



To: EXECUTIVE COUNCILLOR FOR CITY CENTRE AND PUBLIC PLACES
Report by: HEAD OF SPECIALIST SERVICES
Relevant scrutiny committee: COMMUNITY SERVICES 11 JULY 2014
Wards affected: ALL WARDS
EqIA Undertaken: *To be confirmed*

REVIEW OF BEREAVEMENT SERVICES BUSINESS MODEL

Key Decision

It is recommended that the committee resolves to exclude the press and public during any discussion on the exempt section of the report by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006, as it contains commercially sensitive information

1. Executive summary

This report considers future service delivery options for Bereavement Services in Cambridge, in the context of the Council's strategic objectives and its savings targets. A set of key principles for the design of the service and relevant financial objectives are set out.

Through an analysis of the current market, and the local environment, the report assesses the potential impact of changing the model of operation for Cambridge's Bereavement Services on its strategic position in the market, including the benefits and costs, and risks to the Council.

Different organisational changes are considered, ranging from 'no change' to the current operational model to outright disposal of the service. It is proposed that moving the service onto a trading account and introducing a pricing strategy will best meet the Council's financial and policy objectives. On the basis of this recommendation a detailed business case will be developed, for further consideration and approval in the next budget round.

2. Recommendations

The Executive Councillor is recommended:

- 2.1 To consider the options set out in the report and the financial projections for the service
- 2.2 To approve in principle, on the basis of the outline business case, a proposal for bereavement services that moves the service onto a trading account, in which surpluses over and above the required return to the General Fund can be ring-fenced for reinvestment in the service infrastructure.
- 2.3 To approve the development of a detailed pricing strategy and coherent plan that will be brought back to members to consider in October 2014.

3. Background

3.1 Cambridge's Bereavement Service is required to deliver a sustainable business model that can:

- Secure the Council's revenue streams
- Meet agreed budget targets
- Ensure that further capital spending is properly funded
- Recognise the need to safeguard families and individuals who are struggling economically, and the most vulnerable

3.2 At present the service meets the needs of bereaved people through the provision of burials and cremations, and by offering personalised, ethical and caring services to respond to the diverse needs of the bereaved.

3.2.1 Cambridge City Council operates four cemeteries and one crematorium providing a service for a number of adjacent authorities in addition to its own population.

3.2.2 The crematorium on Huntingdon Road is a prime asset of the council. Cambridge Crematorium conducts around 2,500 cremations a year.

3.2.3 The city's cemeteries provide a more local service to adjacent communities than the crematorium. The Huntingdon Road Cemetery is now the principal cemetery in the city. This facility offers the scope to provide additional services including development of a Green Burial area and provides facilities to accommodate cremated remains. This site has burial capacity for a further 30 - 40 years.

3.2.4 The major burial facility in the city since 1903, Newmarket Road cemetery is widely used by the public and has extensive areas of both conventional and lawn style interments. It is almost at full capacity. However, it still offers space in some areas, plus the provision to now accommodate cremated remains in an area other than a grave space, meeting a local need.

3.2.5 Investment in recent years in the commemorations service, has established a new memorial garden for cremated remains at Newmarket

Road Cemetery, a children's garden at Huntingdon Road Crematorium, marketing materials including a display garden, and the development of dedicated training for staff to advise about commemorations.

3.3 Key investment in the past four years has also improved the infrastructure of Bereavement Services at Newmarket Road Cemetery and at the Crematorium on Huntingdon Road through:

- New cremation facilities, following the mercury abatement project,
- The repair and refurbishment of the chapels, waiting rooms and public facilities to the main sites
- Technical infrastructure improvements works, including the upgrading of ICT networks and electricity supply to the Crematorium

3.4. A staffing restructure is also currently underway, that now provides the basis of a very good service to the public, a strong management team that is clear about the direction it wants to go in, and a service that is positioning itself to deliver better value to the Council.

3.5 To help to understand the options available, the report has considered what happens elsewhere. Some examples of different organisational approaches in other private and local authority services are described in Appendix 1.

4. Why the need for change?

4.1 The Council has a duty to provide funerals for people who die that have no-one else to make the arrangements. Outside of this responsibility, Bereavement Services is a discretionary function for the council.

4.2 With an overall income of £2.2m, the 2014 Budget Setting Report for the City Council includes an on-going budget saving proposal of £105k from 2015/16 for the bereavement services.

4.3 Given the scale of the Council's challenge to balance its budget, the bereavement service has been investigating alternative models of delivery to ensure a service which is sustainable in the longer term.

4.4 The Bereavement Services Business Plan (2011) identified that improvements in the overall financial position of Cambridge's Bereavement Services are likely to depend on the success of initiatives to reduce operating costs and to generate income. Investment in recent years in cremations and commemorations infrastructure, and a recent staffing restructure has improved turnover and reduced energy and employee costs. The service still needs to make substantial investments in its buildings and

facilities in the coming years to safeguard and develop those revenue streams, and there is a need to make suitable financial provision for these works. Prudent investment in more commercially- based initiatives in the future, such as a flower shop and a café for customers and visitors to the crematorium, and in the commemorations service in particular was recommended as offering the best potential for raising awareness of available services and sustaining additional income growth in the coming years, providing the foundation to secure, sustain and maintain a successful and valued community service.

4.5 This report considers a range of different options for a strategy that can sustain and develop the success of the service, in terms of addressing its key operational objectives, while at the same time ensuring that it delivers its financial objectives. The proposals for income generation are over and above those included as savings targets for 2015-16.

5. Design Principles and Options for the Business Case

5.1 In considering the objectives of the service we have identified a range of key Design Principles, the most important of which are:

- Putting the needs of the bereaved first and meeting expectations;
- Meeting statutory and legal requirements;
- Being transparent and open in governance;
- Delivering services in an ethical and impartial way;
- Being environmentally sustainable;
- Being able to self-fund future investment to continue to be successful.

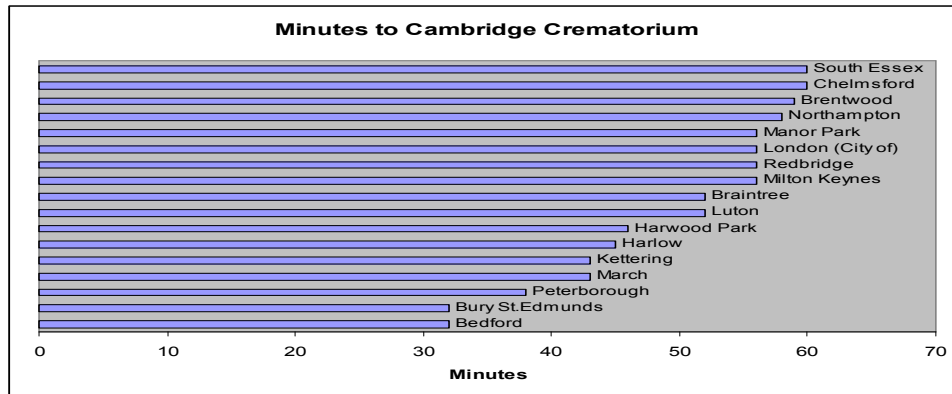
5.2 In addition to these design principles, other key financial considerations and risks to the Council from a change to its model of delivery are likely to be associated with:

- Being able to sustain and retain revenue streams in line with Council targets;
- Being able to control fees and charges to service users;
- Minimising procurement processes and costs;
- Minimising costs associated with Human Resources issues, including TUPE;
- Protecting current tax benefits and avoiding additional liabilities;
- Managing residual recharges.

6. Cambridge's strategic position in the local market for Bereavement Services

6.1 An examination of the current market can inform and assist consideration of a suitable business strategy for Cambridge’s bereavement service. There are 17 other crematoria within an hour’s drive of Cambridge City Crematorium (Table 1- Source: Google Maps).

Table 1



6.2 Appendix 2 details information about the performance of seventeen other crematoria to demonstrate Cambridge’s position in the local market for bereavement services (Source: Cremation Society of Great Britain). In terms of the overall volume of activity, these services account for over 31,000 cremations a year with an annual aggregate gross turnover of over £20m.

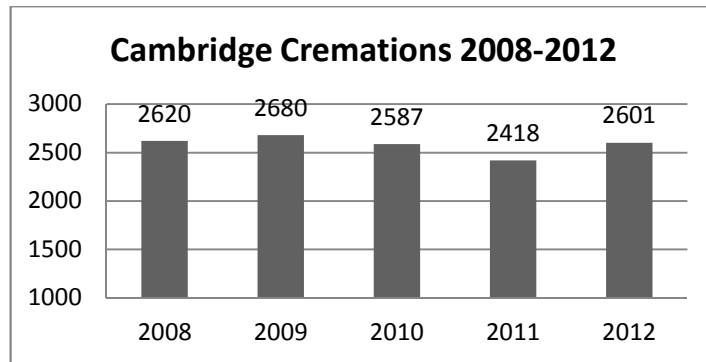
The key facts about Cambridge’s performance in relation to these 18 services are as follows:

- **Market share:** Attracting an estimated £1.6m-plus per year in cremation fees, with an 8.3% market share Cambridge carries out more cremations per year than any other crematorium in the region apart from South Essex.
- **Convenience:** Local demand (from people living within 30 minutes by road of a crematorium) accounts for about one in four of all the cremations conducted across the region. In the case of Cambridge the figure is higher, with 27% of its demand for cremations comes from families living within a 30 minute drive of the Cambridge Crematorium.
- **Relative Price:** Cambridge’s adult cremation fee at £620 (in 2013) is 6th lowest in a fee table ranging from £575 (Manor Park) to £770 (Harwood Park and Northampton).

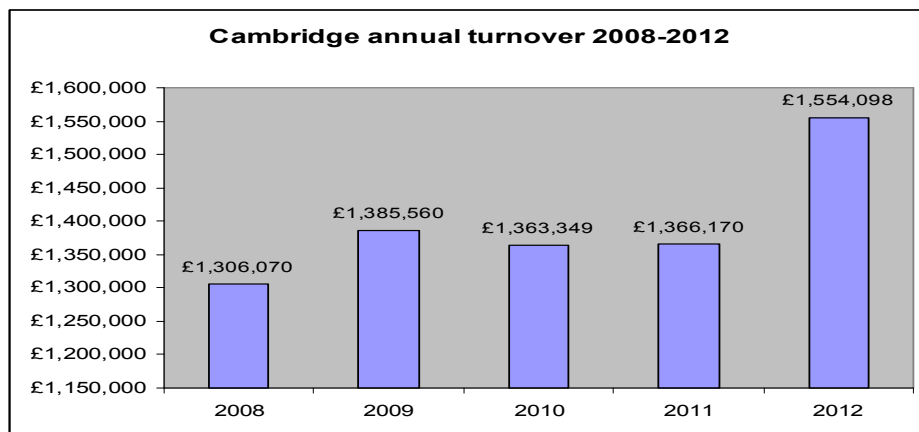
6.3 Trends

Using annual data for the period 2008-2012 (Source: Cremation Society of Great Britain) it can be seen that:

a) The number of cremations is about the same as it was 5 years ago.

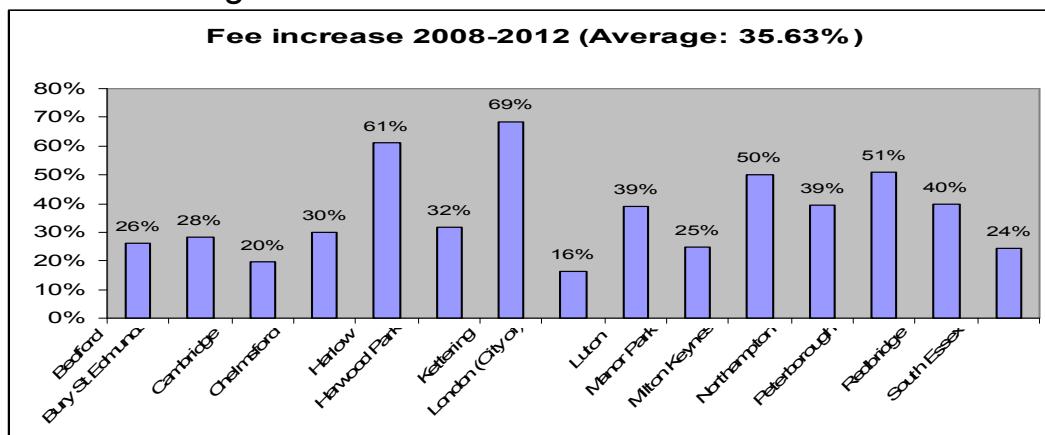


b) Turnover has increased at Cambridge by 19% since 2008.



c) Market share of cremations has held firm (8.3% in 2012, compared with 9% in 2008).

d) The average fee increase at neighbouring crematoria over the period 2008-2012 is 36%, compared with 20% for Cambridge. Only one crematorium (City of London) achieved a lower rate of fee increases than Cambridge.



6.4 Summary

Cambridge has sustained its cremation numbers despite a 20% fee increase over the last five years. Demand for bereavement services does

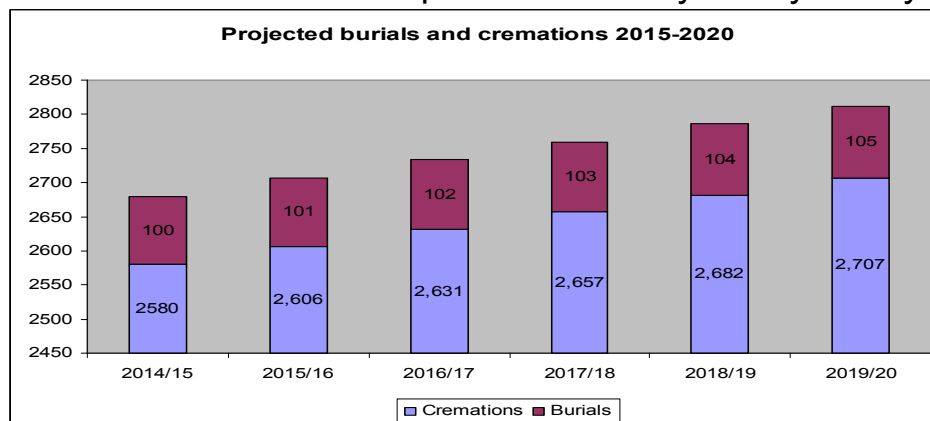
not appear to be price-sensitive. In Kettering, for example, where fees have risen by 69% over this period, the service has maintained its 8% market share. With its fee increase some 16% lower than the group average, Cambridge could reasonably expect to improve its turnover by increasing its fees in the short-term.

7 What are our expectations about sustainable growth of Cambridge’s Bereavement Services over the next 5 years and what are the implications for changing the model of delivery?

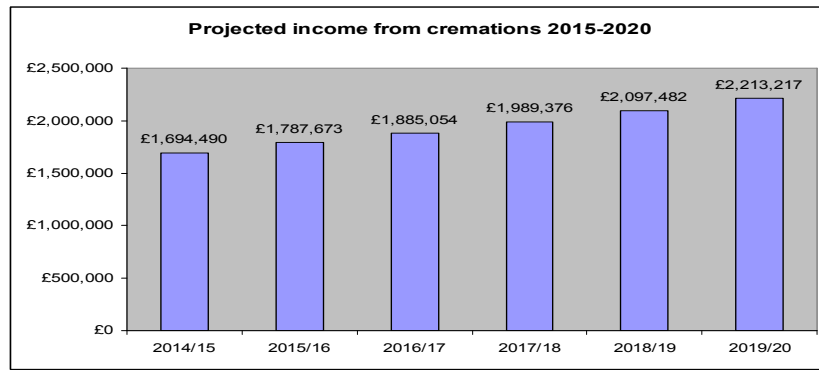
7.1 Using the Office of National Statistics (ONS) population and death rate projections for the area, activity levels for burials, cremations and commemorations are expected to rise for the next 5 years, following relatively static rates over the past five years. Taken together with some modest price change assumptions and cost estimates on the basis of known planned organisational changes, this growth is likely to produce an improved net position in the coming years. A pricing strategy that sustains income growth for the Council can both accommodate the Council’s General Fund priorities and support the Bereavement Service’s investment needs.

7.2 Key forecast information

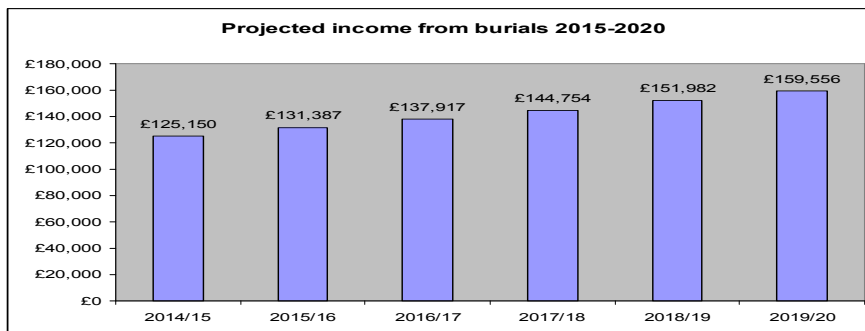
- a) On the basis of population and death rate projections, numbers of cremations and burials are expected to rise by nearly 5% by 2020.



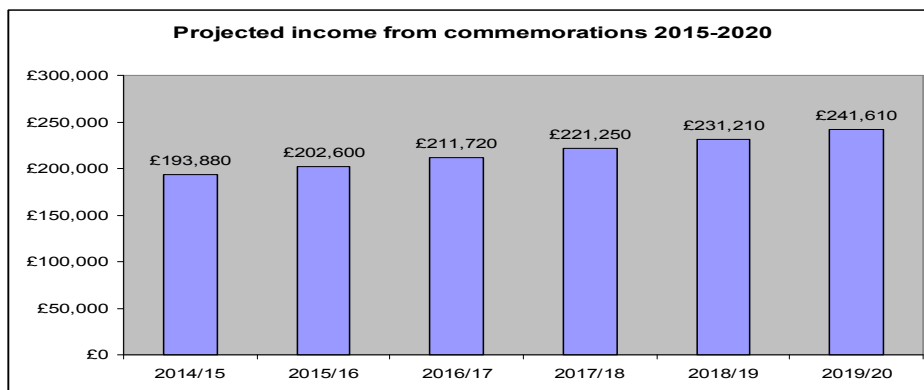
- b) Income from cremations could rise by 30% (on the assumption of prices increasing year-on-year by the current rate of inflation plus 2%). It is proposed that any future pricing structure would accommodate a charging option that is consistent with the need to safeguard families and individuals who are struggling economically, and the most vulnerable. For example, cremation charges for 2014/15 consist of a lower and a higher banded rate. Standard charges are £645, and a lower rate is available before 10am and after 4pm, at £520. A future pricing strategy could maintain or extend these differences.



c) By the same token, income from burials could rise by 27% over the period to 2020.



d) Income from commemorations could be 25% higher by 2020.



7.3 On the basis of this outline market assessment, broad demographic data and an indicative pricing strategy it should be possible to improve net income contribution in future years over and above the current budget requirements, without adversely affecting overall demand or market share. Clearly further detailed analysis could give more reliable demand information and a more confident basis on which to assess and manage the potential future demand. An outline strategy is modelled in Appendix 3 to show the potential financial benefits to Cambridge.

7.4 On the supply side, competitor behaviour to squeeze Cambridge's market share, particularly by private sector providers is another risk for which a sensitive strategic approach will be required. It is proposed to complete further market analysis in refining the business strategy.

8. Discussion of options

8.1 A range of options is open to the Council to consider, in delivering its objectives most effectively. These include, (in order of magnitude of change from the status quo):

- No change in arrangements;
- Moving the service onto a ring-fenced trading account;
- Externalising the management of the service through a contract;
- Setting up an arms'-length trading company;
- Establishing a charitable trust to run the service;
- Disposing of the service.

A summary of these options is set out in Table2 (below) that shows how well they address the Council's key design principles and financial objectives.

Table 2

<i>Options</i>	1	2	3	4	5	6
<i>Objectives/Risks</i>	no change	trading account	external mgmnt contract	arms-length trading company	charitable trust	dispose of service
Putting the needs of the bereaved first and meeting expectations	✓	✓	✓	✓	✓	☒
Meeting statutory and legal requirements	✓	✓	✓	✓	✓	☒
Being transparent and open in governance	✓	✓	✓	✓	✓	☒
Delivering services in an ethical and impartial way	✓	✓	✓	✓	✓	☒
Being environmentally sustainable	✓	✓	✓	✓	✓	☒
Being able to self-fund future investment to continue to be successful	✓	✓	☒	✓	☒	☒
Revenue income retained	✓	✓	☒	✓	☒	☒
Fees and charges controlled by the Council	✓	✓	☒	✓	☒	☒
No procurement costs	✓	✓	☒	✓	✓	☒
VAT benefits retained	✓	✓	☒	☒	☒	☒
Minimising HR and TUPE issues	✓	✓	☒	☒	☒	☒
Limiting procurement processes	✓	✓	☒	✓	☒	☒
Non-domestic rate relief	☒	☒	☒	☒	✓	☒
Managing residual recharges	✓	✓	☒	☒	☒	☒

8.2 Discounted options

It is recommended that four of the options should be discounted as not a 'good fit' for Cambridge at present:

8.2.1 **Letting a Management contract with an operating lease to allow the service to be managed externally, on behalf of the Council, with the Council retaining ownership of the assets**

While a carefully written contract specification and appropriate supervision could ensure that most of Cambridge's key design principles are delivered, externalising the management of the bereavement services is unlikely to be the best business solution.

Experience from another local authority in a similar project involved the Council in having to pay substantial costs for what could be a lengthy procurement process for a contract.

There is a risk to the Council that the supplier may seek to exclude (less profitable) elements of the cemeteries portfolio (e.g. unused chapels or high risk/unsustainable buildings), that will remain as residual assets and maintenance costs. In addition there will be continuing costs for contract monitoring and performance management, and there may be tax implications for the Council. HMRC will need to be satisfied with how VAT is treated in such a contract.

8.2.2 **Setting up a Charitable Trust to manage the service at arms' –length from the Council**

There are a variety of advantages to charitable trust status, including exception from most forms of tax and freedom for the trustees not found in other types of English trust. To be a valid charitable trust, the organisation must demonstrate both a charitable purpose and a public benefit.

Charitable trusts are not allowed to be run for profit¹. Charitable trusts, as with other trusts, are administered by trustees, but there is no relationship between the trustees and the beneficiaries.

Tax law also makes special exemptions for charitable trusts. They are free from the income tax paid by individuals and companies, and also the corporation tax paid by incorporated and unincorporated associations. There is no requirement for charitable trusts to pay capital gains tax or council tax, although they are obliged to pay VAT.^[5] This freedom from tax liability also applies to people and companies who donate to them.

¹ Charitable trusts are known as a non-profit distributing organisation (NPDO) and must reinvest any profit in the organisation and fall under the jurisdiction of the [Charity Commission](#).

A new trust would generate savings of non-domestic rates and VAT². The authority would still own the multi-million pound assets controlled by the trust. The trust would also be able to access new forms of funding that are not open to the council. Typically the trust's board would include local members and employee representatives, as well as independent members.

On the downside, both the ability to self-fund future investment to continue to be successful and income growth are likely to be limited, with the Council giving up its control over fees and charges. In addition, the VAT benefits that the Council currently enjoys could be at risk, while the Council might still need to absorb and manage residual support services costs following the establishment of a trust.

8.2.3 Setting up a Trading Company to manage the service at arms –length from the Council

The Local Government Act 2003 provides local authorities with a general power to trade for profit through a company, i.e. where charges are fixed at more than cost recovery, with private bodies and persons. In order to ensure a level playing field with the private sector and to avoid breaching state aid and other legal requirements the company must not be subsidised by the authority. The council would have to recover any costs of accommodation, goods, services, employees and any other support it supplied to the company, and set up suitable systems and financial controls to do so and to ensure the independence of the company

The formation of a company would at the outset seem an attractive proposition. Operating openly as a trading company, the service would be in a position to compete more directly for business on a number of fronts, including the option to develop directly its capacity to deliver and plan funerals. It could offer greater freedom to the management team to operate rather than being constrained by, for example, local authority procurement and HR procedures.

The potential rewards from changing to this model are greater and less constrained by legislation than those of remaining as a directly provided, local authority service. This model broadens the potential of the council to operate on a far more commercial basis.

However, the current view is that the service needs time to mature and gain experience in this market, to operate more commercially and make better use of current assets, properly understanding the risks involved, before considering a more radical change to its business model.

² A potential discount of 80 per cent.
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For example, from the trading company's perspective it may experience a reduction in costs, by providing its own HR and related support services itself. However, from Cambridge's perspective these overheads would remain as residual costs within the Council, until they could be reduced through further organisational changes.

There are also tax implications to the Council from establishing the service as a trading company. The most important tax issue is that of VAT registration. As the majority of the bereavement service's income comes from carrying out cremations, which is termed an 'Exempt supply' the Council would be unable to recover VAT on about £375,000 of costs each year - at current rates about £75,000. In addition any capital funding would be outside VAT recovery - the recent mercury abatement project would have cost an additional £400,000. Given the need for capital works in the short to medium term for the service's car parks and buildings, the risks are significant.

It is understood that the cost of establishing a trading company could be significant, perhaps more than £100K. The resources required to complete the exercise including legal costs, officer time and consultancy costs really depend on the availability of the internal resource and the level of expertise available.

8.2.4 Disposing of the business – where the Council stops providing Bereavement Services.

This option has a number of disadvantages to the Council. Experience in other authorities suggests that disposing of the service would be likely to involve a lengthy tendering process and financial responsibility for substantial procurement-related costs. Where bereavement services have been acquired by external providers 'cherry picking' behaviour has resulted in parts of the cemeteries portfolio (e.g. unused chapels or high risk/unsustainable buildings) remaining with councils. The benefits of a one-off capital receipt to the Council from such an approach must be weighed against the risks that it would surrender control of the future direction and cost of the service, retain responsibility for less 'profitable' elements of service and lose a sustainable revenue source.

8.3 Options for further consideration

Two remaining options are worthy of more detailed consideration as a strategy for Bereavement Services, namely:

- a) No change

b) Moving to a trading account

8.3.1 No change – a commitment to continuing to improve the service within current service arrangements

This model involves managing the services unchanged, along the lines of the current restructure proposals.

This is the most prudent of the options under consideration. With the present structure it will be possible to continue to deliver marginal improvements to the council's budget year on year, and to satisfy most of the design principles for the service. However, under this model there is a risk that insufficient revenue is generated either to cover the major investment needs required to sustain and repair the service infrastructure, which are likely to be in excess of £1million over the next 5 years, or to provide sufficient financial 'headroom' to invest in managing and marketing the services more effectively. A condition survey is planned for all the service buildings, and an indicative investment plan is illustrated at Appendix 4.

8.3.2 Forming a trading account (ring-fenced account) that will deliver required levels of income to the General Fund, and allowing for any additional savings to be ring-fenced to invest in the service

This option meets all the service's design principles. Essentially this represents no material change in how the service operates and delivers its services. There are no immediate HR implications, no procurement or support services issues, and tax liabilities remain unchanged.

However, one significant change from the current arrangement is that any surpluses over and above the required contribution to the General Fund could be retained by the service. This would usually mean that surpluses can be built up over a period to pay for capital investments in the facilities. Any requirement for changes to annual savings targets and contributions to the Council's central funds could be accommodated as part of this arrangement.

Moving to a trading account basis will allow the service to behave more commercially, developing the council's commercial experience and potential, while stopping short of openly trading for profit and thereby minimising the risk of a legal challenge. A trading account can provide the basis to improve the council's income return, provide financial headroom to market the service and manage the risks from increasing exposure to the competitive environment. It can also provide for reinvestment, preparing the

way to consider establishing a fully commercial entity in the medium term, once the service's brand and the Council's commercial experience have both matured.

For Cambridge it would mean that for the time being control of capital spending would rest with the service rather than bids for capital funding from reserves or prudential borrowing. The more successful the service can become in adapting its commercial focus and generating additional income, the better it can meet the budget requirements, deliver its operational objectives, and reinvest into the service.

9. Conclusions and Recommendations

9.1 Following a substantial period of instability and change Cambridge Bereavement services faces another major challenge in ensuring that its market position is protected.

9.2 Cambridge's position in the local market is strong. Demand forecasts indicate that there is potential for additional revenue to be generated in the coming years, from growth in cremations and burials for which there is now operational capacity following investment in the infrastructure at the Crematorium and at Newmarket Road cemetery. The market analysis also indicates that additional income can be delivered within the current service arrangements through modest price increases, without affecting market share.

9.3 However, while there are opportunities for the service to grow, there is also a need to invest in its future. A plan is being prepared that identifies a programme of investment that is required to support the Bereavement Service's infrastructure and facilities, and to enhance the value of the business.

9.4 Opportunities exist to develop additional services such as Green burials, a flower shop and a café for customers and visitors to the crematorium that will also require investment in the service infrastructure.

9.5 The Council has a range of choices available if it wishes to change the Bereavement Service's business model. The current model of business operation may be unlikely to be able to both sustain its return to the General Fund and sufficiently support future investment needs. However, by moving the service onto a trading account basis, and ring-fencing any surpluses over and above the required return to the General Fund, it would be possible to fund the required investment without resorting to additional capital bids.

9.6 Operating as a trading account will allow the service to develop its offer, make better use of its capacity, establish the Cambridge brand, and build up experience and expertise of more commercial working, at a reduced risk of a challenge from its competitors. This approach is recommended as a realistic and pragmatic strategy.

9.7 Alternatively, the service could set up as a trading company, and compete more directly for business on a number of fronts, including the option to develop directly its capacity to deliver and plan funerals. The potential rewards from changing to this model are greater, and will broaden the potential of the council to operate on a more commercial basis. However, the current view is that the service needs to mature and gain experience in this market, make better use of current assets, and properly understand the risks involved, before considering a more radical change to its business model. Additionally there are considerable set –up costs and tax considerations for the Council from the operation of such an approach, and it is recommended that the Council's commercial skills are insufficient at this point to guarantee its success.

9.8 The current management team is committed to delivering the programme of works that will be required over the next 5 to 10 years. This is evidenced by the recent mercury abatement and replacement of cremators programme, and substantial refurbishment works at the crematorium and in the cemeteries. This progress has been achieved despite significant staff changes and only rarely in recent times has the service been operating at full employee capacity.

9.9 The key decision is the strategy for developing the service. Financially the service has continued to improve its income levels despite only moderate fee increases and growing concerns about infrastructure works required. Nevertheless the service is required to increase its contribution to central revenues and at the same time continue to fund essential works.

9.10 This report looks at alternative ways of delivering the service. Some options are disregarded at this stage because they do not provide enough value against objectives and represent a relatively high risk.

9.11 Retaining the current in-house model is recommended at this stage to move the service forward. Following a staffing restructure a period of consolidation is necessary to enable improved working practices to develop. Current budget pressures can be alleviated with only a moderate increase in fees and manageable savings targets.

9.12 The next logical step would therefore appear to be to establish a pricing strategy, delivered through a trading account whereby surpluses can be retained for re-investment in its assets and facilities. This option is recommended for further detailed consideration, as a means to establish a sound commercial basis for the bereavement service to mature and grow, with a medium-term objective of developing a fully commercial company.

10. Implications

(a) Financial Implications

The preferred business model could deliver sustainable income streams that exceed current savings targets and support the funding of required investment in the service. Appendix 3 describes a proposed pricing strategy, and Appendix 4 sets out an outline investment programme to maintain and replace the service infrastructure.

(b) Staffing Implications

These proposals are based on the current approved staffing structure. Further development of the service in the medium-term will require a review of the management arrangements.

(c) Equal Opportunities Implications

The proposals in this report make provision for a pricing strategy that can take account of families that are struggling economically.

(d) Environmental Implications

The proposals in this report indicate a +L climate change impact from the potential to improve opportunities for green burials.

(e) Procurement

None

(f) Consultation and communication

Not available for consultation at this stage.

(g) Community Safety

None

11. Background papers

These background papers were used in the preparation of this report:

- a) List of charges 2014/15
- b) Bereavement Services Business Plan (2011)

12. Appendices

Appendix 1. What happens elsewhere (confidential)

Appendix 2. Key Facts/Market analysis performance table (confidential)

Appendix 3. Outline Pricing Strategy (confidential)

Appendix 4. Outline investment programme and Repairs & Renewals plan

Appendix 5. EQUIA

13. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

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