FUNERALS MARKET INVESTIGATION

Summary of the hearing with Westerleigh held on Thursday 25 July 2019

Background

1. Westerleigh said it was established in 1992 and was now the UK's leading independent operator of crematoria. It specialised in operating crematoria and did not have a funeral director business, nor did it sell funeral plans. It was backed by Ontario Teachers' Pension Plan and Universities Superannuation Scheme,

2. It had a dedicated staff team of more than 300 personnel working across its 34 crematoria. It operated across England, Scotland and Wales and cared for over 40,000 funerals a year. Westerleigh had opened 20 new crematoria since 2000 and had a market share of around eight per cent. Its mission was to serve local communities and to provide the best possible care to the bereaved. It cited its values as being to deliver cremation and burial services to the highest standards and to offer people choice in commemorating their loved ones.

The market

3. Westerleigh said that the market was still dominated by local authorities and there was an increasing differential in the quality of crematoria with older sites, often delivering a poor service, and the better quality offered at newly opened crematoria. The poor-quality sites were often older local authority (LA) operated facilities located in high population areas. These sites often had high service volumes but had little capacity and so struggled to cope with increasing demand. Westerleigh rated around [✂] LA crematoria as being poor or very poor.

4. Westerleigh said that there had been significant change in the crematoria market in recent years. There had been an increase in development activity and the number of crematoria had grown significantly. Customer expectations were changing. Westerleigh itself had grown significantly in recent years, developing new purpose-built crematoria in many places that previously offered no provision for the local community within a reasonable drive time.

Westerleigh said that elsewhere, it provided a high-quality alternative choice to the existing provision and that the vast majority of crematoria in the UK were older, lacked capacity and offered a poor-quality service to the bereaved. It had also partnered with three local authorities providing much needed investment and improving the service. Westerleigh had helped meet the increase in the demand for cremation, and in the process was also increasing quality, choice and competition in the market. The increase in provision by Westerleigh and other operators meant that the majority of the UK population had a choice of crematoria within a reasonable drive-time. This new provision had eased capacity issues at busier sites and had led to the cremation rates continuing to increase.

5. Westerleigh said that austerity had meant that some LAs had failed to invest in their buildings and the quality of service. Many of the facilities were at least 60 years old, were not fit for purpose in the existing buildings they were in, and, would deteriorate further if they continued to suffer from under investment. This would ultimately lead to the bereaved suffering in terms of the quality of service offered, not having the choices they should expect, or experiencing long waiting times. This compared with the high-quality standards offered at newly developed crematoria which were purpose built and met the needs of the bereaved. The gulf in the quality of service had resulted in families diverting in significant numbers to those operators offering a better-quality service at good value, with lower quality sites losing market share.

6. Westerleigh said that it had offered something different, disrupting the market and the biggest impact that had, was on the LA crematoria which had significantly lost market share.

7. Westerleigh said that there would be an increasing need to refurbish or redevelop older facilities over time which would require significant investment to provide facilities that were fit for purpose and meet the everchanging and more demanding needs of the bereaved. LA’s that invested in new facilities (for example, Cheltenham Borough Council rebuilt its crematorium at a cost of around £8 million) were able to compete ‘roughly at the same level’ as Westerleigh, providing approximately the same level of quality. However, the cost of the 60-minute service at Cheltenham was £1,275 which was more expensive than any of Westerleigh’s services.

8. Westerleigh had introduced direct cremation at many of its sites over the last couple of years in response to requests from funeral directors [✂].

Price

9. In the past there appeared to have been an assumption that the bereaved would accept low standards. In Westerleigh's experience, families wanted better quality, often travelling further and being prepared to pay a higher price in return for better facilities. Those who want a cheaper, basic service also had more options.

10. [✂]. More people were using its sites, reflecting its comparative quality, and this was driving growth. Westerleigh wanted to roll out its offering to serve more local communities by developing new sites and attracting more business at its existing sites.

11. Average cremation prices had increased above inflation in recent years across the industry. The cost of meeting environmental regulations, increasing the repair and maintenance costs of ageing stock and public sector budgets had been reported as being key factors.

12. Westerleigh said that its budget and price increases for the current year [✂].

13. Westerleigh's [✂] price rises were set against a backdrop of increasing costs, particularly environmental costs, business rates, staff costs and investing in its central functions to provide better support to its expanding portfolio. Westerleigh had invested [✂] during the last 10 years in developing new sites and in improving its existing sites to offer better quality facilities. [✂]. It was difficult to see there being [✂] bearing in mind the increased level of competition. Westerleigh did not believe that companies had, prior to current price changes in the market, been earning returns substantially above the competitive level. Westerleigh, for example, had been investing in high quality facilities and so the growth in the business plan was as a result of these facilities coming on stream.

14. Westerleigh's prices were higher than the average but were not the most expensive in the market. [✂]. In instances where Westerleigh had a site located close to a competitor of comparable quality, [✂]. [✂]. Average prices were mostly influenced by LA's which represented 70 per cent of the market. The difference in pricing between Westerleigh and LA providers was small (on average [✂]) but the variation in quality was huge.

15. Westerleigh was firmly of the view that it was the best value provider in the market and that value was more important to the bereaved than price. Public sector providers were subject to local government finance and cross

subsidisation of different discretionary services, which was possibly driving high prices and low quality and might be distorting the market.

Quality

16. Westerleigh said that it believed that it was providing a better-quality service which families wanted and valued and it received positive feedback from families commenting on the high quality of its services, people and facilities. Increasingly, families were willing to travel further to use its crematoria in preference to LA crematoria which were closer to them. Westerleigh referred to this as its qualitative gain, which accounted for around [✂] of its customers across its whole portfolio, with some sites generating [✂] of their business from the catchments of neighbouring crematoria. Its largest qualitative pull was generated by its [✂] site which competed with [✂] and which customers drove past because the service was so poor.

17. [✂]. Westerleigh said that this showed that customers thought that Westerleigh offered better value than its competitors. Westerleigh generally offered more time, better facilities and a better customer experience. Focussing on price alone, rather than value, could result in the wrong conclusions and risked families receiving a worse outcome. Westerleigh thought it would be very unusual for bereaved families living close to one of its crematoria to decide to use an alternative facility, but the same could not be said of people living near to some of its very poor-quality competitors. [✂].

18. Westerleigh looked to provide better quality than other providers and so invested in its facilities to put itself ahead of its competitors. Its capital expenditure per site was, on average, roughly [✂] depending on whether the land cost was included. Westerleigh operated the same quality standards across its business and so used a fairly established model when building a new site. [✂]. However, there was some variation in Westerleigh's facilities depending on the site layout and its age because its standards had changed over time (as well as site specific issues and planning requirements). Some of its crematoria were also subject to enhancements (e.g. screens), often in response to requests from the local community. Westerleigh spent in the region of [✂] on average [✂] on quality improvements, including items such as toilet refurbishment, new signs, the car park, the sound system, installing a rose garden, webcasting and tribute systems, an air conditioning system, chapel chairs, chapel carpet and lighting and heating improvements.

19. Westerleigh also gave an example of how it responded to what the local community wanted and recently invested in a Pooja ceremonial room for the Hindu Community at Great Glen.

20. Westerleigh competed on the basis of quality, price and its overall offering and so if a competitor at a neighbouring facility had better provision, it would consider how it could further enhance the quality of its site. Westerleigh said that some of its sites competed with other high or higher quality crematoria. However, when entering a new area, Westerleigh found it was generally competing against existing LA provision and that its standard model was generally better than what was in place. If it was planning to construct a new crematorium in an area with an existing poor-quality crematorium, Westerleigh would still build its facility to the highest specification. In the event that Westerleigh lost volume at a particular site it would respond by making the necessary capital expenditure in order to make the necessary improvements or other quality improvements. Building business at a newly opened crematoria was a very slow process because the operator had to overcome existing preferences or loyalties of families and friends in respect of existing sites, and the experiences and preferences of the funeral director network.

21. Westerleigh noted that Dignity had conducted research which ranked the items that funeral directors and the bereaved considered were most important. This indicated that the biggest issues for the bereaved were privacy and feeling as though they were not on a conveyor belt. The 30-minute slots provided at the LA crematoria did not enable a family to personalise the service and say goodbye properly. A lot of people did not realise that they could purchase additional time, or, that alternative slot lengths were available. Westerleigh offered 1-hour slots at many sites for a small additional cost compared with other crematoria offering shorter service slots. Around two-thirds of the sites which Westerleigh operates offer a standard slot length of 1 hour. Westerleigh also offered early morning, shorter services which were often used for committal only and that were lower priced. Westerleigh thought LA sites would be constrained from offering longer slot lengths, unless they made an additional investment, due to capacity constraints.

Investment

22. The risks associated with making an investment in this sector included planning permission which could result in significant delays and the construction process which could lead to cost over-runs. There was also a risk that the site might not generate enough trade and the threat of a new entrant.

Entry

23. Public sector providers were generally not as responsive to market conditions as Westerleigh which had responded to market conditions by investing in many of its mature facilities and improving the quality of facilities, service and offering. There were more companies entering the crematoria market and

there was also competition from woodland and natural burials, and, direct cremation. However, the outcome of the CMA's Market Investigation might affect new entry and companies' appetite to invest capital.

24. Planning was a challenge but was not insurmountable. It was more difficult in green belt areas but new entrants such as Horizon had shown that obtaining planning permission was not that difficult with the right application. Westerleigh monitored planning applications and noted that these had increased substantially in recent years, and that the number of crematoria developed had grown significantly. It had no reason to believe that the planning system would not continue to work in this way.

25. Westerleigh said that LA provision and a lack of any obligation on local authorities to effectively plan for future crematoria capacity could influence planning decisions. It gave the example of [✂] where its planning application had been declined. [✂].

Acquisitions and profitability

26. [✂]. [✂]. Westerleigh had increased its prices above inflation two years ago but its costs had also been rising. [✂].

27. [✂]. Westerleigh did not set its prices in relation to the expected capacity at a site and did not have an optimum level of capacity utilisation. [✂]. Sites with a capacity utilisation of less than [✂] a year were likely to be less efficient. It was more difficult making a site with lower volumes work.

28. [✂].

Remedies

29. It could be difficult for consumers to make an informed choice and so Westerleigh said it would welcome greater transparency. It provided comprehensive information on its facilities, services and price on the websites of its crematoria, but not all operators did this and the information available varied. Westerleigh was reliant on funeral directors giving families the information they needed and passing on the information that it provided. Families should be made aware of the options within their area and be provided with full information on price, facilities and quality. Westerleigh thought it would be more likely that customers would choose to use its crematoria if they were better informed.

30. HM Inspectorate in Scotland published transparency guidelines which detailed the information that needed to be provided to consumers and how this should be disseminated. Its inspection reports were clear and helpful. [✂]. It thought

that its sites in England and Wales, which currently complied with ICCM and FBCA regulations, would be likely to be compliant with the current Scottish regime.

31. Funeral directors had an important role to play in terms of improving transparency and Westerleigh thought they would welcome providing the bereaved with better information on crematoria. Westerleigh said it would like to see a situation where consumers were provided with a list of crematoria in their area by a funeral director, detailing the facilities, prices and what services that included, so that they could consider this information alongside other relevant considerations such as drive times, location and comparative quality.

32. Westerleigh was keen to continue developing and improving choice and quality for the bereaved. It was wary of any proposed remedies that could lead to unforeseen consequences, for example, remedies which resulted in a reduction in quality, that drove out future investment, and remedies which favoured existing LA provision which might be of low quality and offer poor value for money. Westerleigh thought that applying price regulation to LA sites would be problematic. In addition, around [✂] were generally around 50 to 60 years old and so a huge investment would be required in the near future to replace these.

33. The market was now seeing more competition and smaller price increases. New entrants had been successful in developing new crematoria and there had also been an increase in planning applications. As a result, consumers would have better choice and quality in future and so Westerleigh did not believe that more direct intervention in the market was necessary or appropriate at this time.