

REVIEW OF THE COSTS AND PRICING OF INTERMENT IN NSW



Interim Report

December 2019

Special Reviews

Executive Summary



IPART is seeking feedback on our interim findings and recommendations on **costs and prices for interment services in NSW cemeteries.**



Interment

When a body or cremated remains ("ashes") is buried in the ground or placed in a built structure in a cemetery.



Cemetery operator

Cemeteries in NSW may be operated by a Crown land manager (a board of people appointed by the NSW Minister for Water, Property and Housing), a local council, a private business, or a church or community group.

Our review is aimed at providing guidance to consumers and NSW cemetery operators about **prices** for interment services, including the difference in costs and prices between **perpetual** and **renewable interment rights**.



Perpetual interment right

The right to inter a body or ashes in a particular grave or crypt or niche in a cemetery. The remains must be left where they have been interred **forever**.

Up until now, most **interment rights in NSW have been perpetual**. Any that were sold as perpetual will remain so.



Renewable interment right

The right to inter a body or ashes in a particular grave or crypt or niche in a cemetery for a **defined period of time** (which must be at least 25 years). When that period ends, the right owner may renew it for **up to 99 years in total**. If the right owner does not renew the right, the remains are removed or buried deeper in the same grave, and the grave, crypt or niche can be reused for a new interment.

In the future, people in NSW will be able to **decide** whether to **buy a perpetual right** or **choose a renewable right** instead. Renewable tenure is not retrospective and does not affect past interments if they were purchased as perpetual rights.



Interim recommendations

Our interim recommendations address **choice and affordability** for consumers, **financial sustainability** for cemetery operators and the **challenge of developing land for new cemeteries**.



More transparent cemetery prices

Cemetery operators to be required to **publish itemised prices** for interment services using consistent terminology

And the NSW Government to set up a website to allow people to **compare prices at all cemeteries** in NSW



NSW Government to be responsible for **locating and purchasing land** for new cemeteries **in Sydney**, and for working with local councils to **identify land for new cemeteries outside Sydney**.



Adequate financial provision for cemetery maintenance in perpetuity

Cemetery operators to be required to **set aside funds** that can only be used to **maintain a cemetery** once it is closed to new interments. Larger cemetery operators must have this fund **independently managed**.



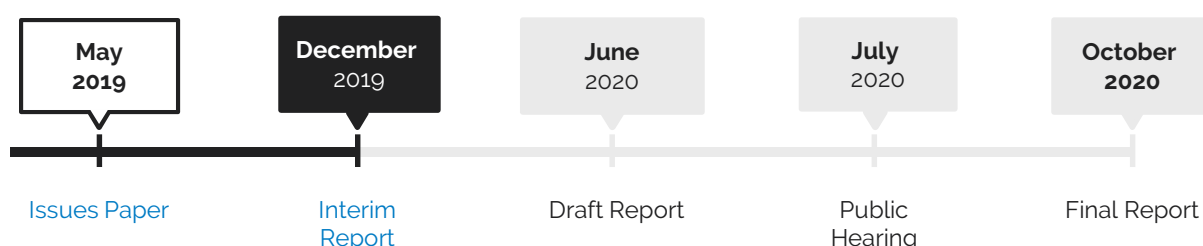
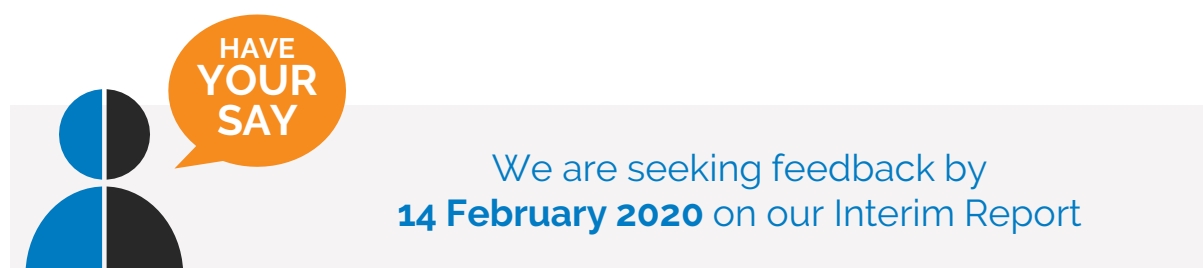
More transparent interment services

Cemetery operators should provide a **Plain English statement** of terms and conditions for interment rights, including a **clear statement on the type of tenure** being purchased and the interment right holder's obligations for future maintenance to be provided.



More cost-reflective pricing for new cemeteries

We have **developed a pricing tool** that operators of new cemeteries can use to inform their decisions on pricing so that those prices **reflect the full life cycle costs** of a cemetery, and renewable tenure rights are priced appropriately compared to perpetual tenure rights.



IPART's role

Section 145 of the *Cemeteries and Crematoria Act 2013* directs IPART to investigate and report on interment costs and the pricing of interment rights. The two specific matters which we must consider are:

- ▼ The relativity of costs and pricing factors for perpetual and renewable interment rights
- ▼ Full-cost pricing of perpetual interment rights, including provision for the perpetual care of interment sites and cemeteries.

The form of recommendations from the review is not specified.

The investigation is also required to include a review of competition, cost and pricing factors within the funeral industry. We have decided to conduct the review in two stages, with this first stage focusing on interment services. We will look at the funeral industry more broadly, commencing early in 2020.

Our approach to the review



Step 1 Establishing pricing principles



Affordable and equitable for all



Allow cemeteries to be financially sustainable into the future



Simple and transparent so that people can make informed decisions about interment choices at a difficult time



Step 2 Assessing market structure and deciding on form of recommendations

This step involves investigating what factors give incentives to cemetery operators to be more cost-efficient, to take account of all the costs they should be recovering, and to set efficient and affordable prices, and then deciding what kind of measures will increase those incentives

- ▼ Cemeteries are run by Crown land managers, local governments, private operators, churches and community groups and they all have **different incentives** to be more efficient, offer affordable services and take account of all their costs.
- ▼ It is unclear who has responsibility for **sourcing land** for new cemeteries.
- ▼ There is **competition** between cemetery operators in some areas (Sydney in particular) and this can lead to **innovation and service quality improvements** but has less impact on prices.
- ▼ Price plays a relatively smaller role in **consumer decisions** about cremation or burial, and about which cemetery to choose for interment.

- ▼ Local government operators are **accountable to their communities** for pricing decisions.
- ▼ The long life cycle of a cemetery means that different cemeteries are operating at different stages of their life cycles, with **different structures of costs and revenue**, and different levels of competition and regulation for different parts of their business.
- ▼ We found that the perpetual nature of cemeteries, and the **mismatch between revenue and cost streams**, creates a risk that cemetery operators set prices too low to recover future costs into perpetuity.



Step 3 Assessing efficient costs

This step involves assessing the efficient costs of delivering interment services, and where necessary recommending measures to increase efficiency in line with our findings about cemetery market structure

- ▼ Many Crown cemeteries in Sydney are approaching capacity yet there is not currently a coordinated approach for the **development of new cemeteries**. Different cemetery operators may compete for the same parcel of land, driving land prices up.
- ▼ The land costs of interment services include purchase, planning, construction, and landscaping. **Holding costs** (the period for which costs of buying and developing the land and operating the cemetery are incurred but no revenue is received) have a substantial impact on total costs.
- ▼ **Religious and cultural requirements** for burial can increase the costs of interment, but their impact on the costs of an interment right is less clear.
- ▼ **Renewable tenure** interments allow some of the costs of acquiring additional land for cemeteries to be avoided in the long term, but also involve additional costs at the end of the tenure period, including the administration costs of contacting right holders to see if they want to renew, and costs of preparing the interment site for a new interment.
- ▼ We will undertake an **efficiency study** of the Sydney Crown cemetery land managers before we make further findings about their costs.
- ▼ Local government operators can be incentivised towards more efficient costs by publishing **transparent and comparable information**.
- ▼ There is currently no legal requirement for cemetery operators to **set aside funds for the costs of perpetual maintenance**. Some cemeteries may not be maintained to standards expected by the community once they are closed to new burials. We recommend that there should be a requirement for all cemetery operators to make adequate financial provision for perpetual maintenance of interment sites and the cemetery.

- ▼ We also found that for most cemetery operators the arrangements for setting aside funds for the perpetual maintenance of their cemeteries are **not transparent**, and as a result there is limited accountability about the adequacy of these funds or the extent of these legacy costs.
- ▼ We will undertake a study of **legacy costs in existing cemeteries** to understand the level of past under-funding for future maintenance costs.



Step 4 Recommending measures to achieve pricing principles

Recommending measures to ensure prices achieve pricing principles, in line with our findings about cemetery market structure and our findings and recommendations about efficient costs

- ▼ Prices charged for interment services in NSW are **not currently regulated**.
- ▼ There is **wide variation in prices** for interment services across NSW, and these prices are displayed inconsistently and are **difficult to compare**.
- ▼ At this stage, we are not recommending prescriptive price regulation for any cemetery operators.
- ▼ Instead, we are recommending:
 - Increased **competition by comparison** (publishing comparable information in an accessible way) for greater choice and affordability for consumers
 - Assistance to cemetery operators in the form of a **pricing tool** to understand the full extent of costs over the life cycle of a cemetery and price accordingly
 - Cemeteries may offer similar services for **different prices where underlying costs are different** (eg, where cultural or religious requirements impose additional costs); but any difference in prices should be justified transparently with reference to costs.



Next steps

- ▼ Depending on the findings from our study of **legacy costs in existing cemeteries**, we will make further recommendations about how these costs can be recovered in prices or otherwise in future.
- ▼ Depending on the findings from our **efficiency study** of the Sydney Crown cemetery land managers, we may make further recommendations about their prices.
- ▼ Depending on the findings of both these studies, we may make further recommendations about measures to ensure **affordability** of interment prices.



How this report is structured

The rest of this Interim Report provides more information on this review, our approach and our interim findings and recommendations.



- ▼ **Chapter 1** outlines the context for this review
- ▼ **Chapter 2** sets out the approach we are taking for this review
- ▼ **Chapter 3** discusses the pricing principles for our review
- ▼ **Chapter 4** sets out our interim findings on market structure and form of recommendations for interment services
- ▼ **Chapter 5** discusses the costs involved in providing interment services
- ▼ **Chapter 6** sets out our interim findings and recommendations for funding perpetual maintenance of cemeteries
- ▼ **Chapter 7** sets out our interim findings and recommendations for pricing interment services
- ▼ **Appendices A-D set out:**
 - A list of submissions received on our Issues Paper
 - An overview of our interim pricing tool
 - Our calculation for the weighted average cost of capital (WACC) used in the pricing model
 - Our formula approach to modelling prices for renewable interment rights

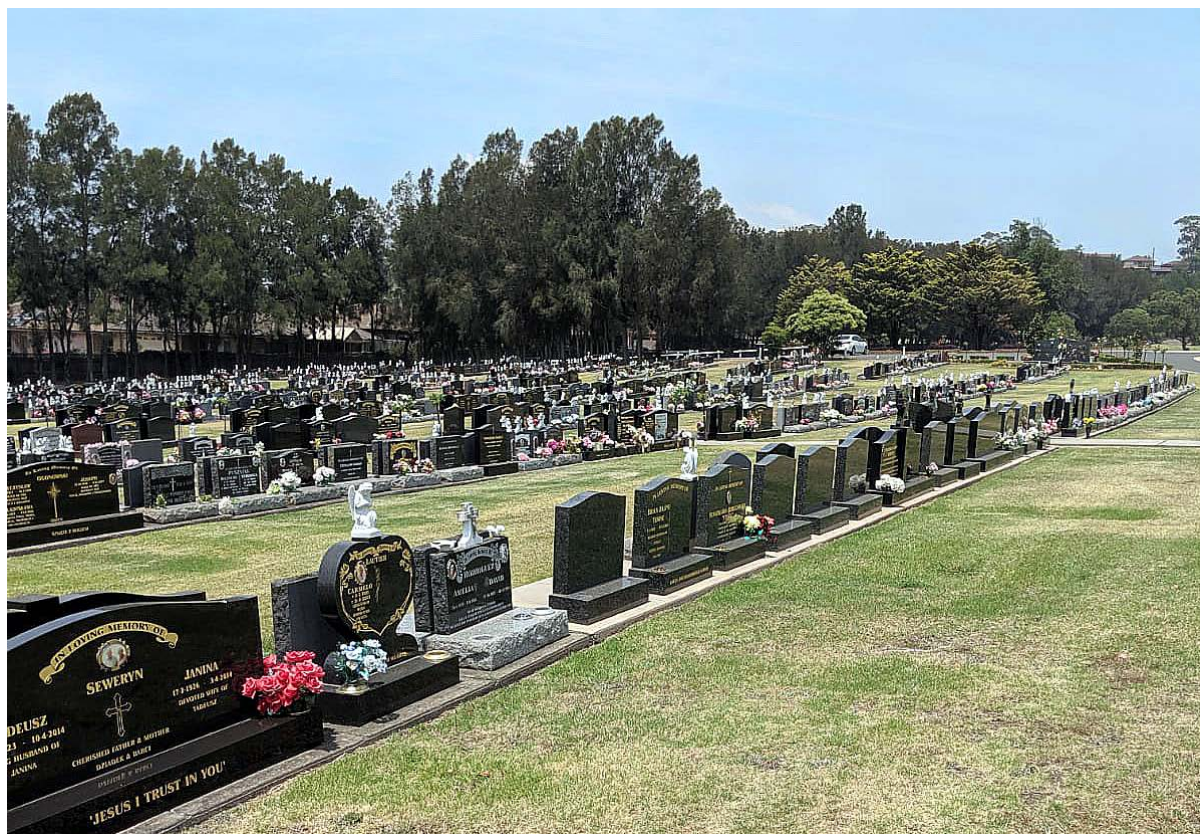
Interim findings & recommendations



Interim findings

- 1 The pricing principles for our review of interment services are:
 - Interment prices should be affordable and equitable for all
 - Interment prices should allow for the financially sustainable operation of cemeteries into the future
 - Interment prices should be simple and transparent so that people can make informed decisions about interment choices at a difficult time.
- 2 There is some competition between providers of interment services in Sydney.
- 3 Cemeteries outside Sydney tend to be provided by Local Government and there is limited competition between cemetery operators. However, while there is less competition between providers, local governments are accountable to their communities for pricing decisions.
- 4 The market for cremation and ashes interment is workably competitive.
- 5 Consumer choice in the cemetery sector operates differently from many other sectors, as choice is strongly influenced by proximity to family, cultural and religious requirements, and decisions often need to be made in a short timeframe at a time of emotional stress.
- 6 The long life cycle of a cemetery and mismatch between receipt of revenue and incurring costs creates a high risk that cemeteries will under-price through not taking into account future costs, with the outcome that cemeteries may not be maintained to standards expected by the community once they are closed to new burials.
- 7 The land related costs associated with acquiring, holding and developing land are all costs of providing interment services. Holding costs (the period for which costs of buying the land and maintenance costs are incurred but revenue is not yet received) have a substantial impact on the total costs and therefore prices for cemeteries.
- 8 There are many factors that impact on the cost of interment, such as the age of the cemetery, location, soil type, and weather conditions.
- 9 Religious and cultural requirements for burial can increase the costs of interment, but their impact on the costs of an interment right is less clear.

- 10 Most cemetery operators in NSW do not report on the size of their liabilities for the perpetual maintenance of their cemeteries nor do they have transparent arrangements to fund these liabilities.
- 11 For most cemeteries in NSW the extent of legacy costs from past interments is not known.
- 12 There is a wide variation in prices for interment services, even services which would appear very similar in nature.
- 13 Prices for bodily interment services are not displayed consistently and are difficult for consumers to compare.





Interim recommendations

- 1 Cemeteries and Crematoria NSW (CCNSW) be made responsible for acquiring land for new cemeteries in Sydney as part of the statutory review of the *Cemeteries and Crematoria Act 2013*.
- 2 New cemeteries in Sydney have their operations competitively tendered out to either an existing Crown land manager or appropriately qualified private operator.
- 3 The NSW Government work in partnership with councils in a coordinated strategic manner to identify land for interment outside Sydney.
- 4 An interment service levy not be applied to additional cemetery operators until the statutory review of the *Cemeteries and Crematoria Act 2013* is completed and it can be demonstrated that the functions of CCNSW are of benefit to the wider cemetery and crematoria industry in NSW.
- 5 Office of Local Government's performance statistics be required to include transparent and comparable cost information about councils' cemetery operations.
- 6 There be a legal obligation on all cemetery operators to make adequate financial provision for perpetual maintenance of interment sites and the cemetery.
- 7 Cemetery operators that conduct more than 50 bodily interments in new perpetual interment sites per year at a cemetery must contribute to an independently managed perpetual maintenance reserve fund to provide for long-term cemetery maintenance.
- 8 The perpetual maintenance reserve fund for a cemetery must be independently managed by Treasury Corporation or an independent body approved by CCNSW.
- 9 CCNSW to develop Guidelines on when and how a cemetery operator can use perpetual maintenance funds for a cemetery.
- 10 Cemetery operators provide a Plain English Statement of terms and conditions for interment rights at a cemetery that customers can easily access. This include a clear statement on the obligations of each of the interment right holder and the cemetery operator for the nature and level of maintenance of the interment site and the cemetery.
- 11 To make it easier for consumers to compare and understand prices for bodily interment services, cemetery operators be required by regulation to publish prices for all bodily interment services on a consistent basis. To do so, cemetery operators be required to publish the following:
 - The total price for a bodily interment service (ie, the sum of all necessary service components) for both at-need and pre-need purchases

- Itemised prices for each service component of the bodily interment service, using the terminology described in Table 7.2, and including any additional costs due to cultural or religious requirements
 - Product specifications for the interment right, such as size and depth
 - Length of tenure (renewable or perpetual) and the future maintenance pricing components for all relevant lengths of tenure.
- 12 Within 12 months CCNSW to develop a central website to enable consumers to compare prices for interment services in one place.
- 13 In setting interment fees and charges, all cemetery operators should include future maintenance costs of their cemeteries.
- 14 Our pricing tool be made available to cemetery operators for use on a voluntary basis to inform decisions on pricing for bodily interment rights.
- 15 Users of the pricing tool should include land value at its initial purchase cost, but for cemeteries that are located on gifted land, the land value should be zero. Land value for an established cemetery should not be adjusted over time to reflect changes in surrounding land values.

