



# Regulatory Impact Statement

March 2016

The public are invited to comment on this Regulatory Impact Statement by submitting comments in writing to [info@gct.net.au](mailto:info@gct.net.au) by no later than 5pm on 8 April 2016.

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## EXECUTIVE SUMMARY

The Geelong Cemeteries Trust (GCT) is classified as a Class A Cemetery Trust under the Cemeteries & Crematoria Act 2003. GCT was formed in December 1984 through the amalgamation of the three cemetery trusts in the Geelong area at that time.

Since this amalgamation the Trust has taken on a number of additional Cemeteries and built a Crematorium to service the region and now administers nineteen sites throughout Geelong, Bellarine, Queenscliff, Surf Coast and the Colac Otway regions.

Our sites now include:

- Geelong Eastern
- Geelong Western
- Barrabool Hills, Highton
- Grovedale
- Mount Duneed
- Mount Moriac
- Winchlesea
- Leopold
- Drysdale
- Portarlington
- Queenscliff, Point Lonsdale
- Lorne
- Colac
- Beeac
- Whoorel, Birregurra
- Warncoort
- Flinders Memorial Park, Lara
- Geelong Memorial Park and Crematorium, Armstrong Creek

GCT also owns a green field site (Bellarine Memorial Park) at Marcus Hill, making up the nineteen sites. Head office is located within the grounds of Geelong Eastern Cemetery, 141 Ormond Road, Geelong East.

GCT funds its activities through fees charged for right of interment products (graves, memorialisation of cremated remains and mausoleum crypts), services (cremations and interments performed) and the sale of associated memorial products (plaques). Fees need to be set in order to provide sufficient income for GCT to fulfill its obligations under the Act, and in the absence of setting appropriate fees, GCT 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 full costs to GCT of performing its statutory functions, whilst being consistent with our other objectives and organisational values. In addition, to enable cemeteries to be 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 cemetery sites in perpetuity. Active/transitional cemeteries will continue to provide funding for those cemeteries that are generating limited or no positive cash flow.

This Regulatory Impact Statement (RIS) formally assesses the proposed fee changes across all products and services provided by GCT against the requirements of the Subordinate Legislation Act 1994 together with the Victorian Guide to Regulation updated December 2014.

## Cost Recovery Status

The existing charges for all products and services are a combination of fees established by GCT and the previous cemetery trusts prior to amalgamation and were determined on a lower cost base than currently being experienced.

Over a number of years there has been a growing disparity between the cost of providing our products and services and the actual cost to GCT, as the cost of providing these products and services has been increasing at more than the annual fee indexation rate set by the Department of Health and Human Services.

It should also be noted that following the completion of the fee review there are current fees which will remain unchanged, excluding any CPI increase, approved by the Department of Health and Human Services, and in some instances decrease as a result of reduced costs.

GCT has invested heavily in the development of all sites, in particular amalgamated sites, along with improved governance (including financial management, compliance with government policies, principles and frameworks) and records management (including cemetery data).

With the continued amalgamation of sites GCT has experienced a substantial increase in demand for products and services as illustrated in the table below:

Type of Service	2014/15	2013/14	2012/13	2011/12	2010/11
Burials	915	762	739	771	820
Entombments	6	4	3	2	7
Cremations	1,417	1,293	1,231	1,198	1,140
<b>Total</b>	<b>2,338</b>	<b>2,059</b>	<b>1,973</b>	<b>1,971</b>	<b>1,967</b>

GCT has seen substantial cost increases across the board. Major increases have been experienced with items such as gas, water and electricity, cemetery maintenance, security, administration and governance costs.

Since the last fee review, income has grown by approximately 13%, whilst over the same time the GCT cost base has increased by approximately 49% as a direct result of implementing our strategic and governance improvements as well as the growth in the general GCT base over and above the annual CPI increase, applied as directed by the Department of Health and Human Services.

The current under-recovery of costs associated with the provision of our various products and services continues to grow and is represented using the sample of actual prices for items stated:

Current Products, Services and Goods	Current Price	Cost to GCT	Under-recovered Costs	% Under-recovered
Lawn Grave – Bronze Plaque Memorial Areas	\$1,670	\$1,846	(\$176)	(9.53%)
Interment Fees – Sinking or reopening of grave to 2.1m	\$1,490	\$1,716	(\$226)	(13.17%)
Memorialisation of Cremated Remains – Perpetual Tenure: Single Garden Position	\$1,115	\$1,364	(\$249)	(18.26%)
Bronze Plaques – Memorial Plaque (137mm x 102mm)	\$275	\$355	(\$80)	(22.54%)

The following costs are included in the cost to GCT of providing our products and services:

- Cost of construction/goods
- An allocation of administration costs
- Perpetual maintenance allocation
- An allocation for the cost of capital
- Cemetery Levy

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 function.

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

<b>Products, Services and Goods</b>	<b>Current Price</b>	<b>Proposed Price</b>	<b>Price Change</b>
Lawn Grave – Freestyle memorial lawn area	\$3,700	\$4,100	10.81%
Lawn Grave – Bronze Plaque Memorial Areas	\$1,670	\$1,845	10.48%
Interment Fees – Sinking or reopening of grave to 2.1m	\$1,490	\$1,715	15.10%
Interment Fees – Additional Charges – Removal of Ledger	\$235	\$295	25.53%
Memorialisation of Cremated Remains – Perpetual Tenure: Standard Rose - Single Position	\$1,595	\$1,715	7.52%
Memorialisation of Cremated Remains – Perpetual Tenure: Single Garden Position	\$1,115	\$1,365	22.42%
Bronze Plaques – Memorial Plaque (137mm x 102mm)	\$275	\$355	29.42%
Bronze Plaques – Memorial Plaque (152mm x 152mm)	\$370	\$375	1.35%

The above items are a representation of major selling products and services and are used for illustrative purposes only. It is anticipated the proposed change in fees will be applied to all products and services offered by GCT which are currently under-recovering costs.

As mentioned earlier, there are current fees which will remain unchanged, excluding any CPI increase, approved by the Department of Health and Human Services, and in some instance decrease as a result of reduced costs.

Given the large number of gazette fees GCT has, it is not practical to include details of all of the proposed fee changes in this submission. The table below details the proposed price change based on our various products and services:

<b>Products and Services</b>	<b>Proposed Price Change</b>	<b>Average Price Change</b>
Right of Interment Fees	9-28%	5.05%
Interment Fees	11-64%	25.13%
Cremation Fees	(10)-169%	35.06%
Memorialisation of Cremated Remains	(36)-61%	6.29%
Plaques & associated products	(23)-194%	41.52%
Memorial Permit Fees	3-43%	17.11%
Miscellaneous Cemetery Charges	17-92%	56.31%

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

## Impact

The impact of the proposed fee changes, excluding the 2015-16 annual indexation, will be approximately \$730,000 per annum or an average increase of 12.87% in operating revenue.

## **Review**

The RIS process included a review of all expenses incurred by GCT in providing our products and services and the consideration of three options:

### **Option 1**

Proposes GCT retain the fees at current levels, with fees being adjusted by the annual indexation increase currently applied by the Department of Health and Human Services. This would ensure GCT can continue to charge fees and users of these products and services continue to contribute towards meeting the expenses.

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

### **Option 2**

Proposes GCT set all fees to achieve full cost recovery (before the annual indexation) and implement the changes over a period of time. The principals used to calculate the cost of providing our products and services would remain the same under this option, with adjustments made to fees to reflect the full cost.

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

Option 2 proposes that fee changes are staged over a period of two years in order to gradually increase/reduce fees to levels that represent the actual cost to GCT of providing these products and services.

This option does not achieve full cost recovery for two years, during which time not only will an under-recovery of costs still be occurring, but these fees will in part be subsidised by those fees receiving a price reduction.

### **Option 3**

Proposes GCT set all fees as in option 2 with the full fee change being implemented within the first year (before the annual indexation).

This is GCT's preferred option as the fees represent the actual cost of providing the products and services and full cost recovery commences immediately.

## **Proposed Approach**

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

The proposed change in fees is considered the best means of ensuring the fee paid by the customers using GCT products and services reflect the actual cost. This also ensures that the customers that benefit from the provision of the GCT products and services are those that bear the full cost and that costs are not subsidised by other customers, or other sections of the Trust.

## INTRODUCTION

### 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 public cemeteries as well as providing for the maintenance of public cemeteries in perpetuity. GCT funds the operating cost and ongoing 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 of the Department of Health and Human Services, under section 40 of the Cemeteries and Crematoria Act 2003.

In accordance with section 43 of the Cemeteries and Crematoria Act 2003, any cemetery trust fee which is \$50 or more is to be increased on 1 July, in line with the Consumer Price Index (CPI) and rounded to the nearest \$5.

### The requirement for a Regulatory Impact Statement

A Regulatory Impact Statement (RIS) formally assesses proposed fee changes for all products and services provided by a statutory entity as per the requirements of the Subordinate Legislation Act 1994 together with the Victorian Guide to Regulation, updated December 2014.

GCT is a statutory entity and its scale of fees and charges is a legislative instrument. This RIS has been prepared to determine if the proposed pricing changes would impose a significant economic or social burden on a sector of the community. If the proposed pricing changes are determined to impose gross costs of \$2m or more in any one financial year on a sector of the community then a more detailed level of financial analysis and an extended consultation period is required. This RIS has determined that the gross impact would be less than \$2m and so an exemption from the full RIS process is being sought.

It is noted that where fees are proposed to be increased by an amount not exceeding CPI or the annual rate set by the Treasurer that a RIS is not required. The CPI rate for 2015-16 is 1.9% and the treasurer's annual rate set for the same period is 2.75%. As it is proposed that fees will increase by an average 12.87%, 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 presented in the submission. 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 from the public on the proposed fees is welcomed and encouraged.

## THE REASONS FOR THE PROPOSED PRICE CHANGES

### Key Points

The long term viability and financial sustainability is a key strategic priority of the Trust, which pursues this goal to ensure that all cemeteries under its management 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 products and services provided by the trust.

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 use. 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).

GCT offer varying 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 cemeteries managed by GCT are maintained for future generations, a percentage of all gross profits generated from the sale of products and services are allocated to a Perpetual Maintenance Reserve. This reserve will assist in the maintenance of all cemeteries in perpetuity. Without fully recovering all costs associated with the provision of products and services, GCT will not be able to meet its obligations under the *Cemeteries and Crematoria Act 2003* in maintaining cemeteries in perpetuity.

### The Proposed Fees

The proposed fee changes are designed to reflect the recovery of total costs associated with the delivery of the relevant products and services. These associated costs also include an amount allocated to Perpetual Maintenance. The setting of fees takes into consideration the need to cross subsidise those cemeteries that are in a transitional or the perpetual stage with funds from cemeteries in the active stage.



## Principles of Cost Recovery

General government policy is that regulatory fees and user charges be set on a full cost recovery basis as 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.

GCT has reviewed its activities and considers that costs are efficient. In terms of GCT's operating costs supplied by a third party, where possible, GCT access government contracts and utilise a competitive tendering process to make these costs as efficient as possible.

In terms of GCT's administrative costs, GCT also consider these costs to be efficient. Despite the amalgamation of seven additional sites from Queenscliff and the Surf Coast and Colac Otway regions and the increase to service levels, administration staff numbers have not increased.

Full cost recovery is consistent with achieving the efficiency and equity objectives 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 products/services.
- From a horizontal equity basis, full cost recovery ensures those that benefit from government provided products/services, or those that give rise to the need for government regulation, pay the associated cost. Those parties that do not benefit or take part in a regulated activity do not have to bear the costs.

Cost recovery can be defined as the recoupment 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 the 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. The guidelines are also 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 – cost of infrastructure, setting up gardens and products for interment and memorialisation.
- Annual and Perpetual Maintenance Costs – costs associated with maintaining cemetery sites and infrastructure.
- Administration/Operating Costs – relates to the sales, operations and administration and governance functions of the Trust.
- 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 products and services provided by government, cost recovery charges can give important signals to users about the cost of resources involved in their provision.

Full cost recovery ensures that all relevant costs of bringing products and services to market are incorporated in the relevant price signals.

## Nature and Extent of the Problem

The prices that GCT has charged for their products and services have only increased in accordance with the annual CPI increase approved by the Department of Health and Human Services. This has seen prices increase by 12% in the last five years. In the same time, GCT has experienced substantial increases in its general cost base of approximately 49%, over and above the annual CPI rate, resulting in substantial decreases in the net margin generated from the sale of these products and services.

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

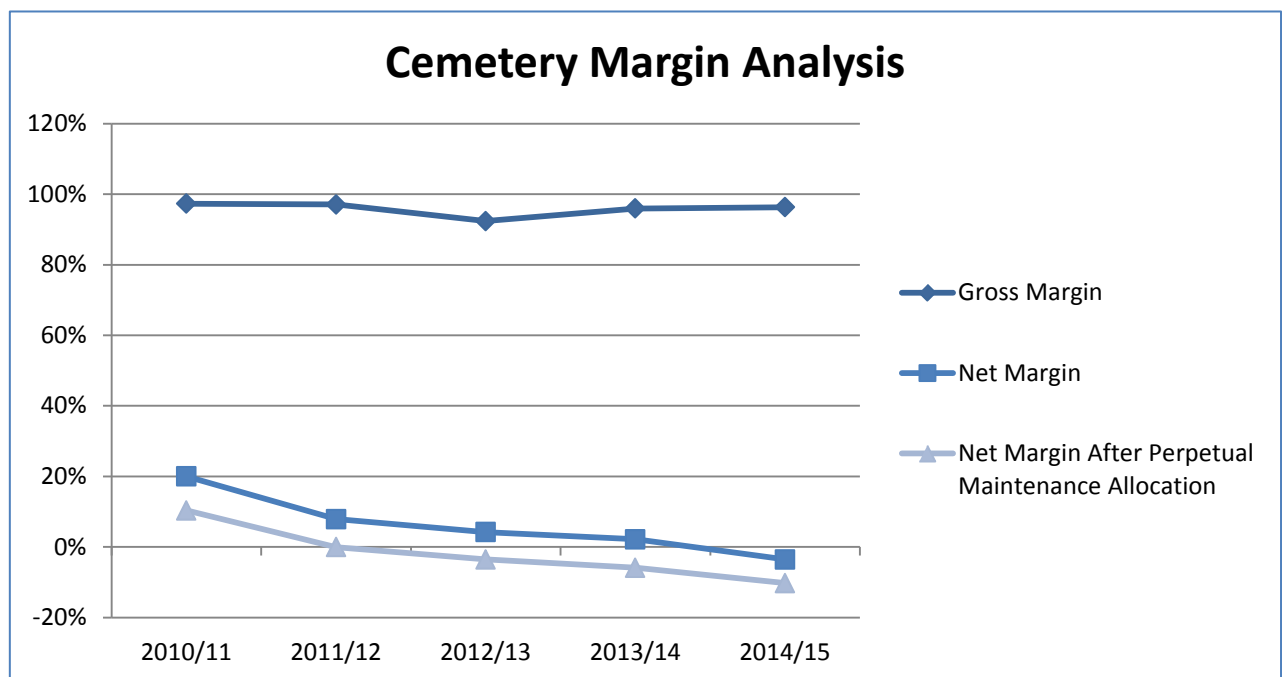
- Time resources involved in the provision of products and services across all cemetery sites
- Costs of construction
- Utility charges (water, gas & electricity)
- Cemetery Maintenance
- Perpetual Maintenance
- Administration & Governance Costs
- Defined Benefits Superannuation Shortfall

## Reduction in Cemetery Margins

GCT derives approximately 92% of its total revenue from cemetery operations, with the remaining generated from investment income. Cemetery operations revenue is generated from the following products and services:

- Right of Interment Products – 29%
- Interment Services – 20%
- Cremations – 23%
- Memorialisation Products – 20%

The net margin generated from the sale of products and services (after the allocation of Perpetual Maintenance) has fallen by such an extent that GCT is now subsidising the provision of products and services, as can be illustrated below.

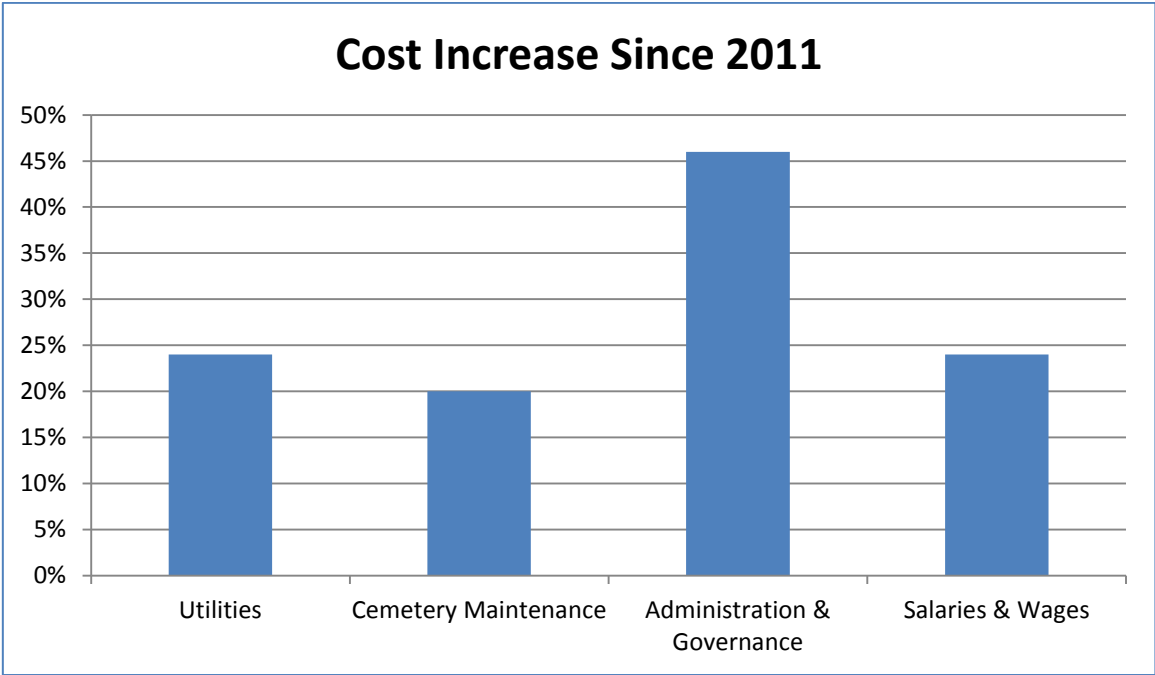


Gross margin is sales less cost of goods sold. Cost of goods sold includes the cost of construction and the cost of memorialisation products. Net margin is gross margin less all indirect costs such as indirect labour costs, administration, governance, cemetery maintenance, depreciation etc.

The under-recovery of all costs associated with the provision of our products and services is reducing GCT’s ability to meet its obligations under the Act and effectiveness in continuing to develop and provide quality products and services to the standard expected by the public.

### Cemetery Costs

Examples of some key drivers of the reduction in net margin are represented below and discussed further.



### Utilities

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

Since 2010-11, electricity usage has increased by 27%. There has been a massive increase in electricity charges in Victoria, with retailers charging more than triple what they were six years ago. According to a report conducted by Carbon and Energy Markets Report and commissioned by The Brotherhood of St Laurence in 2015, some electricity charges have risen by 212% since 2008.

During the same period, charges for water consumption have increased by 112%. The increase in water consumption can, in part, be attributed to the additional eight sites brought under the management of GCT and despite the best efforts of our operations department to reduce water consumption, the costs have still significantly increased. Gas consumption charges have also increased by 12% over the same period.

## **Cemetery Maintenance**

GCT has undertaken a broad range of cemetery maintenance activities at all cemetery sites and in particular, following the amalgamation of additional sites. Different cemetery maintenance standards have been applied to different sites, depending on their life cycle. Cemetery maintenance standards are higher at sites with higher visitation rates compared to sites approaching, or in their perpetual cycle, where visitation rates may be lower.

Following the amalgamation of each site, GCT has undertaken a detailed assessment of sites under its management in order to determine the cemetery maintenance priorities applicable to a particular site. GCT continues to work towards obtaining higher standards to ensure all cemeteries are presented at the acceptable levels, with the appropriate products available.

Examples of ongoing cemetery maintenance cemetery sites include:

- Tree removal and replacement
- Weed Spraying
- Rabbit/Pest Control
- Grounds/garden maintenance
- Road maintenance

Cemetery maintenance costs have increased by 20% since 2010-11, which equates to more than \$120,000 per annum.

## **Staffing & Service Provision**

Increases to salaries and wages via EBA negotiations do not form part of this submission as those matters are managed through the separate regulatory process. However, it is to be noted that since 2010-11, there has been an increase in staff of 40%, due to the development of a regional operations centre, based in Colac, to service regional cemeteries following the amalgamation of seven additional sites from Queenscliff and the Surf Coast and Colac Otway regions; and an increase to service levels based upon community demand.

GCT were also obligated to pay more than \$560,000 to Vision Super Defined Benefits Scheme which represented a defined benefits superannuation shortfall, as determined by an actuarial review.

## **Administration & Governance**

GCT has also invested heavily on administrative and governance functions in the areas of Finance, Information Technology, Organisational Development, Records Management and Risk Management from under \$275,000 per annum in 2011 to nearly \$400,000 in 2015.

The increase in spend has been necessary in order to provide the communities that utilise the products and services offered by GCT with the appropriate standard of customer care, financial management, product development and corporate governance. The significant increase in government reporting requirements over this time has also contributed to these increased administration and governance costs.

## **Cemetery Levy**

In 2009 the Cemeteries and Crematoria Act 2003 was amended requiring 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.

Since the introduction of the Cemetery Levy, GCT has paid more than \$810,000 to the Victorian Government for this levy. As the cemetery levy was not in existence prior to the last fee review, GCT has absorbed all cemetery levy charges incurred.

All products and services fees must be set so they include an allocation for the 3% cemetery levy and fees 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, GCT is obliged to invest in infrastructure that is relevant to a particular community's needs and demands and is of a quality that meets expectations.

The infrastructure includes construction of:

- Mausoleum
- Monumental Graves, including concrete lined vaults
- Lawn Graves with concrete beams
- Cremated Remains memorialisation areas such as rose gardens and memorial walk areas

The amalgamation of under developed sites has impacted on GCT's need to develop infrastructure to meet the community's needs and demands.

## Forecast Capital Works Programs

GCT forecasts that in 2015-16 and onwards, it will implement a number of key projects such as Stage 3 Mausoleum development as well as commencing work on our Greenfield site in order to develop cemetery capacity for future community needs.

A number of GCT active sites are reaching capacity from a land perspective at the same time. In order to meet future demand, further development at active sites is required. Proposed fee changes will assist in providing funds for further development in order to meet this demand.

GCT has forecast that during the five years up to 30 June 2021, a total of \$6.9m will be needed for infrastructure improvements to increase cemetery capacity. Spending will be in the following areas:

- Greenfield site and inventory development of Bellarine Memorial Park
- Inventory development at existing sites
- Mausoleum development
- Crematorium upgrades
- Plant & equipment purchases

## 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 was introduced in the Victorian public sector in 1998-99 and provides the proxy for the "cost of capital" to the government. The Capital Asset Charge 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.

This charge has been set at 8% per annum and is charged on the written down value of non-current physical assets. For the year ended 30 June 2015, the charge for GCT was calculated at \$1.17m.

## Perpetual Maintenance

Under the Act, GCT is obliged to maintain all cemeteries under its management in perpetuity. As such GCT must generate sufficient income from active cemetery sites in order to fund these sites when they transition to the perpetual stage and are generating little or no positive cashflow.

Perpetual and transitional sites within the care of GCT include:

- Geelong Western Cemetery (Transitional)
- Barrabool Hills Cemetery (Transitional)
- Grovedale Cemetery (Perpetual)

These sites represent over 130,000 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 is shown below:

Cemetery	Total Area (square metres)	Average Annual Maintenance Costs
Geelong Western Cemetery	42,526	\$258,159
Barrabool Hills Cemetery	84,412	\$304,950
Grovedale Cemetery	3,900	\$5,058

GCT contributes surpluses on an annual basis into the perpetual maintenance reserve. As costs have continued to increase, the net margins available for this contribution have continued to decline. For example, in 2010-11 the net margin after perpetual maintenance was just over 10%. In 2015-16, due to continued cost increases over and above price increases; the net margin had reduced to -10%.

## Continuity of Costs

As outlined previously, the current fees are insufficient to cover costs given the increased cost of cemetery maintenance and the cost of implementing additional administrative procedures to ensure that the GCT 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 GCT undertakes expansion projects to meet the increased demands of a growing and ageing population. The issues relating to these costs are discussed below.

- Cemetery Maintenance

GCT operates a proactive cemetery maintenance program. This approach ensures GCT continues to meet the expectations of all stakeholders while acknowledging this approach will most likely result in increased cemetery maintenance costs.

It is worth noting that prior to the amalgamation of the smaller cemeteries now under the control of GCT very little resources were spent on the development of inventory infrastructure at those sites. As a result GCT has been, and will continue, investing substantial resources in the development of inventory and cemetery infrastructure at these sites in order to meet community expectations. 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, GCT also has a Greenfield site that it intends on developing in the near future. As with the development of current sites, the development of a Greenfield site increases the ongoing maintenance obligations of GCT, as the new site will need to be presented at the highest of standards. 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.

GCT will also continue to monitor opportunities for the acquisition of land to ensure, long term, that GCT is able to meet community growing demand.

As has been presented, the longer term expansion strategy of the GCT will see a related rise in its cemetery maintenance obligations.

- **Administration & Governance Costs**

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

GCT has incurred substantial capital costs in setting up IT systems, finance systems, cemetery management systems and records management systems. The current administration and governance costs analysed as part of this RIS represent ongoing business as usual costs incurred in the day to day management and administration and governance of a large number of cemetery sites.

Again, given the future development of current sites and greenfield site, it is anticipated that the administrative and governance functions, and therefore costs will increase over time.

## **Cost Structure at GCT**

Each year, the Victorian Government indexes fees above \$50 for inflation, so the real value of those fees is maintained. The indexation of fees ensures 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 GCT. 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 a combination of staff hours per site and burial/cremation activities per site. Costs at each site are further identified by the specific product or service 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 – includes the cost of construction of a particular interment product such as the cost of concrete lined monumental graves, the cost of concrete beams for lawn graves and headstone graves, the cost of construction of memorialisation positions such as memorial walks and rose gardens as well the cost of construction of mausoleum products.
- c) Labour Costs – labour costs directly related to the provision of a product or service, such as costs associated with direct customer service.
- d) The purchase cost of memorialisation products sourced from third parties.

### 2) Allocated Costs

- a) Administration & Governance Costs – these costs include allocable head office costs such as Human Resources and Information Technology.
- b) Grounds Maintenance
- c) Infrastructure Planning
- d) Cemetery Maintenance

### 3) Cost of Capital

- a) This cost has been outlined previously and allocation is based on cost generated per individual product and service.

### 4) Perpetual Maintenance Costs

- a) These are ongoing costs which need to be funded from the margins earned from products and services sold to ensure all sites within GCT's management are maintained and made safe in perpetuity. This includes ongoing maintenance of active sites as well as maintenance of sites that are transitioning from active to perpetual in the cemetery life cycle, and are generating limited or no positive cash flows. All fees include a component for perpetual maintenance, which is allocated to a perpetual maintenance reserve in order to allocate funds to enable GCT to meet its ongoing perpetual maintenance obligations.

5) Cemetery Levy

- a) As per Section 18 of the Cemeteries and Crematoria Act 2003, for the purpose of administrating the Act, making improvements in cemetery trust governance and administration and the provision of services to the community, each Class A cemetery trust must pay an annual levy of 3% of its gross revenue to Treasury.

**Cost Allocations at GCT**

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

<b>Freestyle Memorial Lawn Grave</b>	<b>Cost</b>	<b>Cremated Remains Rose Garden</b>	<b>Cost</b>
Cost of Construction	\$270	Cost of Construction	\$70
Administration & Overheads	\$165	Administration & Overheads	\$50
Cost of Capital	\$270	Cost of Capital	\$115
Perpetual Maintenance	\$3,000	Perpetual Maintenance	\$1,315
Cemetery Levy	\$125	Cemetery Levy	\$50
Return on Investment	\$270	Return on Investment	\$115
<b>Fee</b>	<b>\$4,100</b>	<b>Fee</b>	<b>\$1,715</b>

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

- Cost of Construction: GCT will, where possible, construct products and services internally. Third party construction costs are competitively tendered to ensure the best price and quality are achieved in order to meet community expectations and demand.
- Cost of Capital: This cost is determined with reference to the Department of Treasury and Finance Cost Recovery Guidelines, January 2013 which stipulates a rate of 8%.
- Perpetual Maintenance: This cost is determined with reference to the departmental provided CCA Costing Model.
- Cemetery Levy: As discussed previously, this cost is determined by legislation.

GCT is very careful to ensure that it only constructs products that meet with community expectations and demand. An example of this is the planned construction of a new Mausoleum at Geelong Eastern Cemetery. Construction of the third Mausoleum will only start once inventory levels within the existing mausoleums reach the Trust approved trigger points to ensure strong utilisation of existing inventory.

GCT is also planning on constructing rose gardens within the Leopold cemetery based on the strong research and analysis of community expectations and demands.



## DISCUSSION OF FEE PRICING OPTIONS

The broad category of products and services offered by GCT include:

- Rights of Interment – Lawn Graves, Monument Graves, Concrete Lined Monument Graves and Mausoleum crypts
- Interment Fees
- Cremation Fees – Cremations, Chapel Fees, Interment/Placement Fees
- Cremated Remains Memorialisation Fees – Niche Walls, Rose Gardens, Gardens, Trees, Bench Seats and Memorial Walks, etc.
- Plaques & Associated Memorial Products – Granite, Bronze and Glass plaques, Book of Remembrance, etc.
- Memorial Permit Fees

### Assessment of Options

GCT offers the community a range of products and services to select from at varying price points. When considering the recovery of costs for particular products and services, two feasible options were considered:

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

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

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

Under this option, fees would remain at their current level. The dollar value of each fee would continue to be adjusted annually in accordance with the fee annual indexation rate (CPI increase).

##### Expected Benefits

The benefits of adopting this option are minimal to GCT as the costs of providing our range of products and services will continue to grow at a rate greater than the annual indexation rate increase.

##### Expected Costs

The cost of this option is that it fails to align GCT fees with the actual cost of providing our range of products and services and does not address the growing level of disparity between the cost of the product or service and full cost recovery.

This option also necessitates the continuation of the current level of cross subsidy provided by the wider community in their use of current products and services where the end user of the product is not bearing the full cost of the provision of the product or service. This contradicts the general government policy that regulatory fees and user charges should be set on a full cost recovery basis.

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

The equity effects of this option means GCT 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 products and services which are not relevant to their needs.

It is estimated that by adopting this option, GCT would continue to under-recover costs on products and services by up to \$730,000 per annum.

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

This option proposes all product and service fees be set to full cost recovery. This would enable GCT to recover the full cost of providing our range of products and services. The principals used to calculate the cost of providing these products and services 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 indexation (CPI) increase.

### **Expected Benefits**

The setting of fees at full cost recovery will help ensure GCT is able to meet its obligations under the Act in maintaining cemetery sites under its management in perpetuity. It also ensures, at active sites, GCT is able to continue to provide quality products and services that reflect the expectation and needs of local communities.

This option improves efficiency by better aligning prices with underlying costs across all products and services and therefore enabling the community to choose the products or services 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 or service 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 either increased or reduced equally over a two year period in order to closer align the fees charged for products and services to full cost recovery, whilst still allowing an annual indexation amount.

### **Expected Costs**

The expected costs to GCT 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 GCT \$365,000 in the first year.

Users of GCT products and services would be affected by the proposed fee changes through increased fees of products and services. The gross cost impact of this option is expected to be approximately \$365,000 in each of the two years. The total cost impact is expected to be approximately \$730,000.

In terms of community cost, consecutive fee rises can potentially confuse customers and complicate their decision making process.

Once implemented, the increased cost base is now borne by the relevant users of the products which are 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.

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

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

### **Expected Benefits**

In addition to the benefits associated with Option 2, GCT 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 fees are implemented.

In terms of community benefit, one price rise will potentially reduce or eliminate confusion as fees will rise just once. Consecutive fee 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 GCT of this option are minimal when compared to Option 1 or 2, as full cost recovery is achieved within the first year.

Users of GCT products and services would bear the full cost of the fee changes within the first year.

## Estimate of expected revenue and costs over 10 years

Revenue generated after the proposed fee changes over 10 years is expected to be \$74.4m, and will be the primary source of income used to fund other costs borne by GCT to support its long term viability and to ensure it meets its obligations under the Act.

The revenue estimate is based on historical revenue adjusted for price changes as outlined in this proposal as well as accounting for the annual indexation increase. Costs relating to these products and services include cost of construction, perpetual maintenance, allocated overheads, cemetery levy and the cost of capital. Appendix A provides more information.

## CONCLUSION AND RECOMMENDATION

Each option provides alternatives for the pricing of GCT products and services. However, cost recovery and GCT's obligations to manage all cemetery sites under its management in perpetuity are key components of the issue to be addressed through this RIS.

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

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

Setting fees for products and services 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 and services to market are incorporated in the relevant price signals.

Department of Health and Human Services 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 GCT to fulfill its obligations under the Act, continue to provide products and services and governance as well as complying with the Department of Health and Human Services guidelines in relation to the setting of fees.

## **IMPLEMENTATION**

All fee changes will be published in the Government Gazette as well as on the GCT website: [www.gct.net.au](http://www.gct.net.au). All new fees can easily be updated as “business as usual” and will be implemented in the same way that the annual indexation increase is implemented. GCT cannot see any potential implementation issues.

## **EVALUATION**

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

- Fees reflect the most current costs of delivering our range of products and services;
- Allocation of indirect costs are appropriate and reflect the related activities;
- Products and services offered continue to be relevant to the community; and
- Fees allow for the ongoing maintenance of all cemetery sites.

Ongoing costs such as maintenance and administration and governance 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.

## **CONSULTATION**

In order to gauge community sentiment and feedback in relation to any proposed fee changes, GCT has consulted with its Community Advisory Committee (CAC). The CAC is made up of 3 GCT employees (including the CEO), 2 members of the Trust and 12 members of the wider community.

The CAC is aware of the proposed fee review and acknowledge the Trust’s requirements as a not for profit, but for purpose, 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 community consultation through the RIS process will enable all stakeholders to provide feedback on the proposed fee changes.

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 8 April 2016.

## **COMPETITION ASSESSMENT**

It is GCT’s view that the proposed fees do 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 changes.

