

## **UNISON Barnet**

September 2011

### **Briefing No. 8**

### **One Barnet Programme**

## **Hendon Cemetery and Crematoria – UNISON supports capital investment but not outsourcing**

### **Introduction**

A report to Cabinet Resources Committee on 27 September 2011 recommends the Council finances £1.74m capital investment in Hendon Cemetery and Crematoria whilst retaining the plan to outsource the service with Development and Regulatory Services (DRS).

UNISON have on a number occasions reported to councillors that there is no justification for outsourcing this service and it should never have been included in the DRS procurement. Elected Members should know the full facts and act in accordance with value for money and fiduciary duties.

### **Recommendations**

- 1. The planned capital investment should be approved to improve service delivery, meet pollution regulations and promote income generating potential.**
- 2. Hendon Cemetery and Crematoria should be withdrawn from the DRS procurement and the service retained in-house in order to maximise Council revenue and deliver an effective service resulting from the planned capital investment. This is in line with the officers recommendations from the options appraisal following the CRC decision on 23 April 2009.**
- 3. Investigate the way in which capital investment and service delivery have been considered at options appraisal, business case and procurement stages to ensure these are more competently dealt with in future.**

### **First option appraisal rejected, second ignored**

The Council has known for several years that Hendon Cemetery and Crematoria required investment to meet pollution regulations to reduce mercury emissions by December 2012. It commissioned Capita Group plc to produce an options appraisal in October 2008. However, the trade unions were only formally notified about the appraisal in a report to Cabinet in April 2009. It turned out to be a failed attempt at a Future Shape 'quick-win'.

The 2008 Capita Group plc Options Appraisal, which failed to acknowledge the need for a building conditions survey, was heavily criticised by the trade unions (Barnet UNISON, 2009) and rejected by Cabinet in April 2009 (London Borough of Barnet,

2009). Cabinet agreed that a new options appraisal be carried out by Council officers to explore all options, including in-house provision, with trade union involvement.

A new options appraisal was then undertaken by Council officers and examined the following options:

- Option 1: No investment in the crematorium
- Option 2: £2m investment and £70K capital funding sink fund
- Option 3: Outsource get half of gross profits
- Option 4: 8% turnover- initial capital investment
- Option 5: Lease
- Option 6: Outright sale
- Option 7: Three-way agreement with Camden and Islington

The new options appraisal assessed eight options and undertook a soft market test. It concluded an in-house option was the best option – the service currently has an annual **net income** of **£0.5m**. This appraisal was never submitted to Cabinet. The options appraisal was conclusive ***“...in house delivery with the required investment would be most attractive from a financial perspective”*** (London Borough of Barnet, 2011). The financial analysis spreadsheet provided conclusive evidence that the in-house option provided significantly better value for money compared to the other options. The council did nothing, but later included the cemetery and crematoria service in the specification for planning and regulatory services in the knowledge that it was virtually certain to be subcontracted.

### **Stand-alone service**

Although Hendon Cemetery and Crematorium is a regulated service there was never any rationale for its inclusion in the scope of the DRS contract. It is a stand-alone service. Yet it was included in the DRS contract *“...to preserve the coherence of the council’s wider strategic vision of its future as a commissioning organisation”* (page A8, DRS Business Case). In other words, Barnet Council **put ideological dogma before value for money and fiduciary duty**.

The Council claimed it *“...could increase the net gain to the Council further if it were able to bring the significant investment that is required. This increased revenue potential would add considerably to market appetite for the bundle”* (page A10, DRS Business Case). That was a fallacious argument because a ‘net gain’ was never likely to materialise because the Council would have had to pay private sector interest rates, financial arrangement fees and private sector profit on the capital investment, in addition to the operation of the cemetery and crematoria. This plan fell apart when the Council belatedly discovered that it *“...is unlikely that the existing cremators will last long enough for any new organisation to carry out the replacement once any new organization is appointed”* (London Borough of Barnet, 2011).

### **Subcontracting**

None of the firms shortlisted for the DRS planning, highways, environmental health and regeneration services have any experience in managing cemeteries and crematoria. Furthermore, none of the firms have shown any interest or capacity to expand into this sector. This service is almost certain to be subcontracted, probably to one of the firms that took part in the soft market test as part of the Cemeteries and Crematoria options appraisal. **Yet the outsourcing and partnership options were**

rejected in the 2009 options appraisal because they did not provide value for money.

### **Loss of Council revenue**

Outsourcing will have three consequences:

1. Net profit, £462,000 in 2010/11, will be considerably reduced because the private operator will extract a 6% - 12% basic profit on the £679,000 operating cost. In addition, the main contractor will impose a subcontract 'management' fee. **Council revenue could fall by at least £100,000 per annum.**
2. The Council and/or the contractor could seek to increase fees, but this would be widely resisted by Barnet residents.
3. Additional financial and operational risks are evident in all outsourcing contracts, but missing from the DRS options appraisal and business case. UNISON's analysis of the DRS Business Case concluded it "...*completely fails to identify operational risks of outsourcing the DRS services, including the governance, financial and service delivery risks*" (Barnet UNISON, 2011).

The Council cannot afford to put such an important revenue stream at risk.

### **Sweetener to attract bidders**

The inclusion of the Cemetery and Crematoria as a 'sweetener' to attract private bidders was never credible. Private contractors would only be interested in the cash flow generated by the Cemetery and Crematoria, but this could backfire on the Council by reducing their revenue at a critical time when the council is making big cuts council spending.

### **Withdrawal from DRS contract**

Withdrawal of the Hendon Cemeteries and Crematoria from the DRS procurement will have little effect on the procurement process or the other services in scope, because it is a stand-alone service. It would reduce the size of the contract by only a few percentage points.

### **Lack of transparency**

The Council-prepared option appraisal, produced in accordance with the April 2009 Cabinet decision, was never submitted to the Cabinet or committee. We can only conclude that it was **withheld from elected members** because it did not fit with the One Barnet outsourcing model.

### **Failure of asset management**

*"There has not been a structured programme of re-investment into the service, grounds or buildings at HCC and this has resulted in significant dilapidation and a lack of modern facilities in-keeping with competitors and industry developments"* (London Borough of Barnet, 2011). This is a failure in the management of the Council's assets, which precedes the current spending cuts as a result of the global financial crisis.

### **Timeline known for long period**

The timeline has been known for at least **eighteen** months. The need for new cremators to be installed by **December 2012** has been known for a considerable time. Senior management also knew the procurement timetable meant that a contract would not be operational before late 2012 or early 2013. Thus it was impossible for a private contractor to finance and carry out the capital works to meet the December 2012 deadline. Furthermore, *"Members have previously indicated that they would wish to carry out abatement works rather than make payments to other crematoria under a*

*burden sharing scheme and continue to pollute through emissions of mercury” (London Borough of Barnet, 2011).*

It is disingenuous to blame the cremator equipment “...will not last long enough for any new organisation to carry out the replacement” (London Borough of Barnet, 2011) when the real reason for the delay appears to be a blind adherence to an outsourcing One Barnet programme even if it does not have a sound financial basis. This report goes on to blame the in-house options appraisal for the delay in dealing with capital investment – the same options appraisal that was sidelined and not reported to Members. “*The project to progress the replacement of the cremators and mercury abatement was not commenced earlier due to the decision to carry out this options appraisal.*”

### **Value for money**

The Council’s own options appraisal and financial analysis concluded that retaining in-house provision with the Council financing capital investment provided the best value for money.

The Coalition government recently reissued the Best Value Statutory Guidance. It reminds local authorities that they “...are under a general Duty of Best Value to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness” (DCLG, 2011).

**The way in which the future of Hendon Cemetery and Crematoria has been managed over the last four years means that Elected Members could be in breach of their value for money and fiduciary responsibilities.**

### **References**

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