



**The Greater Metropolitan  
Cemeteries Trust**

Lasting memories, peaceful places.

# **REGULATORY IMPACT STATEMENT**

**October 2015**

*The public are invited to comment on this Regulatory Impact Statement by submitting comments in writing to [pricing@gmct.com.au](mailto:pricing@gmct.com.au) by no later than 5pm on 23<sup>rd</sup> November 2015.*

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## EXECUTIVE SUMMARY

The Greater Metropolitan Cemeteries Trust (GMCT) is classified as a Class A Cemetery Trust under the Cemeteries & Crematoria Act 2003 (Vic). GMCT was established on 1 March 2010 as a consequence of amendments to the Act, enabling the consolidation of eight existing cemetery trusts into one. The previous cemetery trusts included:

- Altona
- Andersons Creek
- Fawkner
- Keilor
- Lilydale
- Preston
- Templestowe
- Wyndham

The GMCT covers the north, west and eastern Melbourne metropolitan areas and manages 20 sites, including 2 Greenfield sites. The head office is located within the grounds of Fawkner Memorial Park located at 1187 Sydney Road, Fawkner.

GMCT funds its activities through fees charged for right of interment products (graves, cremated remains memorials and mausoleum) and for services such as cremations and interments performed. Fees are needed to be set in order to provide sufficient income for GMCT to fulfil its obligations under the Act, and in the absence of setting appropriate fees, GMCT would not be able to deliver its required obligations or to maintain its cemeteries in perpetuity.

The objective of the proposed fee schedule is to set fees that reflect the true costs to GMCT of performing its statutory functions, whilst being consistent with other policy objectives. In addition, to enable the cemeteries to be appropriately maintained and made available for future generations, a percentage of revenue is allocated to a Perpetual Maintenance Reserve. This reserve enables resources to be made available to maintain all twenty cemeteries in perpetuity and active/transitional cemeteries will continue to cross subsidise those cemeteries that are generating limited or no positive cash flows.

This Regulatory Impact Statement (RIS) formally assesses the proposed fee increase across GMCT sites for Right of Interment (ROI) products against the requirements of the Subordinate Legislation Act 1994 together with the Victorian Guide to Regulation updated December 2014.

The GMCT provide a number of different ROI products such as:

- Mausoleum
- Lawn Grave
- Monumental Grave
- Concrete Lined Vaults
- Cremated Remains positions

### Cost Recovery Status

The existing charges for ROI products were established by previous cemetery trusts prior to amalgamation in 2010, and were determined on lower cost bases established well before amalgamation.

Since amalgamation in 2010, there has been a growing disparity between the cost of providing these products and the actual cost to GMCT, as the cost of providing these products has been increasing at more than the annual fee unit indexation rate. Overall net margins generated from the sale of ROI products have fallen by almost 90%.

Since amalgamation, GMCT has invested heavily in not only ROI products and infrastructure but also in the area of improved governance, which include areas of finance and financial management, compliance with government policies and best practice governance principles and frameworks including records management, risk management, occupational health and safety and sustainability measures.

GMCT has also seen substantial cost increases across the board. Major increases have been experienced with items such as gas, water and electricity, reactive repairs and maintenance, horticulture and grounds maintenance as well as increased cost of grave construction.

Since amalgamation ROI income has grown by 13%, whilst over the same period the GMCT cost base has increased by an average of 50% as a direct result of implementing these strategic and governance improvements as well as the growth in the general GMCT cost base over and above the annual CPI increase, applied as per legislation.

The current under-recovery of costs associated with the provision of various ROI products continues to grow and can be represented below using a sample of actual ROI prices for the items stated:

| CURRENT ROI                                 | CURRENT PRICE | COST TO GMCT | UNDER-RECOVERED COSTS | % UNDER-RECOVERED |
|---|---------------|--------------|-----------------------|-------------------|
| Concrete Lined Vault - Keilor               | \$10,050      | \$12,705     | (\$2,655)             | (20.90%)          |
| Lawn Grave with Beam - Altona               | \$2,530       | \$4,290      | (\$1,760)             | (41.03%)          |
| Cremated Remains Rose Garden - Fawkner      | \$3,325       | \$5,565      | (\$2,240)             | (40.25%)          |
| Monumental Grave with Foundations - Fawkner | \$4,065       | \$5,240      | (\$1,175)             | (22.42%)          |

The following costs are included in the cost to GMCT of providing these products:

- Cost of ROI construction
- Sales and Customer Care staff time
- An allocation of administration costs
- Perpetual maintenance allocation
- An allocation for the cost of capital
- Cemetery Levy

The Government's policy is currently that, in the absence of other policy objectives, fees should be set to fully recover an agent's costs of undertaking a particular task.

Amending fees as proposed in the sample below will allow for cost recovery, allocation of perpetual maintenance and contribution to the cemetery levy:

| MAJOR PRODUCT PRICE IMPACTS             | CURRENT PRICE | PROPOSED PRICE | PRICE CHANGE |
|---|---------------|----------------|--------------|
| Monumental Foundation - Fawkner         | \$4,065       | \$5,240        | 28.91%       |
| Lawn Grave Lorikeet Area - Altona       | \$2,530       | \$4,290        | 69.57%       |
| Lawn Grave with Beams - Lilydale        | \$3,585       | \$4,405        | 22.87%       |
| Rose Garden Cremated Remains - Lilydale | \$2,740       | \$5,240        | 91.24%       |
| Monumental Foundation - Keilor          | \$3,535       | \$5,185        | 46.68%       |
| Floral Bed Cremated Remains - Altona    | \$5,400       | \$5,680        | 5.19%        |
| Single Mausoleum - Preston              | \$13,310      | \$17,035       | 27.99%       |

The main cost drivers when pricing ROIs are the cost of construction and allocation towards perpetual maintenance.

The above items are a representation of major selling ROI items and are used for illustrative purposes only. It is anticipated that any proposed increase in ROI prices be applied to all ROI products currently offered for sale by GMCT. GMCT has over 1,200 gazetted ROI prices across all sites. It is not practical to include details of all of the proposed price changes for all ROI products in this submission, however as per the table below the range of proposed price rises across all ROI products currently offered for sale by GMCT can be indicated in terms of the level of percentage increase:

| CURRENT ROI TYPE                 | PROPOSED PRICE CHANGE | AVERAGE PRICE CHANGE |
|----------------------------------|-----------------------|----------------------|
| Monumental Foundation            | 28-38%                | 33%                  |
| Lawn Grave with Beams            | 13-69%                | 41%                  |
| Garden Cremated Remains Position | 1-92%                 | 47%                  |
| Concrete Lined Vault             | 4-67%                 | 36%                  |
| Mausoleum                        | 28%                   | 28%                  |

A set of detailed costing assumptions for all ROI products has been provided to the department as part of this submission and a comprehensive list of the proposed new fees is also made available on the GMCT website: [www.gmct.com.au](http://www.gmct.com.au)

## Review

This RIS process included a review of all the costs incurred by GMCT in providing ROI products and the consideration of three options:

- 1) Leaving the fees at current levels, with prices being adjusted by the annual indexation increase
- 2) Revising the fees to achieve full cost recovery (before the annual indexation) and ensuring that the gap between income growth and expense growth is progressively implemented over a period of time
- 3) Revising the fees to achieve full cost recovery (before the annual indexation) and ensuring that the gap between income growth and expense growth is closed

### Option 1

Option 1 proposes to retain the current fees for ROI products at the existing levels which would provide for the annual adjustment for indexation. This would ensure that GMCT can continue to charge fees for ROI products and the users of these products would continue to contribute towards meeting the costs.

This option would not address the growing disparity between the cost of providing these products and the level of cost recovery being met through the fees currently charged.

### Option 2

Option 2 proposes that all ROI product fees be set to full cost recovery and implemented over a period of time. The principals used to calculate the cost of providing these products would remain the same under this option, with adjustments made to fees to reflect the full cost.

This is consistent with the general principle of the government Cost Recovery Guidelines in Victoria.

Option 2 proposes that ROI prices are increased over a staged period of two years in order to gradually increase prices to levels that represent the actual cost to GMCT of providing these products. This option would not achieve full cost recovery for another 2 years

### Option 3

Option 3 proposes that all ROI prices be set as in option 2 with the full price increase being implemented within the first year, before the impact of annual indexation.

This is GMCT's preferred option as the fees represent the actual cost of providing the product, and full cost recovery starts immediately.

## Proposed Approach

Option 3, setting fees at full cost recovery and implemented within the first year, is recommended as the most appropriate option to address the growing disparity between the cost of providing quality ROI products and the current level of cost recovery.

The proposed change in fees is considered the best means of ensuring that the fee paid by the customers using the GMCT provided ROI products reflect the actual cost of the product. This also ensures that the customers that benefit from the provision of the GMCT ROI products are those that bear the full cost and that costs are not subsidised by other customers, or other parts of the cemetery / cemeteries.

The impact of the proposed fee increase, excluding memorialisation products, service related items and the impact of annual indexation will be approximately \$7.5m per annum or an average price increase of 28%.

## 1 - INTRODUCTION

### 1.1 Regulation of fees in the Cemeteries and Crematoria Industry

The Cemeteries and Crematoria Act 2003 provides power to fix fees and charges for services where a cemetery may from time to time fix fees and charges considering the costs of operating and managing the public cemetery as well as providing for the maintenance of the public cemetery in perpetuity. GMCT funds the operating cost and on-going maintenance through the fees charged for the products and services extended to the community.

Fees/charges or scales of fees/charges are approved and gazetted by the Secretary (Department Head of the Department of Health & Human Services) under section 40 of the Cemeteries and Crematoria Act 2003. Annually, any cemetery trust fee which is \$50 or more would be increased on 1 July, in line with the Consumer Price Index (CPI) and rounded to the nearest \$5, as declared by the Secretary, in accordance with section 43 of the Cemeteries and Crematoria Act 2003. In accordance with the Act, the trust is required to submit the fee list to the Department of Health & Human Services for approval. In line with the CPI movement, the Department of Health & Human Services will advise revised fees which would be gazetted and effective annually on 1 July.

### 1.2 The requirement for a Regulatory Impact Statement

This Regulatory Impact Statement (RIS) formally assesses the proposed fee increase across GMCT sites for Right of Interment (ROI) products against the requirements of the Subordinate Legislation Act 1994 together with the Victorian Guide to Regulation updated December 2014.

ROI products include graves, mausoleum and cremated remains positions. The primary cost driver is the cost of construction as well as perpetual maintenance obligations.

A RIS is required for the proposed fee increases as the method of setting fees is by a proposed legislative instrument (trust's scale of fees and charges) which would impose a significant economic or social burden on a sector of the public, unless an exemption applies. Generally, proposals that impose gross costs of \$2m or more in any one financial year on any sector of the public would be considered to meet this RIS threshold.

It is noted that where fees are proposed to be increased by an amount not exceeding the annual rate set by the Treasurer a RIS is not required. The annual rate set by the Treasurer for 2015-16 is 1.4%. As it is proposed that ROI fees are to increase by 28% on average (above the annual 2015/16 1.4% CPI increase), it is considered that a RIS is required.

The assessment framework of this RIS:

- Examines the nature and extent of the problem to be addressed by setting fees
- Outlines the objectives of the proposed fees
- Explains the effects of the proposed fees on various stakeholders
- Assesses the impacts of the proposed Regulations.

Feasible alternatives to the proposed fees are also considered. The RIS also examines potential impacts on competition. A primary function of the RIS process is to allow members of the public to comment on the proposed fees before they are finalised. Public input provides valuable information and perspectives and improves the overall quality of decision making. Accordingly, feedback on the proposed fees is welcomed and encouraged.

## 2 - THE REASONS FOR PRICE INCREASES

### 2.1 Key Points

The long term viability and financial sustainability is a key focus of the Trust, which pursues this goal to ensure that all 20 cemeteries within its care are managed efficiently. Resources are allocated and directed towards the provision of products and services that add value to the community. Relevant costs are allocated to the respective product and service provided by the trust and the allocation of resources is the primary basis of cost allocation. This ensures the equitable distribution of costs across the products and services provided by the Trust in order

to ensure that the end user of the product or service bears the relevant costs associated with its provision.

As detailed in the Department of Treasury and Finance *Cost Recovery Guidelines* (Guidelines), well designed cost recovery arrangements improve resource allocation within the economy by ensuring that scarce community resources are allocated to their highest value uses. This generally occurs when the value that consumers place on obtaining a good or service (the price that they are willing to pay) is equal to the full cost of production. Conversely, where prices for goods or services are set at a point that is higher or lower than the full cost of production there may be under or over consumption of that good or service relative to the socially optimal level.

Similarly, cost recovery arrangements improve equity and reinforce the concept of horizontal equity. In the case of cost recovery, horizontal equity refers to those who benefit from government activities, or those that contribute to the need for government regulation, having to pay the associated costs. Therefore, where goods and services predominantly have private benefits, those who benefit bear the associated full cost of production rather than some or all of those costs being borne by other individuals or groups (ie: consumers or taxpayers).

GMCT offer varying burial products at different price levels at numerous sites. Only by setting appropriately costed prices for these products can the community choose specific products that best meet their individual needs.

To ensure that all sites are maintained for future generations, a percentage of all gross profits generated from the sale of these products is allocated to a Perpetual Maintenance Reserve. This reserve will assist in the maintenance of all 20 cemeteries in perpetuity. Without fully recovering all costs associated with the provision of ROI products, GMCT will not be able to meet its obligations under the *Cemeteries and Crematoria Act 2003* in maintaining the cemeteries in perpetuity.

## 2.2 The Proposed Fees

The proposed fee increase is designed to reflect the recovery of total costs associated with the delivery of the relevant products, and to take into account the fact that ongoing cost increases since amalgamation have meant that the costs of the provision of these products have been consistently under recovered. These associated costs also include the costs allocated to Perpetual Maintenance.

## 2.3 Objective

Nearly 5 years after amalgamation, the GMCT is now in a position where it needs to review fees charged for ROI products as the prices of these products has only increased annually in line with the annual CPI increase. However, the costs associated with the provision of these products have increased by well in excess of the annual CPI increase. As such, the end consumer of the service is not bearing the full cost of its provision, as these prices are being subsidised by other areas of the cemetery and other members of the public.

The setting of prices takes into consideration the need to cross subsidise those cemeteries that are in the transitional or the perpetual, that is end-of-cemetery-life cycle, stages with funds from cemeteries in the active stage.

## 2.4 Principles of Cost Recovery

General government policy is that regulatory fees and user charges should be set on a **full cost recovery basis** because it ensures that both efficiency and equity objectives are met. Full cost represents the value of all the resources used or consumed in the provision of an output or activity.

Full cost recovery is consistent with achieving the efficiency and equity objects as:

- Full cost recovery promotes the efficient allocation of resources by sending the appropriate price signals about the value of all resources being used in the provision of the goods / service
- From a horizontal equity point of view, full cost recovery ensures that those that have benefited from government provided goods / services, or those that give rise to the need for government regulation, pay the associated cost. Those parties that do no benefit or take part in a regulated activity do not have to bear the costs.



Cost recovery can be defined as the recuperation of the costs of government provided or funded products, services or activities that, at least in part, provide private benefits to individuals, entities or groups, or reflect the costs their actions impose.

The government's *Cost Recovery Guidelines* set out principles underpinning cost recovery arrangements. The Guidelines establish a whole of government framework thereby ensuring that cost recovery arrangements in Victoria are transparent, efficient, effective and consistent with legislative requirements and government policy. These Guidelines are based on the principle that properly designed cost recovery arrangements can deliver both equity and efficiency benefits to the community.

The government's policy is that, in the absence of other policy objectives, fees should be set to fully recover an agent's costs of undertaking a particular task.

Cost recovery involves setting and collecting charges to cover the costs incurred in undertaking activities such as:

- Direct / capital costs – costs of infrastructure, setting up gardens and products for interment and memorialisation
- Annual and perpetual maintenance costs – costs associated with maintaining gardens and surrounding infrastructure
- Administration and operating costs – relates to the sales, operations and administration functions of GMCT
- Cross subsidisation – to continue to maintain cemeteries that are in their transitional or perpetual life cycles where they are generating minimal or no positive cash flows

Appropriate cost recovery can improve the way in which resources are allocated within the economy, thereby contributing to allocative efficiency (a situation where resources are allocated in a way that maximises the net benefit to society). Allocative efficiency is achieved when the value consumers place on a good or service equals the cost of resources used in its production. By requiring payment for goods / services provided by government, cost recovery charges can give important signals to users about the costs of the resources involved in their provision. Full cost recovery ensures that all relevant costs of bringing the good / service to market are incorporated in the relevant price signals.

## 2.5 Nature and Extent of the Problem

Since the amalgamation of eight cemetery trusts into one in March 2010, prices that GMCT have charged for ROI products have only increased in line with the annual CPI increase. This has seen prices of ROI products increase by 11% since March 2010. Since this time, the GMCT has experienced substantial increases in its general cost base over and above the annual CPI rate, resulting in substantial decreases in the net margins generated from the sale of these products and services.

Key drivers of the reduction in net margins include increases in:

- Salaries and wages , including on-costs
- Defined Benefits Superannuation shortfalls as determined by Vision Super
- Costs of construction
- Utility charges (Gas & Electricity)
- Repairs & maintenance
- Perpetual Maintenance & Horticulture
- Administration Costs

## 2.6 Reduction in Cemetery Margins

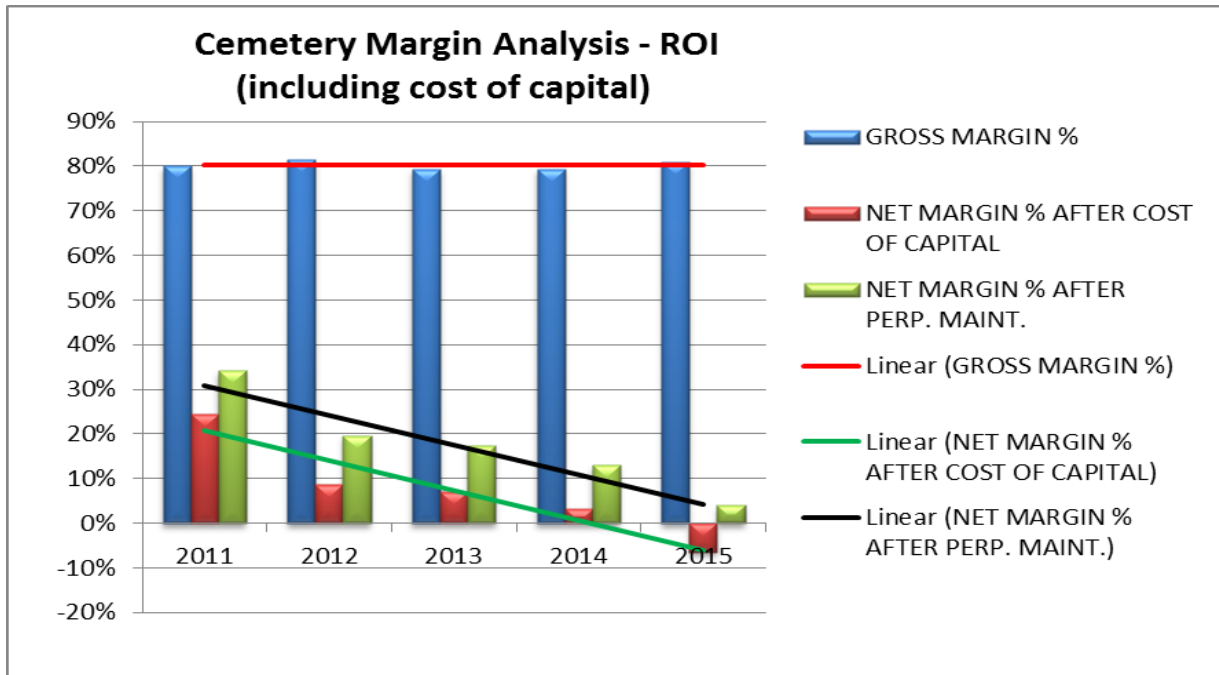
GMCT derives over 80% of its income from cemetery operations income, with the remaining amount generated from investment income. Cemetery operations income is made up of income generated from the following products and services:

- ROI Products including: Mausoleum, graves, Cremated remains memorials – 57%
- Interment Services – 19%



- Cremations – 11%
- Memorialisation product sales – 10%

Since amalgamation in 2010, the net margin generated from the sale of ROI products (after allocation of cost of capital and Perpetual Maintenance) has fallen by such an extent that GMCT is now subsidising the provision of ROI products, as can be illustrated below:



**Chart 1.**

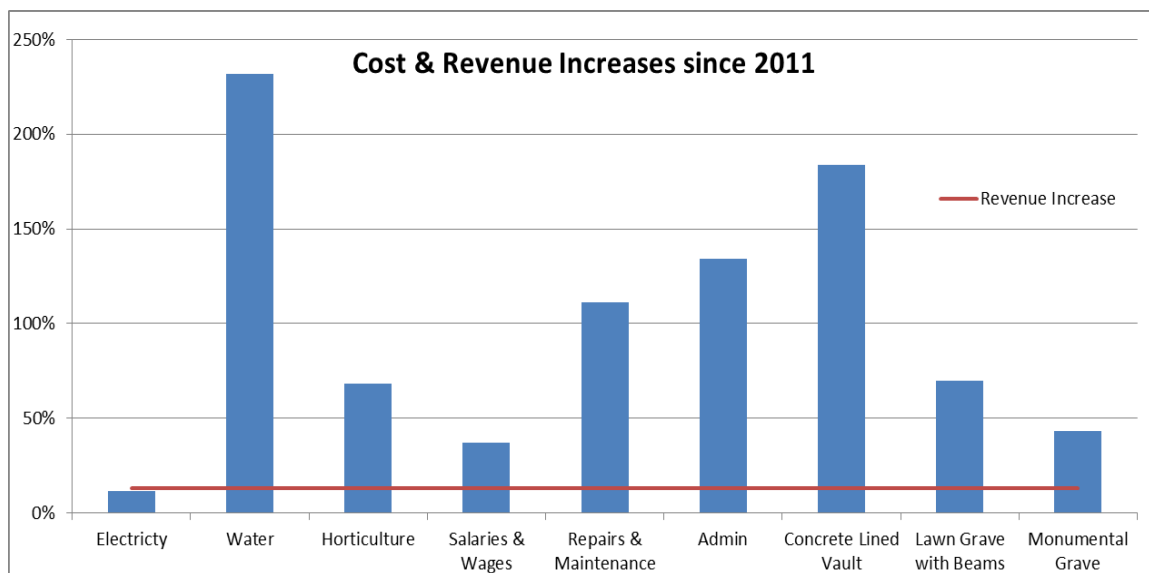
Gross margin is sales less cost of goods sold. Cost of goods sold includes the cost of ROI product construction and the cost of memorialisation products. Net margin is gross margin less all indirect costs such as indirect labour costs, administration, grounds maintenance, depreciation etc.

This is a clear indication of the ongoing under recovery of all costs associated with the provision of ROI products therefore reducing GMCT’s ability to meet its obligations under the Act and to continue to develop and provide quality ROI products and services.

**2.7 Cemetery Costs**

The key drivers of the reduction in net margins can be represented below and are discussed further:

**Chart 2.**



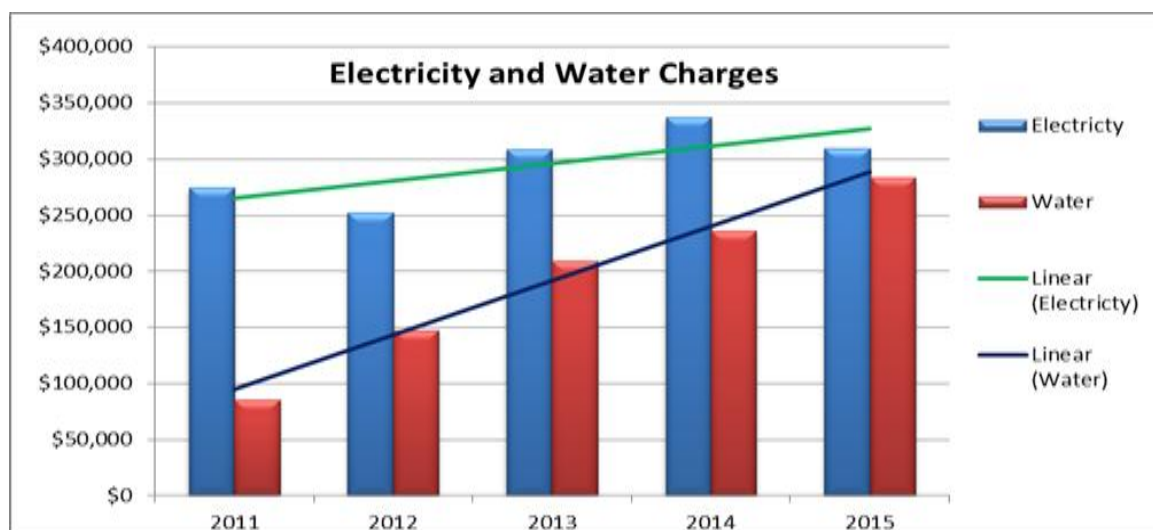
## Electricity & Water

Electricity and water usage are inherently linked to the operations of any cemetery, and in particular GMCT given the broad geographical areas under its management

GMCT began tracking actual electricity usage in 2011/12. Since then, the actual usage between 2011/12 and 2014/15 has increased by 11.24%. Between 2006-07 and 2013-14 Victorian electricity prices have increased by approximately 103%\*.

During the same period, charges for water consumption have increased by over 230%. The water charges data is quite relevant given the fact that the total area of all GMCT sites has not increased since amalgamation and the fact that grounds were not watered at all during periods of drought. Also worth noting is the continued development of monumental grave sites (from undeveloped land), which require no watering as compared to lawns, garden beds and lawn graves.

The increase in both water and electricity charges can be represented below:



**Chart 3.**

## Heavy Vehicle Fuel

In order to provide the appropriate level of products, and customer service and care, since amalgamation GMCT has increased its investment in a fleet of vehicles and equipment that is up to date and able to provide both quality grounds up keep and ROI interment.

As such, consumption of fuel has increased substantially since amalgamation, increasing by almost 20% since 2010/11.

## Horticulture

GMCT has undertaken a broad range of horticultural activities at all cemetery sites. Different horticultural standards are applied to different sites, depending on where the cemetery sits within its life cycle. Horticulture standards are higher at active sites where there are higher visitation rates compared to sites approaching or in their perpetual phase, where visitation rates are substantially lower.

Since amalgamation, GMCT has undertaken a detailed assessment of sites within its care in order to determine the appropriate horticultural standard applicable to a particular site. GMCT continues to work towards obtaining these standards to ensure that all cemeteries are presented at the acceptable levels.

Examples of ongoing reactive horticultural maintenance at transitional and perpetual sites include:

- Tree removal and replacement
- Weed spraying and removal

Annual horticulture spend has increased by 68% since June 2011 or by over \$2.03m.

## Staff Numbers & Service Provision

Since 2010, there has been an increase in Full Time Equivalent (FTE) staff of 31%, primarily due to the increase in governance as well as increased service levels.

In 2012, GMCT were also obliged to pay \$2.2m to Vision Super Defined Benefits Scheme which represented a defined benefits superannuation shortfall as determined by an actuarial review.

Other increases in the level of salaries and wages include the increase in Superannuation Guarantee Charge from 9.0% to 9.5%.

## Repairs & Maintenance

At the time of amalgamation in 2010, the GMCT inherited assets and infrastructure that required substantial maintenance. Since then GMCT has undertaken a program of reactive maintenance in order to return the assets and infrastructure to appropriate operative levels and to bring assets from amalgamated perpetual sites up to the appropriate standard.

Ongoing reactive maintenance has negative effects on a number of areas of the organisation, namely:

- Difficult to control budgets. Reactive maintenance can cost up to 3-9 times more than programmed or preventative maintenance;
- Shorter life expectancy of assets. Meaning that assets are having to be replaced more often than they would if maintained regularly;
- Reactive maintenance tends to take longer, resulting in higher labour costs;
- Higher energy costs. For example, if the crematorium has not been serviced or maintained properly, the costs associated with gas usage could potentially increase.

A range of significant reactive repair programs have been undertaken to rectify some legacy issues such as:

- Commencement of the paved road and path program to repair a range of paths and roads across the organisation which will improve the visual appearance of cemetery sites and improve visitor safety,
- Structural repairs to the Fawkner Tea Rooms and Fawkner Crematorium and Chapel to ensure long term integrity of these structures,
- Commence a mausoleum maintenance program including Preston mausoleum and Fawkner Holy Angles mausoleum to rejuvenate the appearance and make the mausoleum more attractive for the community,
- Refurbishment works required for the Sixth and Seventh Avenue bridges at Fawkner,
- Fencing repair and maintenance across a number of sites.
- Maintenance and repair of damaged and aging drainage across key sites.

As a result of these programs, the real maintenance costs to the GMCT have increased by over 111% since 2011.

## Administration

Since 2010 GMCT has increased the annual spend on administrative functions across all sites in the areas of Client Care, Finance, Information Technology & Communication, People & Culture, Organisational Development, Records Management, Corporate Communications and Risk Management from under \$800k per year in 2011 to \$1.782m in 2015.

The increase in spend has been necessary in order to provide the communities that utilise the products of GMCT with the appropriate standard of customer care, financial management, product development and corporate governance.

## Cemetery Levy

In 2009 the Cemeteries and Crematoria Act 2003 was amended to require Class A cemetery trusts to pay a levy to the Victorian Government. The Act sets the levy at 3%, or at a rate determined by the Minister, up to a maximum of 5%, of each Class A cemetery trust's gross earnings from the previous financial year. This levy is intended to assist in defraying the cost of administering the Act, make improvements to cemetery trust governance and administration and to provide services to the community.

The levy was first paid by GMCT in the 2010/11 financial year. Since that time, GMCT has paid a total of \$8.8m to the Victorian Government in the form of this levy.

As the cemetery levy was not in existence prior to amalgamation, the ROI prices inherited from the previous eight cemetery trusts were not set with the recovery of this levy in mind. As such GMCT has absorbed all cemetery levy charges incurred since 2010/11.

ROI prices must be set so that they include an allocation for the 3% cemetery levy and the price increases proposed in this RIS include such an allocation.

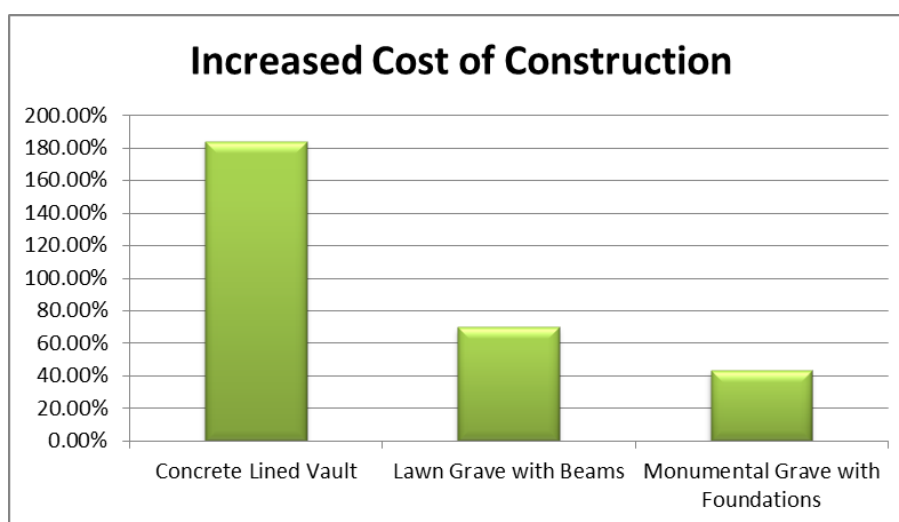
### Increased Cost of Construction

In order to provide adequate and appropriate burial space for the wider community, GMCT is obliged to invest in constructing grave infrastructure that is relevant to a particular community's needs and demands and is of a quality that meets expectations.

The grave infrastructure includes construction of:

- Mausoleum
- Monumental graves including concrete lined vaults and foundation graves
- Lawn graves with concrete beams
- Cremated remains memorialisation areas such as garden beds and niche walls

As shown below, the cost of construction of concrete lined vaults has increased by over 180%, the cost of lawn graves by almost 70% and the cost of monumental graves by over 40%.



**Chart 4.**

Over the same time frame, GMCT has only been able to increase the prices of these products on an annual basis, based on the annual CPI rate, which has only provided for a cumulative increase of 11%.

### Forecast Capital Works Programs

GMCT forecasts that in 2015/16 and onwards, it will consolidate a number of key projects such as Chapel and mausoleum developments as well as commencing work on key Greenfield sites and land purchases in order to develop cemetery capacity for future community need.

A number of GMCT active sites are reaching capacity from a land and/or mausoleum perspective at the same time. In order to meet future demand, further development at active sites is required. Proposed price increases will help fund further development in order to meet this demand.

GMCT has forecast that during the four years up to 30 June 2019, a total of \$84m will be spent on increasing cemetery capacity, and will be spent on the following areas:

- Land purchases
- Greenfield site and inventory development
- Inventory development at existing sites

- Mausoleum development
- Crematorium development

### Cost of Capital

Capital invested by Government has an opportunity cost that needs to be considered to ensure that scarce capital resources are directed to the optimal mix of assets in the State's asset base. A Capital Asset Charge (CAC) was introduced in the Victorian public sector in 1998-99 and provides the proxy for the "cost of capital" to the government. The CAC helps to undertake full costing of outputs, as the charge attributes the opportunity cost of capital used by the controlling entity in its service delivery.

Since its introduction in 1998/99, this charge has remained at 8% per annum and is charged on the written down value of non-current physical assets. For the year ended 30 June 2015, this charge for GMCT was calculated at \$5.4m.

### Perpetual Maintenance

Under the Act, the GMCT is obliged to look after and maintain those cemeteries within its care in perpetuity. In practical terms, perpetuity means 100 years plus. As such GMCT must generate sufficient income from active cemetery sites in order to fund these sites when they transition to perpetual stages and are generating little or no positive cash flow.

Active sites are required to generate sufficient income in order to provide the funding to cross subsidise and maintain the perpetual and transitional sites.

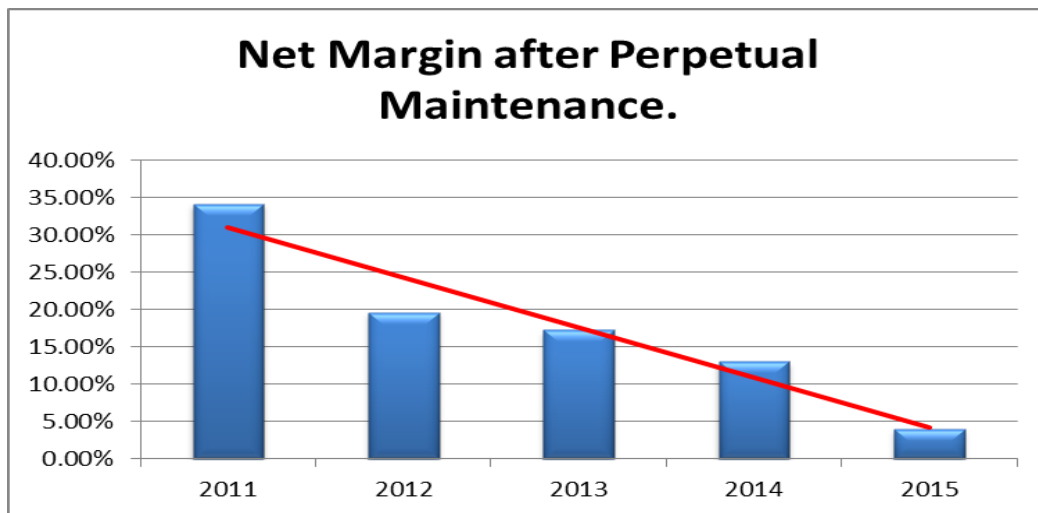
Perpetual and transitional sites within the care of GMCT include:

- Coburg (Transitional)
- Burwood (Transitional)
- Yarra Glen (Transitional)
- Healesville (Transitional)
- Emerald (Transitional)
- Truganina (Perpetual)
- Northcote (Perpetual)
- Lilydale Lawn Cemetery (Perpetual)

These sites represent over 300,000 square metres of land that must be maintained, whilst generating little or no positive cash flow. An analysis of the average annual maintenance costs for the above sites (excluding Lilydale Lawn Cemetery) can be shown below:

| SITE               | AVERAGE ANNUAL MAINT. COST |
|--------------------|----------------------------|
| <b>COBURG</b>      | \$113,470                  |
| <b>NORTHCOTE</b>   | \$8,192                    |
| <b>TRUGANINA</b>   | \$6,809                    |
| <b>BURWOOD</b>     | \$98,646                   |
| <b>YARRA GLEN</b>  | \$55,321                   |
| <b>EMERALD</b>     | \$34,867                   |
| <b>HEALESVILLE</b> | \$56,109                   |

GMCT contributes surpluses on an annual basis into the perpetual maintenance reserve, and as costs continue to increase the net margins available for this contribution continues to reduce. For example, in 2011 the net margin relating to ROI products after perpetual maintenance was just over 34%. In 2015, due to continued cost increases over and above price increases, the net margin had reduced to less than 5%, as can be seen from the chart below:



**Chart 5.**

### Continuity of Costs

As outlined in this RIS, the current fees set for ROI products are insufficient to cover costs given the increased cost of reactive maintenance and the cost of implementing additional administrative procedures to ensure that the GMCT manages the cemeteries under its control in a manner that meets all stakeholder expectations. It is expected that these costs will continue to grow as the GMCT undertakes expansion projects to meet the growing demands of a growing and aging population. The issues relating to these costs are discussed below.

- **Repairs & Maintenance**

As previously detailed, maintenance programs have been predominantly reactive since amalgamation, resulting in costs that are higher than they would otherwise have been had the maintenance programs been programmed or proactive. Over the next few years, GMCT anticipate reducing the level of reactive maintenance and implementing proactive maintenance programs, with budgeted maintenance costs to remain at current levels, based on current infrastructure.

It is worth noting that pre-amalgamation very little capital was spent on the development of new grave infrastructure. GMCT are now seeing the results of the lack of investment across all active sites where there are substantial stock shortages across all three regions. As a result GMCT are now planning on investing substantial capital in the development of grave and cemetery infrastructure at its current active sites in order to meet community demand. The direct result of this investment is more roads, more gardens, more fences and more graves to maintain.

In addition to the current active sites, GMCT also has two Greenfield sites that it intends on developing in the near future. As with the development of current sites, the development of Greenfield sites increases the ongoing maintenance obligations of GMCT, as the new sites will need to be presented at the highest of standards as visitation to the new sites will only increase as the development and number of interments increase. Roads, gardens, lawns, fences and graves will all need to be presented at the highest quality, resulting in increased ongoing maintenance costs. New site development will also require a substantial increase in machinery, again resulting in increased ongoing maintenance costs.

In addition to the further development of active and Greenfield sites, GMCT also anticipate commencing a program of land acquisition in the coming years to further meet community demand for ROI products. This will also have the impact of increasing the GMCT maintenance obligations well into the foreseeable future.

As can be seen from above, although the expensive reactive maintenance programs are expected to reduce in the short term, the longer term expansion strategy of the GMCT will see a continuing increase in its ongoing maintenance obligations.

- **Administration Costs**

Again, as noted in this RIS, the administration function and cost to GMCT has increased substantially since amalgamation to ensure that all stakeholder (community, State Government, Funeral Directors) expectations are met in terms of management of an incredibly important community asset.

GMCT have incurred substantial capital costs in setting up IT systems, finance systems, cemetery management systems and records management systems. The current administration costs analysed as part of this RIS represent on-going business as usual costs incurred in the day to day management and administration of 18 cemeteries.

Again, given the future development of current sites, Greenfield sites and new sites, it is anticipated that the administrative functions, and therefore costs, of GMCT will increase over time.

## **2.8 Cost Structure at GMCT**

Each year, the Victorian Government automatically indexes fees above \$50 for inflation, so that the real value of those fees is maintained. The indexation of fees ensures that the user, rather than the general taxpayer, pays the cost of the product or service provided.

All costs are captured by specific sites managed by GMCT. Costs that do not specifically relate to one site, such as the cost of computer systems, accounting and finance, human resources and general management are captured to a central corporate cost centre and allocated to relevant sites based on staff numbers (for computer systems and human resources) and revenue generated by each site (for accounting and finance and general management). Costs at each site are further identified by the specific service or product offered which are detailed into direct costs, allocated costs and pooled costs.

Outlined below is a summary of the various costs:

1. **Direct Costs**

- a. Land Costs – land area includes areas used for grave and cremated remains memorials and includes an allocation for common paths
- b. Cost of construction – this includes the cost of construction of a particular interment product such as the cost of foundations for monumental graves, the cost of beams for lawn grave and headstone graves, the cost of construction of niche walls as well as the cost of construction of mausoleum products
- c. Labour costs – labour costs directly related to the provision of an ROI product, such as the costs associated with direct customer service
- d. The purchase cost of memorialisation items sourced from third parties

2. **Allocable Costs**

- a. Administration costs – these costs include allocable head office costs such as Human Resources and Information and Communications Technology
- b. Grounds maintenance
- c. Infrastructure and planning
- d. Repairs & maintenance costs
- e. Horticulture costs



### 3. Cost of Capital

This cost has been outlined previously and allocation is based on revenue generated per individual ROI product.

### 4. Perpetual Maintenance Costs

These are on-going costs which need to be funded from the margins earned from products sold to ensure all sites within GMCT's care are maintained and made safe in perpetuity. This includes on-going maintenance of active sites as well as maintenance of sites that are transitioning from active to perpetual in the cemetery life cycle, and are generated limited or no positive cash flows. All ROI fees include a component for perpetual maintenance, which is allocated to a perpetual maintenance reserve in order to allocate funds to enable GMCT to meet its perpetual maintenance obligations. Different products contribute a different level of perpetual maintenance depending on the type of product. Some products (such as lawn graves and garden cremated remains positions) require more ongoing maintenance than others (such as monumental graves and niche wall cremated remains positions).

### 5. Cemetery Levy

As per Section 18 of the Cemeteries and Crematoria Act 2003, for the purposes of administering the Act, making improvements in cemetery trust governance and administration and the provision of services to the community, each Class A cemetery trust pays an annual levy of 3% of its cemetery operations revenue to the Department of Health & Human Services.

## 2.9 Cost Allocations at GMCT

The below tables illustrate the allocation of the costs that determine the price of two different ROI products based on full cost recovery:

| CONCRETE LINED VAULT - KEILOR | COST            |
|-------------------------------|-----------------|
| Cost of Construction          | \$7,874         |
| Selling & Customer Care       | \$204           |
| Administration & Overheads    | \$147           |
| Cost of Capital               | \$1,055         |
| Perpetual Maintenance         | \$3,045         |
| Cemtery Levy                  | \$380           |
| <b>Fee</b>                    | <b>\$12,705</b> |

| CREMATED REMAINS ROSE GARDEN - FAWKNER | COST           |
|--|----------------|
| Cost of Construction                   | \$353          |
| Selling & Customer Care                | \$204          |
| Administration & Overheads             | \$143          |
| Cost of Capital                        | \$349          |
| Perpetual Maintenance                  | \$4,348        |
| Cemtery Levy                           | \$168          |
| <b>Fee</b>                             | <b>\$5,565</b> |

Of the costs outlined above, only Selling & Customer Care costs and Administration & Overheads are within the direct control of GMCT. All other costs not within the direct control of GMCT are determined as follows:

- Cost of Construction: Third party construction costs are competitively tendered to ensure that the best price and quality are achieved in order to meet community expectation and demand;
- Cost of Capital: This cost is determined with reference to The Department of Treasury & Finance Cost Recovery Guidelines January 2013 which stipulates a rate of 8%;
- Perpetual Maintenance: this is determined with reference to the departmental provided CCA Costing Model, and;
- Cemetery Levy: 3% of all cemetery income as determined by the Cemeteries & Crematoria Act 2003

On average, 7% of ROI related costs are within the control of GMCT.

GMCT is very careful to ensure that it only constructs ROI stock that meets community demand and expectation. An example of this is the current construction of new mausoleum at

the Werribee Cemetery. Construction only started after strong demand for this product was determined through community consultation which resulted in an independently prepared petition with over 100 signatories requesting that GMCT undertake the project. GMCT also experienced extremely strong pre-sales when pre-sales began in July 2015. This is an example of the type of research and analysis that GMCT undertakes to ensure that stock is built that meets community demand and expectations, as well as ensuring that those costs incurred in providing the appropriate ROI products are efficient.

### **3 – FEES**

Right of interment products include grave, cremation memorial products and mausoleum products. These include various burial options, such as lawn graves and monumental graves. Cremation memorial options include such items as niche walls, rose gardens, trees and shrubs.

#### **3.1 Assessment of Options**

The community has a range of products to select from at varying price points for ROI products. When considering the recovery of costs for particular products, two feasible options were considered:

- Fees to remain at their existing levels which allows annual adjustment for indexation (annual CPI increase), or
- Regulating with the fees set to achieve full cost recovery

The benefits and costs associated with each of these options are identified and assessed below.

##### **3.1.1 Option 1 – Retaining Fees at Existing Levels**

This option would involve remaking the existing regulations without amendment. Therefore, the fees would remain at their current level. The dollar value of each fee would continue to be adjusted annually in line with the fee unit indexation rate.

##### **Expected Benefits**

The benefits of adopting this option are minimal to GMCT as the costs of providing these products will continue to grow at a rate greater than the annual CPI price increase.

##### **Expected Costs**

The cost of this option is that it fails to align GMCT fees and charges with the actual cost of providing ROI products and does not address the growing level of disparity between the cost of the product and full cost recovery. The level of under recovery would therefore continue to grow in line with the same trend since amalgamation.

This option also necessitates the continuation of the current level of cross subsidy provided by the wider community in their use of current interment products where the end user of the product is not bearing the full cost of the provision of the product or service.

The efficiency impacts of this option are leaving existing fees unchanged means that there would be no move to charge higher fees to reflect full cost recovery for interment related products. Therefore, the purchasers of most of these products will not bear the full costs of their decisions to choose a specific option.

The equity effects of this option in respect of leaving existing fees unchanged means that GMCT would be required to continue to under recover and cross subsidise its costs, which would impact the funding of the Perpetual Maintenance Reserve, and would prove inequitable as non-users of services will ultimately bear the costs of ROI products which are not relevant to their needs.

It is estimated that by adopting this option, GMCT would continue to under-recover costs on ROI products by up to \$7.5m per annum.

##### **3.1.2 Option 2 – Set Fees at Full Cost Recovery – 2 Year Implementation**

This option proposes that all ROI product related fees be set to full cost recovery. This would enable GMCT to recover the full cost of providing the products. The principals used to calculate the cost of providing these products would remain the same under this option, with adjustments made to reflect the full cost. The adjustments would be made over two years,

with equal percentage price increases in both year one and year two, excluding the impact of the annual CPI price increase.

### **Expected Benefits**

The setting of fees and charges at full cost recovery will help ensure that GMCT is able to meet its obligations under the act in maintaining cemetery sites within its care in perpetuity. It also ensures that, at active sites, the GMCT are able to continue to provide quality ROI products that reflect the expectation and needs of the local communities.

This option improves efficiency by better aligning prices with underlying costs across a broader range of products and therefore enabling the community to choose the products that best meet their needs based on full cost. This option also improves equity by ensuring that those who benefit from the purchase of a specific product bear the full cost of doing so, thereby also complying with Departmental pricing guidelines, namely: *When setting fees and charges, trusts should also ensure there is a direct relationship between the fees charged for the cemetery services and the actual cost of those services.*

Current fees would be increased equally over a two year period in order to closer align the prices charged for ROI products to full cost recovery, whilst still allowing an annual indexation amount.

### **Expected Costs**

The expected costs to GMCT are the additional costs associated with the cost of capital and under-recovery of costs, until the price rise is fully implemented, as the price rise will take place over two years. This would effectively cost GMCT \$3.75m in the first year

Users of GMCT products would be affected by the proposed fee increases through increased prices of ROI products. The gross cost impact of this option is expected to be approximately \$3.75m in each of the two years. The total cost impact is expected to be approximately \$7.5m.

Once implemented, the increased cost base is now borne by the relevant users of the products which is considered to be equitable and efficient. After full implementation, costs will no longer be subsidised by those members of the public that do not enjoy the associated benefits.

### **3.1.3 Option 3 – Set Fees at Full Cost Recovery – 1 Year Implementation**

This represents a similar to option 2, however it is proposed that the price full increase is implemented within the first year.

### **Expected Benefits**

In addition to the benefits associated with option 2, GMCT will benefit greatly from the immediate implementation of this option, as it will not have to carry the impact of an additional year of under recovery of costs, and be more immediately aligned with the Departmental guidelines as soon as new prices are implemented.

In terms of community benefit, one price rise will potentially reduce or eliminate confusion around pricing as prices will rise just once. Consecutive price rises can potentially confuse customers and complicate their decision making process in an often stressful period of their lives.

### **Expected Costs**

The expected costs to GMCT of this option are minimal when compared to Option 1 or 2, as full cost recovery is achieved within the first year.

Users of GMCT products would bear the full cost of the price increase within the first year.

### **Estimate of expected revenue and costs over 10 years**

Revenue generated after the proposed pricing increase for ROI products net of directly related costs over 10 years is expected to be \$293.9m, and will be the primary source of net income used to fund other costs borne by GMCT to support its long term viability and to ensure that it meets its obligations under the Act. The revenue estimate is based on historical ROI revenues adjusted for price increases as outlined in this proposal as well as accounting for the annual CPI related fee increase. Costs relating to these products include cost of construction,

perpetual maintenance, allocated overheads, cemetery levy and the cost of capital. Please refer to Appendix A for more information.

## 4 - CONCLUSION AND RECOMMENDATION

Each option provides alternatives for the pricing of GMCT ROI products. However, cost recovery and GMCT's obligations to manage all cemetery sites within its care in perpetuity are a key component of the problem to be addressed through this RIS.

The Trust does not consider either option 1 or 2 as being suitable options as option 1 does not address the issue of constant under recovery of costs whilst option 2 delays the implementation of full cost recovery by 12 months.

Options 3, setting fees at a level that achieves full cost recovery, is recommended as the most appropriate option to address the problem of managing the growing disparity between increasing costs and the current level of cost recovery. Recovering the full cost of GMCT providing ROI products is consistent with the general principles of the Government Cost Recovery Guidelines.

Setting fees for ROI products that approach full cost recovery can provide important signals to the users about the costs of the resources involved in their provision. Cost recovery ensures that all the relevant costs of bringing the products to market are incorporated in the relevant price signals.

DHHS guidelines outline the following in relation to fees:

*"As cemetery trusts are public bodies, there is an expectation that they will set fees for cemetery services that are consistent and transparent. Cemetery trusts are required to provide affordable cemetery services at a standard that reflects community expectations.*

*Revenue raised by cemetery trusts through their fees and charges is expected to:*

- *Encompass current cemetery operational costs (including ongoing maintenance).*
- *Cover repairs and replacement costs associated with cemetery facilities and equipment.*
- *Ensure adequate financial reserves for future operations.*

*When setting fees and charges, trusts should also ensure there is a direct relationship between the fees charged for the cemetery services and the actual cost of those services. This process ensures trusts are able to provide a transparent account of their current fees to members of the public who may wish to purchase cemetery goods and services"*

As such, it is recommended that Option 3 be approved in order to enable GMCT to fulfill its obligations under the Act, continue to provide quality ROI products and governance as well as complying with the DHHS guidelines in relation to the setting of fees.

## 5 - IMPLEMENTATION

All fee revisions will be published in the Government Gazette and well as on the GMCT website: [www.gmct.com.au](http://www.gmct.com.au). All new fees can easily be updated as "business as usual" and will be implemented in the same way that the annual CPI price increases are implemented. GMCT cannot see any potential implementation issues.

## 6 - EVALUATION

All fees for ROI products are reviewed on an ongoing basis to ensure that:

- Fees reflect the most current costs of delivering the various ROI products;
- Allocation of indirect costs are appropriate and reflect the related activities;
- ROI products offered continue to be relevant to the community; and
- Fees allow for the ongoing maintenance of the sites.

Ongoing costs such as maintenance and administration costs, will also be carefully reviewed and evaluated on an ongoing basis to ensure that they are being incurred in the most efficient and effective manner and in line with community demands and expectations.

## **7 - CONSULTATION**

In order to gauge community sentiment and feedback in relation to any proposed ROI product price change, GMCT has continually consulted with its Community Advisory Committee (CAC). The CAC is made up of 3 GMCT employees (including the CEO), 3 members of the GMCT Trust and 6 members of the wider community.

Consultation with the CAC in relation to the pricing strategies of the Trust began in September 2014, when the GMCT Director of Finance and Business presented the overall GMCT pricing strategy to the committee.

The CAC is aware of the proposed pricing revisions and acknowledge the Trust's requirements as a not for profit entity to be sustainable into the longer term. Feedback from the committee has continued to be positive and supportive of the ongoing strategies and proposals. The CEO has continually provided specific feedback from the CAC indicating their continued support and desire to achieve full cost recovery on all ROI products offered for sale. The community consultation through the RIS process will enable all stakeholders to provide feedback on the proposed price increase for ROI products.

The Subordinate Legislation Act 1994 requires that the public be given at least 28 days to provide comments or submissions regarding proposed fees. Given the nature of the fees, the consultation period for this RIS will be 28 days, with written comments required by no later than 5pm on 23 November 2015.

## **8 - COMPETITION ASSESSMENT**

It is GMCT's view that the proposed increase in ROI fees does not restrict competition or would not have a significant impact on other cemeteries. Minimal or no impact is expected to the offering of other cemeteries as a result of the proposed fee increase.

## APPENDIX A

### ESTIMATED REVENUE & COSTS

|  | 2016         | 2017         | 2018         | 2019         | 2020         | 2021         | 2022         | 2023         | 2024         | 2025         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>REVENUE</b>   |              |              |              |              |              |              |              |              |              |              |
| ROI Products   | \$31,556,056 | \$32,187,177 | \$32,830,921 | \$33,487,539 | \$34,157,290 | \$34,840,436 | \$35,537,245 | \$36,247,990 | \$36,972,949 | \$37,712,408 |
| <b>DIRECT COSTS</b>  |              |              |              |              |              |              |              |              |              |              |
| ROI Products   | \$4,713,468  | \$4,807,737  | \$4,903,892  | \$5,001,970  | \$5,102,009  | \$5,204,050  | \$5,308,131  | \$5,414,293  | \$5,522,579  | \$5,633,031  |
| <b>ROI ALLOCATABLE COSTS</b>   | \$26,842,588 | \$27,379,440 | \$27,927,029 | \$28,485,569 | \$29,055,281 | \$29,636,386 | \$30,229,114 | \$30,833,696 | \$31,450,370 | \$32,079,378 |
| Including Perpetual Maintenance<br>allocatable overheads, cemetery levy<br>and cost of capital |              |              |              |              |              |              |              |              |              |              |
| <b>NET</b>   | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          | \$0          |