

Funerals Market Investigation

Approach to Valuation of Crematoria Land

5th December 2019

This is one of a series of consultative working papers which will be published during the course of the investigation. This paper should be read alongside the issues statement and the other working papers which accompany it. These papers do not form the inquiry group's provisional findings. The group is carrying forward its information-gathering and analysis work and will proceed to prepare its provisional findings, which are currently scheduled for publication in March, taking into consideration responses to the consultation on the issues statement and the working papers. Parties wishing to comment on this paper should send their comments to funerals@cma.gov.uk by 18 December 2019.

© Crown copyright 2019

You may reuse this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/ or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Introduction

1. On 28 March 2019 the Competition and Markets Authority (CMA), in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the Act), made a reference for a market investigation into the supply of (a) services by funeral directors at the point of need; and (b) the supply of crematoria services.
2. Shortly after the reference, on 8 April 2019, we published an Issues Statement, which based on the evidence reviewed to date set out:
 - (a) Our initial hypotheses concerning which features of the supply of services by funeral directors at the point of need (referred to as “funeral director services” in the rest of this working paper) and crematoria services are adversely affecting competition;¹ and
 - (b) a number of key areas on which we proposed to focus our evidence gathering efforts² to test our hypotheses.
3. In the Issues Statement we explained that the profitability of both large and small funeral directors and of local authority and private crematoria would be one of a number of key areas of focus.³
4. On 24 July 2019, we published a working paper setting out our proposed [Approach to profitability and financial analysis](#) (‘Profitability Methodology Paper’). We have received a number of responses to that working paper, as well as additional evidence from parties on various aspects of our proposed approach. We continue to consider these representations and evidence in carrying out our analysis.
5. The purpose of this paper is to set out how we are planning to value one specific asset used in the provision of crematoria services: the land on which the crematoria are sited. This paper does not provide a full discussion of all the relevant conceptual matters but rather builds on the Profitability methodology paper and, therefore, should be read in conjunction with it.
6. We welcome views and comments on this paper by 18 December 2019.

¹ Issues Statement, paragraph 5.

² Issues Statement, paragraph 8.

³ Issues Statement, paragraphs 8g and 8j.

Profitability methodology

7. As highlighted in the Profitability Methodology Paper, a key element of our analysis is the identification of economic profitability based on the ROCE versus WACC framework.
8. This framework requires us to identify the various assets (capital employed) required by firms operating in the industry and value it appropriately. For crematoria, land is one of the most significant assets employed and hence must be valued appropriately.
9. As stated in the Profitability Methodology Paper, we consider the modern equivalent asset value ('MEAV') to be the economically meaningful measure for the purpose of measuring profitability in most cases.⁴
10. We have gathered information on both the carrying value of land in the accounts of the firms that we are analysing, as well as parties' views on whether these values were a good approximation for MEAV. In addition, Dignity has submitted a report, prepared by Cushman & Wakefield on the depreciated replacement cost ('DRC') of its land holdings. Having reviewed this information, we have decided to commission a separate report from an independent expert to assist our analysis for two main reasons:
 - (a) First, many of the approaches adopted do not provide a reasonable approximation to the MEAV of land; and
 - (b) Second, we note that there are significant differences across the firms in terms of the basis of asset carrying values. For example, some firms have recently revalued land holdings, while others have recorded it at historic cost, and, as mentioned above, Dignity has commissioned a third party report on a DRC basis.
11. We have decided to commission an independent, expert report on the MEAV of land employed by the crematoria for which we are undertaking profitability analysis and for which we do not have recent information on acquisition costs.

Proposed approach to land valuation

12. We are analysing the profitability of the four largest crematorium services providers in the UK (Dignity, Westerleigh, Memoria and LCC), which have 96 crematoria between them, as well as a representative sample of 22 crematoria of the remaining crematoria in the UK (just over 10% of the

⁴ Market Investigation Guidelines (CC3 Revised), Annex A, paragraph 14

population of smaller providers).⁵ Therefore, we require a valuation for 118 sites across the country.

13. To date, we have been provided with information on the purchase cost of 19 sites, which have been acquired “recently”, ie within the last 10 years.⁶
14. We are now starting the process of appointing an independent expert to value the remaining 99 plots of land on an MEAV basis.
15. In the context of the crematorium market, we consider that the MEAV of a plot of land currently in use as a crematorium is the current market price of the lowest cost, suitable site that an operator could purchase to serve the relevant local market. In particular, the site must:
 - (a) Be appropriately located to serve the market served by the existing crematorium;
 - (b) Meet the criteria set out by The Cremation Society for a suitable plot for a crematorium in terms of size, aspect, road access etc;⁷ and
 - (c) Have, or have a reasonable prospect of obtaining, planning permission for use as a crematorium.⁸
16. We highlight that these criteria mean that the MEAV will not necessarily be a valuation for the *same* site as is currently employed by a firm. For example, the MEAV may be either smaller or larger than the existing site or in a different location (subject to meeting the conditions set out in paragraph 15).
17. In addition, we consider that the MEAV should reflect a situation of ‘normal’ market conditions, ie where both the buyer and seller of land have a number of potential options such that neither party is a necessary counterparty for the other.
18. We invite parties to provide us with views on this approach to land valuation, by 18 December which we will take into account when appointing an independent expert to undertake the land valuations.

⁵ Profitability Methodology Paper, paragraph 144

⁶ Memoria: Cardiff & Glamorgan; Kirkleatham; Amber Valley; South Oxfordshire; South Leicestershire; Waveney; Denbighshire; North Herts; Flintshire and Barnby Moor. Westerleigh: Babworth; North Wiltshire and The Vale. Dignity: Fenland; Mendip; Stourport (Wyre Forest); Brentwood and Trent Valley.

⁷[The Siting and Planning of Crematoria](#)

⁸ We note that we are collecting information on the costs of obtaining planning permission separately and will take these into account as appropriate in our analysis in due course.