

16 October 2020

Independent Pricing and Regulatory
Tribunal
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Dear Madam/Sir

**Review of the Costs and Pricing of Interment in NSW
Draft Report – September 2020**

In addition to the submissions from Catholic Metropolitan Cemeteries Trust (**CMCT**) and Mills Oakley on the draft Review of the Costs and Pricing of Interment in NSW (**Draft Report**) dated 2 October 2020, please find below joint submissions from CMCT and Mills Oakley on the price modelling and recommendations contained in the Draft Report.

1 Model assumptions

The estimated efficient cost for a basic adult lawn burial interment right produced by the pricing model (**Model**) is driven by key assumptions. These assumptions are either:

- (a) Generic across all cemetery operators, for example, a discount rate is applied to convert streams of future costs to a present value; or
- (b) Cemetery specific, for example, the size of the perpetual maintenance fund.

Table 6.2 of the Draft Report notes that some of the cemetery specific assumptions are based on information contained in the relevant operator's 2018-19 Annual Report.

1.1 Assumption update

CMCT wishes to provide IPART with updated information on the following key model assumptions, to help better refine the model output:

- (a) Land costs; and
- (b) Legacy costs.

(a) Land cost

Chapter 6.2.3 of the Draft Report recognises that the cost of land should be included in the interment right pricing going forward, to ensure competitive neutrality with other operators and a fair price for consumers.

The Model used the costs associated with the proposed Macarthur Memorial Park cemetery at Varroville (**MMP**) to estimate the per plot cost of the next increment of cemetery land. This land was acquired 8 years ago, and equivalent acquisition costs today would be substantially higher. The Model assumed \$45 million as the cost of initial construction and development of MMP, based on CMCT's Annual report 2018-19. CMCT wishes to advise IPART that the latest estimate of the initial construction and development cost of MMP is \$65 million. Updating this assumption in the Model would increase the land costs per plot by 32%, from \$464 to \$611. This has the flow-on effect of increasing the suggested efficient cost for a basic adult lawn burial interment right in the Draft Report.

As outlined in Table 6.3 of the Draft Report, the Model assumed that Northern Metropolitan Cemeteries Land Manager (**NMCLM**), Rookwood General Cemeteries Land Manager (**RGCLM**) and Southern Metropolitan Crown Land Manager (**SMCLM**) would incur the same land cost per plot as CMCT's MMP development. The development cost of any future cemeteries is a matter of commercial negotiation, and this is expected to be different across all Crown cemetery operators.

CMCT suggests that IPART consider applying a different land cost assumption for each Crown cemetery operator, based on the current cost differentials between the operators. This approach could lead to the following land cost estimate by a Crown land manager (**CLM**):

CMCT Rookwood	NMCLM	RGCLM	SMCLM
\$611	\$656	\$693	\$707

CMCT has updated its land cost assumption to reflect the latest estimate of the MMP construction and development cost, as discussed above. The land cost per plot across the CLMs would increase by 44% from \$464 to \$667. On average this would increase the efficient cost for a basic adult lawn burial interment right for the industry.

(b) Legacy cost

Chapter 6.2.6 of the Draft Report discusses the inclusion of legacy costs in prices, and accounting for funds held against these legacy costs. As outlined in the Draft Report, the efficient cost for a basic adult lawn burial interment right is estimated by subtracting the existing perpetual maintenance funds from the allocated future costs. This approach was taken to avoid double counting costs that have already been recovered from previous sales.

The Model assumed that the perpetual maintenance fund held by each operator is used entirely to fulfil its perpetual maintenance obligations. For CMCT, this amounts to \$143 million, which was the balance of the perpetual care fund in CMCT's Annual Report. CMCT wishes to advise IPART that \$43 million of the fund has been purposely held in short-term bank deposits to fund the construction of MMP. This amount is not held to fulfil CMCT's perpetual maintenance obligations. The perpetual maintenance fund will be topped up from the sale of future plots at Varroville over the medium term.

In 2017, CMCT engaged KPMG to conduct an actuarial review of perpetual care requirements of its cemeteries as at 30 June 2017. The scope of the review includes an estimate for the provisioning of a maintenance amount for the rights of burial that have been sold to date. KPMG's estimate was \$106 million for cemeteries operated by CMCT.

1.2 Observations on other key model assumption

CMCT wishes to make the following observations on some of the other key model assumptions:

- (a) Cemeteries and Crematoria NSW (**CCNSW**) levy;
- (b) Cost of maintenance; and
- (c) Burial costs.

(a) *CCNSW levy*

The Model includes the current CCNSW levy in the estimation of the efficient cost for a basic adult lawn burial interment right, which reflects the cost of regulating the cemeteries industry. In our view, if IPART's draft recommendations on governance reform are adopted in the cemetery sector, the cost of regulation is expected to increase, at least in the short term. Given the forward-looking nature of the efficient cost for a basic adult lawn burial interment right, CMCT recommends adopting a higher levy rate assumption in the Model.

(b) *Cost of maintenance*

The Model assumes that 25 years after the last plot is sold, the cost of maintenance will drop for the cemetery operator. CMCT recommends IPART consider the following factors and make further refinement to the assumptions around the cost of maintenance in the Model:

- (a) Number of years of full maintenance:
 - (i) Generally, visitation at a cemetery is not expected to increase until an interment takes place, which could be many years after an interment right is sold. CMCT's statistics indicate that 70% of its current sales are pre-need;
 - (ii) In most cemeteries in NSW, there are burial areas which are well over 25 years old and these areas are maintained at the same standard as areas that are less than 25 years old; and
 - (iii) Most graves have second and/or third interments and visitation is expected to increase at the time of the further interments;
- (b) Cost reduction – It is reasonable to expect that labour costs, infrastructure and maintenance costs will increase in the future partially due to inflation.

Accordingly, CMCT recommends further refinement of the assumptions around cost of maintenance in the Model.

(c) *Burial cost*

The Model added a margin of 15% to the interment fee to reflect an efficient return for the cemetery on this service. CMCT is supportive of the modelling approach to include a profit margin, although CMCT thinks 15% may be low.

2 Regulation

2.1 **Clarity that the efficient cost for a basic adult lawn burial interment right is not the regulated price**

The Draft Report discussed the need for maximum price regulation for Crown cemetery operators, as well as the efficient cost-reflective prices for each operator. IPART advised CMCT that the efficient cost for a basic adult lawn burial interment right is not the regulated price. In addition, more work would be required by IPART on the Model (including industry consultation), before price regulation is introduced. CMCT recommends IPART consider highlighting this point in the final report.

2.2 **Clarity on the adoption of the efficient cost for a basic adult lawn burial interment right across the cemetery sites**

It is unclear in the Draft Report whether if operational management of cemeteries is centralised, there is an expectation by IPART that the efficient prices are adopted across all four metropolitan Crown cemetery sites. CMCT recommends IPART consider clarifying this issue in the final report.

2.3 **Clarity that it is reasonable for cemeteries to charge more than the efficient cost to offer higher standards of maintenance**

The Draft Report noted that higher maintenance costs incurred by the CLMs may be efficient for delivering a higher standard of grounds maintenance. Deloitte's report also highlighted that the estimated efficient maintenance costs would be potentially lower than the achievable cost level for CLMs which offer additional maintenance features. CMCT recommends IPART consider elaborating on this point in the final report to acknowledge that cemeteries can charge more than the efficient cost for a basic adult lawn burial interment right so as to offer higher standards of maintenance.

2.4 **Recommendation to consider using an operator (which is a registered charity with the ACNC) to manage the industry perpetual maintenance fund to bridge the funding shortfall**

IPART made a draft recommendation for licensed cemetery operators to prepare a transition plan to deal with the management of legacy perpetual maintenance obligations. CMCT is supportive of this recommendation. CMCT suggests that IPART consider the option of using an operator (which is a registered charity with the ACNC) to manage the industry perpetual maintenance fund, if a consolidation of the CLMs takes place. The investment return and the additional imputation credits (and any applicable State tax concessions) for an operator that is a registered charity could help bridge the industry funding shortfall within eight years, without the need to increase future prices for consumers.

2.5 **Recommendation to standardise data reporting to improve quality of data before pricing regulation is introduced**

Deloitte's cost analysis has been undertaken by drawing on cost information provided by the CLMs. In Deloitte's report it noted the inconsistency in the data provided by the CLMs around data granularity and the attribution of costs to certain

categories. To support a comparison of the data, Deloitte made some assumptions about the data provided by the CLMs. For CMCT, Deloitte reallocated cost categories with which CMCT does not agree with.

Further, CMCT suspects that the Statutory Review of the *Cemeteries and Crematoria Act 2013* (NSW) will likely recommend consolidation of the CLMs. Therefore, CMCT recommends that IPART consider implementing standardised data reporting now, and deferring any pricing regulation for six to 12 months, so that the quality of data is improved.

3 Conclusion

We respectfully ask IPART to consider the issues and recommendations raised in this submission when producing its final report.

Yours sincerely



VERA VISEVIC
PARTNER