Submission to the Capital and Markets Authority Investigation into

Funeral Directors and Crematoria Services

Horizon Cremation Limited

About Horizon Cremation

1. Horizon Cremation Ltd (Horizon) is a new entrant into the crematoria market, building community crematoria that offer high levels of care delivered in attractive, modern and efficient buildings.

2. The company was established in 2016 by Stephen Byfield and Jeremy Hamilton. The founders were motivated to enter the sector following poor experiences of their local crematoria, and each brings significant commercial, operational and business development experience, allied to a strong desire to deliver higher quality facilities and better service for families and communities.

3. Horizon is an ambitious challenger business and attracted equity sponsorship from Maven Capital Partners in 2017 to develop, build and operate a group of five new crematoria.

4. Being a new participant in a field means you see problems with greater clarity. Horizon Cremation has looked at every aspect of crematorium design, operations and service with fresh eyes to improve the experience for mourners – from the design of the buildings, to the quality and training of staff, to the use of the very best, non-polluting and highly efficient cremator equipment.

5. In June 2018, Horizon opened the doors of its first site. Built in a regional park, the Clyde Coast and Garnock Valley Crematorium has stunning views across the Firth of Clyde to the peaks of Arran, (see clydecrematorium.co.uk for more information). The innovative building design and service offered at the Clyde Coast & Garnock Valley Crematorium has received praise from both mourners and funeral directors since opening. The facility is steadily and assuredly establishing itself within the communities it serves.

6. Horizon Cremation is now ready to build its next two sites: one in Cannock, to the north of Birmingham, and one in East Renfrewshire, to the South of Glasgow. In both cases, we are in discussions with high street banks to raise the capital to fund construction and expect to begin building before the close of 2019.

7. Two of these three facilities are in Scotland and so subject to the new regulatory regime there. Planning policies also differ north of the border. However, as paragraph 46 of the Competition and Market Authority (CMA)'s Statement of Issues makes clear, competition law and consumer protection are reserved matters. Consequently, we believe that our experiences as a new entrant in the crematoria market have relevance to the CMA's inquiry.

Background – Demand for Cremation in the UK

8. Until the second half of the twentieth century, cremation was the minority funeral-care choice, attracting fewer than 10 percent of the population. However, after World War Two, cremation rates rose steadily, mirroring a gradual decline in religious conviction, an increase in burial costs, and a shortage of graveyard space. By 1960, a cremation followed one third of all funerals, and the trend continued so that by the 1980s, nearly 70 percent of people were cremated.

9. The rise in cremation rates prompted an increase in construction of crematoria. In 1950, there were 58 crematoria; in 1960, there were 148; and by 1970 there were 206.

10. The vast bulk of these were built by local authorities. However, a slow-down in construction followed as local authority finances came under pressure. The last twenty years has seen a gradual increase in the supply of new crematoria, with the private sector taking up the slack. In 2017, nine new crematoria opened their doors – every one of them built and operated by a private sector company. The UK now has 290 operational crematoria.

11. The death rate began to level off in the 1980's and 1990's. The population was still increasing, but medical advances had raised life expectancy and, consequently, the number of people dying annually dropped, as people lived longer.

12. This trend continued into the new millennium. The population rate in the UK continued to rise steadily, yet the death rate, which levelled out in the last quarter of the twentieth century at around 660,000 deaths a year, fell to around 560,000 deaths per year in the first decade of the new century.

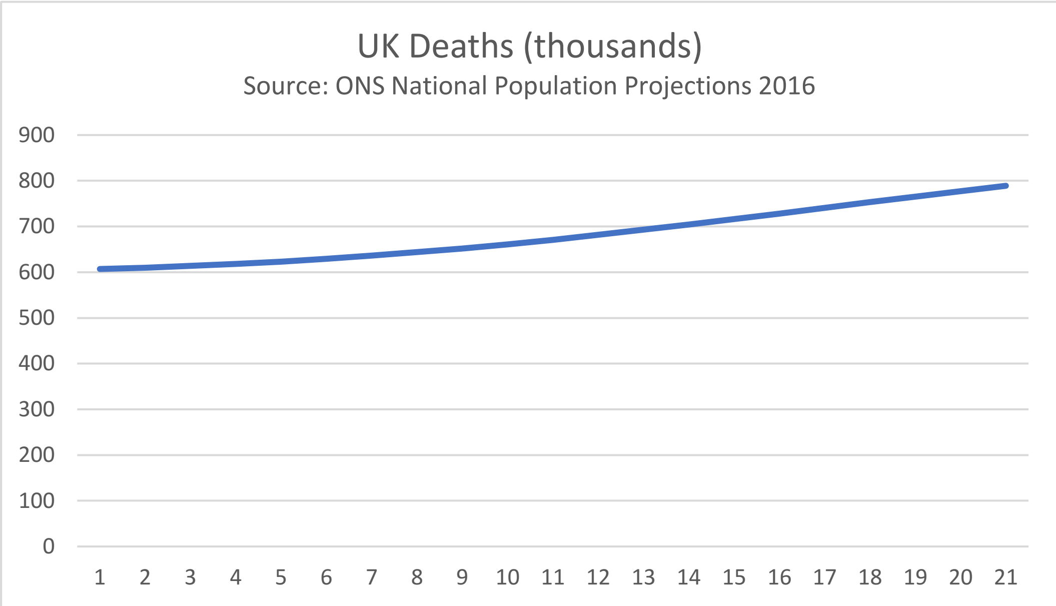
13. Despite this, the number of cremations continued to rise. The popularity of cremation has risen gradually and steadily, and in 2017, the number of cremations in the UK was 468,000 representing 77.05% of all deaths (79.75% in England and 69% in Scotland).

14. The ONS predicts that the death rate is about to increase significantly. Because of medical advances, the death rate has been static or in decline since the mid-1970s despite significant population increases. In short, the baby boomer generations lived longer than those that preceded them. As a result, fewer people died each year.

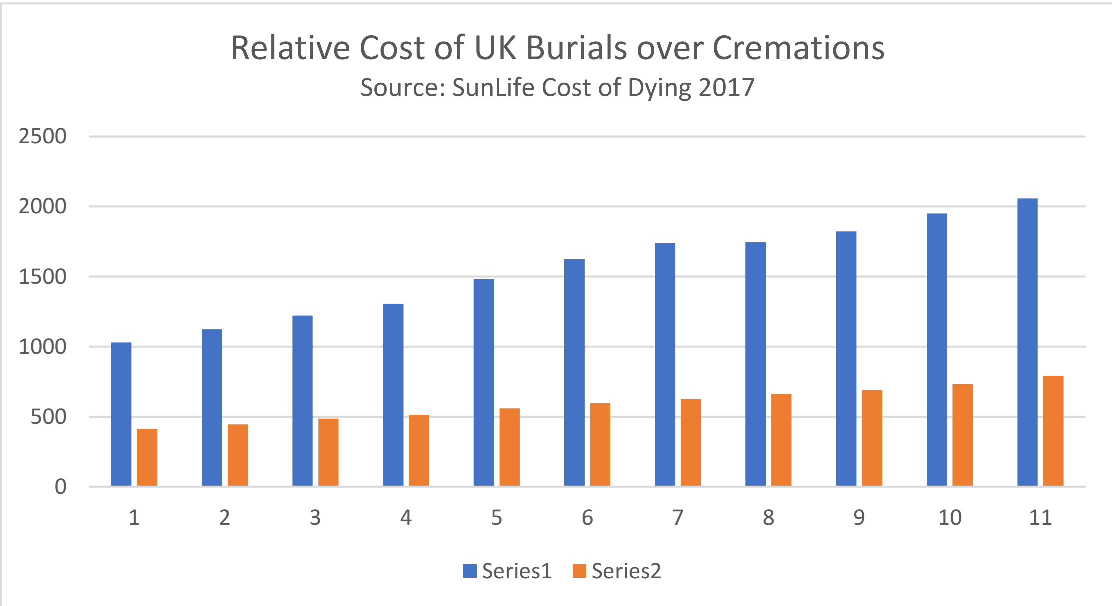
15. However, the large baby-boomer cohort is beginning to die, which will result in a steady and significant increase in the death rate over coming decades. This trend has already begun. In 2010, 560,000 people died in the UK. By 2014, that number was up to 574,000. By 2015, it was 607,000 and, in 2016, it was 601,000[1]. In addition, the Institute of Faculty of Actuaries reported in March 2019 that life expectancy in the UK fell by six months between 2017 and 2019; the first drop recorded since 1982, when records on life expectancy began.

[1] The Cremation Society of Great Britain International Statistics 2014-2016

16. In 2016, the Office of National Statistics (ONS) published its National Population Projections. They project an increase in the death rate of 23 percent over the coming 20 years. When extrapolated, this will result in a death rate of almost 800,000 per year in the UK in 20 years' time. By 2051, the death rate will be 900,000 per year.

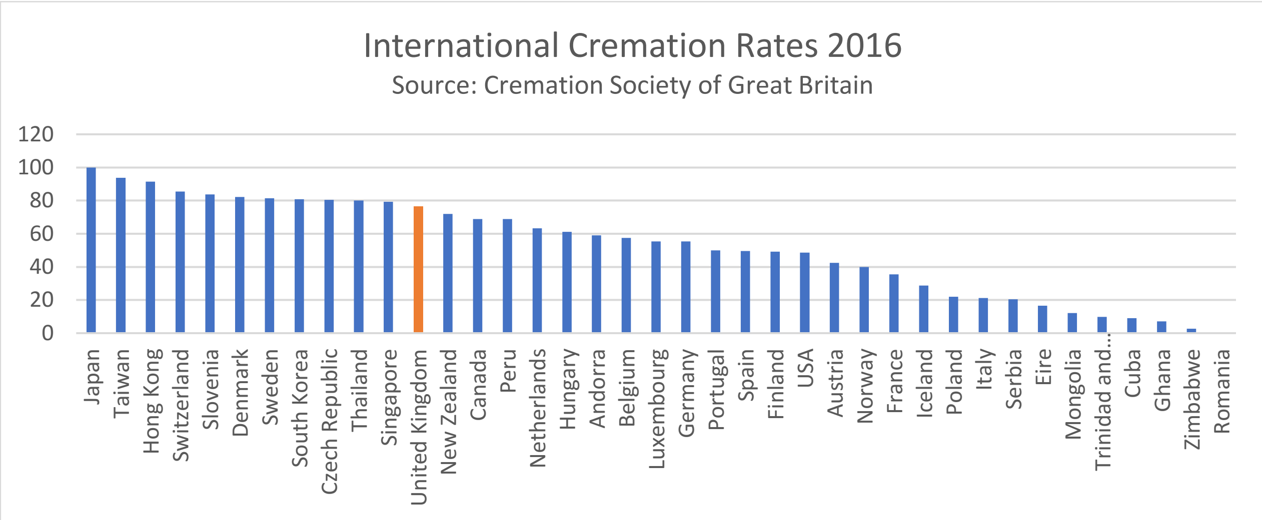


17. It also likely that the gradual increase in the popularity of cremation will continue for the foreseeable future. This is driven by cost. SunLife undertakes an annual report into the components that make up the total cost of dying. Analysis of their reports from 2007-2017 shows that there has been a substantial increase in both burials and cremations over the last decade, but the cost of burials increased at a faster rate than that of cremations. In 2017, a typical cremation cost £791, which was just 38 percent of the cost of a burial (£2,059).



18. The high cost of burials seems to be linked to a shortage of burial plot supply. Cemeteries require a significant land-take and, in much of the UK, the cost of land makes the provision of new burial grounds difficult to achieve.

19. The upward trend in the cremation rate does not seem to have peaked, a contention supported by comparisons of international cremation rates. As can be seen from the chart below, the UK is not even in the top ten of countries worldwide that cremate and is only the fifth biggest cremator in Europe. Cremation is greatly influenced by cultural factors and southern European states had relatively low cremation rates until the Catholic Church allowed cremation in 1963. Since then they have been catching up rapidly.



20. What do these trends mean for the provision of crematoria in the coming years? In 2017, 467,748 cremations (representing 77.05% of all deaths) were conducted in 289 facilities across the UK: an average of 1,618 cremations per crematorium[2]. Let us assume that the ONS projections for deaths in the UK over the next 20 years are correct and that, in 2037, there will be 777,000 deaths. If we further assume that the historic compound annual increase in the cremation rate of 0.33%[3] continues for the next 20 years, this will result in a cremation rate of 82.3% of all deaths by 2037.

21. If no new crematoria are built, this would mean that the average number of cremations being conducted in 2037 would be 2,205 per crematorium. This represents a rise of 36 percent in demand over the next 20 years alone.

22. We believe that the UK faces a compelling need to build new crematoria to keep pace with increasing death rates and the rising popularity of cremation. The existing infrastructure cannot cope with this increase in demand without significantly reducing the quality of the service to the public.

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[2] Cremation Society of Great Britain, Table of Cremations 2017
[3] Cremation Society of Great Britain, Table of Cremations 2017

Experiences of a New Entrant to the Crematoria Market

23. There are several barriers to entry for anyone seeking to open a new crematorium. Some are significant, and some are just the normal problems associated with opening a new venture.

Finding Sites

24. A significant practical issue is the difficulty in finding sites that are appropriate, meet regulatory and planning requirements and are affordable.

25. Guidance on what makes sites appropriate for crematoria can be found in a document published by the Federation of Cremation and Burial Authorities (FCBA), "Recommendations on the Establishment of Crematoria"[4]. This gives general advice on the siting of crematoria and from it Horizon drew the following basic criteria:
    - 25.1. The site must be capable of achieving quietness and seclusion. The FCBA recommends that suitability of setting is more important than close proximity to population centres:
    - 25.2. A minimum of two hectares of land is required per 1,000 cremations per annum to accommodate a crematorium, gardens of remembrance, traffic circulation, parking and a modest amount of space around the building. Consideration should be given at early design stage to the need for future expansion.
    - 25.3. The crematorium cannot be constructed within 200 yards (183m) of a dwelling or 50 yards (46m) of the public highway to comply with the requirements of the Cremation Act 1902.
    - 25.4. The site should be accessible by public transport.
    - 25.5. The site should have adequate water, electricity and drainage services.

26. There is another requirement for a crematorium site. it must be relatively close a population large enough to support the operation. The rule of thumb in the industry is that one crematorium will service 150,000 people.

27. From a practical point of view finding sites that meet these requirements is difficult. There are very few, if any, sites in built up areas that meet these criteria, particularly the requirements for tranquillity and seclusion.

28. Crematorium developers are also unable to offer attractive land values when in competition with most other forms of development and certainly not from residential land values. In most parts of the country we can pay less than one tenth of what residential house builders will pay for land. This means that the requirement for calm and seclusion and the financial imperative combine to force operators to look at green field and sometimes Green Belt sites.

The Planning System

[4] A Guide to Cremation and Crematoria" pp9-23, The Federation of Burial and Cremation Authorities

29. Most organisations that regularly use the planning system in the UK find reasons to complain about it. The system is underfunded, bureaucratic, overly complicated and slow. This means that it is also expensive to use. Horizon has, so far, navigated three planning applications through three different local authorities. On average it has cost us £225,000 in charges and professional fees per application[5] and the wait for a decision is lamentably slow. We recently received a planning permission, determined under delegated powers as it was deemed uncontroversial, which took six months between the application being registered and the decision notice made.

30. However, the system is rarely arbitrary and so long as an applicant is skilled, they usually have a good understanding of the risks of securing a permission before embarking upon the process.

31. As noted in paras 25-29, site-finding criteria effectively require crematoria to be built on green field sites close to built-up areas. The tight Green Belt restrictions that apply in the UK mean that we are, usually, therefore pursuing applications on Green Belt land. All three of the planning permissions Horizon has secured in the last three years have been on sites in the Green Belt.

32. Planning appeals have established that crematoria are not an acceptable use in the Green Belt and require 'very special circumstances' to proceed. The most common such circumstance is if the applicant can show that the application is needed. Showing 'need' in planning terms is a far higher bar than demonstrating that there is 'demand' for a crematorium. A need argument requires the applicant to show not only that there is demand but that it cannot be satisfied by the existing facilities. It is a very high bar to overcome. Horizon has recently walked away from an opportunity to build a new crematorium to the east of Cambridge because, even though we were satisfied that there it would work from a commercial viewpoint, we felt it unlikely that we would be able to demonstrate need to the planning authority.

33. It is undoubtedly the case that more crematoria would be successful through the planning process and that there would, consequently, be more supply of crematoria and presumably, therefore, lower cremation prices if the need hurdle were replaced by a demand hurdle. At present, the planning system is to some degree determining the allocation of crematoria rather than the market. However, we doubt that such a change is possible from a political point of view. It is noticeable that the Government's recent announcement (April 2019) that it will consult on revised guidance on the development of crematoria to allow smaller sites to be developed was accompanied by a stress that Green Belt restrictions on such facilities will not be eased.

34. It is notable that all three of the planning permissions we have received have been within local authorities which do not operate their own crematorium. Applicants who seek permission from a local authority with a vested interest in protecting the revenues from their own crematoria can have a very difficult experience. Horizon recently pulled out of an opportunity in Leeds because of the experiences we observed had been suffered by Westerleigh Group Limited (Westerleigh). To our view, there is an incontrovertible need for a crematorium to serve the east of Leeds. Westerleigh submitted a planning application to meet that need which was opposed by the City Council's Parks and Countryside Department which runs three crematoria in the City. The

[5] This figure assumes permissions are decided locally. It does not include fees for going to appeal.

application was validated in November 2017 and determined 17 months later in April 2019. It was refused. We do not wish to contend that Leeds City Council refused Westerleigh's application because it was anxious to retain revenues from its operations. Nonetheless, the public of Leeds will now continue to suffer inadequate facilities, long waiting times and short service slots until another facility is built.

35. The temptation for local authorities to consider, quite improperly, their own commercial requirements when assessing planning applications from new entrants in a local market must be immense. We believe that this is the area in which a useful change could be made to the planning system that would facilitate greater supply. We suggest that, in the event that a planning application for a new crematoria is submitted to a local authority which operates its own facility, or has a commercial interest in a nearby crematorium, the need case should be assessed by an independent third party and the Council bound to abide by its conclusions when determining the application.

Raising Finance

36. A typical single chapel crematorium will cost Horizon around £4.5m to build. This covers land costs, development costs and construction. These costs can vary depending where in the country the facility is situated, as land prices are significantly more expensive in the south than the north.

37. A key component of that price is VAT. Because funerals are exempt from VAT, companies wishing to build new crematoria are unable to reclaim VAT back that they incur while building them. VAT may not be payable on the land (if it has been registered for tax, then it will be) but it is payable on all the consultancy and construction costs. This means that the costs of building a crematorium are probably between 10 and 20 percent higher than they would be for the construction of a different sort of building of the same size and finish.

38. The economics of crematorium provision mean that we need a particular demand to justify the expense of a new facility. Money borrowed to build must be paid back and a sensible profit taken to repay investors. The fact that the costs can be twenty percent higher than would otherwise be the case rules out several locations that would otherwise have a crematorium.

39. This is perhaps a good example of the unintended consequences of legislation. A measure intended to help grieving families (exempting funeral costs from VAT) has pushed up the cost of delivering facilities and, therefore, limited the supply of crematoria and increased the number of areas without a nearby facility. It may even be the case that the reduction in supply that this has caused has pushed up cremation prices negating the original good the Government sought to do.

40. While it would seem bizarre for the CMA to recommend that VAT be charged on funerals as a way of bringing down prices, it may be that there can be some way of breaking the linkage between funerals being exempt from VAT and crematorium developers having to bear the cost of VAT when building new facilities.

41. Horizon has found that no intrinsic difficulty as a new commercial entrant in raising the finance required for the building of new crematoria. Once a planning permission is in place, banks will loan money for construction at normal commercial rates and venture capitalists are prepared to supply funding to help obtain planning permission and buy land. They are attracted by the intrinsic security of the sector with its actuarially measurable income streams.

The Market

What about burials?

42. When people die, their relatives have a choice between cremation and burial. As shown in paragraphs 13-18, people have increasingly chosen cremation over burial in the last 50 years, a trend that seems to be driven by increases in the price of burials. Cremations remain significantly cheaper than burials. To get a true picture of the impact of rising prices on the bereaved we believe that that the CMA should widen its inquiry and also look at the way prices of burials have increased.

Rising Prices for Cremation

43. The focus of public debate on the crematorium sector in recent years has been about rising prices and it is certainly true that they have gone up. However, the reasons behind these rises are less well known.

44. The crematorium market in the UK is still dominated by the public sector and provision of crematoria still viewed as a quasi-public service. However, thirty years ago the local authorities running crematoria began to let the public down. Facing increasingly straightened circumstances, local authorities gave their facilities little investment and standards began to slip. We now have a situation where most public sector crematoria are old and sometimes unfit for purpose. They can be municipal in feel, with religious iconography out of place to modern tastes and inadequate parking. Facilities still exist that do not abate for mercury emissions.

45. Councils also had to cope with rising demand. Some authorities, rather than extending their facilities by building additional chapels or building new crematoria, coped with increasing demand by lowering the services on offer to the public. Most commonly they reduced the amount of time available for each cremation service below the 40-45 minute minimum recommended by the Institute of Cemetery and Cremation Management (ICCM). They also coped with the demands of the seasonal busiest periods in the winter by simply allowing delays to occur in the length of time it took to book a service slot at the crematoria. In many areas it is common to wait more than four weeks for a slot in a crematorium chapel at the busiest periods.

46. Consumers did benefit in one way from this situation. Prices for cremations and services were kept low by councils. For most local authorities, with facilities built in the thirties, fifties, sixties and seventies, the capital costs of their crematoria had long since been amortised, so prices could stay low. In addition, many pricing decisions taken by councils were made with a political input from councillors often keen to avoid criticism from local voters. The result of all this was that provided a service at a low cost.

47. It was against this background that the private sector entered the market about twenty years ago. Most new crematoria are now built by private sector operators with investors attracted by the certainty of the income stream that the sector brings. For the most part, the private sector has resulted in a significant improvement in standards – new, non-denominational, facilities, some of which cater for particular religious communities in the areas they serve, adequate parking, longer service slots and a reduction in delays at the busiest times. Where

new crematoria have been built, they have also reduced the demands on older existing crematoria allowing them too to offer a better service.

48. However, the private sector involvement has come at a cost – quite literally. Private sector providers must recover the costs of developing and building their new facilities – see paras 36-41 and this means they need to charge realistic fees for cremations and services. This has been a major driver of the rises in cremation fees since the millennium. Private sector providers have charged fees that allow them to make a return on their investment and this has resulted in rises over what we contend was an artificially low base.

49. This explains why prices at private sector crematoria are typically higher than at local authority facilities. Private sector companies have built almost all the new crematoria over the last 20 years and their prices reflect the need to pay for the capital investment in these projects. Local authority crematoria are typically 50-plus years old, with the costs of development long-since amortised. Although councils typically charge less than the private sector, we expect that they are, consequently, often making a greater return from their facilities.

50. The CMA will note that local authority's facilities have seen a significant rise in prices in recent years. We believe that some local authorities have been happy to raise prices in the wake of the private sector operators even though they sometimes offer a significantly inferior service. It would be an interesting exercise to map prices at each facility per service minute, to get an indication of the value customers are getting at different facilities.

Changes in the Market

51. In the last three years, the cremation market has begun to see significant changes with the advent of direct cremation. Companies such as Caledonia, Pure Cremation and Fosters are promoting a low-price offer by which customers pay only for a cremation. There is no service and the ashes are returned to the family allowing them to organise a suitable service if they wish to.

52. We have heard anecdotally that forward sales of direct cremation funeral plans are very popular. However, so far, the trend has had a limited effect on the 'at need' market. Between two and three percent of the total are currently direct cremations. This looks set to rise but it remains to be seen how many of the families currently paying for direct cremation funeral plans decided to stick with that choice when the person concerned dies. A proportion of them are likely to opt for the more traditional model.

53. The move towards direct cremation must be a good thing for the market, introducing, as it does, greater choice for the consumer and, in particular, a low-cost model which ought to be able to help at least some of those under the greatest financial stress.

54. However, direct cremation is merely the unbundling of services crematoria have traditionally sold as one package, separating as it does the cremation from the service. Many families that opt for direct cremation will still hold a memorial service somewhere, it just won't be at the crematorium. Critics of direct cremation who claim that the lower prices do not help poorer families because those families often want the full service at a lower price are missing the point. Direct Cremation allows families to organise exactly what they want at the price they can afford

by uncoupling services that have traditionally been linked by crematoria and sold by a funeral director.

55. Horizon is embracing the direct cremation model and indeed embracing an ethos that allows customers to exercise greater choice in how they access our services. The bulk of our income still comes from traditional funeral services in our chapel followed by a cremation, organised by the funeral directors local to our facilities. However;

    55.1. We encourage people to approach us directly. We have invested in a high-quality website for our first facility and will do at all future crematoria. We market our site on line and in local print media. People can see exactly what the experience at our crematorium is like and we are happy for them to contact our staff directly to talk about services and, if they are so minded, to book a service without the need for a funeral director.

    55.2. Horizon has entered an agreement with [✂] to undertake cremations at a reduced rate on their behalf allowing them to market a highly competitive direct cremation service across Scotland.

56. There are changes too at the top end of the market and our goal at Horizon is to occupy this part of the market place. We are committed to building high quality facilities and providing excellent service to customers. We believe we are different in the following ways:

    56.1. Our facilities are designed differently to almost all other crematoria in the UK. Each of our buildings is designed individually to reflect the local architectural vernacular and the demands of the site. We use local materials. Where possible, we place coffins in front of picture windows framing beautiful views. We have large well-appointed waiting rooms to accommodate mourners awaiting the start of services.

    56.2. We offer one-hour service slots so there is plenty of time for people to arrive, hold an appropriate service and depart without feeling rushed and without feeling they are part of a quasi-industrial process.

    56.3. We hire the best staff and train them well. Getting the service right for those in mourning is our top priority.

57. These practises may sound straight-forward (and indeed they are). However, they mean that our customers often get a much better experience than they would have had at other facilities, particularly facilities run by the public sector.

58. We would contend that we, and the better of both the public and private sector providers, are ensuring that there is now choice at the top end of the market. The upshot of this and the advent of direct cremation is that customers have a much wider range of cremation services now than they had even five years ago.

59. We accept that this choice at the top end of the market only holds true for those people lucky enough to live close to a modern well-run facility. However, the changes at the bottom end of the market hold true for everyone. Direct cremation is opening up choice for all consumers,

even those who until now have not really had access to crematoria at all because they live in locations so rural that cremation involves a very long drive.

60. Against this background, with the significant investment in new facilities by the private sector and the improvement at the top end of the market in the services being offered to consumers, it is no surprise that average prices for cremation have risen in recent years. It will be interesting to see if the advent of direct cremation provides a countervailing pressure in the next two decades (those buying funeral plans now typically live 12 years, so we are unlikely to be able to fully judge the impact of direct cremation for some time).