

DRAFT SUBMISSION

**IPART Review of prices  
for Valuer General's  
services to councils  
from 1 July 2025**

November 2024



Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

## OVERVIEW OF THE LOCAL GOVERNMENT SECTOR



Local government in NSW employs **55,000 people**



Local government in NSW is responsible for about **90% of the state's roads and bridges**



Local government in NSW looks after more than **\$177 billion** of community assets



NSW councils manage an estimated **4 million tonnes of waste** each year



Local government in NSW spends more than **\$2.2 billion** each year on caring for the environment



NSW councils own and manage more than **600 museums, galleries, theatres and art centres**



NSW has more than **350 council-run libraries** that attract tens of millions of visits each year



NSW has more than **400 public swimming and ocean pools**

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## Introduction

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

This submission is made in draft form, pending approval of the LGNSW Board. Any amendments will be forwarded in due course.

LGNSW welcomes the opportunity to comment on the Review of prices for the Valuer General's land valuation services to councils.

## General

LGNSW supports the Independent Pricing and Regulatory Tribunal's (IPART's) approach to the review of the Valuer General's (VG's) pricing proposal. LGNSW understands that IPART will assess whether the pricing model is reasonable and whether there are alternative pricing models that are more appropriate. IPART is also to consider proposed pricing models in terms of:

- cost reflectivity
- impact on council costs
- equity and the implications on councils' ability to pay, and
- simplicity and transparency (the ease with which councils and ratepayers can understand the pricing model).

LGNSW provides in principle support for the proposal to maintain the existing pricing structure and mechanics from the 2019 determination, including:

- The six-year determination period as it provides certainty to councils, although councils would like the price increases to be phased in;
- The differential pricing model based on four geographical zones as it is reflective of the actual costs of undertaking valuations in those regions include market factors like competition for tenders, property types and complexity.

LGNSW is more cautious about maintaining the price cap methodology which is interpreted as indexing prices each year by the CPI, while holding prices constant in real terms over the referral period. The pricing structure and mechanics should also provide for the passing on of long-term cost savings realised within the six-year duration of the determination. This could include applying a productivity factor to the CPI or direct adjustments. The valuation process lends itself to expected efficiency gains from technology including AI. With the VG's focus on digital transformation, it would be reasonable to expect significant cost savings during the determination period. Further,

it is also expected that the move to a hybrid model with less reliance on external contractors will also generate cost savings during the determination period.

LGNSW responses to the specific questions raised by the IPART Information Paper are provided below.

## **LGNSW Responses to IPART Questions**

### Efficient costs

#### **1) Do you consider the Valuer General's pricing proposal represents good value? Why/why not?**

LGNSW considers the VG's pricing proposal to be excessive with proposed uplift increases per region ranging from 21 to 38 per cent. The VG's proposal and the IPART Information Paper do not provide sufficient information to justify these increases. From LGNSW's perspective, the VG has not made a compelling region by region case for the large step up and the large difference between regions.

Furthermore, what already appears to be excessive increases will be compounded by annual CPI adjustments over the six-year duration of the determination.

It also appears that the previous determination was in excess of VG needs. For example:

- Historical operating expenditure was underspent by 4.8 per cent over the determination period,
- Historical capital expenditure was 35.3 per cent underspent over the determination period.

This in itself suggests that a lower base would be appropriate for the next determination period.

However, the VG's explanation also refers to an increase in labour costs because of the shift towards the hybrid model with more in-housing of contract areas. The VG explains that this resulted in labour costs increasing significantly and a subsequent overspend of \$2.884 million (17.5 per cent). As the VG continues to bring more contracts in-house in 2024-25, this variance is expected to increase to \$12.888 million (80.1 per cent).

This explanation appears to contradict a media report<sup>1</sup> attributed to the VG that in-housing will save \$16 million over the next 7-years by halving the number of annual valuations performed by contractors and boosting in-house capabilities.

Given the conflict in outlooks on labour cost and the surrounding ambiguity for the determination period, LGNSW calls on IPART to closely analyse VG wage cost projections and determine whether cost increases are justified or whether they should also be discounted. The increase referred to may be a one-off spike associated with the transition to the hybrid model that won't carry through the determination period. The VG also refers to a blow out in enquiries and objections in 2022-23 as a contributor to increased costs. LGNSW also interprets this as a cost spike resulting from market factors like large property value increases in that period, but it would have also been affected by synchronisation of council property valuations, with all council valuations undertaken in the same year. LGNSW is of the view that this was a price spike that will not carry through into the new determination period as property value increases moderate and the VG returns to a staggered rotation of council valuation.

Further, the VG advises that on average, prices would recover 31.3 per cent of the VG's efficient economic costs of service provision from local government, which is 0.8 per cent higher than the 2019 determination. LGNSW objects to this increase. There is no evidence provided to justify councils contributing a larger share of the VG's costs with a corresponding reduction in the share of costs allocated to Revenue NSW.

Given the above, LGNSW is firmly of the view that the proposed increases are excessive and unjustified.

## **2) Has there been any material change to the land valuation process that has impacted the cost of undertaking valuations (e.g. contract costs)?**

LGNSW recognises that there have been some significant changes to the operations of the VG including:

- the shift to a mixed in-house in-house/contractor hybrid model of valuation services
- the switch back to a rotating cycle of undertaking council valuations
- an increase in objections to land valuations in 2022-23.

However, there do not appear to be any material changes to the valuation process itself that would increase valuation costs on an ongoing basis. LGNSW acknowledges that there have been staffing cost increases resulting from the shift to the new hybrid model

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<sup>1</sup> [REDACTED]



and increases in costs as the result of a blow out in enquiries and objections in 2022-23 but these appear to be spikes and anomalies. (Refer to LGNSW response to Question 1)

**3) How might the Valuer General's costs of providing land valuation services change over the next 6 years, considering the impact of digital technology, AI and innovation?**

It would be expected that VG investment in digital technology and AI will significantly reduce valuation costs. It is expected to deliver increased efficiency and improved quality. Land valuation processes, particularly mass valuations, lend themselves to AI solutions.

LGNSW would expect cost savings to flow through to councils during the period of this determination. These cost savings do not appear to be factored into the VG's pricing proposal and further indicate that the pricing proposal is in excess of needs.

**Cost allocation between users**

**4) How should the Valuer General's costs be allocated between users of valuation services?**

LGNSW is of the view that all users of valuation services should share the costs. Currently, there are several other users of valuations that are not allocated a share of the costs. The costs are borne by NSW councils and Revenue NSW. Other users include NSW Fire and Rescue, NSW Roads and Maritime, NSW Crown Lands, Local Government Grants Commission and other customers in the private sector. Sharing the costs with the additional users is consistent with the user pays principle and should lead to reduced costs for councils and Revenue NSW. Private sector users should pay full commercial rates.

LGNSW also questions the VG's proposal to allocate 50.2 per cent of objection costs to councils and only 49.8 per cent to Revenue NSW. However, the NSW Revenue Professionals submission established that the actual allocations should be 35 per cent to councils and 65 per cent to Revenue NSW based on historical data:

Item	2020-21 count	2020-21 %	2021-22 count	2021-22 %	2022-23 count	2022-23 %	Average
Council rates	2,330	43%	345	14.9%	5,083	47.9%	35%
Land Tax	3,093	57%	1,981	85.1%	5,561	52.1%	65%
Total	5,423	100%	2,326	100%	10,644	100%	100%

(Source NSW Revenue Professionals submission).

The latter would accord with a general understanding that land tax objections are likely to be more complex and contentious than valuations for council rating purposes. The cost allocation should be based on the time required to process each objection and incidental costs, not simply the number of objections.

## Pricing framework

### **5) What is the impact on councils of the Valuer General's proposed price increases?**

Assuming that the increases are passed through in the subsequent rate peg determination it will have minimal impact on councils, with infrastructure and commitments unaffected.

However, councils are also concerned about the impact on ratepayers and their capacity to pay, particularly during the ongoing cost of living crisis. Therefore, local government is insistent that the pricing is equitable and not in excess of requirements.

### **6) Should the current four pricing zones be retained or is there a more appropriate pricing model for land valuation services such as a single price?**

LGNSW does not object to maintaining the current four pricing zones of Country, Coastal, Metro and City of Sydney. It is understood that they seek to capture the actual costs of valuations in those regions including market factors like competition for tenders and complexity.

However, LGNSW does encourage IPART to review whether the current zones are appropriate into the future as the VG moves to a hybrid model and with technological advancements.

### **7) If a price increase is necessary, should it be implemented in the first year, or gradually over a few years?**

Councils have indicated a preference for the increases to be phased in. The increases of between \$9.44 and \$18.09 per valuation annually and representing zonal increases of between 21 per cent and 38 per cent. This will have significant financial impacts on councils and/or ratepayers. A phased approach would help mitigate that impact as it may allow for price adjustments during the determination period to enable cost savings to be passed on.



## Government regulation

### **8) What potential impacts does the bringing in-house of mass valuations by the Valuer General have on the long-term viability of the valuation market participants and the level of competition in the valuation market?**

LGNSW was always concerned about the complete outsourcing of the land valuation task across the state. While there was considerable success in cultivating a competitive private sector market and ostensibly, some savings, LGNSW was concerned about the demise of in-house expertise and capability.

As such, LGNSW welcomes the move to a hybrid model involving a mix of in-house and contacted valuers. It is expected that half of the services will be brought in-house with half to be undertaken by contractors. This should be sufficient to maintain competitive private market for valuations and maintain competitive pressure on the VG's in-house services.

The VG is on record as saying the move to the hybrid model will save \$16 million over the next 7 years. Councils welcome these cost savings initiatives. However, LGNSW is concerned about the conflicting cost information provided by the VG and discussed earlier in this paper.

LGNSW recommends that IPART closely monitor the hybrid transition to ensure that it will ultimately deliver lower cost and better quality valuation services. If the hybrid model is to increase total costs, the NSW Government should revert to greater use of private contractors.

## Service quality

### **9) Is the quality of service provided by the Valuer General meeting expectations?**

Feedback from councils indicates a high level of satisfaction with VG valuation services for rating purposes. Naturally there are some exceptions. This follows successive years of performance improvement by successive VGs. The VG has generally worked in close collaboration with councils.

### **10) If you have been involved with the Valuer General's land valuation dispute process, what has been your experience?**

N/A

## General

### 11) Are there any other matters you would like us to consider as part of our review of the Valuer General's monopoly services?

As a monopoly provider, the VG does not offer councils the alternative of capital improved valuations (CIV) or any other valuation methodology. Past VGs have strongly opposed CIV. LGNSW would like IPART to consider the provision alternatives for local and state government. For example, CIV would be more appropriate than unimproved capital value (UCV) in determining a property levy to fund emergency services.

Some councils have also recommended that councils be given the opportunity to appoint independent valuation services providers.

IPART should also consider the implications of the introduction of Emergency Services Funding Reforms for councils and councils' share of valuation costs.

## **Conclusion & Recommendations**

In summary, LGNSW is not convinced that the VG's pricing proposal represents good value. The proposed price increases appear to be excessive and are not soundly supported by the cost information presented in the proposal.

LGNSW calls on IPART to:

- closely analyse VG wage costs, objections and other major cost projections and determine whether the costs are justified
- closely examine the current cost allocations between local government and Revenue NSW
- recommend extending costs to all users of valuation data
- review whether the current zones are appropriate into the future as the VG moves to a hybrid model and with technological advancement
- consider phasing in cost increases
- consider the provision of alternative valuation methodologies for local and state government. For example, capital improved value (CIV) would be preferable to unimproved capital value (UCV) in determining a property levy to fund emergency services
- investigate the potential future impacts from the Emergency Services Funding (ESF) reforms with the potential introduction of a new broad based property levy
- closely monitor the hybrid transition to ensure that it will ultimately deliver lower cost and better-quality valuation services.

LGNSW would be pleased to provide clarification on any matter raised in this submission. For further information, please contact, Shaun McBride, Chief Economist,

