

Gedling Borough Council

Project Brief

Invest to Gain (Contribution
to Overheads)

Project Title:

**Pet Cremation
Commercial Service**

Lead Department:

Parks and Street Care



DOCUMENT CONTROL

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Version	Status	Revision Date	Summary of Changes	Sign-Off
1.1	Ongoing	20/06/23	Business Case Revision Background and business liquidity, project deliverables, outline plan and resource requirements.	

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1. Background and Business Needs

Background:

On 28 June 2018 Gedling Borough Council sought and obtained authorisation to commence a new Pet Cremation Service for the residents of the Borough. The service was licenced by DEFRA and launched in April 2019 and was an ‘invest-to-gain’ initiative. It was forecast to generate a contribution to overheads of £93,800 at full operation. This was based on an ambitious prediction of 10 dogs per week at an average of £120 each, and 10 cats at an average of £70 each. The budgets were set at this level from year one, which was ambitious for a start up business with a new service and no recognisable branding/marketing.

The initial business plan was based on the cremation of domestic pets using a ‘USP’ of a 48 hour turnaround service, which included collection and return if required. The business case also assumed that a number of veterinary practices would change the contractual arrangements they were in and start to utilise the Council due to turnaround times and proximity to their practice (some are contracted as far away as Northampton). This information was based on soft market testing prior to the launch of the service.

However, the veterinary practices who expressed interest in coming on board at the business planning stage, subsequently failed to do so. They stated contractual reasons with their current supplier as preventing them from doing so, as the large national companies offer a ‘one stop shop’ where they provide pharmaceuticals, remove clinical waste, and arrange the cremation of pet cadavers. In doing so the veterinary practices sign up to longer term contracts, and by supplying budget pharmaceuticals they have a dominant market position that plays a key role in helping the surgeries to reduce their costs, which prevents them from moving elsewhere. This has resulted in the Gedling Pet Cremation business not gaining the market share it initially hoped to achieve.

The original business case also considered the option of collecting clinical waste from the veterinary practice alongside the pet cadaver, but due to complex issues around managing, storing and transferring the clinical waste, this option was dismissed.

The cremation service (and cremator) is located in the Jubilee depot and is used for domestic pet cremations only, up to the size of a large dog (c.60kg). It is manufactured by Addfield, model A5-IC.

Legal Powers:

The Council relies on powers under section 1 of the Localism Act 2011 to operate the cremation service and the Environmental Protection Act 1990 (“the EPA”) and the regulations made thereunder, namely the Controlled Waste (England and Wales) Regulations 2012 (“the Regulations”), to charge for the collection and disposal of waste.

The EPA gives collection authorities like Gedling the discretion to also collect clinical waste, if requested to do so, **within their area** and dispose of it for a reasonable charge. The Regulations also give the power to charge for the collection of dead

domestic pets from households.

Outside the Borough, any collection of clinical waste would be on a cost recovery basis under the Localism Act as the EPA only provides the power to charge for collection within the Borough.

If the Council was to venture into the disposal of collected clinical waste, the collection authority (Gedling) will need approvals from the waste disposal authority for the area i.e. Nottinghamshire County Council.

Marketing and promotional work so far:

Since the introduction of the service, further work has been undertaken to determine market share and improve business sustainability as follows:

- The Marketing Plan was reviewed and work was undertaken to identify opportunities available to promote the business via social media, Pay Per Click digital advertising (Google Adverts), and other means e.g. NG magazines and the Contacts magazine.
- Work was undertaken with a range of stakeholders to support the promotion of the business to other local businesses, animal rescue centres, catteries, kennels, and residents living within and adjacent to the Borough to increase market share.
- The expenditure budgets and income targets were reviewed, and costs were challenged to drive efficiencies within the business to ensure profitability.
- Monthly monitoring meetings were established between the Director, Head of Service, Finance and the Marketing Team to report on performance.
- A further soft market testing exercise with the veterinary practices was undertaken in 2022/23, which has confirmed that this is not a viable audience for the service (the vast majority are now part of national chains with centralised contracts).

Following the actions above, it is clear that the market share has improved in comparison to previous years, which indicates that ongoing promotion work is proving effective.

2019/20 - annual income £17,100;

2020/21 - £25,600 being a 50% increase over 2019/20;

2021/22 - £47,700 being a 86% increase over 2020/21 and 179% over 2019/20;

2022/23 - £77,600 being a 63% increase over 2021/22 and 354% over 2019/20.

Income is derived from cremation fees, collection fees, and sales of cremation memorabilia.

Future opportunities:

A new business opportunity has been introduced this year, relating to the sale of a range of memorial jewellery. The Council previously sold cremation memorabilia (caskets/urns, scatter tubes (free), fur clippings, inked paw prints), but under this new arrangement we now also sell eternity candles, necklaces, keyrings, rings and charms

2. Strategic Objectives and Outcomes

Within the Gedling Plan 2023 - 2027 priorities and vision for the future, there is a desire to sustain an environment that serves local people and businesses to ensure that individuals and families get the support they need. This pet cremation commercial service aims to maximise the returns from our assets and is included in the Environmental Services 'portfolio of services', aimed at '*servicing people and improving lives*' by giving tax payers a value for money service from a trustworthy organisation, at a difficult time when the importance of treating a beloved pet with the dignity and respect they deserve is foremost on people's minds.

3. Project Definition

Project Objective: The cremation of domestic pets for residents of the borough either direct or through local pet hospices, catteries or kennels. To generate an income for the Council, to support services whilst offering a high quality service to the pet owner.

Project Scope: The Marketing team have continued to raise awareness of the commercial service project through ongoing activity, i.e., promotion through social media platforms e.g., Google and Facebook. They have also explored further opportunities e.g. the Economic Development Team ran an event where the Pet Cremation staff were able to provide leaflets to promote the service. A proven form of advertising has been the Google adverts, for which we regularly receive excellent feedback responses.

The closest competitor crematorium is Antara (Nottingham Pet Cremation service), based in Rushcliffe (NG2 6NR) about 6 miles away. This is a family run business aimed specifically at individual pet owners with a small client base. However there are a few others such as 'Forget me Not' in Nottingham, and 'Pets at Peace' in Doncaster. The Council's prices are competitively benchmarked against all three of these competitors.

Project Deliverables: An in-house responsive service that offers assurance to pet owners and pet hospices, catteries or kennels which generates income for the Council. The original business case was to offer a guaranteed individual cremation service for each pet, however with the cost of living crisis, this may not be affordable for some families so the Council has been flexible and now offers the option of a communal cremation if the pet's ashes are not asked to be returned. This, of course, is offered at a reduced cost to the pet owner.

Pet Cremation Services:
Chargeable Domestic Cremations:

Individual cremation with ashes returned - through owner pet drop-off and owner collection of ashes, Council pet collection service and ashes return, or a hybrid option.
Individual cremation with ashes not returned - through owner pet drop-off or Council pet collection service.
Communal cremation with ashes not returned - through owner pet drop-off or Council pet collection service.
Free of Charge:
Final farewell in the Reflection Room
Provision of cardboard scatter tube for the ashes
Optional Charge:
Choice of caskets/urns, fur clippings, inked pawprints, candles, jewellery
Future Possible Service:
Ashes burial service (possible future pet cemetery programme)
[REDACTED]

Constraints: There is the opportunity for a ‘final farewell’ in the Reflection Room in the depot, but as this is a working environment, access is restricted and controlled at all times.

Interfaces: Marketing of the facility is carried out by the Marketing team.

4. Future Plans and Resource Requirements (Business Management)

Action	Delivery Date
Revised Business Plan	June 23
Marketing Plan	July 23
Fees and charges report	June 23
Continue to explore opportunities to generate further income e.g. [REDACTED] ashes burial service / new ‘business’ clients	Ongoing

5. Key Risks

Id.	Description of Risk	Impact	Probability	Mitigation
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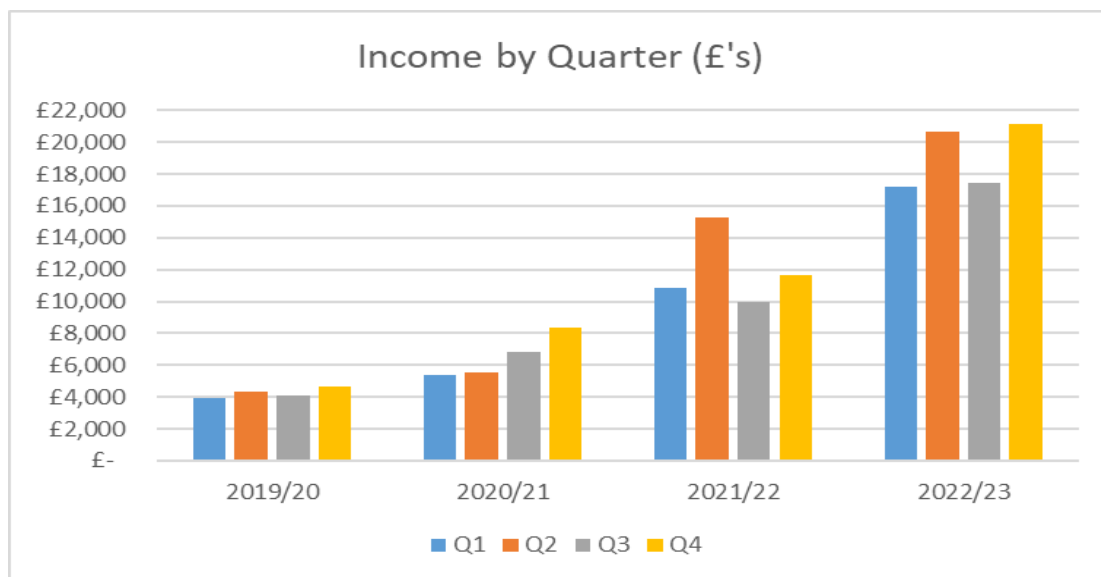
R1	The assumptions and projections are over optimistic and the level of demand / need drops, making the business loss making.	HIGH	LOW	Following earlier ambitious budget targets, the current and future budgets have been set with pessimistic numbers of cremations based on 22/23 outturn. The number of cremations is being monitored monthly.
R2	Competitors increase market share and estimated number of cremations do not materialise leading to falling demand.	HIGH	LOW	Budget set with minimal expectations. If the service faces financial difficulties then business case to be reviewed urgently at that point.
R3	Cost of living forces households to avoid cremation and consider home garden burial	HIGH	LOW	Budget set with minimal expectations, and affordable communal cremations are offered as a service. If the service faces financial difficulties then business case to be reviewed urgently at that point.
R4	Fuel costs rising	HIGH	LOW	The cremator was previously operated with diesel fuel but this has now been changed to kerosene which is much cheaper.
R5	Recruitment and retention	MEDIUM	LOW	Ensure the post is paid at market levels and support / cover is determined at the outset for periods of holiday and sickness.

6. Project Costs

Activity Analysis

Income has increased quarter by quarter across financial years illustrated in the graph below. There is currently no indication that the income has peaked and 2022/23 outturn showed a 63% increase in income compared to 2021/22.

Income analysis



The table below provides a breakdown of cremations (communal and individual), and other sales during 2022/23:

	Number	Income £	Average £
Communal Cremation:			
Cat	22	770	35
Dog	19	1,249	66
Rabbit / Guinea Pig	4	118	30
Small Animal	30	618	21
Individual Cremation:			
Cat	207	16,191	78
Dog	294	36,712	125
Rabbit / Guinea Pig	55	2,688	49
Small Animal	82	3,551	43
Total Cremations:	713	61,897	87
Sales:			

Caskets/Urns	279	7,744	28
Fur clippings	93	432	5
Inked pawprints	312	1,505	5
Candles	16	675	42
Pet collection/return of ashes journeys	588	4,172	7
Total Sales:	1,288	14,528	11

Note: A difference of £1,167 exists between the maintained records and the Agresso system due to recording on the 'quote closed date' as opposed to the 'invoice raised date'.

Number of Cremations per quarter

The table below displays the number of cremations each quarter (combined individual and communal). The activity in 2022/23 is nearly 4 times higher than that of 2019/20. The increase in the number of cremations suggests that the awareness of the service is increasing and that the marketing activity is effective.

Activity	2019/20	2020/21	2021/22	2022/23
Q1	40	59	89	150
Q2	43	61	136	190
Q3	47	70	105	176
Q4	52	80	122	197
Total	182	270	452	713

Since the Pet Cremation Service launched in April 2019 there have been approximately 250 repeat customers, a number of whom have brought more than two pets. There are also three private cat rescue charities who regularly use the services of the Pet Cremation Service, and a mobile vet who specialises in home euthanasia has recently started to recommend our services to her customers.

Conversion Rates:

During the period April 2022 to March 2023 a total of 9 quotes provided were subsequently cancelled, with 6 being cancelled and 'no longer required' and 3 that didn't present themselves for the service.

Spare Capacity:

It is feasible that at full capacity the cremator could deliver around 30 cremations per week, equating to 1,560 per annum. The 713 cremations in 2022/23 represent the cremator being run at 46% of capacity.

Currently the Pet Cremation Administrator and the Pet Cremation officer charge 50% of their working week to the service (18.5 hours each). As cremator usage is now at 46% then time allocated to the pet cremation service needs to be closely monitored.

This business model will be reviewed periodically and the growth rate monitored to ensure that any changes in income (requiring adjustment to staffing levels), or increases in costs e.g. fuel and/or staffing costs are accounted for.

Stock in hand:

A stocktake on 19 June 2023 indicated that small numbers of scatter tubes, urns and caskets of different sizes existed, equivalent to approximately £1,100.

Financial Analysis

The Pet Cremation service is reported on the basis of its contribution to overheads rather than a total cost of the service, therefore indirect costs such as management time and central support costs have been omitted from this report.

Depreciation charges for the vehicle and cremator have been replaced by a Minimum Revenue Provision (MRP) charge, which is a charge to revenue made in respect of paying off the principal sum of borrowing undertaken to finance the capital programme. As demand has not been as high as originally expected, the useful life of the cremator and vehicle have been adjusted to reflect anticipated future usage of both assets (£80,000 over 10 years is £8,000 per annum charge).

As noted above, fuel usage has changed from diesel to kerosene, and these cost reductions are built into the table below.

Furthermore, it is estimated the marketing team (not classed as centralised overheads) spend approximately 1 hour a week on the service. These 52 hours per annum cost an additional £2,600 and this is reflected in the table below. The £10 per day cost of the Google Adverts is already charged directly to the pet cremation cost centre.

The table below shows the cost of the service since its launch in 2019/20. The service has run at a deficit in the first 3 years of operation however income has continued to increase through marketing and public awareness of the service, and for the first time, 2022/23 has achieved a positive contribution to overheads (or surplus). Income earned for the year was £77,600, which was 63% up on last year's income.

Currently both the Pet Cremation Administrator and the Pet Cremation Cremator have 18.5 hours of their working week apportioned to working on the Pet Cremation. This fluctuates on a weekly basis but is an average allocation of their time. As the work load increases it is important to acknowledge the impact of this increasing activity on the workforce, and the implications this will have on the staffing costs.

Cost of Pet Cremation Service

Pet Cremation Service	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Employees	29,200	25,800	25,100	30,000
Electricity and Fuel	6,000	6,600	10,100	20,500
Vehicles	2,100	2,500	3,100	3,400
Supplies & Services	17,900	5,000	7,900	10,400
Insurances	500	400	300	300
MRP (Financing)	10,000	10,000	10,000	8,000
Income*	(17,100)	(25,600)	(47,700)	(77,600)
Contribution to Overheads:	48,600	24,700	8,800	(5,000)
Marketing Team Notional Charge	2,500	2,500	2,500	2,500
Adjusted Contribution to Overheads:	51,100	27,200	11,300	(2,500)

*Note: Income received is net of VAT.

Assumptions:

The following assumptions have been built into the model:

Cost assumptions:

- Switching to Kerosene is estimated to reduce costs by £7,000 per annum.
- A 10% budgeted growth in the service for 2023/24 requires a 10% increase in fuel budgets.
- No growth is assumed in the model for the period 2024-27.
- A 5% inflation estimate is applied to all running costs including pay awards.

Income assumptions:

- Last year the service experienced an annual growth of 63%, however for prudence, a modest 10% growth in customers for 2023/24 is factored into the model.
- No growth is assumed in the model for the period 2024-27.
- The latest market comparisons show that an average 12% annual increase in fees & charges is feasible in 2023/24, and this has been applied across all charges. This is considered reasonable in terms of returning a healthy but not excessive contribution to overheads.
- In the model, a 5% inflation estimate is to be applied to all income for the period 2024-27.

Future Projections:

The table below has applied the assumptions listed above and assumes no peak or drop off in demand.

Projections	2023/24*	2024/25	2025/26	2026/27
	£	£	£	£
Employees	31,500	33,100	34,800	36,500
Electricity and Fuel	12,000	12,600	13,200	13,900
Vehicles	3,600	3,800	4,000	4,200
Supplies & Services	10,900	11,400	12,000	12,600
Insurances	300	300	300	300
MRP (Financing)	8,000	8,000	8,000	8,000
Income**	(95,600)	(100,400)	(105,400)	(110,700)
Contribution to Overheads	(29,300)	(31,200)	(33,100)	(35,200)
Marketing Team Notional Charge	2,600	2,700	2,800	2,900
Adjusted Contribution to Overheads:	(26,700)	(28,500)	(30,300)	(32,300)
* These are not the 2023/24 budgeted figures but instead are the projections reflecting the revised business case assumptions above.				
** income budget shown is net of VAT				

The tables set out above show that from inception in 2019/20 to 2022/23 the service made cumulative direct losses of £87,100. The projections for 2023/24 going forward indicate that the service is expected to make sufficient income to cover its direct costs and also to start to generate some surpluses to contribute to corporate overheads.

Although the service started to generate surpluses in 2022/23 (against its direct costs), it will not generate sufficient cumulative income to cover its overall losses until the early part of 2026/27 (break-even) however the future budgets are set at a prudent level. Whilst there are still number of years remaining to achieve breakeven, ceasing the service now would result in a service that the taxpayer would have subsidised, but by continuing with the service these losses would be recouped and based on the income projections and the assumptions listed above, the service should start to generate income which contributes towards corporate overheads.

Budget volatility:

These are fairly modest assumptions however this does not factor in any expansion to the operator or admin hours attributable to the service, currently at 18.5 hour each. Further details are required to establish the point in which the service needs to increase the operator hours. As an example if the operator was working an additional 18.5 hours per week to 37 hours this would equate roughly to increased staffing costs of approx. £16,000. Any increase in allocated time to the service will need to generate sufficient income to cover the cost.

Appendices:

Appendix 1: Fees and Charges 2022/23

Appendix 2: Fees and Charges 2023/24

8. SUPPORT SERVICES COMMENTS

Human Resources

It isn't clear whether the staffing costs for management and marketing of the service are included. If not consideration might be given to these to determine if they impact on the predicted levels of contribution to overheads – **marketing costs are in the budget tables, circa £2,500. No management costs for the Head of Service are included, but these would be minimal and would not represent a 'saving' to the Council if the service was to be disbanded.**

David Archer	Head of HR, Performance and Service Planning	22/06/23
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Legal Services

[Redacted content]

Francesca Whyley	Head of Governance and Customer Services	23/6/23
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Customer Services and Communications

Comments

[Name]	[Job role]	[Date]
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Democratic Services		
Comments		
[Name]	[Job role]	[Date]

Financial Services		
<p>Ceasing the service now would mean that there would be cumulative losses of £87,100, which the taxpayer would have subsidised. The projections indicate that the service will start to generate sufficient income to cover its direct costs from 2022/23 and forecasts break-even in the early part of 2026/27, thereby recouping all previous losses.</p> <p>The Business plan will need to be monitored regularly to ensure that income projections are on track and that all assumptions listed in this Business Case remain relevant.</p>		
Tina Adams	Financial Services manager and Interim Deputy S151 Officer	26/06/2023

8. SENIOR LEADERSHIP TEAM APPROVAL

SENIOR LEADERSHIP TEAM APPROVAL			
Approval / Rejection Options	Name	Role	Date
Programme definition approved			
Programme definition approved, pending minor changes			
Programme definition not approved, major changes required – must be re-submitted			
<p>Comments:</p> <p>SLT agreed to refer the matter to Cabinet or Leader for approval depending on timescales for upload of papers.</p>			

