



The ACT Public Cemeteries Authority (Canberra Cemeteries)

Submission to the Independent Competition and Regulatory
Commission's: Public Crematorium Services: Competitive
Neutrality Report 1 - Issues Paper 2020

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Summary

The ACT Public Cemeteries Authority (Canberra Cemeteries) is developing the first public crematorium for the ACT. The crematorium will be located within the Gungahlin Cemetery. Key objectives of this project are:

- Ensuring sufficient and equitable availability of cremation services for the ACT community. This extends to also ensuring that bariatric (oversize/obese) cremation is available within the ACT.
- Accommodating the faith and cultural needs of the diverse ACT community through provision of an appropriate viewing room facility within the crematorium.

The ACT Government has asked the Independent Competition and Regulatory Commission (the Commission) to develop advice to help ensure that the new public crematorium facility operates in a manner consistent with competitive neutrality.

Pricing for the crematorium products and services will be recommended via the Commission also, prior to the fee schedule approval process for Canberra Cemeteries. In accordance with *Cemeteries and Crematoria Act 2003*, section 49 (Determination of fees) (1) The Minister may determine fees for this Act.

Canberra Cemeteries welcomes the opportunity to provide this submission in response to the Commission's Issues Paper.

Response to Issues Paper

- 1. Do you wish to make any comments on the Commission's description of the cemetery and crematorium services market characteristics and the operation of the industry? Are there any other features of the market that the Commission should be aware of?**

Crematoria Operating Models.

There are several operational models for crematoria nationally. Some crematoria are stand alone and provide only for cremation, whereas other crematoria operate within a broader model including chapel facilities and /or cremation memorialisation. Crematoria are not always co-located with cemeteries. In terms of drawing comparisons with the industry in other jurisdictions, it is important to consider the range of legislative and regulatory mechanisms in place. In deregulated markets, private operators may vertically integrate funeral director services with crematoria, which may be viewed as a competitive advantage.

Transport.

Not all crematoria include transport within their operating model. Where included, transport can range from vehicle transport onsite (e.g., from the chapel to the crematorium), or collection of the deceased from funeral directors' premises, for transport to the crematorium.

Fee schedules.

The fee schedule for crematoria varies between providers. Often there is a tendency to combine chapel service fee with cremation fees, and/or have a range of fees for cremation occurring same day, weekday, and/or on the weekend. The Industry is moving towards simplicity and greater transparency in fee schedules.

Generally, the “no service no attendance” fee is used to specify the fee for cremation only. Cremation and/or the crematorium itself are not subject to perpetual maintenance components of fees (contrary to the Issues Paper, Sect 3.1 pg 10). Cremation memorialisation is subject to the perpetual maintenance components of fees due to the ongoing maintenance of the memorial grounds.

Inclusions within crematoria.

Mausoleum are not an inclusion within crematoria (contrary to the Issues Paper, Sect 3.1 pg 10).

Viewing Rooms.

Most new crematoria developments include a viewing room (sometimes referred to as witness cremation facilities, or similar). In this facility immediate family or friends can witness the beginning of the cremation and/or perform rituals associated with cremation.

Some existing crematoria will retrofit viewing rooms within their existing footprint where possible. The inclusion of viewing rooms is increasingly acknowledged as optimal to meet the faith and cultural needs of the community, and/or specific family preferences.

It is Canberra Cemeteries’ position that, for the public crematorium, there should be no additional charge for use of the viewing room facility, and that it should be made available upon request for any cremation (where operationally possible). This position is informed by the intent to provide equitable access to services, and not to impose additional fees for specific faith or cultural groups who are compelled to view the cremation.

Chapels and/or function facilities are not standard inclusions within the crematoria. Operating models vary across providers. At Gungahlin Cemetery, the existing memorial hall will remain as a separate operational element to the Crematorium. As such, fees would not be “bundled” for use of the memorial hall, were it to be used for a service ahead of a cremation.

2. Do you have any comments on the overall approach the Commission has proposed to develop detailed pricing principles? Are there other broad pricing principles that the Commission should consider?

The approach the Commission is recommending is sound.

Canberra Cemeteries has taken an activity-based approach to inform our business and operational model for the Crematorium.

3. Has the Commission identified the full costs that are likely to be incurred in operating a crematorium facility? Are there other costs or cost categories that should be included?

The Commission has broadly identified the costs associated with crematorium operations. Canberra Cemeteries has taken full account of forecast operational costs in the planning for the crematorium.

From the costs identified by the Commission (Issues Paper, Section 4.1, pg 16.) the Commission may wish to consider if it is appropriate to include:

- "costs of purchasing memorialisation products, such as plaques and urns, for sale at the facility”
- “costs of purchasing consumables such as flowers and refreshments, used for ceremonies and memorial services....”

The above costs are not specific to the crematorium operations per se as outlined in reference to the variety of operating models.

Gungahlin Cemetery “roads, buildings, paths, gardens and fences” may warrant inclusion in operational cost calculations, however only insofar as they relate to the Crematorium, with caution as to not spread the net over the whole. It is noteworthy that the majority of activity on site over coming years is anticipated to be related to the current core activities of customer service, burial and cremation memorialisation activities, and visitation by family and friends to the cemetery site.

As noted earlier, mausoleum and any memorialisation facilities are not an operational element associated with crematoria, therefore associated costs should not be included.

4. Do you have any suggestions on how shared costs and overheads could be allocated to ensure competitive neutrality?

- The Crematorium will operate as a separate unit under a hybrid model.
- Canberra Cemeteries have based our financial modelling on FTE staffing for the Crematorium to identify and allocate overheads accordingly.

5. Do you have any views on the commercial rate of return on investment by a private crematorium facility?

On a commercial rate of return there are practical difficulties, as the Commission notes. WACC would be hard to calculate given the thinness of the market and lack of publicly traded crematorium businesses, however a standard WACC could possibly be determined and applied.

CAPM is similarly difficult; it is unlikely to be possible to calculate a beta (measure of volatility in share prices) for crematorium businesses in Australia.

It may prove difficult to obtain comparable commercial benchmarking because:

- a) There are not many for profit crematoriums, and they may not disclose their profits in a transparent way, and/or have varying operating models which would make it difficult to determine their revenue and profit based on cremation alone.
- b) The legislative and regulatory environment varies nationally. In some jurisdictions, crematoria are publicly operated with a strong not for profit ethos.

An alternative approach might be to look at return on debt as a proxy for return on equity. While for most businesses in general there is an equity premium, it could be disregarded in this instance because cemeteries and crematorium businesses are low risk, high volume, high throughput businesses - that is, they are not the kind of business that have a high risk/high return model.

Alternatively and perhaps more practically, the Commission could conceivably apply a whole of ACT Government approach - take the rate of return figures for other government owned businesses that have competitive neutrality arrangements in place, average these, then discount the average rate so calculated to take account of the lower risk associated with a crematorium business compared with other government businesses.

6. Do you have any comments on whether competitive neutrality is likely to be satisfied in regard to borrowing costs, tax and tax-equivalent payment, and regulation?

Tax equivalence payments and compliance with the same regulations as apply to others are standard competitive neutrality requirements.

7. Do you have any comments on the most appropriate approach to ensuring that prices for goods and services not directly related to core crematorium services (such as memorialisation products) are consistent with competitive neutrality policy?

Canberra Cemeteries is of the view that the market currently self regulates effectively regarding cremation and cremation memorialisation products. It is noted that in the recent Interim Report into Costs and Pricing of Interment in NSW, the Independent Pricing and Regulatory Tribunal (IPART) observes that: "The market for cremation and ashes interment is workably competitive." (IPART Interim Report, pg 8.)

Cremation memorialisation is an existing service available at Canberra Cemeteries' three locations: Gungahlin Cemetery, Woden Cemetery and Hall Cemetery. These are included in the current fee schedule. Canberra Cemeteries' undertakes benchmarking of fees for all core products and services, and in accordance with *Cemeteries and Crematoria Act 2003*, section 49 (Determination of fees) (1) The Minister may determine fees for this Act.

Therefore, these products and services are considered to be effectively competitively neutral and, as part of the existing suite of products and services, notably separate to the Crematorium operations, should not form part of the hybrid model for the Crematorium, nor be subject to the pricing principles to be developed by the Commission.

Cremation memorialisation is subject to a perpetual maintenance fee, as the memorial gardens must be maintained in perpetuity. Current cremation memorialisation revenue therefore contributes to meeting perpetual maintenance obligations.

The Commission may wish to consider that, if future cremation memorialisation revenue were to be considered as part of the operations of the Crematorium, then, under the hybrid model, this would preclude perpetual maintenance fees, and therefore decrease contributions to the perpetual maintenance fund.

In general, the industry observes a trend away from cremation memorialisation overall.

8. Do you have any other comments or information you would like to give the Commission to assist it in ensuring that the public crematorium facility will operate in a manner that is consistent with competitive neutrality?

Canberra Cemeteries operates as a statutory Authority and is regulated via *The Cemeteries and Crematoria Act 2003*. As such, in accordance with *Cemeteries and Crematoria Act 2003*, section 49 (Determination of fees) (1) The Minister may determine fees for this Act.

Canberra Cemeteries provides an essential and valuable service to the communities of the ACT. It is incumbent on the organisation to strive to maintain a balance between providing equitable services to the community in a cost-effective manner and to derive a return to support operations and perpetual maintenance obligations.