

BEREAVEMENT INFRASTRUCTURE PROJECT: SCRUTINY UPDATE

July 2022



INTRODUCTION

The Plymouth Crematorium at The Park will provide the citizens of Plymouth with a new, purpose built crematorium with associated facilities off Haye Road, Plympton. This is needed in order to continue to be the main crematoria for the city. Investment will deliver quality facilities that meet 21st century customer expectations and capacity to meet future demands.

The new facilities will include three ceremony spaces, designed to meet the varying needs to suit the number of mourners and the desired style of the ceremony; along with high quality audio-visual equipment for the ceremony and to allow those who cannot be present to take part.

The waiting areas, along with the flow of people throughout the building and outside spaces, have been designed to ensure that each funeral party receives the highest quality of experience when saying goodbye to their loved ones.

Behind the scenes, the crematory will have new cremators with the latest abatement equipment, and the required space and facilities to improve all elements of care for the bereaved as well as health and safety improvements for our staff.

Outside of the buildings, the grounds have been designed to sit sympathetically in the environment, in the full awareness of the wellbeing benefits of green spaces. As well as landscaping including memorial gardens, there is appropriate car parking, road access, pathways and other appropriate external spaces.

In addition – and in excess of the initial designs – there is a café and wake facility. Our market research tells us that people value somewhere to meet in the warm and dry either before ceremonies or when visiting the memorials of loved ones; as well as giving us the opportunity to join in initiatives such as Compassionate Friends. The space is flexible, and would allow for either larger wakes, or smaller, more intimate, gatherings.

Significant work has taken place over the last 5 years which has brought us to the stage where Kier, the main contractor, are onsite and have delivered enabling works including bringing services on to site, and we are at the point now of seeking to award a design and build contract for the full construction.

However, the costs for the development have risen, since the initial forecast and more rapidly over the last few years due to unprecedented events outside of our control.

THE ISSUES

There have been a number of costs which have significantly increased due to matters outside of our control.

Unfortunately the pandemic hit shortly after the appointment of Kier as the approved provider and the subsequent tendering processes have highlighted the issues being faced by the construction industry – and the implication of these on the project.

Brexit also had an impact on labour and supplies.

Then the Ukraine war has also impacted on supplies particularly in terms of the availability and cost of critical materials such as steel, iron, nickel, chemical products and timber. Energy price increases are another issue, particularly given the high European dependency on Russian gas and

oil. Prices are likely to remain high, meaning that the cost of materials used in projects that require intensive energy input, such as steel, bricks, plastics and ceramics, are going to continue to rise. Transportation costs also look set to increase further.

In effect, the war has exacerbated an already turbulent market, hit by Brexit, Covid-19, shipping disruption, rising energy and fuel costs and spiralling inflationary pressures.

Therefore the construction price is being affected by interlinked factors;

- Materials supply
- Labour costs
- Energy (and transport) costs
- Reduced appetite for risk given the uncertainty in the above factors

These concerns are impacting on the confidence within the industry, the market has become more risk averse and we are currently in a challenging period in terms of exceptional market volatility and procuring “competitive” tenders has been challenging with often 1 or 2 suppliers responding to tenders, meaning costs have increased. The Building Cost Information Service (BCIS) is currently forecasting an increase in tender prices of 21% over the next 5 years.

COST INCREASES OVER TIME

The initial business case was presented in 2017; costs were very provisional and there was no formal sign off at this stage, since it was clear that design input and detailed costings would be required.

In June 2018, a cost of just under £12 million was approved. This budget was prior to design team appointment and based on a simple scheme with limited support facilities, basic repeatable and standardised design, and limited landscaping. Furthermore, it did not include full design, cremator procurements, café and wake facility, services reinforcement and estimate of land purchase amount.

In July 2020, a further estimate of costs was put forward as a business case and approved. This was for £16 million; it included a scheme design that had progressed and was more in line with the brief of a contemporary state of the art facility, costs included for PCC estimated direct costs, unforeseen site diversions and requirement for full an Environmental Impact Assessment as subsequently requested by the planning department. Updated costs based on planning, partial design and procurement status.

Unfortunately, it became very clear after this point that Covid19 was not going to be over in one wave, and that the construction industry were, and continued to be, heavily impacted in terms of the ability to procure pre-construction design and planning services and also maintain the supply of construction goods and materials.

In October 2021, the scheme costs were reviewed against the developing design in line with the brief and estimated at £22.98 million. Scheme delay in large due to Covid impact (e.g. design team furloughed), identity of utility diversions required to enable works and direct impact of Brexit lowering and disrupting availability of the supply of materials and also increased prices. Market uncertainty and loss of sub-contractors meant the price increased on the project over the delay period. The project costs increased over the period in line with inflation and the industry as a whole. A value engineering exercise played a big part in offsetting a significantly bigger rise in the project cost.

In February 2022, the planning authority rejected a number of the proposed value engineering items and the decision was made to procure the works under a Design and Build basis to de-risk exposure to additional cost during the construction phase.

The cost that we have now arrived at, £29.4 million, reflects the final costs having gone to tender for all components and updated those orders placed earlier in the project. This is on a full contract Design and Build 'Fixed Price' basis capturing the forecast cost and exposure to market inflationary increases and also volatile price uncertainty with goods and services.

It also includes significant risk in large value Mechanical & Electrical installations and limitations in the appropriate supply of specialist sub-contractors and high prices received from the market where the main increases apply. Fixed prices from the Main Contractors supply chain are no longer available (market as a whole is limiting risk exposure, to avoid taking price fluctuation risk – i.e. to avoid the same fate as Midas and similar) meaning the Main Contractor has increased their risk allowances to accept market price rises rather than resting with PCC with no certainty until completion.

All construction projects are currently under heavy price increases and as shown by the SCS frameworks comments noted later.

Table I summarises the cost movement for the Bereavement Project against the timeline showing how the cost has evolved over time with rationale for the changes.

Date	£m	Approval Status	Rationale
2016-2017	12.000	Approval not sought	Early estimate before design or land purchase or new cremator procurement
June 2018	11.985	Business Case Approved	Estimate based on scheme with early stage design, limited facilities, basic layout, no cremator procurement, café and wake facility, site constraints and estimate of land purchase
July 2020	16.029	Updated Business Case approved (Appendix 2)	Updated costs following planning EIA requirement, cremator procurement, partial developed design, site constraints
Oct 2021	22.980	Not Approved as awaiting final cost, but <i>additional Corporate Borrowing included 2022/23 Budget / MTFP to £20 million</i>	Increased costs from contractor arising from design development, but significant impact from Covid risk and Brexit. The shifting of the programme has impacted on work package price increases due to supply of goods and services
Feb 2022	23.100	Not Approved as awaiting final cost Appendix 3	Increased costs due to planning impact on VE changes and switch to D&B procurement
June 2022	29.400	Main Contract Award (currently in progress) Appendix 3	Updated prices received from the main contractor for all the various work packages including design and build risk, inflation and cost increases arising from the conditions in the market until contract completion. Note low responses from local sub-contractors at high prices. The contractor has also included risk elements to ensure risk avoidance on their behalf related to the fact that PCC have

			requested a complete cost for all works over the 2 year period and at a fixed price without adjustment to market inflation.
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WHAT WE HAVE DONE

Value engineering

Extensive value engineering has been carried out throughout; this has saved the order of £1 million. Changes were only considered where they would not create significant changes to the overall look and feel of the site (in line with Portfolio holder requirements), or where substantial changes requiring planning approvals would be needed. Changes included;

- External Wall construction – change from pre-cast concrete to traditional blockwork created a considerable saving linked to the cost of materials and a larger subcontractor base
- External Wall plinth (foundation) - change from pre-cast concrete to traditional blockwork – as above
- Mechanical & Electrical Installations – no planning risk, no resilience loss, wider network of suppliers and manufacturers
- External Works and Landscaping – replacement of bridges with culverts and bridge ‘type’ crossings; review of levels across the site to mitigate cart away; review highway and parking specification materials based on site investigation results, etc.
- General amendments to finishes, buildability and material interfaces – no perceptible aesthetic change.

Internal reviews

Review 1 Jan/Feb 2021

When it became clear that a significant overspend was likely, this was discussed with the Portfolio Holder and the Leader at the time. A number of options were considered, as set out in Appendix I, including;

- **Option A – Delay the scheme for 12 months.**
- **Option B – Significantly redesign the scheme to fit the budget.**
- **Option C – PCC increases the budget to meet the shortfall.**
- **Option D – Remove the Café from the scheme to be delivered at a later date.**
- **Option E – Fundamental Value Engineering of the entire scheme**

Option C was chosen.

This was because;

- delaying the scheme carried significant risk, both of costs continuing to increase, and of the time delay impacting on the service’s ability to meet the requirements of the population due to failing equipment

- a redesign, and/or significant value engineering, to take large amounts of cost out, would leave the end result far inferior to the plans; not compatible with being '**one of the most impressive crematoriums in the country**', as referred to by the Leader of the Council when the initial funding was agreed.
- Delaying the delivery of the café and wake facility would not be cost effective, it would take away an important resource for the public (along with significant income which would balance the costs) and if carried out later, could cause disruption to the tranquillity that we expect the facility to deliver.

Review 2 Jan 2022

An internal peer review was commissioned from a senior PCC person experienced in large scale construction. This summarised;

The current programme is forecast to be significantly over budget. This has been interrogated as part of this review and a significant contributing factor is that the project has been exposed to unprecedented cost risk due to Covid global pandemic. By slowing down the project further to explore and undertake cost cutting it has actually exacerbated this problem and the cost savings targeting have been outweighed by additional project costs and further cost risk exposure. If further cost savings were sought, again there would be additional construction cost risk exposure and this could be exacerbated further by fuel and energy cost increases in 2022.

There is no obvious way to further save money without compromising commercial elements that could be income generating- such as the café. By excluding this element it is likely to cost more in the future and impact on both the customer experience and income the service is likely to generate.

External advice

SCF Construct support the South West in the delivery of the construction framework and therefore have considerable experience in the construction procurement process. We received the following feedback from them;

Since early 2020 SCF have supported the project team in the contractor selection for the Plymouth Crematorium Scheme. SCF has over the past 15 years delivered a total of c£7bn of projects with contract sums being agreed to on average within 1% of the initial budget and then gone on to be delivered within 2% of contract sum.

The recent events of Brexit, CoVID, unprecedented market volatility and most recently the war in Ukraine have however led to many project budgets being under intense pressure and clients needing to agree contract sums in excess of their original aspirations. Whilst it is difficult to put exact figures to this due to how unique every project is we have seen inflation to some packages in excess of 50% year on year. Further information on market forces can be found in our quarterly updates [Market Intelligence - SCF \(scfconstruct.org.uk\)](https://www.scfconstruct.org.uk)

In supporting the team in delivering the Plymouth Crematorium, SCF can provide reassurance that the project team has done everything reasonably practicable to reduce exposure to increasing market costs. Whilst the final proposed contract sum is clearly above the original aspirations in the current market it does represent a realistic project cost to the client.

Kingsley Clarke, SCF Operations Lead, Southern Construction Framework

Summary of feedback

The feedback has been clear in that the cost pressures that we are experiencing have been outside of our control and that, albeit with some suggested improvements which were enacted ASAP, there are no additional actions that can be taken to mitigate these, other than move to the award of the design and build contract as rapidly as possible.

FINANCE

We have now moved to a design and build contract to reduce the risk associated with increased inflation and other issues. A new cost estimate has now been calculated in the sum of **£29.4 m.**

The funding arrangements, are likely to reflect;

- Service borrowing of around £16m. This was to be paid from the service as per the original approved business case.
- A further capital provision of around £4m approved by Full Council 28 February 2022.
- Further Capital provision which has yet to be identified.