FINAL REPORT

Efficient operating costs of providing the NSW Valuer General's services to councils

Prepared for
Independent Pricing and Regulatory Tribunal of NSW (IPART)

8 May 2025

THE CENTRE FOR INTERNATIONAL ECONOMICS
www.TheCIE.com.au

The Centre for International Economics is a private economic research agency that provides professional, independent and timely analysis of international and domestic events and policies.

The CIE's professional staff arrange, undertake and publish commissioned economic research and analysis for industry, corporations, governments, international agencies and individuals.

CANBERRA

Centre for International Economics
Ground Floor, 6 Brindabella Cct South
Canberra Airport ACT 2609

Telephone +61 2 6245 7800
Facsimile +61 2 6245 7888
Email cie@TheCIE.com.au

Website www.TheCIE.com.au

SYDNEY

Centre for International Economics
Level 7, 8 Spring Street
Sydney NSW 2000

Telephone +61 2 9250 0800
Email ciesyd@TheCIE.com.au

Website www.TheCIE.com.au

Contents

BOXES, CHARTS AND TABLES

Summary

Our report on the efficient operating costs of providing the NSW Valuer General's services to councils submitted to Independent Pricing and Regulatory Tribunal (IPART) was prepared using confidential information provided by Value NSW. This public facing report has redacted information that is not public or was not included in the Value NSW submission to IPART[1].

The proposed operating costs for Value NSW are 39 per cent higher in real terms for the six-year period from 2025/26 to 2030/31, as compared to the six years to 2024/25. The key assumptions that underpin the rapid growth in costs over the projection period include:

- an expectation of higher costs for outsourcing for mass valuations and objections. This is then indicated to be mitigated by bringing a part of the mass valuation and objection activities in house
- an increase in corporate overhead charges to the overarching agency
- increases in costs related to ValIQ (a new IT system), and
- increases in the volume of demand.

The CIE has been tasked with undertaking an assessment of whether the costs projected by Value NSW are efficient. This Draft Report provides our findings.

Our draft findings are as follows.

- The overall drivers of cost increases for Value NSW as a whole are not fully transparent or consistent.
  - The Value NSW cost model does not start with a year of actual or budgeted costs. There is an immediate increase in costs for 2025/26 which cannot be explained because the historical cost assessment and projection model are not connected. In the absence of a projection model that starts with current resourcing and costs, there is reduced transparency about why costs change.
  - There are significant changes to the business model for Value NSW, including insourcing activities and changes to the three-year valuation cycle for general valuations. These make it more difficult to identify and understand changes to costs.
  - Value NSW had anticipated that its insourcing model would reduce costs as compared to the current level for the first four contract areas and for objections and

1 Value NSW (2024), Review of prices for land valuation services provided by the Valuer General to councils, Submission to the Independent Pricing and Regulatory Tribunal by the Valuer General, available at https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Valuer-General-Pricing-Proposal-Review-of-prices-for-land-valuation-services-provided-by-the-Valuer-General-to-councils-September-2024.PDF

marginally increase cost for the second-four contract areas. These expected cost reductions stand against a projection of costs increasing in real terms by 39 per cent for the future six-year period as compared to the historic six-year period, noting a share of these costs are out of the control of Value NSW, such as increased objection contract costs, DPHI corporate overheads charges, postage costs and upgrading IT systems.

- Value NSW has seen some cost pressures for the provision of services from private valuation businesses. The specific data points however are limited and subject to significant caveats:
  - the increase in contract costs used as the basis for the cost model is based on one revised contract. It is not likely that this single data point is representative of the broader increase, given its specific context and other evidence available.
  - The large increase in the unit costs for objections is based on data from a six-monthly period from July 2023 to June 2024 and appears broadly reasonable based on contract data. This period saw material changes in the type of contract used for objections, as suppliers withdrew from contracts that involved servicing a specified area for a fixed price, and towards tendering for specific objections.
  - There are large increases in corporate overhead charges for Value NSW. These are costs that are required from their overarching Department (DPHI). Whether these are efficient (or actually incurred) is not clear. Value NSW does not have the ability to vary these costs in any case.
- Benchmarking of costs from other jurisdictions suggests the following:
  - There have not been systematic increases in costs of the level being projected for NSW for other Valuer Generals.
  - For the jurisdictions for which we can currently compare costs (Victoria and WA), NSW in 2023/24 had higher costs per property assessed except for Tasmania. With the proposed large increase in costs, it would be substantially above benchmarks from other jurisdictions. Benchmarking of the level of costs for valuation services is inherently challenging, however, because different jurisdictions undertake different types of valuations and cover a different range of services.
- We have undertaken consultation on technology changes possible over time, as well as reviewed key efficiency projects from Value NSW
  - other Valuer Generals are not expecting to roll-out automated valuation models in the near term, which have the potential to reduce costs. However, this is likely in the five-to-ten-year period
  - the key efficiency-related projects for Value NSW are the insourcing of some of the mass valuation and objection activities and ValIQ (a new IT platform). The cost projections show limited evidence of either of these having cost efficiencies
  - there are considerable risks that the insourcing model reduces incentives to constrain costs over time, as compared to a competitive outsourcing process
- We have developed a benchmark of efficient costs, building from the historic cost base. We have used the historic cost base as the starting point so that clear reasons for

cost increases and decreases can be added to this. Excluding non-council related services:

- The historic cost base (in 2024/25$) was $53.2 million per year
- Value NSW's submission proposed a cost base of $75.9 million per year
- Our draft estimate of efficient costs is $63.3 million per year.

1 Introduction

The CIE has been tasked with undertaking an efficiency review of the costs proposed by Value NSW for providing services, of which a part are allocated to councils. This chapter provides the context for the review covering:

- IPART's terms of reference
- the services provided by Value NSW
- an overview of the operating costs for Value NSW, and
- the approach used to assess efficiency.

IPART's terms of reference

IPART is requested by the Premier, under sections 12(1) and (3) of the IPART Act, to investigate and report on the determination of the maximum prices for the Monopoly Services provided by the Valuer-General to apply in total for a period of 6 years (Referral Period). Under section 12(3) of the IPART Act, this referral may extend to an annual or other periodic determination of the pricing of the Monopoly Services during the Referral Period.

In its investigation, IPART should:

- consider and identify the Valuer-General's efficient costs of providing the Monopoly Services over the relevant determination period or periods;
- consider valuation service market-based factors over the determination period and identify where appropriate interim period adjustment parameters where unforeseen or unavoidable external costs may be incurred; and
- consider the efficient allocation of the costs of the Monopoly Services between the users of those services in accordance with relevant economic and pricing principles.

In addition, IPART may take into account any other matters it considers relevant.

Services provided by Value NSW

Role of the Valuer General and Value NSW

The *Valuation of Land Act 1916* establishes the Valuer General as the independent statutory authority responsible for the overall valuation system. The Valuer General regulates the system by setting standards and policies as well as independently overseeing the quality of its outcomes.

The Valuer General delegates operational responsibilities under the *Valuation of Land Act 1916* to Value NSW, an agency within the Department of Planning, Housing and Infrastructure (DPHI), that provides technical, operational and customer service support to the Valuer General in producing and recording land values across New South Wales (NSW).

Value NSW provides the following services:

- management of customer services and provision of information to stakeholders
- management of valuation service contracts and provision of information to contract valuers
- the objection review process
- auditing and ensuring the quality of land values
- maintaining the Register of Land Values
- day-to-day management of valuations completed under the Valuation of Land Act 1916
- determining compensation under the Land Acquisition (Just Terms Compensation) Act 1991
- the development of operational procedures.

Valuations – Mass and individual

Value NSW conduct valuation services through a hybrid model, which includes in-house valuation experts and external contractor firms. Services include:

- mass valuations of property for council rates and land tax under the *Valuation of Land Act 1916*
- review of objections to rating and taxing valuations issued under the *Valuation of Land Act 1916*
- compulsory acquisition valuations as per the *Land Acquisition (Just Terms Compensation) Act 1991*, and
- advisory services for certificates of value, special valuations, expert witness court services, and general property advice.

The Valuer General provides councils new land values at least every three years.

Each year, the Valuer General provides annual land values to Revenue NSW. Revenue NSW uses the land values to assess and collect land tax. This includes issuing a notice of assessment to certain landholders.

Tendering

External contractors are required to be experienced valuers who are members of recognised bodies, including the Australian Property Institute, Australian Valuers Institute and the Royal Institution of Chartered Surveyors.

Valuers are contracted through a public tender process, managed by the Tender Evaluation Committee. The committee includes senior staff, government representatives, local council and other stakeholders, and an independent probity advisor.

The committee assesses valuers based on:

- employment management plans, staff quality, and availability
- valuation methodologies and IT application
- tenderer's experience and past performance
- quality assurance and service improvement innovations
- compliance with NSW government procurement policies, and
- cost-effectiveness and overall value.

Selected valuers must also agree to terms that address any real or potential conflicts of interest.

Valuation contracts for rating and taxing valuation services span 3-5 year terms with extension options available.

Contracts cover one or more Local Government Areas, tailored to operational requirements.

Value NSW undertake continuous monitoring of the performance and quality of work done by all contractors through an ongoing audit program.

Objections

Landholders hold the right to object to their land value assessment under the *Valuation of Land Act 1916 part 3*. Objections can be lodged via an online portal[2] managed by the Valuer General.

Landholders can lodge an objection to a valuation if they are:

- landholder who received a Notice of Valuation, or
- landholder who received a land tax assessment, or
- person authorised to do so on the eligible landholder's behalf.

Objections can be lodged based on whether:

- the land value is too high or too low
- the area, dimensions, or description of the land are incorrect
- the valuations are incorrectly apportioned
- the land should have been valued the land separately
- lands were valued as split instead of one valuation
- the person on the Notice of Valuation does not own, lease, or occupy the land

Objections must be lodged within a 60-day timeframe, from either the objection closing date printed on the Notice of Valuation or 60 days from the issue date on the land tax

2 See https://www.valuergeneral.nsw.gov.au/services/object.htm?execution=e1s1

assessment. Objections can be submitted after the 60-day period, however the Valuer General is not bound to accept the objection.

In the case of a valuation for the purposes of the *Land Tax Management Act 1956* or *Property Tax (First Home Buyer Choice) Act 2022*, the date of service of the relevant land tax assessment or property tax assessment under section 14 of the *Taxation Administration Act 1996*, which can be up to 5 years from the date the liability arose.

After an objection is lodged, a review of the evidence and data is undertaken by a different valuer from the valuer who undertook the initial valuation, required under *section 35B of the Valuation of Land Act 1916.* The landholder will receive a copy of the valuer's objection report and preliminary recommendation, with 21-days to respond. Within 90 days, the Valuer General will provide an objection determination letter.

Users of services

There are several minor users of valuations, including:

- Private brokers and the general public, and
- Other government agencies such as NSW Fire and Rescue, Transport for NSW, NSW Crime Commission, NSW Police Force, NSW Crown Lands and Local Government Grants Commission.

Revenue from minor users has historically been fairly small.

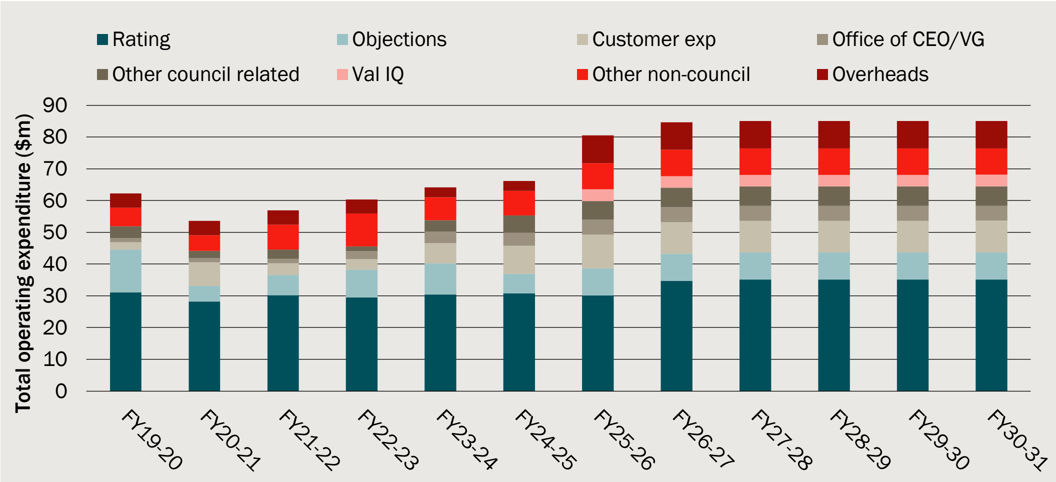
Overall cost-breakdowns for Value NSW

Value NSW is proposing an increase in real costs to provide its services. The proposed operating costs for Value NSW are 39 per cent higher in real terms for the six-year period from 2025/26 to 2030/31, as compared to the six years to 2024/25.

Over the previous determination period, from 2019/20 to 2024/25, operating costs averaged $60.6 million per year (chart 1.1). Operating costs are proposed to be $16.4 million higher than this (25 per cent) in the first year of the determination period (2025/26) and then to increase further in 2026/27 [redacted]. Rating remains the highest cost service, comprising 36 per cent of costs in 2025/26. The composition of costs remains relatively constant over the determination period, with the greatest change attributable to a 3 percentage point increase for rating.

During the historical period used for our analysis, Covid-19 was a significant disrupter of many businesses. We have found limited evidence that the operations of Value NSW were impacted such that an adjustment to historical cost averages is necessary. Excluding specific years from the analysis is difficult as activities have historically had a three-year cycle, with rating notices for council valuations issued in 2019/20 and 2022/23. This will generally coincide with higher costs for postage and for dealing with objections.

1.1 Operating costs by service, 2019/20 to 2030/31

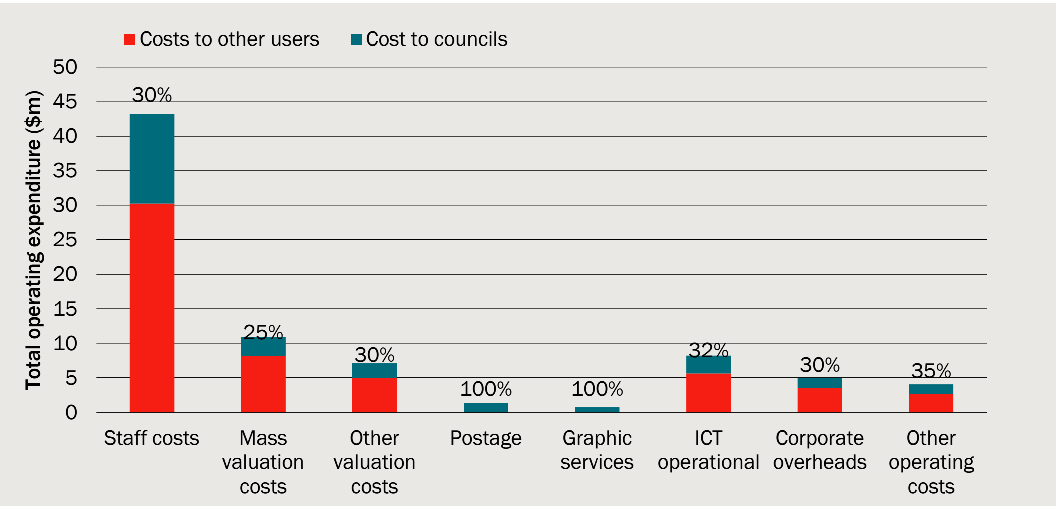


Note: In 2024/25$. For efficient cost calculations 'other non-council' has been removed.
Data source: CIE, Value NSW Cost Model.

Overall projections of costs to be recovered from councils

The largest cost component to councils is staff costs, where 30 per cent of total costs are allocated to councils (chart 1.2). The highest share of costs attributable to councils are for postage and graphic services, with 99.7 per cent and 100 per cent of costs allocated respectively. The share of costs allocated to councils remains constant over the determination period.

1.2 Operating costs allocated to councils, by component, 2025/26



Note: Per cent denotes share of cost component attributable to council
Data source: Value NSW cost model, CIE.

Approach and methodology

Three central aspects underpin the efficiency concept – technical (or productive) efficiency, allocative efficiency and dynamic efficiency.[3]

- Technical efficiency is when a service provider delivers a given set of services for the lowest possible cost. In the context of Value NSW services, examples of technical efficiency metrics include operating cost per assessment or per objection. Note that a pure measure of technical efficiency relates the outputs to input quantities, such as labour hours or units of capital. We focus on outputs per unit of cost, because we cannot differentiate between the quality of labour units and we do not have information on all other relevant input quantities.
- Allocative efficiency, in the context of Value NSW services, is where services and the standard of service are socially efficient. That is, the marginal benefits exceeds the marginal costs. Allocative efficiency would be important in the context of issues such as the accuracy of assessments of property value. Allocative efficiency has not been considered in detail in this report.
- Dynamic Efficiency, is where Value NSW faces appropriate incentives for investing in and innovating their service delivery approach and for improving efficiency over time. Key areas for consideration of dynamic efficiency are the use of insourcing versus outsourcing, uptake of technology such as automated valuation models and investment in IT systems that could reduce operating cost and the overarching organisational pressures for reducing costs.

Our process for considering efficiency of Value NSW has been based on the following:

- understanding the historical and proposed costs for different components of services and the drivers for changes
- assessment of key assumptions underpinning the expenditure proposal and the reasonableness of these assumptions
- assessment of whether the processes for outsourcing are likely to lead to competitive outcomes. Our starting assumption is that outsourcing in a competitive market should lead to an efficient cost
- benchmarking of Value NSW against others providing similar services
- consideration of productivity changes over time and whether what is factored into the Value NSW proposal is reasonable.

3 https://www.ipart.nsw.gov.au/sites/default/files/documents/consultant_report_-_cie_-_efficiency_of_nsw_public_transport_services_-_december_2015.pdf

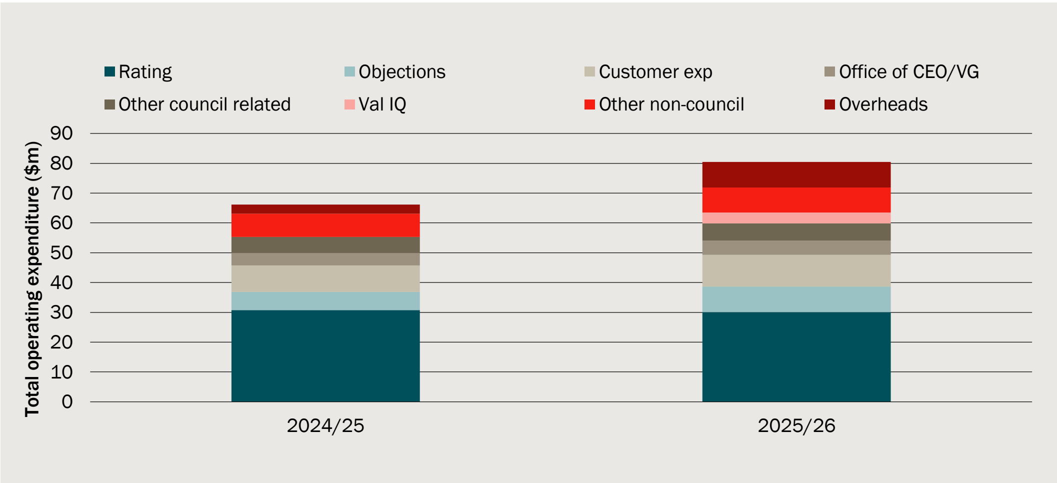
2 Overall observations of Value NSW cost model

A key observation from reviewing Value NSW's proposed submission is that the connection between historical costs and forecast resourcing and costs is difficult to follow.

- Historical costs are presented in one model. This model is based on actual observed costs up until 2023/24 and budgeted costs for 2024/25.
  – the underlying basis for this model is costs from the general ledger, not resourcing levels and wages
- Projected costs are presented in a separate model. This includes forecasted costs for 2025/2026 to 2030/31.
  – the underlying basis for the forecasting model is an assessment of staffing levels and wage rates, added onto non-labour related costs
- The cost categories used in the historic model and cost projection model (and even for different years within the historical cost model) are not the same. This means it is not clear if costs for a particular activity are changing or if costs have simply been allocated differently.

Projections for the years relevant for IPART (2025/26 to 2030/31) do not build from the historical budget for 2024/25 (chart 2.1). Therefore, it is not clear specifically what changes have occurred and drive changes to costs. We have aligned cost categories between the historical and projection model by service area.

2.1 Budget versus projection model, 2024/25 to 2025/26



Note: Customer experience and land data unit manage customer service functions including call centre and customer queries as well as maintaining the Register of Land Values. For the purposes of the efficiency analysis 'Other non-council' has been removed.

Data source: Value NSW

The change in modelling framework from history to the projections, alongside key business changes such as the move to a hybrid model, means that at times it is difficult to understand the full reason for the change from historically incurred costs compared to future projected costs.

We also note that IPART has identified an error in the wage rates used in the projection model (wages for some staff are much higher than they should be). This overstates wages per year by ~$2.4 million. This has been corrected in a revised version of the model provided by Value NSW. The assessment in this report is of the revised model, which is different to the Value NSW submission.

3 Efficient cost of Value NSW services

We estimate the efficient cost of Value NSW services through estimating a baseline efficient cost, then adjusting for updates to service delivery and changes in market prices. The key adjustments include:

- increases in the unit cost of objections
- a decrease in the cost of the objections service area due to extraordinary mail costs in 2019/20
- an increase in the price of the mass valuation contract renegotiated in the previous determination period
- [redacted]
- increases in the cost of contracts for mass valuations
- increases in the overhead charges to DPHI
- increases in OPEX for the roll-out of ValIQ
- reductions in FTE from efficiency gains of implementing ValIQ
- increases related to higher postage costs, and
- increases to account for historical and future growth in property volumes.

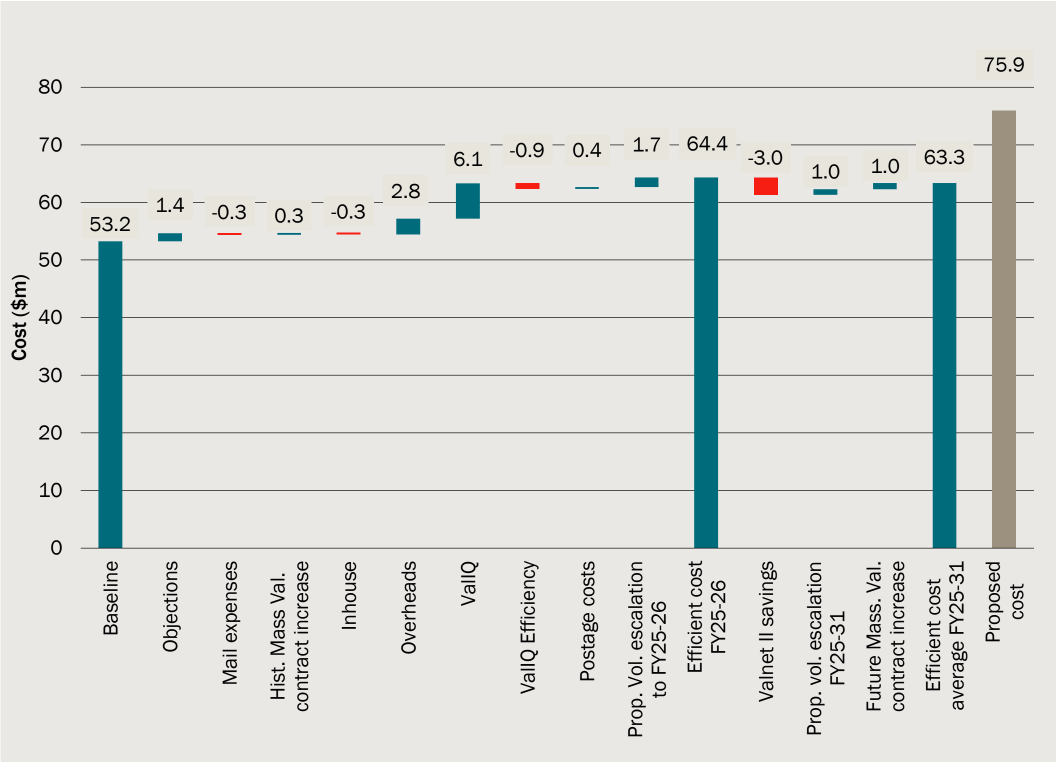
For the referral period, we estimate the efficient cost of Value NSW services (excluding non-council related functions) to be on average $63.3 million per year, which is $12.6 million lower than the proposal from Value NSW, but 19 per cent higher in real terms as compared to the historic costs.

The baseline estimate of efficient costs is based on a 6-year average of the actual OPEX costs of Value NSW from 2019/20 to 2023/24 and the budget for 2024/25. Over this period, total costs varied from $48.6 million in 2020/21 to $58.4 million in 2024/25.

We have adjusted for an increase in the cost of objections, which has increased by $1.4 million per year from the baseline average. There has been a high level of volatility in the unit cost of objections, and costs have increased in the most recent period for which we have individual objection contract data (July 2023 to June 2024). We assume this level of cost will remain the same for the referral period. Objection volumes are assumed to be consistent with the 6-year average from 2017 to June 2024[4]. Future growth in objections volumes is applied as part of an adjustment for the general increase in the number of properties for which services are provided.

4 June 2024 is the latest period for objections data

3.1 Efficient cost of Value NSW services



Note: 2024/25

Data source: Value NSW cost model, CIE

3.2 Efficient costs and proposed costs of Value NSW services

Business Area	Efficient cost for each year	Proposed cost per year
	$2024m	$2024m
Rating	32.3	34.2
Objections	9.8	8.5
Customer exp	4.9	10.1
Office of CEO/VG	2.5	4.7
Other council related	3.4	6.1
Val IQ	3.3	3.7
Overheads	7.1	8.6
Total Value NSW Cost base ex non-council	63.3	75.9

Note: Proposed costs are an average of 2025/26 to 2030/31

Source: Value NSW, CIE

The baseline cost of the objections service area has been decreased to account for extraordinary mail costs included for 2019/20.

We have observed limited systematic evidence that the costs for mass valuation contracts will increase over the referral period. We have allowed for three adjustments to mass valuation contracts:

- An increase in mass valuation costs to allow for the increase in mass valuation costs when the Sydney West contract area was split into two contract areas (Sydney Central West and Sydney South West) and retendered in 2021, leading to a net cost increase.
- A decrease in mass valuation costs to reflect the relatively higher costs for inhouse delivery of mass valuation costs in 2023/24 and 2024/25, when compared to the costs of the contracts that they replaced.
- An increase of 5 per cent to external contract mass valuation costs in 2026/27, to reflect cost increases observed in other jurisdictions and cost pressures faced by NSW contractors. Due to the limited evidence to base this assumption on, we would consider [redacted] to be the low and high scenarios respectively.

Overheads will increase over the referral period due to an increase in the charge from DPHI for ICT, support, rent and corporate services. Note that this is a cost that will be incurred by Value NSW, but whether it is efficient is not clear.

The roll-out of ValIQ increases operating costs, which includes the cost of software and labour. There is a corresponding smaller decrease in the OPEX costs of Valnet from 2026/27, resulting in a net increase in OPEX.

ValIQ will deliver efficiencies within the customer and land data service area, which will reduce FTE and provide a labour cost saving.

The costs for postage have increased over the historical period and are proposed to increase to $1.70 per stamp by July 2025[5]. We have included a one-off increase on the baseline average of postage costs to account for changes in the postage price from 2019/20 to 2025/26.

The volume of properties has increased year-on-year over the historical period, averaging growth of 0.75 per cent per year. For most service delivery areas, costs are expected to increase in line with the number of properties, such as objections and customer experience. As a result, we have allowed for a one-off increase in costs in 2025/26 to allow for 6 years of historical property volume growth (2.66 per cent), then an additional 0.75 per cent for each year from 2025/26 to 2030/31. This annual cost escalation will accommodate increased volumes for objections, customer complaints, postage costs and any other volume related cost.

The examination of costs for different activities is set out in more detail in the chapters below.

5 See https://auspost.com.au/disruptions-and-updates/pricing-updates

4 Response to Value NSW submission on draft determination

Value NSW responded to the draft determination with additional evidence to consider in estimating the efficient costs of providing valuation services to councils. The evidence centred around two issues:

- staff shortages in the preceding determination period have impacted the estimated baseline for funding and Value NSW did not have sufficient resources to meet its performance targets in these years, and
- efficiencies for undertaking work in-house, particularly for objections, have not been included.

Additionally, Value NSW again questioned our estimate of the increase in external contract valuation fees. This topic has been addressed in Chapter 5 of this report and is not revisited as no further information has been provided.

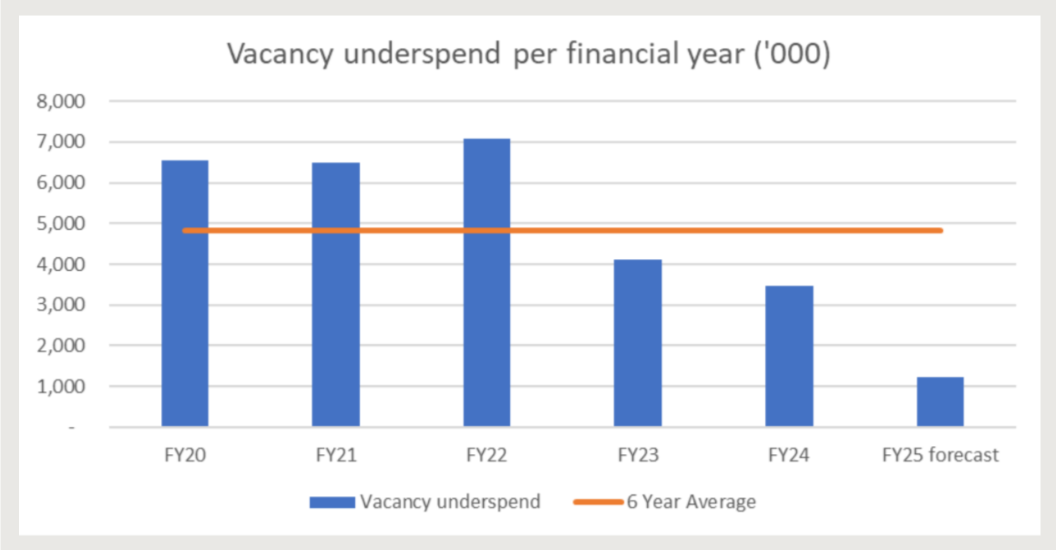
The evidence provided by Value NSW is not, in our view, sufficient to revise the draft estimate of efficient costs. Additionally, the direction of the impacts from adjusting the efficient cost for staff shortages and in-house efficiencies is offsetting and using Value NSW estimates would lead to very little impact on the overall estimate of efficient costs.

- Adjusting for staff shortages based on Value NSW's stated vacancy underspend would lead to a ~$2.3 million per year increase in the efficient cost.
- Adjusting for Value NSW stated in-house efficiencies for objections work would lead to a ~$1.7 million per year decrease in the efficient cost.

The impact of staff shortages in the preceding determination period on baseline funding

Value NSW advised that during a part of the preceding determination period, which is what we have used as the baseline funding estimate, Value NSW experienced staff shortages. Value NSW express this period of understaffing as underspending due to vacancies. This peaked in 2019/20 to 2021/22 (chart 4.1).

4.1 Vacancy underspend FY20 to FY25



Note: Vacancy underspend recorded in nominal $.
Data source: Value NSW.

We have limited information about what vacancy underspend is, the activities it relates to and longer-term trends in this metric.

- It is not clear if vacancy underspend is capturing a metric of jobs that have been advertised and not filled, or a difference to IPART's previously estimated staffing levels.
- We do not have data prior to 2019/20 on this specific metric.
- We do not have information on what roles the vacancies were for, and for which business functions. Value NSW have indicated that the vacancies were in customer experience, rating and taxing and quality assurance, which are all business functions relevant for local government services.
- It appears that Value NSW have substituted other forms of expenditure to undertake activities, such as contractors, but the degree to which this offsets vacancy underspend is not clear.

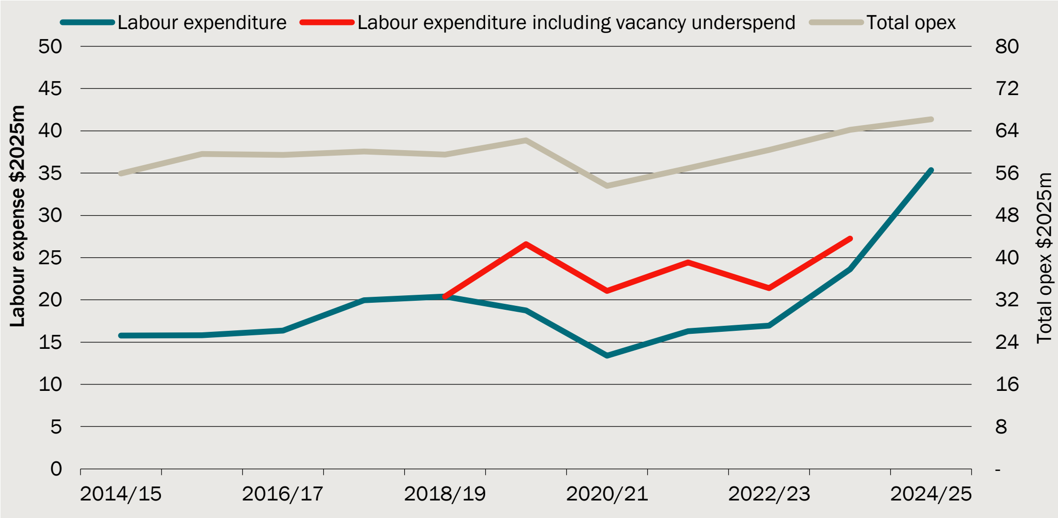
To seek to understand longer trends in labour costs and the impact of vacancy underspend, we have examined labour costs from 2014/15 onwards (chart 4.2).

- Prior to the commencement of the in-house model in 2023/24, total labour expenditure during the previous determination period was similar to the level of spending from 2014/15 to 2016/17 on average.
- There was lower labour expenditure in 2020/21, which related to an adjustment to the Long Service leave provision in 2019/20 ($2.6m), changes to the discount rate as provided by NSW Treasury in determining the present value of long service liability ($1.3m) and a net reduction in costs from the business improvement team ($0.6m).[6]

6 NSW Valuer General, Annual Report 2020-21, page 59, https://www.nsw.gov.au/sites/default/files/noindex/2024-03/VG_Annual_Report_2020-2021_FINAL.pdf

- Notionally adding vacancy underspend to labour expenses does not lead to a more stable overall labour cost, with labour costs higher than the preceding period in real terms.
- 2020/21 and 2021/22 were anomalously low years for total operating expenditure. The major decrease in costs in 2021 was because of much lower objection costs (both Valuer NSW and contractors), which fell by $8.5m.

4.2 Real labour expenditure, vacancy underspend and total OPEX, 2014/15 to 2024/25



Data source: 2018 and 2024 submissions by the Valuer General/Value NSW for the review of prices for land valuation services provided by the Valuer General to councils.

Value NSW contend that when there is a vacancy underspend, performance against standards was impaired. In the submission, Value NSW selectively show performance data for 2019/20 and 2024/25, to highlight the improvement in outcomes due to resolving staff shortages.

The selection of data points by Value NSW does not present a complete view of performance and the relationship to the stated vacancy underspend metric. 2019/20 is an outlier year, with better performance against standards experienced in 2020/21 and 2021/22, both years which also experienced high vacancy underspend. Full data for the period is shown in charts 4.3, 4.4, 4.5 and 4.6.

Commentary released by the NSW Valuer General explains that the 2019/20 performance was impacted by issues unrelated to staff shortages, such as:

- The Valuer General 2019/20 annual report noted that poor performance against standards was due to "unusually high volume of land tax related objections received in 2019."[7]

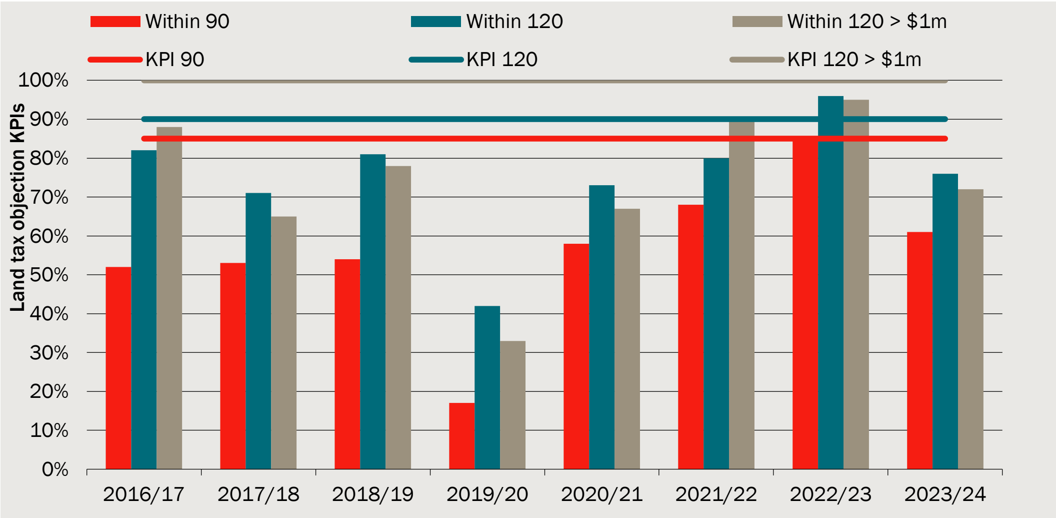
---

7 Valuer General Annual Report 2019/20, page 68, https://www.nsw.gov.au/sites/default/files/noindex/public%3A//2024-03/Valuer_General_NSW_Annual_Report_2019-2020%20%281%29.pdfValuer_General_NSW_Annual_Report_2019-2020%20%281%29.pdf

- The Fifteenth General Meeting with the Valuer General note that the objections process was reformed as part of 'Objections 2021', which involved an overhaul of IT systems and the development of new policies and procedures. The improvement in performance outcomes from 2019/20 to 2020/21 was attributed to this reform[8].
- Performance in 2023/24 was worse than the previous 2-3 years (depending on the metric) and had a much lower reported vacancy underspend.

Based on the patterns observed over a longer time period, we do not see that there is a clearly identifiable impact on performance against standards due to the reported vacancy underspend metric between 2019/20 and 2021/22.

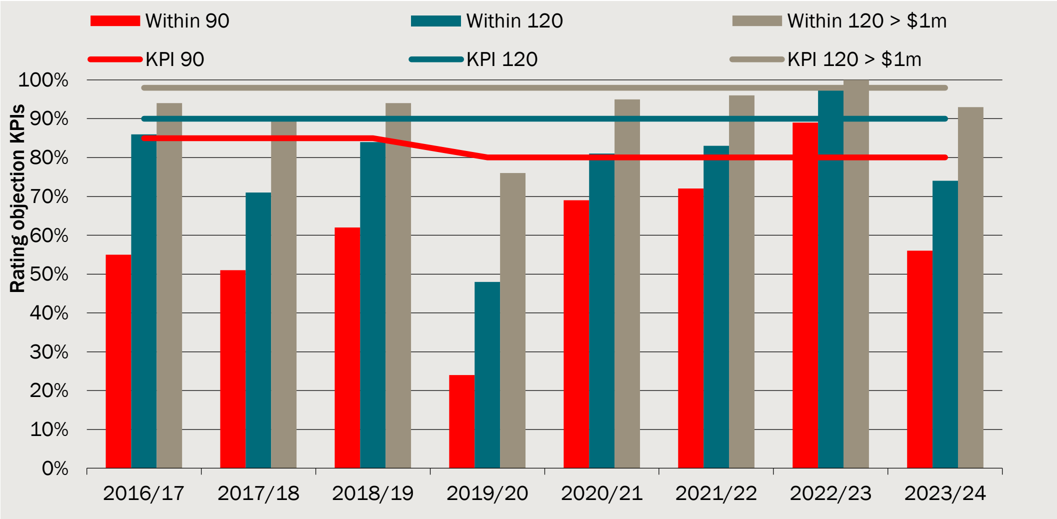
4.3 Land tax objections performance against standards



Data source: NSW Valuer General Annual Report 2019–20, NSW Valuer General Yearly Insights 2023-24.

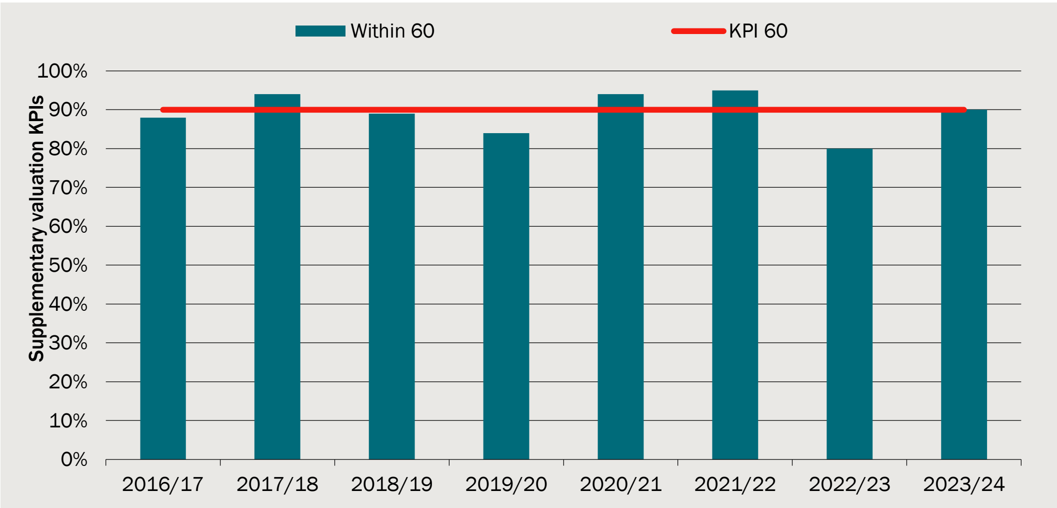
8 Fifteenth General Meeting with the Valuer General, page 6, https://www.parliament.nsw.gov.au/ladocs/inquiries/2879/Report%20-%20Fifteenth%20General%20Meeting%20with%20the%20Valuer%20General.pdf

4.4 Rating objections performance against standards



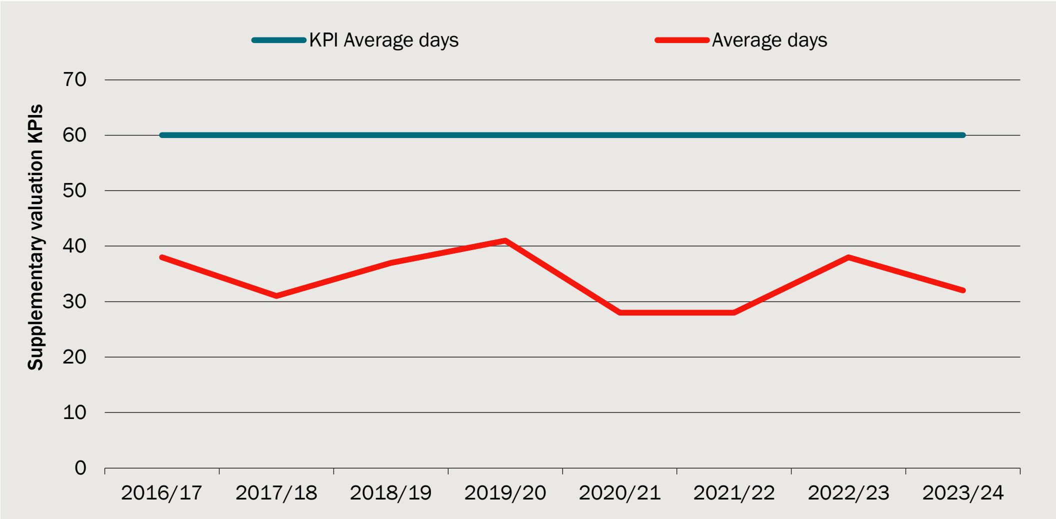
Data source: NSW Valuer General Annual Report 2019–20, NSW Valuer General Yearly Insights 2023-24

4.5 Supplementary valuation performance against standards for within 60 days



Data source: NSW Valuer General Annual Report 2019–20, NSW Valuer General Yearly Insights 2023-24

4.6 Supplementary valuation performance against standards for average days



Data source: NSW Valuer General Annual Report 2019–20, NSW Valuer General Yearly Insights 2023-24.

It is also evident that Value NSW made other adjustments to address issues with staff shortages which would show up as higher costs elsewhere. Value NSW engaged external contractors to undertake work within business functions experiencing vacancies. This included:

- in 2021/22, contracting expenditure increased to accommodate vacancies[9]
- In 2022/23, contractor expenditure reduced as internal labour costs increased.[10]

While we do not see a clear path to credibly adjusting the baseline for the issues raised by Value NSW, we have estimated approximately what impact adding in vacancy underspend as reported by Value NSW would have.

- We assume that some level of vacancy is normal and hence not all vacancy underspend would be added to costs.
- We could assume that the appropriate level of vacancy underspend is the level observed after the peak staff shortages in 2023/24, which was $3.5 million.
- In this case, over the 6-year period, the total overspend, relative to 2023/24 was $10 million, which would result in an upward adjustment of $2.3 million per year in the estimate of efficient costs (over the total determination period of 6 years).

The impact of in-house efficiency

Value NSW have indicated that the benefits of the in-house model have not been sufficiently considered as part of the determination. In its submission, Value NSW

9 NSW Valuer General Annual Report 2021/22, page 54, https://www.nsw.gov.au/sites/default/files/noindex/2024-05/Valuer_Generals_Annual_Report_2021-22.pdf

10 NSW Valuer General Annual Report 2022/23, page 37, https://www.nsw.gov.au/sites/default/files/noindex/2024-03/NSW_Valuer_Generals_2022_2023_Annual_report.pdf

provide examples of objections quotes from external contractors that are higher cost than the in-house team, which were selected based on if whether the quote received was considered excessive. As Value NSW have not provided all tenders and in-house pricing for Q1 2025, we cannot determine the comparability and overall cost implications for all objections.

In the Value NSW presentation for the public hearing of the draft determination, Value NSW advised that the in-house model has saved $1.7 million in the first 12 months on current rating and taxation contract prices.[11] No data has been provided by Value NSW to verify these savings. In the case that these savings were verified, we would need to adjust our efficient cost estimate downwards by $1.7 million per year.

We do not believe there is sufficient evidence to implement this cost adjustment, as we have not received the underlying data, and do not know whether it accounts for all internal costs (overheads etc).

11 Value NSW, Public Hearing for the Valuer General pricing review 1 July 2025 – 30 June 2031

5 Mass valuation services

Total operating expenditure related to mass valuations is projected to increase over the referral period. A key driver of these costs [redacted]

It is plausible that there will be some level of real increase of mass valuation costs, although the evidence does not support an increase of the order of magnitude proposed:

- [redacted]
  - [redacted]
  - [redacted]
- other contract areas have extended their contracts. Suppliers would not be willing to do this of costs had increased by a substantial amount
- consultations with suppliers did not support cost increases of this level in general, with suppliers noting substantial differences in the contract requirements for Sydney Central West and Sydney South West versus Sydney West, and
- other jurisdictions around Australia have not experienced [redacted]

Our recommendation is to change the assumption for the external cost increases to 5 per cent in 2026/27, substantially below the increase proposed by Value NSW. Due to the limited evidence supporting this assumption, we would recommend the use of [redacted] as low and high scenarios respectively.

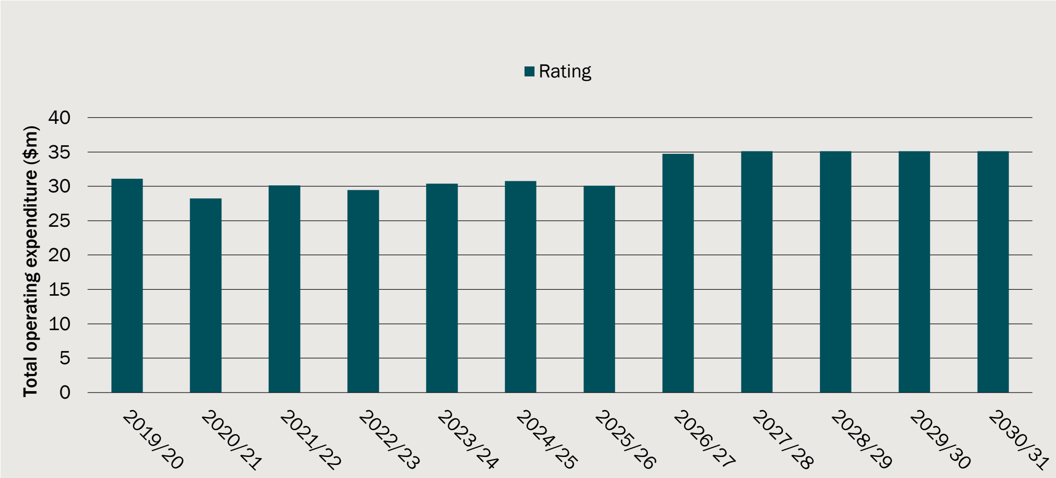
The increase in contract costs should be applied across all areas, including those insourced, as representative of overall cost increases. Note that the historic contract costs escalated in this way would be less costly than in-sourcing.

Value NSW proposed costs

Total operating expenditure for ratings excluding corporate overheads is projected to increase from $30 million in 2025/26 to $35 million in 2026/27 onwards (chart 5.1). Over the previous determination period, operating expenditure for ratings ranged between $31 million and $27 million.

While comparisons to total Value NSW costs are an accurate measure for estimating the baseline efficient cost, we note that comparisons to historical cost categories are not necessarily accurate, because costs have not always been allocated in the same way. It is likely that some of the costs that are now in the Office of the CEO were previously in the rating category, for example.

5.1 Operating expenditure for ratings excluding corporate overheads, 2019/20 to 2030/31



Note: 2024/25 dollar terms

Data source: Value NSW cost model

The cost to undertake a property valuation for a contract area is driven by multiple factors, including volume of properties in the contract area, the heterogeneity of properties within a contract area, and the complexity of local planning rules, among others.

Due to the variation in costs to deliver valuation services across regions, all properties in NSW are segmented into four zones; Coastal, Country, Metro and City of Sydney. The cost per valuation of the 2019 external contracts reflects this cost variation in delivering valuation services across NSW. City of Sydney and Western NSW have the highest cost per valuation. The lowest cost per valuation is for the Sydney Central region.

Key drivers of costs

Value NSW operates as a self-funded business unit of DPHI. It is therefore required to achieve full recovery of its economic costs. Councils are liable for costs incurred by Value NSW for services related to mass valuations[12]. Costs are proposed to increase over the referral period due to an increased reliance on inhouse valuations, increased costs for external valuation contracts and greater corporate charges from DPHI.

12 Other services Value NSW provides such as compulsory acquisitions valuations are ring-fenced from the costs attributable to councils.

Changes to move to a hybrid model

Value NSW is currently transitioning ratings activities from an outsourced model to a hybrid model. By the end of 2024/25, land valuations at four contract areas (Central Tablelands, North Coast, Hunter Coast, and Sydney Coast North) will be undertaken in house, with the remaining valuations undertaken by external contractors through an open tender process.

Over the referral period, the hybrid model will shift towards a greater reliance on inhouse valuations. This is partially driven by a NSW Government aim to enhance internal capabilities and capacity through the development of internal resources.

The valuation workforce required by Value NSW to service the new inhouse contract areas will include valuers currently employed by external contractors who currently or have previously serviced these contract areas.

Value NSW used the number of FTE each external contractor required to service a contract area and based their internal staffing on this level. These estimates can serve as a baseline for ongoing monitoring of the efficiency of undertaking mass valuations in house.

Contracted valuers will be retained to provide land values for defined geographic regions across NSW as well be available to review objections to land values, prepare valuation reports for the determination of compensation when land is compulsorily acquired, and provide advisory services for quality assurance and property assets valuations[13].

Increases in outsourcing costs

Over the previous determination period (2018-2024), mass valuation services were predominantly outsourced through a competitive tendering process. 18 contracts were awarded, for the period commencing March 2019 to February 2024, with extension options available.

In March 2022, the contract for the Sydney West area was terminated and subsequently retendered as two new contract areas – Sydney Central West and Sydney South West. The rationale behind the split was twofold [redacted]

The combined contract price for the two new contract areas, Sydney Central West and Sydney South West, was substantially higher than the contract price for Sydney West. The increase in cost was attributed by Value NSW to costs incurred by contract valuation firms disproportionately increasing compared to the contract price increases, largely related to employment costs for technical specialist valuers.

---

13 Value NSW (2024). Review of prices for land valuation services provided by the Valuer General to councils, Submission to the Independent Pricing and Regulatory Tribunal by the Valuer General.

The contracts for Sydney Central West and Sydney South West included higher levels of compliance and less favourable contract terms than the contract for Sydney West. This included:

- a substantial increase in the number of risk rating 1 properties, which is the highest risk rating and requires more frequent valuations and supporting documentation than risk ratings 2 and 3
- the inclusion of certain zoning types as a risk register 2 category, which was not previously specified in the Sydney West contract, and
- various clauses with less favourable conditions and increased reporting requirements.

Stakeholders noted that this contract area was under a higher level of scrutiny and conditions for the mass valuation contract were more onerous, as the contract for Sydney West was terminated early and valuations for the contract area were more challenging due to the high level of change in land use in the Aerotropolis precinct, and where certain land parcels rated within the contract area attracted intense media scrutiny[14].

Value NSW in their submission contend that cost pressures [redacted] and will likely result in cost increases in other areas as contracts expire and are retendered.

Estimated valuation volumes and cost

In 2024/25, the majority of mass valuations are undertaken by external contractors, which is projected to increase from 2025/26 as more mass valuation contracts will be undertaken inhouse. Prior to 2023/24, all mass valuations were undertaken externally.

In 2025/26, the outsourced cost model is lower cost than the hybrid model. From 2026/27, Value NSW assume that the next retendering of external contracts will result in an increase in cost, which results in the outsourced model being the highest cost option from 2026/27 onwards. However, if outsourced contract costs increase by 5 per cent, the lowest cost option remains the fully outsourced model.

Value NSW analysis at the time of considering insourcing indicated that the insourcing model would reduce costs compared to current contracting out. This reflected a [redacted] which Value NSW has indicated is built into the projection of FTEs. This is discussed further in chapter 8. Regardless of whether inhouse valuations are considered efficient at this point in time, it will be important for Value NSW to benchmark its internal and external performance over time so that it can ensure it is efficient.

---

14 For example the Leppington Triangle https://www.anao.gov.au/work/performance-audit/purchase-the-leppington-triangle-land-the-future-development-western-sydney-airport

Review of key assumptions

Mass valuation contract uplift

Value NSW have incorporated a [redacted] increase in external mass valuation contracts over the referral period. This reflects Value NSW experience with the cost changes from ceasing the contract for Sydney West and initiating two new contracts for Sydney Central West and Sydney South West.

The CIE has examined the evidence of cost increases [redacted] and a range of other sources, including evidence from other jurisdictions and consultations with suppliers. Across the evidence available, we consider there is a basis to expect some level of real increase in contract costs, albeit with substantial uncertainty. [redacted] and have used a 5 per cent increase in the central estimates.

Review of processes for outsourced services

In principle, outsourcing contracts to the private sector will yield efficient costs when leveraging the productive efficiencies of private firms and the competition generated by open procurement mechanisms for a stated scope.

Contractors may be able to provide services at a lower cost through:

- the use of greater management or labour productivity
- the use of skills or technology which the government agency does not have
- economies of scale
- more efficient use of capital and assets, or
- greater innovation or flexibility in providing the service.

However, benefits of outsourcing may be reduced through inefficiencies in the outsourcing process. This could eventuate through:

- collusive tendering
- insufficient bidders to create competition
- preferential treatment of incumbent contractors
- reduced quality through misaligned incentives, for instance performance indicators based on outputs not outcomes, or
- excessive transaction costs, including procurement process and contractor management costs.

Process for tendering

Value NSW selects valuers through a transparent public tender process. Contractors are assessed based on multiple domains, including:

- employment management plans, staff quality, and availability

- valuation methodologies and IT application
- tenderer's experience and past performance
- quality assurance and service improvement innovations
- compliance with NSW government procurement policies, and
- cost-effectiveness and overall value.

Valuation contracts for rating and taxing valuation services span 3-5 year terms with extension options available.

Remaining competition in the market

Moving contract areas in house is likely to lead some contractors to withdraw from the mass valuation market. In response to contract areas moving inhouse, we expect larger companies to still compete for other contract areas where they have a presence, while smaller companies are unlikely to operate outside their geographic zone. As a result, we anticipate there will be competition among the remaining outsourced contract areas, as larger operators are now competing for a reduced number of contract areas, as well as any local smaller companies. Barriers to entry for the remaining contract areas remain unchanged, as any local provider will be able to compete with larger companies who operate across the state.

The quality of contracted valuations is monitored through an ongoing audit program checking for accuracy to maintain the integrity of the information before it's released. These activities, in addition to contract tendering and management, contribute to the total costs of outsourcing contracts.

Recommendations

Our draft finding is that the proposed costs of mass valuations over the referral period are not efficient.

- Value NSW propose a hybrid delivery model, where a large share of properties will be valued inhouse instead of externally through a private valuation firm. Value NSW indicated that the hybrid model would deliver cost savings on current contract costs and even larger savings if external contract costs increase [redacted] at the next tendering process. However, this is not evident in the costs.
- We find limited evidence to support a [redacted] increase in costs for future outsourced contracts. [redacted] A systematic analysis of changes in other jurisdictions does not indicate changes in costs of that degree (see chapter 7).
- Our recommendation is that the assumption for the real external cost increase be changed to 5 per cent in 2026/27 for the purposes of estimating efficient costs. We acknowledge that there is substantial uncertainty about what could happen for future contracts, given changes to market dynamics, changes to compliance requirements within contracts and other factors. [redacted].

6 Objections

The Value NSW submission forecasted a marginal increase in the total cost for objections.

Objection contract data suggests that the unit cost of contracts has increased relative to the recent historical average. On the assumption that objections volumes remain equal to the 6-year historical average, we estimate that the objection cost will increase, at a level higher than estimated by Value NSW. The difference is most likely driven by discrepancies between cost items allocated to the Value NSW forecast and what has been allocated to objections in the past.

Value NSW proposed costs

The proposed costs for objections are relatively flat over time, and within the range of historical costs. The proposed costs are lower than both 2022/23 and 2023/24. However, we think it likely that costs have not been allocated consistently to the objections functions across years.

Note that historically, objections have been volatile because ratings notices were issued to all properties every three years, leading to high objections immediately afterwards. Within the previous six-year period, councils were issued new values on 1 July 2019 with rates notices then issued to ratepayers from 1 January 2020, and the same for 2022/23.

Spending in the objections business area is comprised of:

- objection contracting with external providers
- staff costs, which rise dramatically between 2024/25 and 2025/26 as the team shifts to completing half of all objections in-house, and
- other operational expenses.

The methodology used by Value NSW for forecasting objections costs is as follows:

- the number of objections is assumed to equal to the 8-year average objections volume
- each objection contracted out is assumed to have a cost, equal to the average objection contract cost in the 6 months from July to December 2023, and
- half of objections will instead be completed in-house, with an implied unit cost per objection slightly below the external contract average cost.

To this they add a relatively small historical staff training and development costs and travel costs.

Our approach to forecast objection costs

Our approach to estimate the efficient objection cost is to use the historical average cost for the whole function as a baseline, with an additional increase based on changes to objection contract costs.

In effect, this breaks the forecasted objection function into two parts:

- the historical average cost, which includes
  - objection contracts valued at the historical average
  - the average of all other components of historical cost, the largest of which is labour cost, and
- an allowance for the real increase in the unit cost of objection contracts, as observed in the most recent year of data, applied to the expected number of objection contracts.

This methodology has the advantage of being grounded in historical actual expenditure while still accommodating observed increases in contract prices, without the need for separately forecasting changes to every line item in the objections cost centre.

Real cost increase per objection contract

Historically, the cost per contracted objection has fluctuated across years, with the most previous year 2024/25 having the highest cost.The recent increase in cost could be due to both:

- cost increases for a given type of objection, and
- changes to the composition of the types of objections.

In other words, if there were an increase in the number of high-cost objection types in the final year (for example risk rating 1 objections are more expensive to complete than risk rating 3) then it would raise the average contract price.

We assume that future objections will have the same composition as the average of the last 6 years. This means that we want to exclude any changes in composition from our final proposed objection contract changes, isolating the component of change that results from the same type of work becoming more costly.

To do this we used a regression model, which can determine how costs have changed while keeping the composition of contract types the same (regression results have not been included in this public report).

Cost for an average objection is nearly [redacted] more expensive than it was in 2019/20, and is now the highest it has been since 2015/16. Over the last six years the weighted average cost per objection was more expensive than 2019/20. The resulting difference represents the average increase in objection contract costs over the 6-year average for objection contracts (chart 6.1).

6.1 [redacted]

Note: Values are regression coefficients on year-dummies, after regressing real contract cost, controlling for location, zone, risk rating, report length, and objection type. Data from 2014/15 included, 2019/20 chosen as the base year value.

Data source: The CIE, based on Value NSW cost model

Our final efficient cost estimate is therefore set to be equal to the 6-year historical average objection cost plus an additional increase for every objection per year.

Forecast volume of objections

The volume of objections has historically fluctuated widely. Objections related to notices for rates (general objections) were highest in 2022/23, which is when revised rates notices were issued to councils and ratepayers. General objections tend to be highest in general valuation years (2016/17, 2019/20 and 2022/23), occurring once every three years. This is when notices of valuation are sent to households. Land tax objections do not seem to follow a specific pattern. Once Value NSW starts sending valuations to one third of councils every year, general objections should smooth out. Variation should still be expected, particularly in the number of land tax objections.

Value NSW proposes to deal with this variability by assuming that future objection volumes will be equal to a historical average over previous years. In the submission they choose 8 years for their average, from 2015/16 to 2022/23 (the most recent complete year of data at the point of submission).

Given that general objections peak every 3 years, we propose a multiple of 3 is more appropriate. We have used a six-year period for our estimate of efficient costs.

In addition to this, we expect the number of objections to increase as property numbers increase, so we add a property escalation to the estimate of the overall efficient cost, including to the objection function.

Proposed efficient cost of objections

The average actual cost of the full objection function over the period from 2019/20 to 2024/25 was $8.25 million. To arrive at our efficient cost, we subtract the impact of the

2019/20 mail expenses from this average, and add the increase in average objection contract costs multiplied by forecasted yearly objections. This results in a net increase of $1.1 million, for a total objection cost of $9.6 million.

Value NSW in-housing model

Value NSW is proposing to complete half of all objections in-house from 2024/25 onwards. Work is underway to determine which objections are allocated to the in-house team and which are tendered out to external contractors. One of the major determinants is expected to be location of the objection, where objections for properties close to a Value NSW office will be relatively easier to complete in-house.

Given this uncertainty, the assumption that in-house and tendered objections will have a similar average unit cost to complete is difficult to review and will largely depend on which objections are done internally versus contracted out. The plan is for the in-house objections team to complete half the volume of objections, regardless of the relative unit costs of the chosen objections. This approach carries some risk, as labour costs for the in-house team are likely to be less flexible than external tender costs. Thus, if external contractors on average completed more expensive objections, the higher external cost might not be associated with a corresponding decrease in labour cost for the in-house team leading to total costs above the efficient rate.

In years with very low objections, it is expected that some of these FTEs will transition to work in a different team, to try and minimise spare capacity. The only caveat is that legislative requirements ensure that if an objection staff member performs a valuation, they cannot also do the objection for that property.

Review of processes for outsourced services

An outsourced contract should obtain efficient cost for its stated scope if it's tendered into a competitive market. The market into which contracts are tendered is therefore the key determinant of the efficiency of the contracted prices. Note that this is not the only avenue for inefficiency. Scopes which are poorly defined may also lead to inefficient tenders.

Depth of market for services

All suppliers must be prequalified under the SCM7671 – Land and Asset Valuation Scheme. During 2022/23, contractors for objection reviews were engaged in two ways:

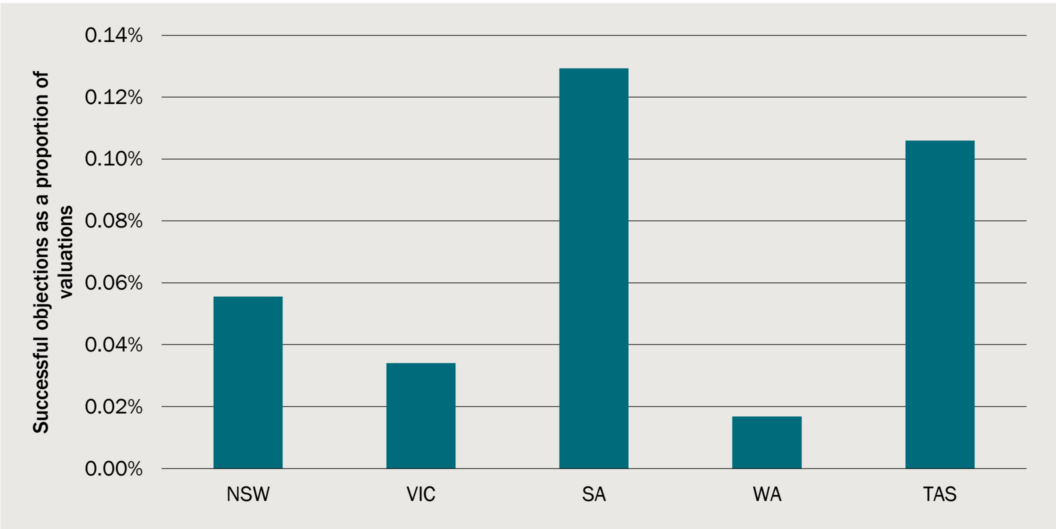
- Single contractor standard land value objection review services (SCSLVORS): a list of suppliers, each servicing one (or more) of the 19 contract area(s).
- Competitive RFQ: a list of preferred suppliers sourced from the scheme. Property and land value types excluded from the SCSLVORS contracts are manually outsourced to these firms.

Value NSW staff monitor the performance of land value objection contractors for the quality of individual reports and timeliness for the complete delivery of a batch of reviews. Reports are scored with these creating an overall company score which is used in the preferred supplier procurement process. Performance issues are recorded where a contractor does not comply with the contract specifications or statute. Poor performance may result in suspension or removal as a preferred supplier.[15]

Benchmarking

To date, there has been no data provided by other jurisdictions on the number of objections relative to the number of valuations. However, using public data we can make some comparisons. Chart 6.2 shows the number of objections resulting in a change to land value as a proportion of total valuations. It takes an average of objections rates between 2019/20 and 2023/24.[16]

6.2 Average successful objections as a proportion of total valuations



Note: Victoria only reports objections related to value for the purpose of land tax. Historically, about half of objections in NSW have been related to land tax.

Data source: NSW – Valuer General yearly insight reports. VIC – State Revenue Office Annual reviews. SA – Office of the Valuer General Year in Reviews. WA – Landgate WA annual reports. TAS – Department of Natural Resources and Environment Tasmania Annual Reports.

On average approximately 0.06 per cent of valuations in NSW result in an objection which changes the issued land value, a value comparable to the rates seen in other jurisdictions. Note that the high average rates seen in South Australia and Tasmania are driven by very high objection rates in 2019/20, and have since decreased to match the rates seen in NSW more closely. Western Australia has consistently had the lowest rate of successful objections as a share of total valuations over the past 5 years. Given that

15 VG annual report 2022-23 https://www.nsw.gov.au/sites/default/files/noindex/2024-03/NSW_Valuer_Generals_2022_2023_Annual_report.pdf

16 Note that SA has not yet published objection rates for the year 2023-24, so this data comes from a four-year average.

NSW is within the range of other jurisdictions and that there will be different standards for successful objections across jurisdictions, we have not made any adjustments to costs in relation to these comparisons.

The number of objections could potentially be an indicator of quality of valuations, under the logic that too many objections may reflect valuations leaning too high on average and too few objections may reflect valuations leaning too low. There has been no formal target for rate of objections for over 12 years, so it is difficult to determine whether the level of objections is compatible with efficient valuations. We do not see evidence of objections being much higher or lower than other jurisdictions.

Only about 25 per cent of objections over the past 5 years in NSW have led to a change in land valuation. However, the Valuer-General has a statutory requirement under the Valuation of Land Act 1916 to consider every objection lodged correctly, or to delegate this function.[17] This requirement means that resources still need to be allocated to objections even if most objections are ultimately dismissed.

Recommendations

Our recommendation is to use a 6-year average for forecasting objection volumes, rather than an 8-year average. This is to account for the three-year cycle for general objections.

- The efficient cost is given by the historical average cost plus an additional $292 per objection contract to reflect real cost increases. This results in a total cost of $9.6 million.
- We suggest that this increase should be a single level shift, with further increases limited to indexing for inflation and property escalation.

The efficiency of internal versus external resourcing for objections should be closely monitored as Value NSW rolls out the hybrid model.

17 Valuation of Land Act 1916 No 2 Section 35B Determination of objection, current version for 4 September to date. Accessed 13 December 2024 at https://legislation.nsw.gov.au/view/html/inforce/current/act-1916-002#sec.35B

7 Other costs

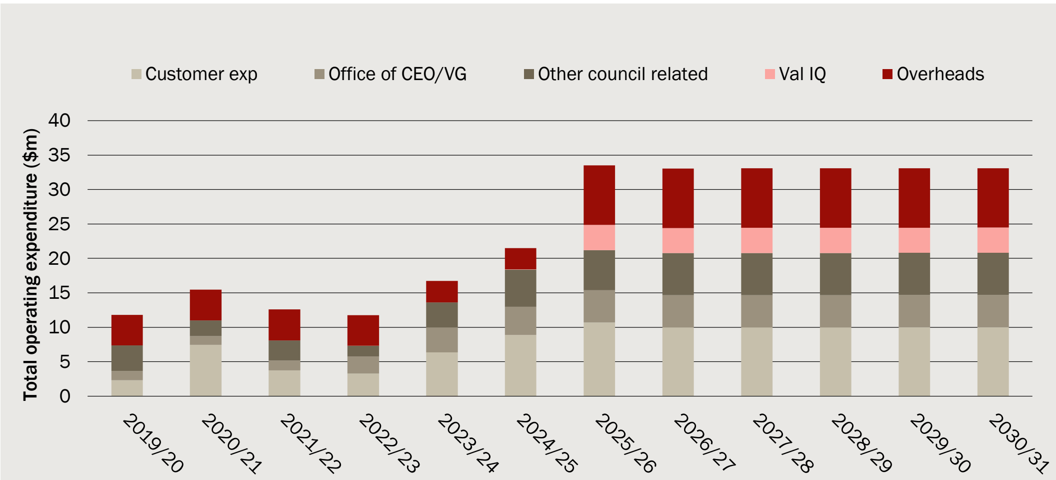
There are a range of other costs that would be partly recovered from councils and that are not covered by the mass valuation and objections chapters above. This includes:

- customer experience costs
- DCS corporate support and DPHI corporate support (including ICT costs)
- costs related to ValIQ
- the Office of the CEO/Valuer General, and
- other (such as graphic, rent, spatial, postage).

These costs are projected to increase substantially in real terms over the future price period compared to the historical average from 2019/20 to 2024/25 (chart 7.1). It is not always straight forward to align historical and future cost categories, so there may be costs that are allocated in different ways. Based on the allocation we have made, the largest real cost increases are:

- Overheads - which increase because the Valuer General has moved from the Department of Customer Service into the Department of Planning, Housing and Infrastructure, and faces a higher overhead charge as a result of this.
- [redacted]

7.1 Operational expenditure for other costs, 2019/20 to 2030/31 (2024/25$)



Note: $2024/25.

Data source: Value NSW cost model.

Note that costs that are not relevant to councils have not been examined in this review.

ICT (including ValIQ)

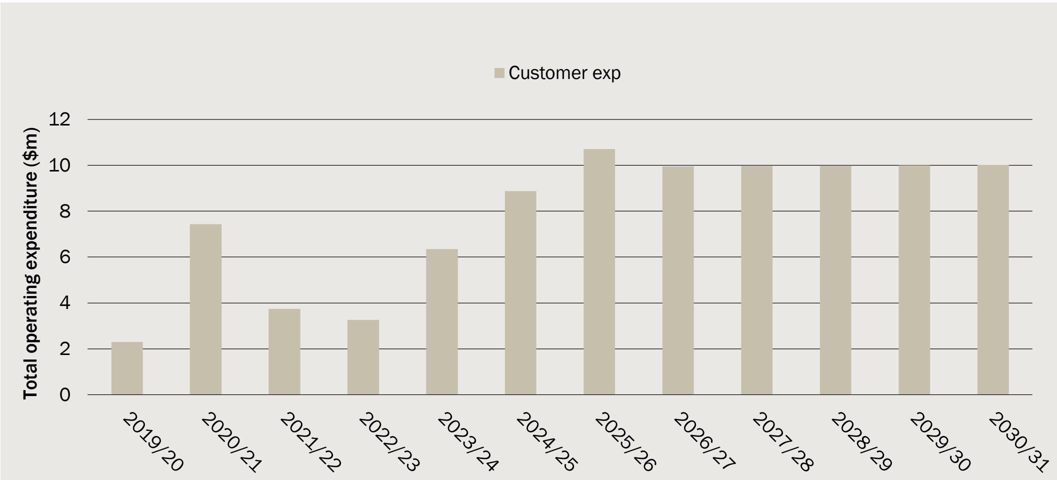
Value NSW has made a substantial investment into a new IT platform called ValIQ. There are large increases in operating costs associated with this. These are discussed further in chapter 8.

Other ICT costs, including non-valuation specific and enterprise software are included in corporate overheads.

Customer experience

Customer experience costs, which include how people access their land data and deal with the Valuer General, are projected to be substantially higher (chart 7.2). The increase in costs from 2024/25 onwards is reported by Value NSW to relate to the inclusion of postage costs and graphic services for general valuations to be posted each year, as well as increased labour costs related to higher salaries and additional FTE to meet higher demand for increasing objections. Forecast volumes for objections are not expected to increase over the referral period. Therefore, we find there is no basis for increasing costs related to the customer experience service area, above the allowance for increased property volumes (0.75 per cent per year).

7.2 Customer experience costs (2024/25$)



Note: $2024/25.

Data source: Value NSWValue NSW cost model.

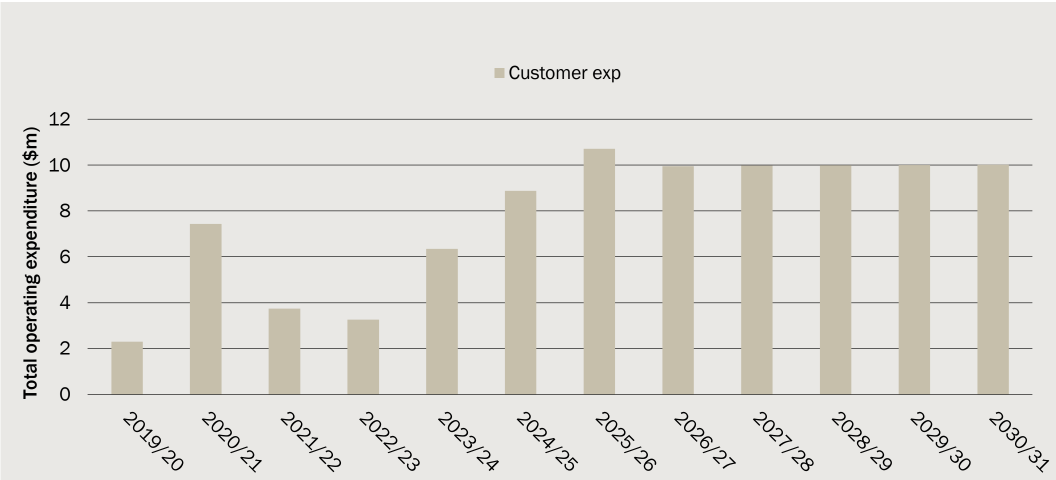
Overheads

Corporate overheads includes allocations from DPHI and DCS of costs related to office space, ICT support (general) and specific ICT related to Valnet (but not ValIQ, which we report on separately).

Overhead costs for the projection period increased substantially compared to the historical period (chart 7.3). We understand that this reflects:

- higher per FTE charges
- higher FTE counts to which the above charges apply, and
- higher ICT costs.

7.3 Overhead costs including ICT (2024/25$)



Note: $2024/25.

Data source: Value NSW cost model.

The overhead charges are costs that are sought from Value NSW by its overarching agency. Whether these are efficient is difficult to assess, as this would involve obtaining broader data on costs for these functions across DPHI. At this stage, we have included an increase in the overhead charges into the assessment of efficient cost, limited to the number of FTEs prior to the insourcing model being put in place.

8 Benchmarking of costs for valuation services

We have conducted benchmarking of the changes in costs for the NSW Valuer General and the level of costs against other Australian states and territories. Benchmarking results have to be considered carefully because:

- there may be different levels of competition in outsourced markets for valuation services across jurisdictions
- each jurisdiction has different valuation legislative requirements which affect cost inputs and overall pricing
- the coverage of activities undertaken is different. For example, in Victoria, valuations are done for unimproved value, capital improved value and net annual value. However, the Victorian Valuer General is not responsible for customer service in relation to objections or for sending out notifications
- the costs allocated specifically to valuation activities can differ. For example, corporate overhead costs or building rent costs may be allocated to valuation costs from some organisations and not others
- the cost drivers of valuation are different. A key cost driver evident in undertaking NSW valuations is economies of scale and metropolitan versus regional areas. This is also the case in other jurisdictions for which we have data.

The main conclusions from the benchmarking undertaken for this draft report are that:

- other jurisdictions have not experienced increases in valuation costs for contracts as high as those used by Value NSW in their projections of future costs
- NSW in 2023/24 had costs at the upper end of available benchmarks. The Value NSW submission has costs increasing by 39 per cent by the end of the period relative to 2023/24 costs, which would make NSW costs more of an outlier.

Note that the analysis here relies on some data made available by other organisations that is not allowed to be made public, that is not shown in this public report.

Data used

The data available and used for comparisons is shown in table 8.1

8.1 Data used for benchmarking

Jurisdiction	Data used
NSW	Total costs for 2023/24 across all activities in nominal terms

Jurisdiction	Data used
	Estimated contract costs for 2023/24 for mass valuations and objections, assuming all regions were covered by contracts. Note that some regions were brought in house in March 2024.
Victoria	Contract data for each council area on https://www.tenders.vic.gov.au/. Additional data for 2024 was provided by the Victorian Department of Transport. This data provides the estimated total cost over the contract period and the number of years of valuations covered. The data used covers 3201 contracts and comparisons over time can be made for 69 (of the 79) Victorian local government areas. Property numbers are from https://www.land.vic.gov.au/__data/assets/excel_doc/0025/712627/2024-Outcomes-Summary-Web-Version.xlsx
Western Australia	Western Australia reports an overall cost per property, as a key indicator for its budgets and for Landgate's Annual Reports. https://www.landgate.wa.gov.au/siteassets/documents/about-us/strategic-plans-and-annual-reports/landgate-annual-report-2023-24-.pdf https://www.ourstatebudget.wa.gov.au/2024-25/budget-papers/bp2/2024-25-wa-state-budget-bp2-vol2.pdf
Tasmania	Contract data from tenders.tas.gov.au. This data provides the estimated total cost over the contract period. The data covers 14 contracts. Property numbers are from https://www.futurelocal.tas.gov.au/council-data/

Source: As noted in table.

Comparison of services

A comparison of the services covered and way of operating across the jurisdictions for which we currently have data is shown in table 8.2.

8.2 Comparison of services

Jurisdiction	Notes on services
NSW	Valuations have historically been conducted through an outsourced model and now moving to a hybrid model. There are separate contracts for valuations and for objections. Valuations are conducted annually, and notices of valuations for rates are sent out every three years. The Valuer General is responsible for dealing with customers around objections and for issuing notices of valuation. Valuations are for unimproved value.
Victoria	Valuations are conducted through an entirely outsourced model. Contracts are tendered for each local government area individually. Contracts cover valuations, objections and supplementary valuations in the same contract. The Valuer General provides the valuations to councils and the State Revenue Office but does not deal directly with customers. Valuations cover site value (the same as unimproved value in NSW), capital improved value and net annual value.
Western Australia	Valuations are conducted through an entirely in-sourced model on an annual basis. Valuations are provided for unimproved values every year (the same as NSW) and for gross rental values on a rolling three year cycle for Perth and slightly longer cycle for other areas of the state.

Jurisdiction	Notes on services
Tasmania	Valuations are conducted through an entirely outsourced model. Contracts generally cover one local government area. Contracts cover valuations, objections and supplementary valuations in the same contract. Valuations are not undertaken annually, but on a six year cycle. Valuations cover site value (the same as unimproved value in NSW), capital improved value and net annual value.

Source: Consultations with Valuer Generals..

Changes in costs over time

The first step in our benchmarking has been to consider whether there have been significant changes in the costs of undertaking valuation activities over time in other jurisdictions. The aim of this is to understand whether [redacted] increases in costs proposed from Value NSW, both from contracts and evident in the overall submission, are consistent with the experience of other organisations.

Victoria

For Victoria, current contracts cover three tranches — those starting in 2022, in 2023 and in 2024. These then cover a three year period of undertaking valuations, objections and supplementary valuations. We have compared these contract values with previous contract value for the same area, adjusted for inflation.

Overall, there has been a wide variation in the change in costs for Victorian councils, and evidence of increasing costs specifically for those starting in 2024 but not for earlier contracts (table 8.3).

- Across the 28 contracts from 2024, there was a 17 per cent real increase in reported expected contract costs. The reported contract costs have allowed for increased contingencies as compared to normal because there have been higher than normal objection rates, which is a driver of the increase. The largest increases are for rapidly growing per-urban areas. Note that Victorian contracts cover mass valuation, objections and supplementary valuations. We do not know the increase across these components but do know that there has been an increase in expected objection rates allowed for by the Department of Transport in the contract estimates.
- Across the 30 contracts that commenced in July 2023, the total increase in annual costs in real terms was 3.8 per cent for the new contracts as compared to the previous contracts.
- For the 11 current contracts that began in July 2022, costs are actually lower, as many of these contracts were less expensive than the original contracts. We are less confident in this data, because the older contracts appear to have been extended in some cases and this could mean that the contract values reported cover more years than they appear to cover.

8.3 Changes in costs for Victorian contracts

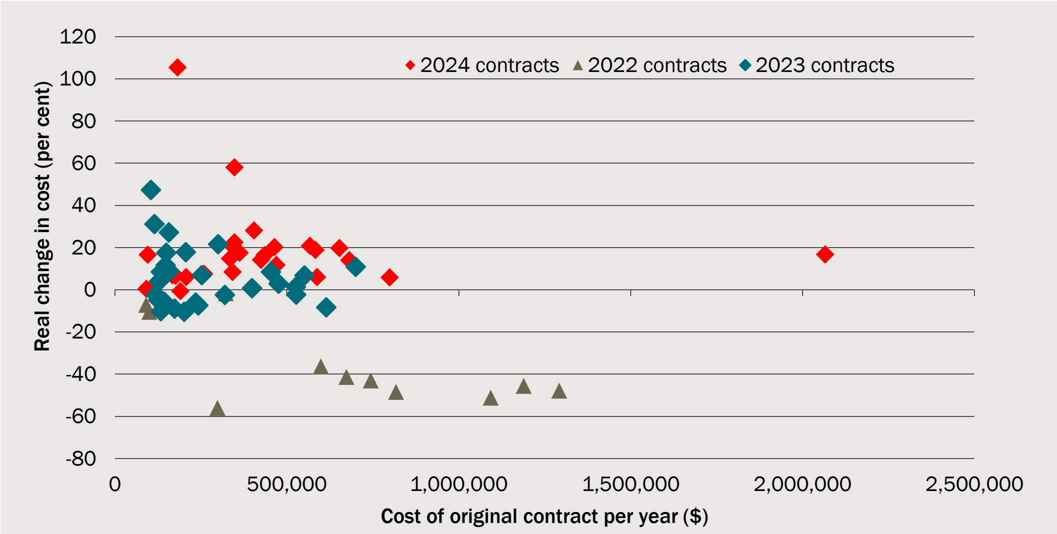
Real difference	Contracts commencing in 2022	Contracts commencing in 2023	Contracts commencing in 2024
Cost in new contract ($m/year)	4.8	9.7	16.2
Cost in old contract adjusted for CPI ($m/year)	8.4	9.4	13.8
Difference (%)	-43.2	3.8	17.3
Number of LGAs covered	11	30	28

Note: Costs include GST.

Source: The CIE, based on contract data extracted from https://www.tenders.vic.gov.au/.

Looking across the individual contracts, there has been a very wide variation in changes (chart 8.4). The largest increases were for Mitchell and Melton, which are rapidly growing peri-urban councils. Discussions with Department of Transport who administers the contracts indicates that this partly reflects actual increases and partly reflects increased contingencies included in the estimate. The increased contingencies are being included because of recent increases in objections volumes across the State, and the likelihood of this continuing due to newly introduced land tax assessment rules. Quite a few council contracts reduced in cost by up to 10 per cent from the 2023 contracts but there are few decreases from the 2024 contracts.

8.4 Cost changes adjusted for inflation for individual Victorian contract areas

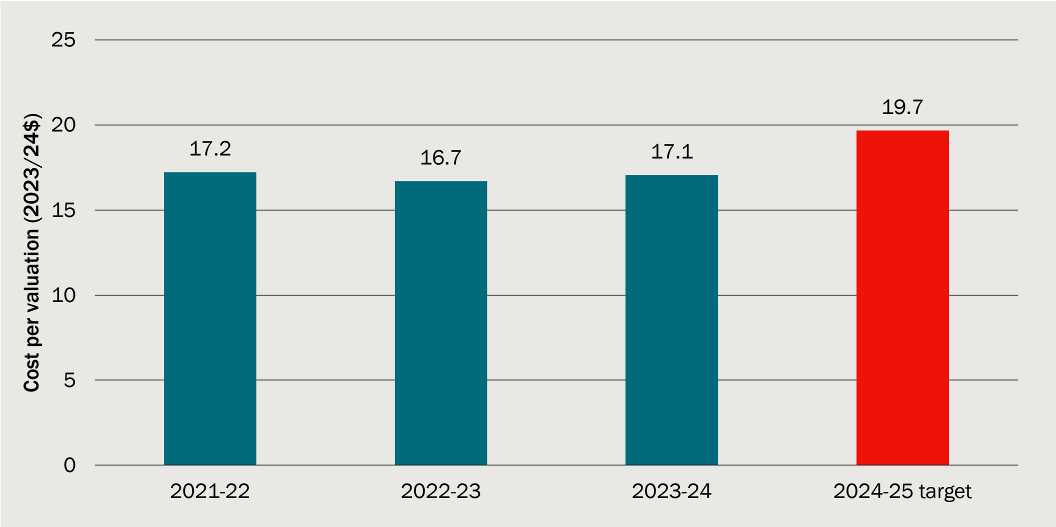


Data source: The CIE based on contract data extracted from https://www.tenders.vic.gov.au/ and provided by Victorian Department of Transport.

Western Australia

Western Australia reports on its actual total cost per valuation, which includes all costs (objections, corporate overheads, IT costs). Costs per valuation were fairly constant in real terms from 2021/22 to 2023/24. Budget costs in 2024/25 are 15 per cent higher in real terms. The budget paper notes that this is a result of higher software-as-a-service costs related to the implementation of the new Valuation Services system.[18] Consultations with the WA Valuer General indicated that their main cost pressures were coming from IT, changes to the treatment of rent and other corporate overheads.

8.5 Real costs per valuation for Western Australia



Data source: The CIE, based on https://www.landgate.wa.gov.au/siteassets/documents/about-us/strategic-plans-and-annual-reports/landgate-annual-report-2023-24-.pdf and https://www.ourstatebudget.wa.gov.au/2024-25/budget-papers/bp2/2024-25-wa-state-budget-bp2-vol2.pdf.

Tasmania

Tasmania operates on a six-yearly cycle of valuations. This means that there is a very long period between valuations of a given area. For this reason we have not examined changes over time. We have included a comparison of Tasmania's cost level. This is very high, partly reflecting that valuers are typically travelling from Melbourne to undertake valuations.

Comparisons of levels of costs

We have also compared the costs per property for 2023/24, both for the contract costs (which we have included contracts for objections and valuations) and for total costs. As noted above, benchmarking has to be considered carefully because of the differences in activities and inclusions and different standards for valuation activities.

- The NSW Valuer General is somewhat above other jurisdictions costs per assessment, both just considering contract costs for outsourced contracts and for total costs.
  - The exception is Tasmania. Tasmania typically contracts to Melbourne-based forms who then have to fly to Tasmania to undertake valuations. There are also few economies of scale as an area is only valued once every six years instead of annually as in NSW and Victoria.

18 https://www.ourstatebudget.wa.gov.au/2024-25/budget-papers/bp2/2024-25-wa-state-budget-bp2-vol2.pdf.

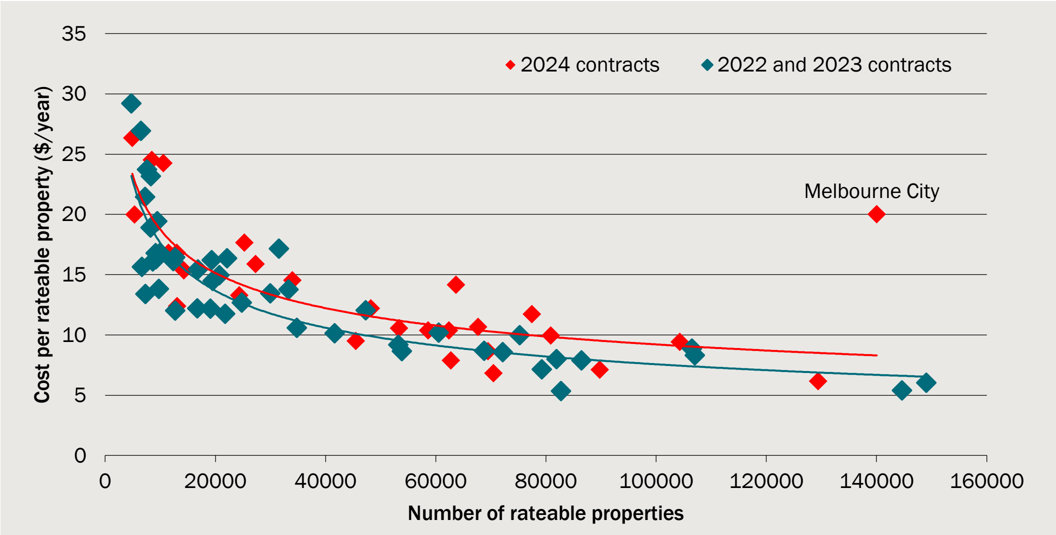
  - The current differences are within a range of uncertainty about the scope of services covered.
- With the proposed cost increases in the Value NSW submission, the NSW costs in total would increase [redacted] beyond current cost benchmarks by the end of the proposal period to over $30 per property assessed.
- It is surprising that NSW is above the costs for Victoria for contract costs, given that:
  - Victorian contracts are tendered for individual local government areas, and both NSW and Victorian data suggests considerable economies of scale (chart 8.7)
  - Both seek tenders through a competitive process
  - Differences include that the Victorian contracts cover valuations, supplementary valuations and objections in the same contract, while NSW contracts objections separately. Victorian contracts also require valuation of unimproved value, capital improved value and net annual value, which should make its costs higher.
  - There are likely to be other varying quality requirements across the contracts, which make it difficult to compare costs, without also considering standards, which is not possible with the information available.

8.6 Comparisons of costs per property for 2023/24

	Contract costs	Total costs	Notes for contract costs	Notes for total costs
	$/assessment	$/assessment		
Victoria	9.6		Includes objections and supplementary valuations, only covers published contracts	NA
WA		17.1		Includes all costs, including overheads
Tasmania	25.2			
NSW	12.6	19.9	Some valuations brought in house last quarter 2023/24 – we have used anticipated price assuming all are outsourced	Costs increase [redacted] from 2023/24
NSW 2026/27		30.90		

Source: The CIE, based on data set out above.

8.7 Costs per property for Victorian contracts



Data source: The CIE based on contract data extracted from https://www.tenders.vic.gov.au/.

9 *Impact of technology and other changes on efficient costs*

Value NSW's submission represents a substantial cost increase from current costs of providing services. As part of our scope, the CIE has consulted with organisations involved in providing similar services about the prospects of technology changes leading to reductions in the costs of providing services. We have also considered efficiency gains from other investments and operating changes being made by Value NSW.

Our main conclusions are that:

- technology using automated valuation models are on the horizon but are not at the level of accuracy and transparency that these organisations expect they could be used for rating and taxing purposes currently. Expectations of when this might occur would be towards the end of the six-year period proposed by Value NSW
- the expected efficiencies of activities and operational changes that are being undertaken by Value NSW are not fully reflected in the proposed costs:
  - the move to a hybrid model was expected to lead to reduced costs. This is not evident in the proposed cost model
  - Val IQ was expected to lead to reduced costs. This is also not evident, and potentially the cost reductions expected from this investment will not materialise.

Automated valuation models (AVMs)

Automated valuation models are techniques to link characteristics of a property with land values without the need for any manual valuer input. Ultimately for these models to be used would require:

- a detailed set of characteristics about land
- a detailed set of data on sales and the size and quality of buildings captured in sale data
- a mechanism for linking the above (i.e. a 'model') that would then generate land values for each property automatically.

Initial consultations have suggested that this is common for valuations used by banks for mortgages, as well as online property websites. Examples of companies with AVMs include CoreLogic AVM,[19] Value Australia[20] and Proptrack.[21] Our understanding is

19 https://www.corelogic.com.au/our-data/automated-valuation-model-avm.

20 https://www.value-australia.com.au/valuations-platform

21 https://www.proptrack.com.au/products/automated-valuation-model/ .

that the NSW Valuer General was a part of the research collaboration that led to the creation of Value Australia.

While the valuations organisations in Australia that we have consulted with to date have not used AVMs for rating and taxation, these appear to be being used in other jurisdictions to some degree.

- A 2019 survey of members of the International Association of Assessing Officers found about half used AVMs in their organisations, particularly for detached residential properties using linear regression[22]
- The Royal Institute of Chartered Surveyors notes widespread use of AVMs, particularly for residential properties and lending, but also for mass valuation for rating and taxing.[23]
- Baum et al 2021 notes AVMs being used for tax purposes by the Northern Ireland Valuation and Lands Agency (NIVLA) and the Rating and Valuation Department for the Hong Kong SAR Government (RVDHK)[24]
- The NSW Valuer General has previously noted that there has been uptake of AVMs in New York, British Columbia, the Netherland, counties in the USA (such as Washington County, Pennsylvania, Cobb County, Georgia and Franklin County, Ohio) and the Municipal Property Assessment Corporation in Ontario, Canada.[25]

In the context of land values, there has been research on the performance of AVMs in Australia. For example, Peyman et al 2024 evaluated four alternative models in Melbourne.[26] They found the best performing model has a mean average percentage absolute error relative to current land valuations of 14 per cent. However, these models appear to have been trained on existing land data, while to be useable in the long term they would need to be trained on sales data.

Consultations with Valuer Generals to date indicate that some regularly provide their data to research groups that are seeking to develop AVMs. The main concerns from Valuer Generals are that:

- the level of accuracy of AVMs is currently too low for use in rating and taxing

---

22 https://www.lincolninst.edu/publications/working-papers/2019-survey-use-automated-valuation-models-avms-in-government-assessment/

23 https://www.rics.org/content/dam/ricsglobal/documents/standards/april_2022_automated_valuation_models_insight.pdf

24 https://www.sbs.ox.ac.uk/sites/default/files/2022-03/FoRE%20AVM%202022.pdf

25 https://www.parliament.nsw.gov.au/ladocs/other/15733/Valuer%20General%20of%20NSW.pdf

26 Peyman Jafary, Davood Shojaei, Abbas Rajabifard, Tuan Ngo, Automated land valuation models: A comparative study of four machine learning and deep learning methods based on a comprehensive range of influential factors, Cities, Volume 151, 2024, https://doi.org/10.1016/j.cities.2024.105115.

- the ability to defend a valuation through an objections process, and to ensure fairness for property owners, will need to be ensured for uptake of any AVMs. This would require that the AVMs are transparent in terms of the basis of the assessment.

It was not expected that these hurdles would be overcome in the immediate future, but that they would be overcome in the medium term (six years plus).

Private valuation businesses and industry bodies were also relatively hesitant in terms of near-term uptake of AVMs for use in rating and taxing valuations. This reflected concerns such as transparency and accuracy.

There are technology providers who are actively seeking to build what they can offer for government valuation, such as Value Australia. We have not reviewed the accuracy of such products and do not have data on what costs might be for using these products instead of current mass valuation approaches. Note that the cost savings from moving from individual property valuations to AVMs are much larger than moving from mass valuations to AVMs. In the mass valuation space, AVMs may be used to improve accuracy and also to undertake quality assurance activities.

In our view, for unimproved land values it will be difficult for technology providers to prove that they are more accurate than the current approaches, because land values are rarely observed directly as transactions are for land and capital.

Specific Value NSW investments in efficiency

Value NSW has also made specific investments or operational changes related to improving efficiency.

- Value NSW has brought some of the valuation activities in-house in order to reduce costs.
- Value NSW is developing ValIQ. The Val IQ project aims to transform the way Value NSW Value NSWhandles rating and taxing (R&T) by building a new system to support both mass valuation and in-house valuations. This will streamline operations, improve data security, and ensure smooth integration with external contractors.

Insourcing of valuations and objections

The estimate of the impact of this for the first four areas brought in-house, was a reduction in the cost compared to currently contracts.

Based on the analysis shown in chapter 4, these savings are either no longer expected or are not included in the projected costs. [redacted] However, this is not evident in total as costs increase.

In our view it is reasonable to base efficient costs on contracted costs. Contracting for mass valuation and objection activities was subject to competitive pressures. In-house costs and levels of performance will not be subject to the same competitive pressures and will have a high chance of costs increasing well beyond efficient levels.

It would be useful for Value NSW and IPART to have a system that can provide comparisons of previous costs for contracts and the performance of in-sourcing over time.

ValIQ

ValIQ is the IT platform that would replace the current ValNet system used by Value NSW. The new system has objectives relating to both efficiency and improvements for customers/users (table 9.1).

9.1 Proposed outcomes of ValIQ relevant for IPART's review

Service	Efficiency-related	Non-efficiency related
Rating and taxing	Improved efficiency: Automating tasks will save time, reduce mistakes, and speed up the valuation process. Cost savings: Streamlining workflows will lower operational costs and improve the speed of service delivery.	Scalable solution: The system will be better equipped to manage the large volume of properties in NSW without affecting performance.
Objections		Transparency and fairness: The system ensures that objections are handled fairly and transparently, improving public trust. Better customer service and faster response times: Automating workflows allows for quicker handling of objections, improving customer satisfaction
Contractor management	Cost control: By automating contractor management, the system reduces administrative costs and ensures contractors meet expectations.	Quality assurance: It helps maintain high-quality work by monitoring contractor performance, ensuring that only qualified professionals are handling valuations.

Source: Value NSW.

In future cost projections for the Value NSW submission, ValIQ appears to have additional operating costs, resulting in an increase in IT system operating costs. The lack of overall efficiency savings from ValIQ appears inconsistent with its expected outcomes. However, it is consistent with experience from other jurisdictions such as WA and is expected to provide other benefits outside of efficiency impacts.

10 Allocation of costs to councils and across councils

Valuation services provided to councils are legislated to be provided by Value NSW, who are a monopoly service provider. As a result, the price charged by Value NSW to councils is regulated by IPART, to recover the efficient costs of valuation services.

Valuation services for the same properties are provided to councils for rating and Revenue NSW for land tax determinations. As a result, the costs of mass property valuations are split between the two entities. The costs for other valuation services provided by Value NSW, such as for compulsory acquisitions, are ringfenced from the costs to councils.

There are various methodologies that could be applied to determine the appropriate allocation between councils and Revenue NSW. The choice of method will depend on:

- what historical time period is most appropriate
- what metric is most appropriate for estimating future costs, and
- what is the projected level of activity for councils and Revenue NSW.

Overall, we consider the proposed allocations by Value NSW to be reasonable and consistent with the approach used in the previous IPART decision.

Cost allocation methodology

Value NSW propose to allocate costs between councils and Revenue NSW across the service delivery areas related to valuation for rating and taxing, as well as a share of indirect costs (table 10.1).

10.1 Value NSW council cost allocation methodology

Service Delivery Area	Councils	Revenue NSW	Rationale
Rating and Taxing	25%	75%	Costs allocated based on frequency of councils' (one every three years) versus Revenue NSW's (three every three years) general valuation lists
Rating and Taxing In House Valuations	25%	75%	Costs allocated based on frequency of councils' (one every three years) versus Revenue NSW's (three every three years) general valuation lists
Objections	50%	50%	Value NSW confirmed the use of the 'last 3 year average' split between councils and Revenue NSW as it is indicative of current business operations and the trend is expected to continue.

Service Delivery Area	Councils	Revenue NSW	Rationale
Customer Experience and Land Data	50%	50%	Land Data management team is devoted to undertaking supplementary valuations, with effort split 50:50 between councils and Revenue NSW. The customer experience team can be allocated based on objections split. Therefore the split of the customer experience and land data team should be the split 50:50.
Other indirect costs			Other indirect costs have been allocated to the other areas based on FTE in each area

Source: Value NSW

Rating and taxing

The costs attributable to the rating and taxing service delivery area have been apportioned 25 per cent to councils and 75 per cent to Revenue NSW. This is based on councils requiring a valuation every three years, while Revenue NSW require a valuation annually. Over a three year cycle, this results in one valuation for Councils, and three valuations for Revenue NSW, totalling four valuation activities of which one is attributable to councils (25 per cent).

This approach differs from the previous determination as all costs attributed to rating and taxing, as opposed to just mass valuation costs, have been allocated.

An alternative method to calculate the attributable share is to consider that in year 1, valuation costs are split equally between councils and Revenue NSW, with the successive two years fully attributable to Revenue NSW. This results in councils being responsible for half of one third of the costs – a sixth, while Revenue NSW is responsible for 5/6ths of the cost. This method was suggested by the City of Sydney council in the 2019 price determination submission[27].

As acknowledged in the 2019 price determination, there are arguments for adopting an allocation anywhere between 16.7 per cent (as argued by the City of Sydney), and 50 per cent (split equally between the two main users of general valuation lists). IPART previously outlined that the lower bound estimate was not appropriate as:

- even though most councils only receive a general valuation list every third year, the preparation of those lists in other years also produces some benefits to councils, and
- the Valuer General can issue a new general valuation list to any council if necessary. If councils were the only user of the Valuer General's valuation services, the mass valuation costs required to prepare the general valuation lists under this scenario would almost certainly be higher than one sixth of the total under current mass valuation costs.

Based on this analysis, we consider the allocation proposed by Value NSW to be a reasonable allocation.

27 IPART (2019), Review of prices for land valuation services provided by the Valuer General to council, page 43. https://www.ipart.nsw.gov.au/sites/default/files/documents/final-report-review-of-prices-for-land-valuation-services-provided-by-the-valuer-general-to-council-from-1-july-2019-28-may-2019.pdf

Objections

The cost for objections has been apportioned as 50 per cent to councils and 50 per cent to Revenue NSW. The rationale for this apportionment is based on an average of the number of objections for previous three years. This approach is partially consistent with the previous determination, where the average was based over a period of ten years.

The choice of timeframe and objection metric can lead to varying results for the objection cost allocation share.

Using objection volumes as a measure leads to differing shares of general and land tax objections, depending on the time period chosen.

A more appropriate measure would be to review total objections costs. Total costs follow a similar trend to objections volumes.

Based on our analysis of confidential objection data, we consider the allocation proposed by Value NSW to be a appropriate.

Customer experience

The customer experience and land data team costs have been proposed to be apportioned on a 50:50 basis between councils and Revenue NSW. This is based on the expectation that:

- supplementary valuations will be undertaken with a 50:50 split between councils and Revenue NSW, and
- work related to objections will be split 50:50.

This approach is consistent with the previous determination, with the only change being that the full cost of the team (labour, ICT, overheads etc) will be allocated, as opposed to just FTE expenses. We consider the allocation proposed by Value NSW to be a reasonable allocation.

Costs related to postage and graphic services have been completely allocated to councils. These costs total $1.9 million in 2025/26. We consider the allocation proposed by Value NSW to be a reasonable allocation.

THE CENTRE FOR INTERNATIONAL ECONOMICS
www.TheCIE.com.au