830 | 53,239 |
| TOTAL | 440,000 | 100.00 | 950,000 | 450,000 | 250,000 |

| | | | | | |
|---------------------------------------|--|--|-----------------|-----------------|-----------------|
| Draft Budget Surplus 22-23 | | | -236,024 | -236,024 | -236,024 |
| Impact on Reserves | | | 713,976 | 213,976 | -13,976 |