Independent Pricing and Regulatory Tribunal
New South Wales

Review of prices for land valuation services provided by the Valuer General to councils

From 1 July 2019

Draft Report
Local Government

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The Independent Pricing and Regulatory Tribunal (IPART)

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Tribunal Members

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Mr Ed Willett

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Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by 24 April 2019

We would prefer to receive them electronically via our online submission form <www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission>.

You can also send comments by mail to:

Review of prices for land valuation services provided by the Valuer General to councils
Independent Pricing and Regulatory Tribunal
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Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au> as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may choose not to publish a submission - for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.

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1 Executive summary

1.1 What are we reviewing?

The Independent Pricing and Regulatory Tribunal of NSW (IPART or 'we' or 'our') is reviewing the maximum prices the Valuer General can charge councils for the provision of land valuation services.[1]

The Valuer General provides land valuation services to local government ('councils') for rating purposes. The income generated from rates comprises the main revenue source for councils to fund infrastructure and services in their local government areas.

IPART last set the maximum prices the Valuer General can charge councils in May 2014. These prices applied from 1 July 2014 to 30 June 2019 (the 2014 determination period).

The Premier wrote to IPART in October 2018 and requested a new price determination or determinations, so that determined maximum prices take effect from 1 July 2019 (the 2019 determination period). The Terms of Reference (ToR) for this review are included at Appendix A.

We received a pricing submission from the Valuer General on 30 November 2018.[2] We also received a revised pricing submission from the Valuer General on 27 March 2019,[3] which reflected updated mass valuation contract costs and hence contained updated proposed prices.

This Draft Report, which accompanies a Draft Determination, explains our draft decisions on prices that the Valuer General can charge councils for valuation services, as well as key aspects of this price review including:

- The Valuer General's total efficient costs
- The allocation of monopoly service costs to councils, and
- The pricing framework, including the structure of prices the Valuer General can charge councils.

We are seeking submissions from stakeholders on the Draft Report and Draft Determination. We will consider stakeholder feedback before making our Final Determination in May 2019. Details on how to make a submission are provided on page ii at the front of this report. The closing date for submissions is 24 April 2019.

1 The land valuation services provided to councils are 'government monopoly services'. The Valuer General also provides valuation services for taxation purposes and other specialist and private valuation services, which are not monopoly services. Chapter 2 provides more detail on the role of the Valuer General.

2 NSW Government, *Review of prices for land valuation services provided by the Valuer General to councils*, Submission to IPART by the Valuer General, 30 November 2018 (Valuer General submission, November 2018).

3 NSW Government, *Revision of the Valuer General's pricing submission on 30 November 2018*. Submission to IPART by the Valuer General, 27 March 2019 (Valuer General revised submission, March 2019).

1.2 Overview of the Draft Determination

1.2.1 The 2019 determination period

We have made a draft decision to adopt a single 6-year determination period. This aligns with that posed by the Valuer General. The period matches the contract length of a key component of the Valuer General's costs and we consider that the other costs are relatively stable.

1.2.2 Prices

Our draft prices for valuation services are lower than those proposed in the Valuer General's submission provided in November 2018 and in the revised submission we received in March 2019 (the 'revised submission' or the 'March submission'). During our review, the Valuer General concluded a mass valuation contract procurement process, which resulted in savings of 2.0% of the proposed operating costs. We updated the Valuer General's proposed costs when considering the efficiency of costs.

We have made a series of draft decisions which affect prices as shown in Table 1.1. In the March submission, the Valuer General proposed a 1.1% increase in average annual prices over the 2019 determination period compared to the 2014 determination period. We estimate our draft prices over the 2019 determination period will be 4.6% lower than the 2014 determination period.[4]

Table 1.1 IPART's draft decision on the Valuer General's maximum charges to councils ($/valuation, $2018-19)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
IPART's draft decision							
Country	5.87 for residential	7.42	7.42	7.42	7.42	7.42	7.42
Coastal	12.91 for non-residential	6.32	6.32	6.32	6.32	6.32	6.32
Metro	across all NSW councils	5.83	5.83	5.83	5.83	5.83	5.83
City of Sydney		12.07	12.07	12.07	12.07	12.07	12.07
Valuer General's proposed prices[a]							
Country	As above	7.87	7.87	7.87	7.87	7.87	7.87
Coastal		6.70	6.70	6.70	6.70	6.70	6.70
Metro		6.18	6.18	6.18	6.18	6.18	6.18
City of Sydney		12.79	12.79	12.79	12.79	12.79	12.79

a The Valuer General's prices are based on the revised submission of 27 March 2019 as noted below.

Source: Valuer General revised submission, March 2019 and IPART calculations.

4 'Prices' in this context refers to the councils' share of NRR per valuation that is recovered by the Valuer General.

1.2.3 Notional Revenue Requirement

In setting our draft prices for the 6-year determination period, we aimed to ensure that the Valuer General could recover the share of efficient costs, or notional revenue requirement (NRR), that is attributable to providing valuation services to councils.

We determined that the Valuer General's NRR for providing valuation services to all customers (including customers other than councils, such as Revenue NSW) is $56.2 million per year, on average. This is 0.5% higher than the Valuer General's proposal of $55.9 million per year. However, as outlined below, we have allocated a lower share of the Valuer General's NRR to councils than what was proposed by the Valuer General.

Our draft decision on the average annual NRR is $6.0 million (or 12.0%) higher than we used to set prices at the 2014 determination.

Forecast operating expenditure

Our draft decision is to include an average of $52.2 million per year for forecast operating expenditure in the NRR, which is $0.5 million (or 1.0%) less per year than the Valuer General proposed. Three operating expenditure items make up around 83% of the Valuer General's operating costs - labour, mass valuation contracts and other valuation contracts.

In February 2019, the Valuer General, through Property NSW, finalised the procurement of mass valuation contracts for the next six years. This has resulted in a reduction in forecast mass valuation contract costs across the 2019 determination period of $6.3 million, or 4.9%, compared to the Valuer General's November 2018 pricing proposal.

Offsetting this to some extent, we have made a decision to delay a $2 million reduction in mass valuation contract costs in 2024-25 arising from cost savings from the commissioning of Valnet III[5]. This is the outcome of our draft decision to set prices based on a deferral of proposed capital expenditure on Valnet III by one year (see below).

Historical and forecast capital expenditure

Our draft decision is to include the Valuer General's actual historical capital expenditure of $3.5 million over 2014-15 to 2018-19 in the regulatory asset base (RAB). Our draft decision is to include $27.4 million of forecast capital expenditure in the RAB over the 2019 determination period, which is $0.4 million lower than that proposed by the Valuer General.

The majority of the proposed capital expenditure ($23.5 million) is focussed on an update of the Valuer General's current valuation database and platform, Valnet II, which is 18 years old. We consider that there are risks that the actual implementation of Valnet III may take longer than proposed. Our draft decision on efficient capital expenditure is to assume that Valnet III is deferred for a year, by re-phasing the entire Valnet III capital expenditure profile.

The overall effect of our draft decision increases the Valuer General's average annual NRR by $0.05 million once the deferred expected operating cost saving of Valnet III is also taken into account.

[5] The valuations ICT system holding the Register of Land Values.

Weighted average cost of capital

Our draft decision on the WACC is 3.5%, compared to the Valuer General's proposed WACC of 5.1%. This decision reduced the Valuer General's proposed average NRR by $0.3m per year.

Working capital

Our draft decision is to set a working capital allowance of $1.6 million per year, which is higher than that proposed by the Valuer General of $0.1 million. Our draft decision is based on the Valuer General using an annual billing cycle and councils being provided payment terms of 30 days to pay the invoice upon receipt.

This increases the allowance for a return on working capital as a proportion of the average annual NRR from 0.2% (under the Valuer General's proposal) to 2.9%.

1.2.4 Our cost allocation approach is different

The change in prices is largely driven by our draft decisions on the share of the Valuer General's NRR allocated to councils.

The Valuer General provides valuation services to two major customers; councils for rating purposes, and Revenue NSW for taxing purposes. As we are only setting prices for services to councils, we need to determine what share of these costs should be allocated to, and recovered from, councils via regulated prices.

For the 2019 Determination, the Valuer General has proposed allocating 32.6% of costs to councils.[6]

We have assessed each of the Valuer General's cost items, and sought to identify the impactor causing the costs to be incurred. In total, we have allocated 30.1% of the Valuer General's total NRR (or efficient costs) to councils.

After allocating 30.1% of the total NRR to councils, the councils' average annual share of the NRR is around $16.9 million per year. This is around $1.3 million (or 6.9%) lower than it would be under the cost share proposed by the Valuer General.

1.2.5 The structure of prices is different to the 2014 determination

In line with the Valuer General's proposal, our draft decision is to set zone-specific prices for the following four geographical zones:

- Country
- Coastal
- Metro
- City of Sydney.

6 The Valuer General proposed a 32.5% cost allocation to councils in the original November 2018 proposal and subsequently adjusted this to 32.6% in February 2019 as indicated in the revised submission of March 2019.

This is a change from the current 2-price structure, one for residential properties and one for non-residential properties, uniformly applied across all councils. There is no robust evidence to support the existing residential/non-residential price structure or differential. The new zonal approach has the advantage of allowing prices to reflect the market-determined valuation contract costs of different areas, while ensuring there is sufficient aggregation to minimise price volatility over time.

1.2.6 Impact of draft decisions on councils

Our draft prices would result in an average $9,800 (or 8.9%) decrease in the bills paid by 102 councils in 2019-20 compared to what the estimated bill is for 2018-19. Conversely, 26 councils would pay a higher bill in 2019-20, with an average bill increase of around $14,000 (or 7.7%). We note that this average bill increase falls to around $9,000 (or 4.9%) when we remove the City of Sydney. Valuation costs would continue to represent a very small proportion of councils' total costs.

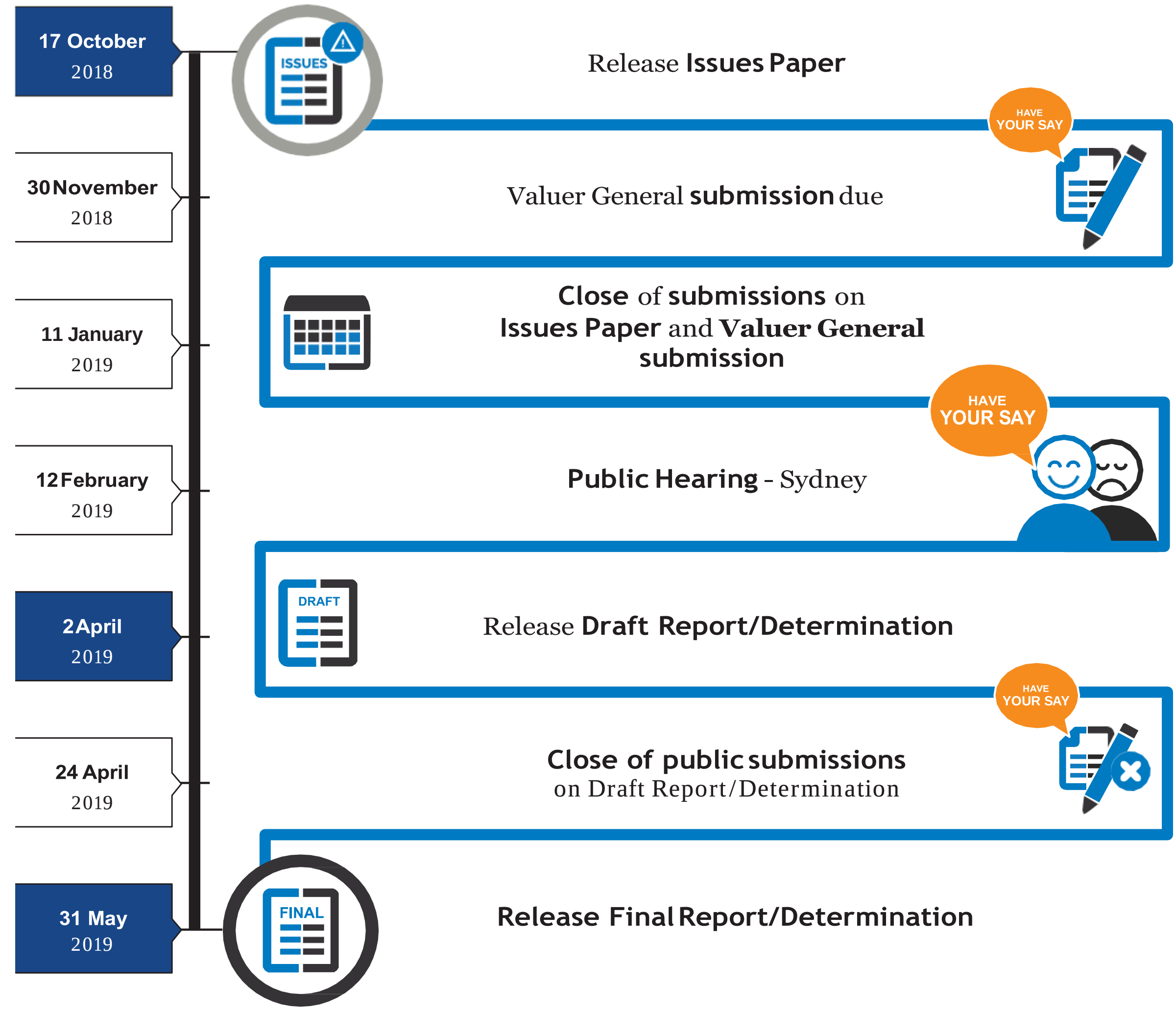
1.3 Our process for this review

For this review, we have conducted our own research and analysis and sought and considered stakeholder views on our Issues Paper and the Valuer General's submission as well as feedback received at the Public Hearing conducted in February 2019.

This Draft Report sets out our draft decisions and provides information about how we reached our draft decisions. We invite submissions from all interested parties, and will consider these submissions before making our final decisions in late May 2019.

Submissions to this Draft Report are due by 24 April 2019.

Figure 1.1 Timeline for this review



1.4 Structure of this report

The following chapters provide more information on this review, discuss in detail how we reached our draft decisions and how these compare to the Valuer General's pricing proposal:

- Chapter 2 outlines the key context for the review.
- Chapter 3 discusses our draft decisions on the length of the determination period and the method we used to calculate the Valuer General's NRR over this period.
- Chapter 4 explains our draft decisions on the key inputs for calculating the NRR, including forecast efficient operating expenditure, historical and forecast capital expenditure to be included in the RAB, the allowances for a return on assets and regulatory depreciation (return of assets), tax and working capital.
- Chapter 5 discusses our draft decisions to recover the councils' share of the Valuer General's NRR.
- Chapter 6 outlines our draft decisions on prices and price structure.
- Chapter 7 explores the impact our draft prices have on councils' bills.

1.5 List of draft decisions

1 Adopt a single 6-year determination period from 1 July 2019 to 30 June 2025. 18

2 Set the Valuer-General's notional revenue requirement for land valuation services provided for rating and taxing purposes for the 2019 determination period at $337.3 million as shown in Table 4.1. 24

3 Set the efficient level of the Valuer-General's operating expenditure for the 2019 determination period at $313.0 million as outlined in Table 4.4. 26

4 Accept the Valuer General's actual capital expenditure of $3.5 million over the 2014 determination period as prudent, as shown in Table 4.9. 30

5 Set the efficient level of the Valuer General's capital expenditure for the 2019 determination period at $27.4 million, as shown in Table 4.10. 30

6 Reduce the RAB by $3.4 million, the value of total asset disposals over the 2014 determination period as set out in Table 4.13, with forecast asset disposals for the 2019 determination period of zero. 34

7 Adopt a real post-tax WACC of 3.5% for the purposes of calculating the allowance for a return on assets, which included: 35

– A gearing ratio of 45% and an equity beta of 0.45 35

– Market observations (cost of debt and market risk premium), based on the February 2019 bi-annual market update 35

– A current cost of debt based on six-year transition to a trailing average. 35

8 Apply a regulatory true-up in the following determination period to account for annual changes in the cost of debt. 35

9 Set an allowance for a return on assets for the 2019 determination period at $1.6 million as shown in Table 4.1. 36

10 Calculate regulatory depreciation using a straight line depreciation method for each asset class, applying the asset lives set out in Table 4.15. 36

11 Set an allowance for a return of assets for the 2019 determination period at $11.3 million as shown in Table 4.1. 36

12 Set a tax allowance for the 2019 determination period at $1.9 million as shown in Table 4.1. 37

13 Set an allowance for a return on working capital for the 2019 determination period at $9.8 million as shown in Table 4.1. 38

14 Reduce the Valuer General's notional revenue for revenue from minor users for the 2019 determination period at $0.3 million as shown in Table 4.1. 38

15 Not allocate any fixed costs to minor users of the Valuer General's land valuation services. 40

16 Allocate 30.1% of the Valuer General's notional revenue requirement to councils. 41

17 Adopt the Valuer General's proposed zonal pricing structure, with a price per property applied to councils within four geographical zones (Country, Coastal, Metro and City of Sydney). 47

18 Set prices for the 2019 determination period as shown in Table 6.1. 47

19 Adopt the Valuer General's forecast number of valuations shown in Table 6.3 as the basis for setting prices, based on a per annum growth of 0.7% in the number of properties. 48

2 Context for the review

The purpose of this review is to determine the maximum prices that the Valuer General can charge for the provision of valuation services to local government ("councils").

This chapter provides context for our draft decisions. The sections below:

- Outline the regulatory framework for IPART's review
- Explain the Valuer General's role and services including those provided to councils
- Outline key developments since our 2014 Determination of the Valuer General's prices and impacts from these changes, and
- Provide an overview of the Valuer General's submission.

2.1 Regulatory framework and process

In 1993, the Government declared two services provided to councils as government monopoly services:

> "Furnishing valuation lists and supplementary lists under Part 5 of the *Valuation of Land Act 1916* by the Valuer-General to a council of an area under the *Local Government Act 1993*"

IPART has set prices for these services since 1994 and these were last determined in 2014. In 2018, the Premier requested IPART to set the maximum prices for the monopoly services provided by the Valuer General to councils to apply from 1 July 2019 for a 6-year period. We are conducting this review under section 12 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act).[7]

The ToR for this review ask us to:

- Identify the Valuer General's full efficient economic costs of providing the monopoly services over the determination period or periods
- Develop an efficient, effective and transparent pricing framework for the monopoly services
- Consider the Valuer General's efficient costs of providing the monopoly services over the relevant determination period or periods
- 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
- Consider the scope for the Valuer General to achieve efficiency savings in providing the monopoly services
- Specify the duration of the relevant determination period or periods

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7 IPART has a standing reference under Section 11 and Schedule 1 of the IPART Act to determine prices for Government agencies that provide monopoly services. We do not have a standing reference for determining the Valuer General's charges to councils but can be requested by the Premier to do so under Section 12 of the IPART Act.

- Take into account any other matters considered relevant.

Our full ToR are listed at Appendix A. In making this determination, we are also required to consider a range of matters under section 15 of the IPART Act as listed at Appendix B.

We will not set prices for other land valuation services the Valuer General provides, as these are not government monopoly services. This review also does not address issues with the land valuation system itself, such as the methodology used for valuations. However, in the sections below we provide some background on the methodology used to determine land values as this influences the Valuer General's costs of undertaking land valuations.

In undertaking this review, we aim to balance the diverse needs and interests of stakeholders, while ensuring that the Valuer General's efficient costs of services are recovered.

2.2 The Valuer General's role and services

2.2.1 The Valuer General oversees the land valuation system

The Valuer General is an independent statutory officer appointed by the Governor of New South Wales to oversee the State's land valuation system.[8] The Valuer General sets the standards for the provision of a valuation system to meet the needs of various users, which include landowners, members of the public, ratepayers, land tax clients and state and local government.

The Valuer General's role is to:[9]

- Exercise functions with respect to the valuation of land in the State
- Ensure the integrity of valuations
- Keep a Register of Land Values, which must contain information on ownership, occupation, title, location, description, area, and value of the land.[10]

2.2.2 Governance and accountability

The Valuer General reports administratively to the Minister for Finance, Services and Property and the Secretary of the Department of Finance, Services and Innovation (DFSI).[11]

The independence of the Valuer General ensures a clear separation between the impartial land valuation process and how state and local government use the valuations for levying rates and taxes, or for determining compensation following the compulsory acquisition of land.

8 The statutory functions of the Valuer General are set out in the *Valuation of Land Act 1916* (VoL Act). See also http://www.valuergeneral.nsw.gov.au/about_us, accessed 4 October 2018.

9 Section 8 of the VoL Act.

10 Section 14CC of the VoL Act.

11 NSW Government, *Valuer General Governance and accountability*, accessed 19 February 2019 from http://www.valuergeneral.nsw.gov.au/about_us/governance_and_accountability

The Office of the Valuer General (OVG) is a small team of about seven people, but the Valuer General can delegate functions under the *Valuation of Land Act*, 1916 (the VoL Act)[12] and enter into valuation service contracts for the provision of valuation services.[13]

The Valuer General has delegated operational functions to Valuation Services (a business unit within Property NSW, DFSI).

Property NSW provides a range of valuation services on behalf of the Valuer General, including the provision of information to stakeholders, managing valuation contracts and the objection review process, maintaining the Register of Land Values, determining compensation and the development of operational procedures.[14]

Other bodies that have a role in the governance of the valuation system include:

- The Joint Standing Committee on the Office of the Valuer General, which monitors and oversees the functions of the Valuer General and reports to the NSW Parliament.
- The Land Valuation Advisory Group, comprising representatives from valuation industry groups and stakeholders. The focus of the group is to monitor and improve the quality of land valuations and provide advice to the Valuer General on the application of mass land appraisal techniques.
- The Valuation Joint Steering Committee, which comprises the Valuer General, the Executive Director of Valuation Services and representatives from the Office of the Valuer General and Property NSW. The VJSC coordinates senior management planning and oversight of the valuation system.[15]

The governance and administrative arrangements for the Valuer General are presented in Figure 2.1.

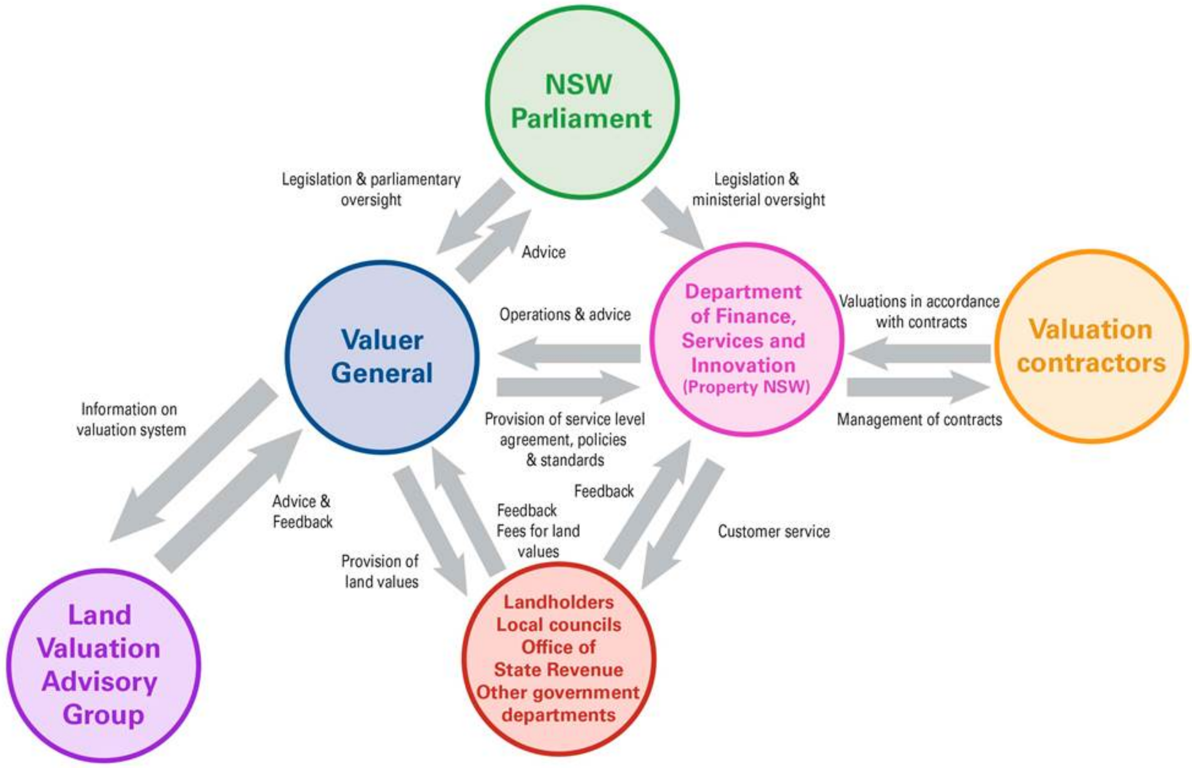
12 Under section 8 of the VoL Act, the Valuer General may delegate any functions conferred or imposed on him to any other person.

13 Section 13A of the VoL Act.

14 http://www.valuergeneral.nsw.gov.au/about_us/valuation_system_management, accessed 19 February 2019.

15 Valuer General submission, November 2018, pp 17-18.

Figure 2.1 Governance and accountability



Source: NSW Government, Valuer General *governance and accountability*, accessed on 20 February 2019 from http://www.valuergeneral.nsw.gov.au/about_us/governance_and_accountability

2.2.3 What valuation services does the Valuer General provide?

The Valuer General provides valuation services to councils for rating purposes, which are government monopoly services. It also provides other land valuation services which are outside the scope of this review. The full range of valuation services provided by the Valuer General includes:

- Land values for rating and taxing purposes
- The determination of compensation following the compulsory acquisition of land
- An objections and appeals process against valuations, and
- Specialist/private valuations and property advice to government.

Valuation of land for council rates and land tax

The main purpose for assessing and recording values of land is to enable the levying of taxes (eg, land taxes), rates (eg, council rates), and duties by the State and local governments.

The Valuer General must issue land values to councils for rating purposes at least once every three years.[16] These land values are fixed for rating purposes until new land values are issued

16 Section 48 of the VoL Act.

to the council. The Valuer General must also issue a Notice of Valuation to the landowner or any person liable to pay a rate or tax in respect of the land.[17]

Land values are also provided each year to Revenue NSW for the calculation of land tax under the *Land Tax Management Act 1956* (NSW).[18] We do not regulate the prices of these services and, as noted, remove the costs of providing these services from the revenue requirement before setting prices for councils (see Chapter 4).

Those who receive a Notice of Valuation have a right of objection to the valuation by the Valuer General. They have a further right to appeal to the Land and Environment Court if they are dissatisfied with the results of the objections process.[19] The costs associated with the objection process (and any revaluation required) are included in prices, as this process forms part of the land valuation service provided to councils.

This review is only concerned with the prices of the Valuer General's valuation services to councils.

Compensation for compulsory acquisitions and other valuations

State and local government agencies may compulsorily acquire land for a range of purposes. If a settlement cannot be negotiated between the acquiring authority and landowner, the Valuer General is to determine, in accordance with the *Land Acquisition (Just Terms Compensation) Act 1991 (NSW)*, the amount of compensation to be offered.[20]

The Valuer General may make a valuation of land at the request of any person.[21] Private brokers and the general public are charged on a fee-for-service basis.

Other government agencies that use the Valuer General's services include:

- **Fire and Rescue NSW**: to set levies on the insurance industry and local councils.
- **NSW Government agencies**: various agencies, including Roads & Maritime Services and NSW Crown Lands, use valuations for the calculation of leases (rental of Government property).
- **Commonwealth Grants Commission:** uses land valuations to assist in the allocation of Commonwealth grants between States and Territories.

These valuations are charged on a fee-for-service basis. They are not declared government monopoly services and therefore we do not regulate prices for them.

17 Section 29 of the VoL Act.
18 Section 48 of the VoL Act.
19 Part 4 of the VoL Act.
20 Section 68 of the VoL Act.
21 Section 9A of the VoL Act.

2.3 The Valuer General uses a mass valuation approach

Most land in New South Wales is valued using a mass valuation approach, where properties are valued in groups called components.[22] The properties in each component are similar or expected to reflect changes in value in a similar way.

Representative properties in each component are individually valued as at 1 July each year to determine how much the land value has changed from the previous year.[23] The change is applied to all properties in the component to determine new land values. Sample valuations are checked to confirm the accuracy of the new values.[24]

Property sales are the most important factor considered when determining land values. Valuers analyse sales of both vacant land and improved properties, making adjustments for the added value of improvements.[25] Finding a comparable sales base can be difficult for certain, more specialised property types.[26]

Capital improvements to the land are excluded from land valuations. When comparing property sales to the land being assessed, valuers consider factors such as:

- The most valuable use of the land
- Zoning, heritage restrictions or other use constraints
- Land size, shape and features such as slope and soil type, and
- Nearby development and infrastructure.[27]

Our review does not address the integrity of land valuations or how they are used (ie, as the basis for *ad valorem* rates for councils).

2.4 Key developments since the 2014 Determination

This section summarises our understanding of the key developments since making our 2014 determination of the Valuer General's prices to councils.

2.4.1 Valuation services is now part of Property NSW

As noted, the Valuation Services unit was transferred from Land and Property Information (LPI) to Property NSW in 2016. However, as LPI is still within the DFSI cluster, the

22 NSW Government, *Valuer General, Valuation Method*, accessed on 20 February 2019 from http://www.valuergeneral.nsw.gov.au/land_values/valuation_method
23 Section 14B of the VoL Act.
24 NSW Government, *Valuer General, Valuation Method*, accessed on 20 February 2019 from http://www.valuergeneral.nsw.gov.au/land_values/valuation_method, accessed on 20 February 2019.
25 NSW Government, *Valuer General, Valuation Method*, accessed on 20 February 2019 from http://www.valuergeneral.nsw.gov.au/land_values/valuation_method
26 Hefferan, M.J. & Boyd, T, 2010, '*Property taxation and mass appraisal valuations in Australia – adapting to a new environment*', *Property Management*, vol. 28, no. 3, p 9.
27 NSW Government, *Valuer General, Valuation Method*, accessed on 20 February 2019 from http://www.valuergeneral.nsw.gov.au/land_values/valuation_method

appropriation of costs in relation to overheads is still the same and we are not aware of any material change in the costs incurred from the move.[28]

2.4.2 Timing of land valuations for councils

Amendments to the VoL Act in 2017 required the Valuer General to provide new valuations to all local councils at least once every three years (in lieu of the previous four years) and removed the discretion to extend the period between valuations for rating, if the market was inactive.[29]

In 2017, the Valuer General also implemented a common valuation cycle to provide all council valuations on the same day, every three years, to meet the then requirements of the *Fire and Emergency Services Levy Act 2017.* While implementation of the Fire and Emergency Services Levy was postponed,[30] the Valuer General noted that any outstanding costs of implementing the Levy were absorbed through additional state government funding.[31]

2.4.3 Service level enhancements

The Valuer General's submission noted that during the current determination period, a number of systems, processes and customer quality enhancements were implemented within Valuation Services, including:

- The ability for customers to update mailing addresses online to receive Notices of Valuation
- Improved reporting capabilities for objections and decreased time taken to quality assure objections
- Online feedback functionality
- Post call customer satisfaction survey
- Open data feed for land values, which improves access to data by customers
- Automated notice of valuation cleansing.[32]

The Valuer General also noted that there will be ongoing quality improvements to the operations of the valuations as part of business as usual operations during the referral period. However, the valuation system remains largely unchanged in terms of methodology and framework since the last price determination.[33]

28 IPART, Transcript of Public Hearing on Review of Maximum Prices for the Valuer General's land Valuation Services to Councils (Public Hearing Transcript), held on 12 February 2019, p 19.
29 NSW Government, *NSW Valuer General Annual Report 2016-17*, p 21.
30 The implementation of the Fire and Emergency Service Levy (FESL) was postponed in May 2017. Nevertheless, the Valuer General has maintained the common valuation cycle implemented in 2017.
31 Public Hearing Transcript, p 5.
32 Valuer General submission, November 2018, pp 41-42.
33 Valuer General submission, November 2018, p 21.

2.5 Overview of the Valuer-General's submission

The Valuer General provided IPART with a Pricing Submission on 30 November 2018. The submission included a proposal for a 6-year determination period, with the option to submit a supplementary review of prices at any point in the determination period if there are significant cost changes.

For the 2019 determination period, the Valuer-General proposed a total Notional Revenue Requirement (NRR) that was 12.7% higher in 2019-20 (the first year of the 2019 determination period) than the NRR forecast in 2018-19 (the last year of the previous determination period).[34]

The Valuer-General stated that increases in forecast operating costs are largely driven by increases in mass valuation and objection contract costs.

The forecast capital expenditure over the 6-year period was $27.84 million, focussed on two significant new business transformation upgrades, including an upgrade of Valnet II (the valuations ICT system holding the Register of Land Values).

Under the Valuer-General's 30 November 2018 proposal, the proportion of the total NRR allocated to councils was 32.5%, which is lower than the 34% allocated in the 2014 determination.

The Valuer General has proposed a change in price structure for the 2019 determination period with a move from the current state-wide uniform pricing model (which has one state-wide price for valuing residential properties and another state-wide price for valuing non-residential properties), to a model that varies price by geographical zone but has a single price within each zone. That is, to date, prices have been uniform across the state, except there were different prices for residential and non-residential property valuations; whereas the Valuer General has now proposed that prices vary by geographic zone, but there be no distinction in price between residential and non-residential properties.

In February 2019, the Valuer General informed IPART of the outcomes of a new procurement and tendering process, which has resulted in new mass valuation contract costs that are significantly lower than estimated in the November 2018 submission. At the same time, the Valuer General revised the proposed cost allocation to councils to 32.6%. The outcome from the new procurement process is a reduction in proposed prices for Country and Coastal zones, but an increase for Metro and City of Sydney zones compared to prices proposed by the Valuer General in November 2018.[35]

Table 2.1 shows the Valuer General's proposed prices in November 2018 and revised in February 2019 to account for the revised mass valuation costs provided to IPART. The Valuer General proposed that these prices be indexed by inflation over the upcoming determination period.

34 IPART calculations based on Valuer General submission, November 2018.
35 Valuer General revised submission, March 2019, p 6.

Table 2.1 Valuer General’s proposed prices – November 2018 and February 2019 ($ per valuation, $2018-19)

Zone	Prices – November 2018	Prices – February 2019
Country	8.24	7.87
Coastal	6.92	6.70
Metro	6.06	6.18
City of Sydney	12.71	12.79

Source: Valuer General submission, November 2018, p 77 and Valuer General revised submission, March 2019, p 6.

3 Approach to setting prices

For this review, we first decided on the length of the determination period.

We then used our standard 'building block' approach to calculate the Valuer-General's total NRR for providing land valuation services for rating and taxation purposes over this period.

We then determined the portion of this revenue required by the Valuer-General to service councils (ie, land valuation services for rating purposes only). Finally, we converted this council share of the Valuer General's NRR into prices.

The following sections provide an overview of our price-setting approach and discuss these decisions in more detail, including:

- The length of the determination period
- Our approach to determining the notional revenue requirement, and
- Our approach to converting the notional revenue requirement into prices.

3.1 Length of the determination period

We have made a draft decision to:

1 Adopt a single 6-year determination period from 1 July 2019 to 30 June 2025.

In accordance with our ToR, we were requested to undertake a new determination or determinations to set the maximum price for valuation services provided by the Valuer-General to councils, to apply for a period of six years, from 1 July 2019 (Referral Period).

The Valuer General's preference is for a single 6-year determination, which sits within the valuation tender period and the cycle for council rating. The Valuer General believes that the required expenditure can be reasonably accurately forecast over the next six years.[36]

Overall, most stakeholders are supportive of a single 6-year determination period, as it is simpler and less resource intensive to have one determination in 6 years (rather than multiple). Some councils preferred two 3-year determination periods over the referral period.[37]

Box 3.1 lists the factors that we consider when deciding on the appropriate length of a determination period.

[36] Public Hearing Transcript, p15
[37] Public Hearing Transcript, p14

Box 3.1 Factors we consider in deciding on the length of a determination period

In general, the factors we consider when deciding the length of a determination period are:

- The confidence we have in the utility's or agency's forecasts
- The risk of structural changes in the industry
- The need for price flexibility and incentives to increase efficiency
- The need for regulatory certainty and financial stability
- The timing of other relevant reviews, and
- Stakeholders' views.

Longer determination periods have several advantages over shorter periods. For example, a longer period: provides greater stability and predictability (which may lower a utility's business risk and assist investment decision making); creates strong incentives for a utility to increase efficiency; and reduces regulatory costs.

However, longer determination periods also have disadvantages. These include: increased risk associated with using inaccurate data to set prices; possible delays in customers benefitting from any efficiency gains; and the risk that changes in the industry will impact the effectiveness of the determination.

Based on IPART's draft decision, the Valuer General's efficient level of operating expenditure makes up around 93% of the Valuer General's notional revenue requirement (discussed in Chapter 4). Actual operating expenditure was relatively stable in the 2014 Determination period. Also, mass valuation contracts have recently been established across 18 contract areas, with a term of five years with an option to extend for an extra year. This provides a very high level of certainty for the 40% of the Valuer General's forecast operating costs devoted to these contracts. We note that there is some uncertainty around forecast capital expenditure. However, forecast capital expenditure impacts for around 4% of the Valuer General's NRR over the 6-year 2019 determination period, which means the risks of prices being too high or low as a result of changes to capital expenditure over the period are low.

Our draft decision is to adopt a 6-year determination period. However, under section 12 of the IPART Act and our ToR, we retain the ability to make a new determination or determinations at our discretion during the Referral Period.[38]

3.2 Approach to determining the notional revenue requirement

The notional revenue requirement represents our view of the Valuer-General's full, efficient costs of providing land valuation services for rating and taxing purposes for each year of the determination period.

[38] Under the ToR and Section 12 of the IPART Act.

We have used the building block approach to calculate the Valuer-General's notional revenue requirement over the determination period. In doing so, we made draft decisions on the revenue the Valuer-General will require in each year of the period, including:

- An **allowance for efficient operating and maintenance expenditure** over the period. This amount represents our view of the Valuer-General's forecast efficient operating, maintenance and administration costs.
- An **allowance for a return on the assets** used to provide the regulated services. This amount represents our assessment of the opportunity cost of the capital invested in the Valuer-General's operations by its owner, and ensures that it can continue to make efficient investments in capital in the future.
- An **allowance for a return of assets (regulatory depreciation)**. This allowance recognises that through the provision of services to customers, a business's capital infrastructure will wear out over time and, therefore, revenue is required to recover the cost of maintaining the Regulatory Asset Base (RAB).
- An **allowance for meeting tax obligations**. This allowance is our estimate of the tax liability for a comparable commercial business to the Valuer General, to reflect the full efficient costs the Valuer General would incur if it were operating in a competitive market. This is consistent with the principle of competitive neutrality.[39]
- An **allowance for working capital**. This allowance is included to ensure that the Valuer General can recover the holding costs incurred due to delays between delivering services and receiving payment for those services.[40]

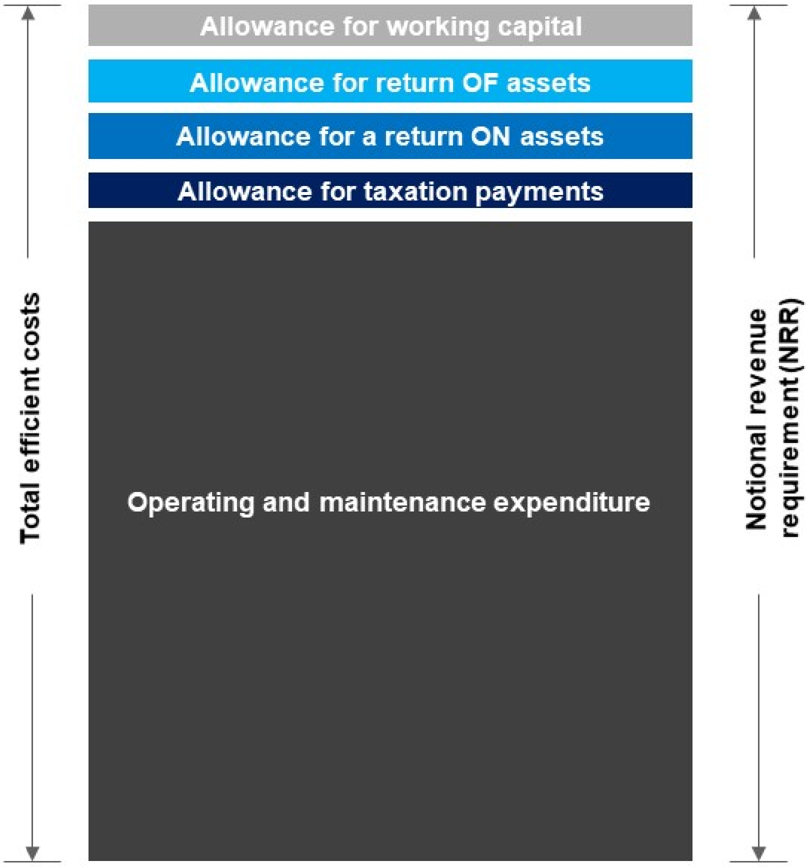
In setting prices, we aim to replicate, as closely as possible, competitive markets. Fully cost reflective pricing is important in ensuring the optimal use and allocation of resources across society. It is also important in ensuring that government owned businesses do not experience any advantage or disadvantage compared to private businesses.

The sum of these building block estimates represents our view of the Valuer-General's total efficient costs (or notional revenue requirement) over the determination period (see Figure 3.1).

39 This approach to pricing monopoly services is consistent with the principle of 'competitive neutrality'. Through the Competition Principles Agreement (1995), the Australian and all State and Territory Governments have agreed to implement competitive neutrality policies as part of the National Competition Policy reform package. 'The objective of competitive neutrality policy is the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: Government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership.' Source: *Competition Principles Agreement – 11 April 1995 (As amended to 13 April 2007*, *section 3 (1))*, available at: https://www.coag.gov.au/about-coag/agreements/competition-principles-agreement).

40 IPART, Working Capital Allowance, Policy Paper, November 2018.

Figure 3.1 IPART's building block approach



Note: diagram not to scale

3.3 Approach for converting the notional revenue requirement into prices

Once we determine the Valuer General's NRR for the determination period, we then converted that requirement into prices for councils. To do this, we made a number of draft decisions, including:

- Allocating a portion of the Valuer General's total NRR to councils.
- Calculating the target revenue (to be recovered from councils) each year. This target revenue is equal to the councils' share of the Valuer General's total NRR in Net Present Value (NPV) terms, which is smoothed over the determination period to produce a stable price path for customers.
- Determining an appropriate price structure and setting prices accordingly, to recover the target revenue (ie, the councils' share of the Valuer General's NRR).

These decisions are outlined in detail in Chapters 4, 5 and 6.

We also considered the potential impact of prices on the Valuer General and councils. Our consideration of the potential impacts of our pricing decisions are outlined in Chapter 7.

4 Revenue requirement

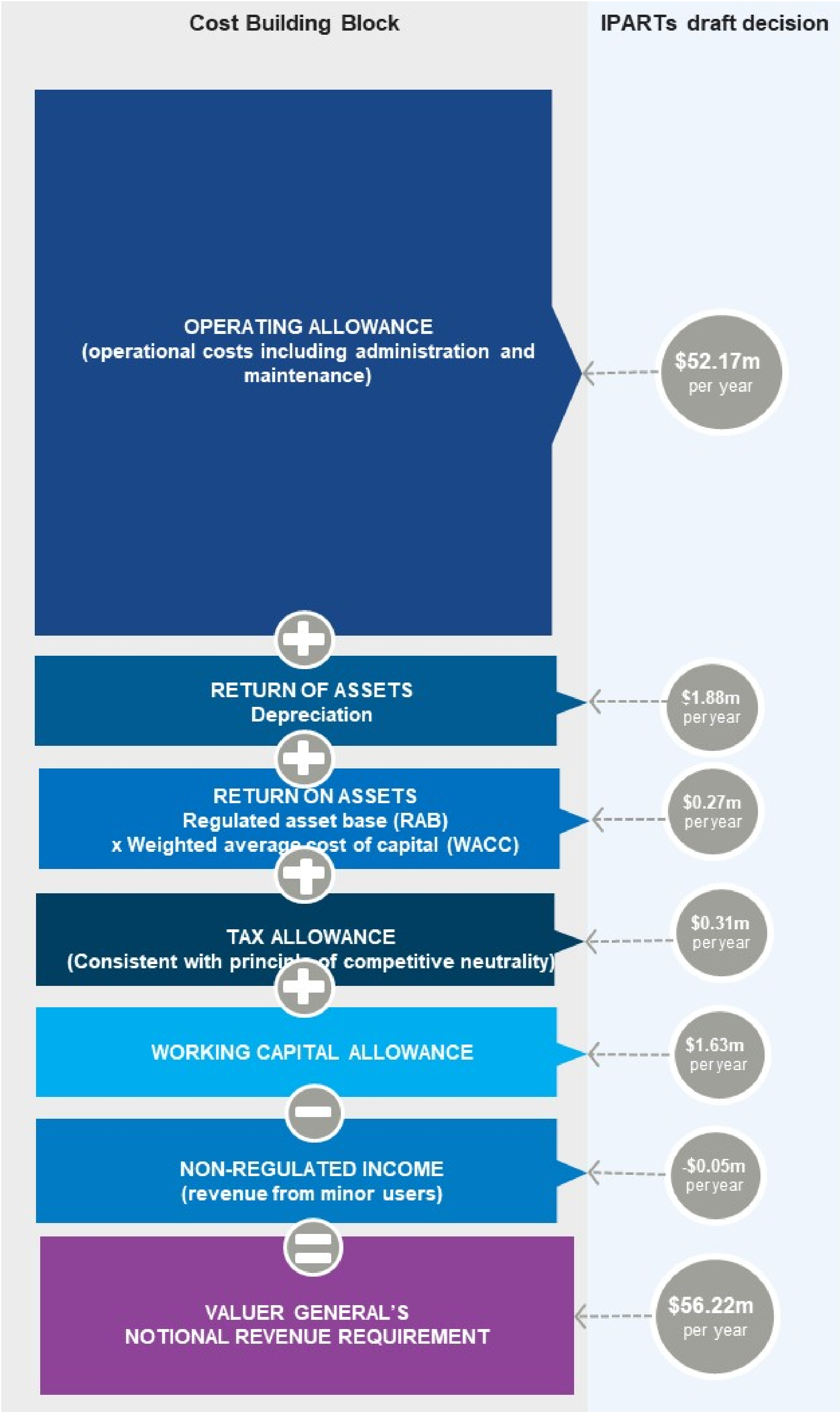
As described in Chapter 3, we used a building block approach to calculate the Valuer General's NRR in each year of the determination period. In this chapter, we outline our draft decisions on each building block component, including allowances for:

- Operating expenditure
- Return on assets
- Return of assets (regulatory depreciation)
- Meeting tax obligations, and
- Return on working capital.

Figure 4.1 shows our draft decision on each of the building block components. It also shows that we have subtracted the non-regulated income (the revenue from the minor users of the valuation services) to calculate our draft decision on the Valuer General's NRR.

Note that in Chapter 4, we use the Valuer General's 30 November 2018 Submission for comparison.

Figure 4.1 **IPART's draft decision on the Valuer General's average annual allowance on the key building block components**



Source: IPART analysis.

4.1 Notional revenue requirement

We have made a draft decision to:

2 Set the Valuer-General's notional revenue requirement for land valuation services provided for rating and taxing purposes for the 2019 determination period at $337.3 million as shown in Table 4.1.

Table 4.1 IPART's draft decision on the Valuer General's NRR ($'000, $2018-19)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Average annual	Total (over 6 years)
Valuer General's November submission								
Operating Expenditure	54,509	51,769	51,923	54,701	52,649	50,527	52,680	316,078
Return of assets (Depreciation)	971	1,684	2,598	2,821	2,689	2,739	2,250	13,502
Return on assets	226	563	1,009	1,156	1,056	944	826	4,954
Return on working capital	103	74	88	132	130	125	109	652
Tax allowance	23	40	66	83	91	105	68	408
Notional Revenue Requirement	**55,832**	**54,130**	**55,684**	**58,893**	**56,614**	**54,441**	**55,932**	**335,594**
IPART's draft decisions								
Operating Expenditure	53,501	50,735	50,869	54,889	51,591	51,448	52,172	313,034
Depreciation (regulatory)	888	1,078	1,635	2,344	2,641	2,714	1,883	11,300
Return on assets	-84	-33	169	475	574	507	268	1,608
Return on working capital	1,576	1,565	1,550	1,712	1,677	1,675	1,626	9,755
Tax allowance	263	270	286	340	353	365	313	1,877
Revenue Requirement	***56,144***	***53,615***	***54,510***	***59,760***	***56,837***	***56,709***	***56,262***	***337,574***
Less: other revenue from minor users	46	46	46	46	46	46	46	275
Notional Revenue Requirement	**56,098**	**53,569**	**54,464**	**59,714**	**56,791**	**56,663**	**56,217**	**337,299**

Source: Valuer General submission, November 2018, Table 6-1; and IPART analysis.

Table 4.2 below compares our draft decision on the total NRR over the six years of the 2019 Determination period with that proposed by the Valuer General. Our draft decision is $1.7 million (or 0.5%) higher than proposed by the Valuer General.

Table 4.2 IPART's draft decision compared to the Valuer General's proposed total NRR from 2019-20 to 2024-25 ($million, $2018-19)

Building block component	Valuer General's proposal	IPART's draft decision	Difference	Difference %
Operating Expenditure	316.1	313.0	-3.0	-1.0%
Depreciation (regulatory)	13.5	11.3	-2.2	-16.3%
Return on assets	5.0	1.6	-3.3	-67.5%
Return on working capital	0.7	9.8	9.1	1,396.1%
Tax allowance	0.4	1.9	1.5	360.1%
Less: revenue from minor users	0.0	0.3	0.3	-
Notional Revenue Requirement	**335.6**	**337.3**	**1.7**	**0.5%**

Note: Totals may not some due to rounding**.**

Source: Valuer General submission, November 2018, Table 6-1; and IPART analysis.

Our draft decision on the average annual NRR is $6.0 million (or 12.0%) higher than we used to set prices at the 2014 Determination, as shown in Table 4.3 below.

Table 4.3 Valuer General's average annual NRR – IPART's draft decision vs 2014 Determination ($'000, $2018-19)

Building block component	2014 Determination	IPART's draft decision	Difference	Difference %
Operating Expenditure	47,278	52,172	4,894	10.4%
Depreciation (regulatory)	489	1,883	1,394	285.0%
Return on fixed assets	2,225	268	-1,957	-88.0%
Return on working capital	142	1,626	1,484	1,047.9%
Tax allowance	66	313	247	376.4%
Other: less other revenue from minor users	-	46	46	-
Notional Revenue Requirement	**50,200**	**56,217**	**6,017**	**12.0%**

Note: Totals may not sum due to rounding**.**

Source: IPART analysis.

This increase is mainly due to an:

- Average annual increase of $4.9 million (or 10.4%) in efficient operating expenditure
- Average annual increase of $1.4 million (or 285.0%) in depreciation due to a significant increase in the size of the RAB, and
- Average annual increase of $1.5 million (or 10.5x) on the return on working capital, which contributes to a higher tax allowance of $0.2m (or 3.8x)

The sections that follow outline our considerations in reaching the draft decisions on the notional revenue requirement, including the Valuer-General's submission, stakeholder comments, and our own analysis and conclusions.

4.2 Operating expenditure

We have made a draft decision to:

3 Set the efficient level of the Valuer-General's operating expenditure for the 2019 determination period at $313.0 million as outlined in Table 4.4.

Table 4.4 IPART's draft decision on operating expenditure compared to Valuer General's proposed ($million, $2018-19)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Valuer General Proposed – Nov 2018	54.5	51.8	51.9	54.7	52.6	50.5	316.1
IPART's draft decision	**53.5**	**50.7**	**50.9**	**54.9**	**51.6**	**51.4**	**313.0**
Difference	-1.0	-1.0	-1.1	0.2	-1.1	0.9	-3.0
Difference %	-1.8%	-2.0%	-2.0%	0.3%	-2.0%	1.8%	-1.0%

Source: Valuer General submission, November 2018, Table 6-1; and IPART analysis

Our draft decision on the Valuer General's efficient operating expenditure is 1% lower than proposed by the Valuer General.

4.2.1 The Valuer- General's operating expenditure for the 2014 Determination period

The Valuer General's actual operating expenditure over the 2014 Determination period was 4.7% higher than we used to set prices. Table 4.5 below compares the actual operating expenditure with our forecasts over the 2014 Determination period.

Table 4.5 Comparison of the Valuer General's actual operating expenditure versus IPART's 2014 decided over the 2014 Determination period ($'000, $2018-19)

	2014-15	2015-16	2016-17	2017-18	2018-19[a]	Total
Total operating expenditure						
Actual	46,981	50,113	49,935	50,508	49,998	247,535
IPART decided	47,278	47,278	47,278	47,278	47,278	236,390
Difference	-297	2,835	2,657	3,230	2,721	11,146
Difference (%)	-0.6%	6.0%	5.6%	6.8%	5.8%	4.7%
Councils' share of total operating expenditure						
Actual	15,756	17,113	18,311	16,895	15,970	84,046
IPART decided	16,074	16,074	16,074	16,074	16,074	80,372
Difference	-318	1,039	2,237	821	-104	3,674
Difference (%)	-2.0%	6.5%	13.9%	5.1%	-0.6%	4.6%

a 2018-19 figures are forecasts.

Source: Valuer General Information Return, November 2018; IPART, *Review of prices for land valuation services provided by the Valuer-General to councils – From 1 July 2014 to 30 June 2019,* Final Report, May 2014, p 29; IPART analysis.

Key drivers of higher operating expenditure over the 2014 determination period were:

- Other valuation contracts (44% higher)
- Labour costs (4.5% higher), and
- Mass valuation contracts (1.3% higher).[41]

The Valuer General proposed an increase in both the total and council share of operating expenditure over the 2019 Determination period. The proposed average annual operating expenditure is around $5.4 million (or 10.4%) higher than what we used to set prices in 2014.

4.2.2 The Valuer-General's proposed operating expenditure for the 2019 Determination period

The Valuer General has proposed operating expenditure set out in Table 4.6 below over the 2019 Determination period.

Table 4.6 Valuer General's proposed operating expenditure by item for the 2019 Determination period ($millions, $2018-19)

Item	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Average	% of total
Labour	17.3	17.5	17.1	16.3	16.5	16.1	16.8	32%
Mass valuation contracts	20.5	21.0	21.5	22.2	22.7	21.2	21.5	41%
Other valuation contracts	6.5	5.2	5.0	6.6	5.3	5.1	5.6	11%
Postage	1.9	0.1	0.1	1.2	0.1	0.1	0.6	1%
Rent	1.3	1.3	1.3	1.3	1.4	1.4	1.3	3%
Other direct costs	1.5	1.4	1.4	1.5	1.4	1.4	1.4	3%
Property NSW corporate	1.7	1.7	1.7	1.7	1.7	1.7	1.7	3%
Other corporate costs	1.0	1.0	1.0	1.0	1.0	1.0	1.0	2%
ICT operation costs	1.5	1.7	1.9	1.7	1.7	1.7	1.7	3%
Graphic	0.6	0.2	0.2	0.5	0.2	0.2	0.3	1%
Spatial	0.8	0.8	0.8	0.8	0.8	0.8	0.8	2%
Total	**54.5**	**51.8**	**51.9**	**54.7**	**52.6**	**50.5**	**52.7**	**100%**

Source: Valuer General Information Return, November 2018; IPART analysis.

As shown in the above Table 4.6, three operating expenditure items make up around 83% of the Valuer General's proposed costs, namely:

- Labour
- Mass valuation contracts, and
- Other valuation contracts.

Directly attributable costs – Labour

Labour costs represent about 32% of the Valuer General's proposed operating expenditure over the 2019 determination period. In terms of labour costs, we note that:

41 Valuer General submission, November 2018, pp 28-30.

- The Valuer General forecasts that PNSW will require an average of 130 FTE positions over the 2019 Determination period, which is an increase of 5 FTEs (or 3.8%) over the 125FTEs we used when setting prices in 2014.[42] This is broadly in line with the growth in the number of valuations of 4.3% over 6 years.
- The average salary per FTE is currently $94,059, which is nearly identical to the average NSW Government salary of $94,047.[43]
- There is evidence that Property NSW has taken steps to restructure its workforce and improve productivity, reducing overall FTEs since the separation of LPI in 2015-16.[44]
- There are further reductions proposed following the commissioning of Valnet III, which will lead to a further reduction of seven FTEs.[45]

The Valuer General's submission to IPART's Issues paper states that:

> Both the public and private sectors employ valuers and workers are free to move between the markets. Therefore, wages for valuers are governed by the labour market.

On balance, we are satisfied that the Valuer General's forecast labour costs are efficient. The number of valuations is increasing at roughly the same rate as FTE numbers, average salaries are the same as those in the NSW public sector more broadly, and there is evidence that Property NSW has taken steps to review its structure and its workforce.

Directly attributable costs – Mass valuation contract costs

Mass valuation (MV) contract costs represent about 41% of the Valuer General's proposed operating expenditure over the 2019 determination period.

MV contract costs are contracts with private firms to undertake the general mass valuations for taxing (Revenue NSW) and rating (councils) purposes. The Valuer General's submission proposed a total of $129.1 million over six years.[46]

At the public hearing on 12 February 2019, Property NSW stated that it was in the final stages of procuring new mass valuation contracts.[47] To 2019, there were 41 mass valuation contracts covering NSW. The contract areas were based on geographical boundaries. In 2018-19, PNSW undertook a new round of contract procurement, with the number of contract areas reduced from 41 to 18. This was designed to decrease the overall cost of MV contracts by taking advantage of economies of scale, and increasing competition for fewer contracts.

In February 2019, the Valuer General provided us with updated contract costs arising from the procurement of contracts. This has resulted in a reduction in forecast contract costs across the 2019 Determination period of $6.3 million, or 4.9% compared to the Valuer General's November 2018 pricing proposal.[48]

42 Valuer General submission, November 2018, p 51.
43 ABS Average Weekly Earnings, NSW Public Sector May 2018.
44 Email correspondence from Property NSW, 28 February 2019.
45 Valuer General submission, November 2018, p 52.
46 Valuer General submission, November 2018, p 53.
47 Public Hearing Transcript, p 14.
48 Valuer General revised submission, March 2019.

We consider the Valuer General's revised costs for MV contracts over the 2019 determination period to be reasonable. The contracts are outsourced through a competitive tendering process, which means that these costs are market driven (and tested). Property NSW has demonstrated that the procurement of new contracts was undertaken in a way to reduce overall costs while maintaining service standards.

However, the Valuer General's updated forecasts include a $2 million reduction in mass valuation contract costs in 2024-25, arising from cost savings from the commissioning of Valnet III flowing on to contractors. As set out in Section 4.3.2 below, we have made a draft decision on forecast capital expenditure, which assumes deferral of proposed expenditure on Valnet III by one year. This also results in a deferral of the productivity benefits – including the $2 million forecast saving in 2024-25 on mass valuation contract costs. As such, our draft decision is to make an upward adjustment to mass valuation contracts of $2 million, relative to the Valuer General's proposal.

Table 4.7 below sets out our draft decision on mass valuation contract costs compared to the Valuer General's November 2018 pricing proposal.

Table 4.7 IPART's draft decision on adjustments to the Valuer General's proposed MV contract costs ($million, $2018-19)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Valuer General Proposed – Nov 2018	20.5	21.0	21.5	22.2	22.7	21.2	129.1
Valuer General Proposed adjustment for revised contracts [a]	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	-6.3
Valnet III deferral						2.0	2.0
IPART's draft decision	**19.5**	**19.9**	**20.5**	**21.1**	**21.7**	**22.1**	**124.8**

[a] In February 2019, the Valuer General provided updated information on the outcome of the procurement of the new mass valuation contracts as indicated in the Valuer General revised submission, March 2019.

Source: Valuer General Information Return, November 2018; Valuer General Email to IPART 22 February 2019; IPART analysis.

Other proposed operating expenditure is efficient

The other items of the Valuer General's proposed operating expenditure are broadly in-line with efficient expenditure given they are either:

- Competitively tendered (Other valuation contracts)
- Broadly in line with the 2014 Determination (Corporate overheads, ICT costs, Rent), or
- The Valuer General is a price taker (postage).

As such, we have accepted the Valuer General's forecast costs on these items as efficient.

4.3 Capital expenditure

We have made a draft decision to:

4 Accept the Valuer General's actual capital expenditure of $3.5 million over the 2014 determination period as prudent, as shown in Table 4.9.

5 Set the efficient level of the Valuer General's capital expenditure for the 2019 determination period at $27.4 million, as shown in Table 4.10.

4.3.1 Valuer General's capital expenditure for the 2014 determination period

The Valuer General significantly under-spent on capital expenditure over the 2014 Determination period. Capital expenditure over the 2014 Determination period was $5.7 million (around 59%) lower than we used to set prices in 2014. The primary underspend was on plant and equipment. This was driven by the separation of Land and Property Information (LPI), and is set out in Table 4.8 below.

Table 4.8 Actual historical capital expenditure by asset type between 2014-15 and 2018-19 compared to 2014 Determination forecast ($'000, $2018-19)

Asset type	Actual	2014 Forecast	Difference	Difference (%)
Land and buildings	9	416	- 407	-97.9%
Plant and Equipment	108	5,888	- 5,779	-98.2%
Intangibles	3,799	3,278	520	15.9%
Total	**3,916**	**9,582**	**- 5,666**	**-59.1%**

Note: 2018-19 figures are forecast.

Source: Valuer General Information Return, November 2018; IPART analysis.

Our draft decision is to accept the Valuer General's actual capital expenditure over the 2014 determination period as prudent, as shown in Table 4.9.

Table 4.9 IPART's draft decision on historical capital expenditure to accept for purposes of establishing the opening value of the RAB ($million, $2018-19)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total
IPART 2014 determination	2.8	2.1	1.8	1.8	2.0	2.0	9.6
Actual/IPART draft decision	**0.4**	**0.4**	**0.2**	**0.2**	**0.9**	**1.8**	**3.5**
Difference	-2.5	-1.7	-1.6	-1.6	-1.0	-0.2	-6.1
Difference %	-87%	-81%	-89%	-90%	-52%	-9%	-64%

Note: Figures for 2018-19 are forecasts. Totals may not sum due to rounding.

Source: IPART 2014 Final report financial model; Valuer General Information Return, November 2018; IPART analysis.

4.3.2 Valuer General's capital expenditure for the 2019 determination period

Our draft decision is to set the efficient level of the Valuer General's capital expenditure as shown in Table 4.10

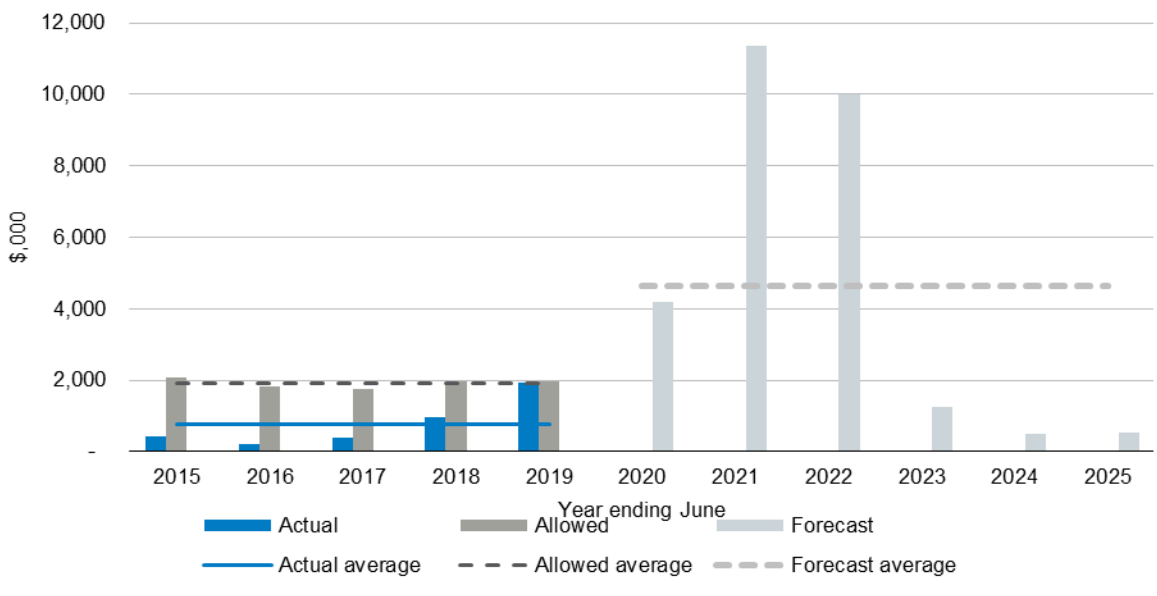
Table 4.10 IPART's draft decision on the capital expenditure by category for the 2019 determination period ($'000, $2018-19)

Category	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Valuer General's proposal							
Plant and equipment	67	45	269	90	45	90	606
Intangibles	4,132	11,303	9,733	1,166	449	449	27,232
Total	**4,200**	**11,348**	**10,002**	**1,256**	**493**	**538**	**27,837**
IPART's draft decision							
Plant and equipment	67	45	269	90	45	90	606
Intangibles	2,338	2,332	11,303	9,464	897	449	26,783
Total	**2,406**	**2,377**	**11,572**	**9,554**	**942**	**538**	**27,389**

Source: Valuer General submission, November 2018, p 62.

The Valuer General has proposed a total of $27.8 million over the 6-year 2019 Determination period. This is an average of around $4.6 million per year, which is $2.7 million per year (or 142%) higher than the forecast we used to set prices in 2014. It is $3.9 million per year (or 492%) higher than the Valuer General's actual average annual capital expenditure over the 2014 Determination period. This is shown in Figure 4.2 below.

Figure 4.2 Comparison between the Valuer General's forecast capital expenditure, IPART's 2014 Forecast expenditure and historical actual capital expenditure



Source: Valuer General Information Return November 2018; IPART analysis.

The Valuer General's forecast capital expenditure includes $23.5 million on a new integrated valuation platform, Valnet III.

Our draft decision is to re-phase capital expenditure on Valnet III by one year

The Valuer General's current valuation database and platform, Valnet II, is 18 years old. The Valuer General has proposed to develop and commission a modernised replacement, Valnet III. At a total cost of $23.5 million over the 2019 Determination period, the Valuer General argues that it is necessary as:

- Valnet II is now becoming more expensive, as aging technology requires more ongoing expenditure to maintain, upgrade and adapt, and
- Valnet III will deliver higher quality services, and create operating efficiencies through productivity savings.[49]

The Valuer General's proposed expenditure on Valnet III is set out in below.

Table 4.11 The Valuer General's proposed capital expenditure on Valnet III over the 2019 determination period ($'000, $2018-19)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Valnet III	1,794	10,765	9,195	897	449	449	23,548

Source: Valuer General Information Return, November 2018.

IPART has reviewed the business case for the project, prepared for Property NSW to submit to NSW Treasury as the first stage of approval. We have also interviewed key project staff at the Office of the Valuer General, Property NSW and the IT consultant which prepared the business case.

We consider that Valnet II, being 18 years old, is due for replacement. We also consider that the project stages to be commissioned over the 2019 determination period are adequately justified and supported. This applies to both the reduction of risk in running and maintaining infrastructure which is outdated, and the associated ongoing savings in operating expenditure. Once fully commissioned, the Valuer General forecasts that Valnet III will save around $3 million per year in operating expenditure.

However, while the business case is reasonably well supported, we consider that Valnet III is still in its infancy. The functionality has been broadly scoped, however we consider that both the scale and the timing of the proposed expenditure are optimistic. With the bulk of the expenditure forecast to occur in 2020-21 and 2021-22, we consider that there are many internal and external hurdles to achieving this. Agencies which undertake major capital projects infrequently are typically not well structured or resourced to meet strict capital budgets or tight timeframes. This is particularly so with major IT projects – even simpler ones.

We consider that there are risks that the actual implementation of Valnet III may take longer and cost more than proposed. We note that any delay to the implementation of Valnet III would also delay the operating efficiency benefits it produces.

Thus, our draft decision is to set the capital expenditure allowance by assuming that Valnet III is deferred for a year, by rephasing the entire Valnet III capital expenditure profile. This would give a more realistic timeframe for the project, but defer some of the operating expenditure efficiencies to beyond the end of the 2019 determination period. In particular, relative to the Valuer General's proposal, we have increased the forecast mass valuation contract costs by $2 million in 2024 - 25 to reflect the deferral of productivity benefits flowing to contractors.

49 Valuer General submission, November 2018, p 63.

4.4 RAB – establishing the opening value and rolling forward the RAB

To determine allowances for a return on assets and regulatory depreciation, we must calculate the value of the Valuer General's regulatory asset base (RAB) in each year of the determination period.

To establish the opening value of the Valuer General's RAB (as at 1 July 2019), we have rolled forward the 1 July 2014 RAB to 30 June 2019 by:

- Including the prudent and efficient capital expenditure that the Valuer General spent between 1 July 2014 and 30 June 2019, using forecast values for 2018-19
- Deducting regulatory depreciation using year-end values
- Deducting the regulatory value of disposed assets, and
- Indexing the annual closing RAB for actual inflation, and using a forecast for inflation for 2018-19.

The annual values of the Valuer General's RAB for the 2014 determination period are shown in Table 4.12 below.

Table 4.12 Closing RAB from 2014 Determination period ($000, $2018/19)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Opening RAB	8,941	7,067	4,932	-672	-2,710	-3,766
Plus: Capex net of cash capital contributions	382	382	192	170	940	1,811
Less: Asset disposals	–	–	3,365	–	–	–
Less: Allowed depreciation	2,530	2,626	2,465	2,197	1,947	1,627
Plus: Indexation	274	109	33	-11	-49	-72
Closing RAB	**7,067**	**4,932**	**-672**	**-2,710**	**-3,766**	**-3,653**

Source: Valuer General Information Return, November 2018; IPART analysis.

Our modelling arrived at an opening RAB at 1 July 2019 of -$3.65m. This compares to the Valuer General's proposed opening RAB at 1 July 2019 of $2.45m[50]. This difference arises from IPART's use of allowed depreciation over the 2014 determination period, rather than actual depreciation as used in the Valuer General's November submission.

We use allowed depreciation when establishing the opening RAB to better balance the regulatory incentives for capital expenditure over a determination period. As the Valuer General has significantly under-spent on capital expenditure over the 2014 determination period, this means that the Valuer General has received compensation for depreciation in excess of the amount actually incurred. By using allowed depreciation, we reduce the value

50 Valuer General submission, November 2018, Table 6-13, page 61.

of the RAB to ensure that customers receive the benefit of the depreciation they have already paid for. [51]

Asset disposals should be deducted from the RAB

We have made a draft decision to:

6 Reduce the RAB by $3.4 million, the value of total asset disposals over the 2014 determination period as set out in Table 4.13, with forecast asset disposals for the 2019 determination period of zero.

Following the separation of LPI in 2015-16, land and buildings previously used to deliver the Valuer General's services were vested to Property NSW. As these assets are no longer used to deliver the Valuer General's services, they should be taken out of the RAB.

We have therefore identified the full RAB (or regulatory) value of these assets and deducted them from the RAB in 2015-16, in line with our asset disposal policy. The regulatory value of an asset is the value of the asset as it entered the RAB, adjusted for indexation and depreciation over time.

Our draft decision on the value of the asset disposals are set out in Table 4.13.

Table 4.13 Draft asset disposals ($'000, nominal)

	2014-15	2015-16	2016-17	2017-18	2018-19
Land		2,025	-	-	-
Buildings		1,340	-	-	-
Total		**3,365**	**-**	**-**	**-**

Source: Valuer General Information Return, November 2018; Valuer General submission, November 2018, p 38 and IPART analysis.

RAB values for the 2019 determination period

We used a consistent approach to roll forward the RAB to the end of the 2019 determination period (i.e. 30 June 2025). In particular, we used our draft decisions on the forecast efficient capital expenditure outlined in Section 4.3 above.

The annual values of the Valuer General's RAB for the 2019 determination period are shown in Table 4.14 below.

51 The need to balance regulatory incentives arises from the uncertainty in forecasting capital expenditure. The regulated agency receives allowances for depreciation and return on assets based, in part, on our decisions on forecast efficient capital expenditure. Where a regulated agency significantly over or under spends on a capital expenditure forecast, the RAB roll-forward at the subsequent price determination uses the allowed depreciation. This means, for example, that when an agency underspends it has received compensation for depreciation in excess of the amount actually incurred. By using allowed depreciation, we reduce the value of the RAB to ensure that customers do not pay twice for the same amount of depreciation. In the case of an overspend, our approach means that the agency includes the value of the excess capital expenditure in the RAB before depreciation, thus ensuring that customers provide adequate compensation for the depreciation actually incurred. Our approach means that both the agency and customers will share some of the benefits and costs associated with variations between forecast and actual capital expenditure.

Table 4.14 IPART's draft decision on the annual value for the RAB for the 2019 Determination period ($'000, $2018-19)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Opening RAB	-3,766	-3,653	-2,151	-870	9,039	16,208	14,462
Plus: Capex net of cash capital contributions	1,811	2,406	2,377	11,572	9,554	942	538
Less: Asset disposals	-	-	-	-	-	-	-
Less: Allowed depreciation	1,627	904	1,096	1,663	2,385	2,687	2,761
Plus: Indexation	-72	-	-	-	-	-	-
Closing RAB	-3,653	-2,151	-870	9,039	16,208	14,462	12,239

Source: Valuer General Information Return November 2018; IPART analysis.

4.5 Calculating allowances for a return on assets and regulatory depreciation

4.5.1 WACC

We have made draft decisions to:

7 Adopt a real post-tax WACC of 3.5% for the purposes of calculating the allowance for a return on assets, which included:

– A gearing ratio of 45% and an equity beta of 0.45

– Market observations (cost of debt and market risk premium), based on the February 2019 bi-annual market update

– A current cost of debt based on six-year transition to a trailing average.

8 Apply a regulatory true-up in the following determination period to account for annual changes in the cost of debt.

To make our decision on the Weighted Average Cost of Capital (WACC) we applied our standard WACC methodology, which we updated in 2018 after an extensive review and broad stakeholder engagement. (See *Final Report - Review of our WACC method* on our website.) This resulted in a real post-tax WACC of 3.5%, compared to the Valuer General's proposed WACC of 5.1%. As we multiply the RAB values by the WACC, to get a portion of the capital allowance (the return on assets), the implication of a lower WACC is a reduction in the capital allowance portion of the NRR.

We also decided to account for annual changes in the cost of debt – one of the components of the WACC – through a regulatory true-up in the following determination period. In our recent review of our WACC method, we decided to transition to a trailing average cost of debt.

However, implementing a trailing average approach involves updating the cost of debt at the start of each year within a regulatory period. To do this, we need to decide in each price review whether annual changes in the cost of debt will:

- Flow through to prices in the subsequent year, or

- Be cumulated and passed through via a regulatory true-up in the subsequent regulatory period.

For this review, we decided that annual changes in the cost of debt should be cumulated and passed through via a regulatory true-up in the subsequent regulatory period.

Appendix C provides a broad outline of how we reached our draft decision on the WACC, including the inputs we used in applying our WACC method. It also outlines the process we used to estimate the equity beta parameter.

4.5.2 Return on assets

We have made a draft decision to:

9 Set an allowance for a return on assets for the 2019 determination period at $1.6 million as shown in Table 4.1.

We calculate the allowance for a return on assets by multiplying the rate of return by the value of the RAB in each year of the determination period. As for previous reviews (and as outlined above), we used the real post-tax WACC approach to calculate the rate of return (see Appendix C).

4.5.3 Return of assets (regulatory depreciation)

We have made a draft decision to:

10 Calculate regulatory depreciation using a straight line depreciation method for each asset class, applying the asset lives set out in Table 4.15.

11 Set an allowance for a return of assets for the 2019 determination period at $11.3 million as shown in Table 4.1.

The economic lives of new and existing assets is used to calculate the Valuer General's allowance for regulatory depreciation, applying our straight-line depreciation method.

The principal new asset over the Determination period is Valnet III. As a significant IT platform, the Valuer General has proposed that its economic life be set at 10 years. Given the scale and scope of the project, we consider that this is a reasonable economic life for a major IT platform. Our decision is to accept the Valuer General's proposed lives of new assets set out in Table 4.15.

Table 4.15 IPART's draft decision on the Valuer General's asset lives (years)

	Existing assets	New assets
Buildings	43.1 years	83.0 years
Plant and equipment	2.9 years	5.0 years
Intangibles	2.2 years	10.0 years

Source: Valuer General Information Return November 2018; IPART analysis.

4.6 Other building block components

4.6.1 Tax allowance

We have made a draft decision to:

12 Set a tax allowance for the 2019 determination period at $1.9 million as shown in Table 4.1.

We have calculated our tax allowance in each year of the determination period by applying a 30% statutory corporate tax rate adjusted for gamma[52] to the Valuer General's (nominal) taxable income.

Our proposed tax allowance is an annual average of $0.3 million.

We note that a few stakeholders[53] did not support the inclusion of a tax allowance for monopoly services noting that most government agencies do not pay tax.

However, for competitive neutrality reasons, we consider it is important that prices reflect the costs a business would incur in a competitive market for valuation services. We note that though the Valuer General does not face competitive neutrality issues now, it is possible they may arise in the future.

We have derived a Tax Asset Base (TAB) for the Valuer General

The Valuer General does not currently pay tax or tax equivalents and therefore does not have an established Tax Asset Base (TAB).

In order to calculate a regulatory tax allowance, we created a regulatory TAB in our 2014 price review and calculated a tax depreciation forecast for the 2014 Determination using the TAB. We have maintained and updated the regulatory TAB and the tax depreciation used for the calculation of the Valuer General's regulatory tax allowance is set out in Table 4.16.

Our draft decision results in the Valuer General receiving about $0.3 million in tax allowance annually over the 2019 determination period.

Table 4.16 Tax depreciation for calculating the Valuer General's regulatory tax allowance over the 2019 Determination period ($'000, nominal)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Tax depreciation	888	1,093	1,717	2,542	2,903	2,989

Source: IPART analysis.

52 Under a post-tax framework, the value of imputation (franking) credits (gamma) enters the regulatory decision only through the estimate of the tax liability.

53 NSW Revenue Professionals submission to IPART's Issues Paper, 30 December 2018 (NSW Revenue Professionals submission), p 4; Local Government NSW submission, 18 January 2019, (LGNSW submission), p 8 and The Hills Shire submission to IPART's Issues Paper, 20 December 2018, p 3.

4.6.2 Working capital

We have made a draft decision to:

13 Set an allowance for a return on working capital for the 2019 determination period at $9.8 million as shown in Table 4.1.

The Valuer General[54] bills councils at the end of the financial year for their valuation services. This means that the Valuer General needs to fund the holding cost of expenditure throughout the year, prior to receiving payment from councils.

This draft decision on the working capital, increases the average annual return on the working capital as a proportion of the average annual NRR from 0.2% (under the Valuer General's proposal) to 2.9%. Our draft decision is an average annual return on working capital of $1.6m as shown in Table 4.17 below.

Table 4.17 IPART's draft decision on the allowance for a return on working capital ($'000, $2018-19)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Return on working capital	1,576	1,565	1,550	1,712	1,677	1,675

Source: IPART analysis.

4.7 Forecast other revenue to be shared with customers

We have made a draft decision to:

14 Reduce the Valuer General's notional revenue for revenue from minor users for the 2019 determination period at $0.3 million as shown in Table 4.1.

The Valuer General delivers services to minor customers such as NSW Roads and Maritime, Fire and Rescue NSW and NSW Crown Lands. The Valuer General receives revenue from minor customers for services delivered. Over the 2014 Determination period, the Valuer General received average annual revenue of $45,768 per annum from these minor customers. For the 2019 determination period, we have reduced the annual NRR by this amount as set out in Table 4.18.

Table 4.18 IPART's draft decision on other revenue from minor users to be used to calculate the Valuer General's NRR, ($'000, $2018-19)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Revenue from minor users	46	46	46	46	46	46

Source: Valuer General's supplementary information, 25 February 2019, and IPART analysis

54 Valuer General's supplementary information request, 12 February 2019.

5 Allocating costs to councils

The Valuer General provides valuation services to two major customers; councils for rating purposes, and Revenue NSW for taxing purposes. Valuation services are also provided to other minor customers. In Chapter 4, we outlined our draft decisions on the efficient costs of the Valuer General providing all of his valuation services. As we are only setting prices for services to councils, we need to determine what share of these costs should be allocated to, and recovered from, councils via regulated prices.[55]

Cost allocation is a process that involves:

- Identifying the users that cause the cost to be incurred, consistent with the impactor pays principle
- Identifying and classifying costs as direct or indirect
- Tracing direct costs and attributing them to the defined users, and
- Choosing a method of relating indirect costs to the defined users – ie, allocating these to users using appropriate allocators or cost drivers.

Across a range of industries, IPART has applied the following funding hierarchy when allocating costs between different entities:

1. **Preferably, the impactor or risk creator should pay** – ie, those ultimately creating the costs, or the need to incur the costs, should pay the costs
2. **If that is not possible, the beneficiary should pay (direct beneficiaries before indirect beneficiaries)** – where users pay charges on the basis of benefitting from the service
3. **As a last resort, taxpayers pay** - taxpayers may be considered as a funder of last resort where risk creators or beneficiaries have not been clearly identified; or where it is not administratively efficient or practical to charge impactors or beneficiaries.

For the Valuer General's valuation services, there are two clear impactors: Revenue NSW and councils. In fact, in this case, both are impactors and beneficiaries.

In this chapter, we set out our decisions on how we have allocated the Valuer General's efficient costs between councils, Revenue NSW and other minor users.

Note that in this chapter, we use the Valuer General's 30 November 2018 Submission for comparisons.

55 We do not set prices for the Valuer General's services to Revenue NSW, as the monopoly services relate only to land valuation services to councils.

5.1 Minor users should not pay for fixed costs

We have made a draft decision to:

15 Not allocate any fixed costs to minor users of the Valuer General's land valuation services.

The Valuer General may make a valuation of land at the request of any person or entity. In addition to councils and Revenue NSW, there are currently a number of other minor users of valuation services including:

- NSW Government agencies - such as Fire and Rescue NSW (FRNSW), Roads and Maritime Services (RMS) and NSW Crown Lands
- The Commonwealth Grants Commission, and
- Private brokers and the general public.

These users are charged on a fee for service basis.[56]

In our 2014 Final Report, we made a decision to allocate costs for minor users on a marginal cost basis, rather than on an average cost basis.[57] This meant that fixed costs were allocated between councils and the former Office of State Revenue (now Revenue NSW). Minor users of the Valuer General's services would then pay the marginal (or extra) cost associated with delivering the required service.

Some stakeholders have suggested that all of the Valuer General's costs should be allocated between all of the users.[58]

Local Government NSW's submission was typical and stated:

> LGNSW believes there is no reason why these 'minor users' (apart from the general public) should not be contributing to the Valuer General's fixed costs and as a result they should be charged on an average cost basis, not the current marginal cost basis.[59]

In our 2014 Final Report, we set out criteria we considered reasonable to consider allocating some of the Valuer General's fixed costs to minor users. These were that:

1. The minor users should use the valuation services in a similar way to councils, and
2. The number of valuations provided to minor users should represent a material proportion of the total valuations undertaken by the Valuer General, say 5%.[60]

We consider that only NSW Crown Lands and RMS use the services in a similar way to Revenue NSW and councils. They both require property valuation data for the calculation of

56 The average annual revenue received by the Valuer General from minor users between 2014-15 and 2018 - 19 was $45,768.

57 IPART, *Review of prices for land valuation services provided by the Valuer-General to councils – From 1 July 2014 to 30 June 2019*, Final Report, May 2014, p 49.

58 City of Sydney, Review of Valuer General's charges, 9 January 2019 (City of Sydney submission), p 6; Campbelltown City Council submission to IPART's Issues Paper, 7 January 2019 (Campbelltown submission), p 4.

59 LGNSW submission, p 9.

60 IPART, *Review of prices for land valuation services provided by the Valuer-General to councils – From 1 July 2014 to 30 June 2019*, Final Report, May 2014, pp 48-49.

leases on domestic waterfront tenancies annually.[61] However, both agencies use around 8,800 valuations per year, compared to around 2.6 million valuations by Revenue NSW (every year) and councils (every third year). This represents less than 0.4% of total annual valuations undertaken by the Valuer General. As such, consistent with the impactor pays principle, we do not consider minor users' use of valuation services to be material enough to justify allocating fixed costs to them.

As set out in Chapter 4, we have reduced the Valuer General's annual notional revenue requirement over the 2019 determination period by the average revenue received from all minor users over the 2014 determination period. This ensures that the (marginal) costs associated with delivering services to minor users are not recovered from Revenue NSW or councils.

5.2 We have allocated 30% of the Valuer General's efficient costs to councils

We have made a draft decision to:

16 Allocate 30.1% of the Valuer General's notional revenue requirement to councils.

In our 2014 Determination, we allocated 34% of total costs to councils. This was based on:

- A 25% share of **mass valuation contract costs** to councils
- Allocating **direct costs** to councils (in aggregate) where possible, and
- Using frequency of valuations[62] to allocate **shared fixed costs**.

For the 2019 Determination, the Valuer General has proposed allocating 32.5% of costs to councils.[63] The Valuer General's submission, argues the reason for the proposed reduction in the share of costs allocated to councils is that two categories of shared costs had improved estimates, namely:

- A reduction from 50% to 38% in other valuation contract costs (primarily valuation objections), partially offset by
- An increase in the allocation of labour costs from 33% to 36.5% to account for a revised 50% share of the cost of undertaking supplementary valuations.[64]

Stakeholders have suggested that there is an argument for using a lower cost allocation than the 32.5% proposed by the Valuer General. The City of Sydney argued that a more appropriate allocation is 16.6% for most of the Valuer General's cost items.[65] Both NSW Revenue Professionals[66] and Campbelltown City Council[67] suggested an allocation of 20% for the majority of cost items. NSW Revenue Professionals argued that:

61 IPART, *Review of method for determining rents for domestic waterfront tenancies in NSW*, December 2011, p 30.
62 Frequency of valuations refers to how often, and how many, individual property valuations were used by councils, relative to the total number of valuations the Valuer General undertook.
63 Valuer General submission, November 2018, p 48. The Valuer General's revised submission of 27 March 2019 updated this to 32.6%.
64 Valuer General submission, November 2018, pp 51, 55.
65 City of Sydney submission, pp 6-9.
66 NSW Revenue Professionals submission, pp 5-6.
67 Campbelltown submission, pp 4-5.

NSW Councils and Revenue NSW are provided mass valuations on three year cycle, but only Revenue NSW is provided valuations in the interim two years. Accordingly, the cost of the first year should be split 50:50 and the full costs for the next two years should be fully allocated to Revenue NSW. We submit that the appropriate cost allocation in the three-year cycle is 50:250, or 20% for NSW councils.[68]

5.3 Our approach to allocation of costs

In allocating costs between the two parties, we have sought to identify – where possible – which party has created the need for expenditure on certain activities, or for certain cost items. For the costs associated with most of the Valuer General's activities, both parties have jointly created the need. As such, to apportion the costs between them, we have allocated costs based on the relative quantity (or use) of a given activity or service.

We have assessed each of the Valuer General's cost items, and sought to identify the impactor causing the costs to be incurred. In total, we have allocated 30.1% of the Valuer General's total NRR (or efficient costs) to councils. Table 5.1 below sets our draft decision on cost allocation.

Table 5.1 Allocation of costs to councils by cost item (% of total cost per cost item)

Cost items	Valuer General proposed	IPART draft decision
Mass valuation contract costs	25.0%	25.0%
Labour costs	36.5%	30.6%
Other valuation contracts costs	38.0%	38.0%
Other direct costs [a]	100.0%	100.0%
Other indirect costs [b]	33.0%	28.9%
Total	**32.5%**	**30.1%**

a Other direct costs include postage and graphic services costs, which are directly attributable to councils.

b Other indirect costs are general support costs including rent, other costs, corporate overhead costs, ICT operating costs, spatial services costs and title and images costs.

Note: Totals may not add due to rounding.

Source: Valuer General submission, November 2018, p 49; IPART analysis.

Table 5.2 below sets out the cost items and the basis we have used for each to allocate costs.

Table 5.2 Cost allocation basis for cost items

Cost items	Cost allocation driver
Mass valuation contract costs	Frequency of mass valuations
Labour costs	Number of supplementary valuations, frequency of mass valuations
Other valuation contracts costs	Number of valuation objections
Other direct costs	Direct allocation
Other indirect costs [a]	Weighted average allocation
Total	**Weighted average of all cost items**

a Other indirect costs are allocated based on the weighted average allocation of mass valuation contracts, labour costs and other valuation contract costs.

Note: Totals may not add due to rounding.

Source: Valuer General submission, November 2018, p 49; IPART analysis.

68 NSW Revenue Professionals submission, p 5.

In the rest of this chapter, we outline our analysis of each of the cost items set out above and the reasons for our allocation decisions on each.

Mass valuation contract costs

The Valuer General proposes that mass valuation contract costs be allocated based on the frequency of councils' (one every three years) versus Revenue NSW's (three every three years) general valuation lists, ie 25%.[69] This is the same as our 2014 Determination.

We agree with the Valuer General, and have allocated 25% of mass valuation contract costs to councils.

Labour costs

We consider that the costs associated with direct labour should be allocated between Revenue NSW and councils based on their relative use of the activities the Valuer General undertakes in delivering land valuation services.

For our 2014 Determination, we set the allocation of labour costs to councils at 33%. We decided that the frequency of use of the valuation services was a reasonable way to allocate costs to councils. This was based on the Valuer General undertaking around 2.4 million valuation per year, and the councils using around 800,000 valuations per year, or one third.[70]

Applying our hierarchy of principles set out earlier in this chapter, we consider that a more appropriate approach is to assess where possible how councils directly cause costs to be incurred (impactor pays), and in what proportion do they use the services delivered (beneficiary pays). This gives us a sound basis for identifying the relative effort that the Valuer General expends on delivering services to each of its two key users, Revenue NSW and councils.

Councils receive a general valuation list every three years. Revenue NSW receives a general list every year. So, over a 3-year valuation cycle, Revenue NSW receives three general valuation lists and councils receive one. Thus, there is some basis for a 25% share of valuation costs based on the level of usage.

The Valuer General has provided information about the structure of Property NSW-Valuation Services (PNSW)[71] as shown in Table 5.3 below. Currently, there are 136 full time equivalent (FTE) positions in PNSW to oversee and deliver all of the Valuer General's valuation services with:

- 94 FTEs dedicated to direct valuation activities, and
- 42 FTEs which support them, and the valuation system in general.

69 Valuer General submission, November 2018, p 53.
70 IPART, *Review of prices for land valuation services provided by the Valuer-General to councils – From 1 July 2014 to 30 June 2019*, Final Report, May 2014, p 53.
71 PNSW undertakes all valuation work on behalf of the Valuer General under a service level agreement.

Table 5.3 **Indicative organisational structure of Property NSW – Valuation Services and number of FTEs**

Team	FTEs
Direct valuations related staff	***94***
Compensation and special valuations	15
Contract and quality management	10
Valuations	41
Land data management	28
Support teams staff	***42***
Executive Director and office	3
Customer experience	21
Business improvement	18
Total	**136**

Source: Email correspondence from PNSW, 28 February 2019; IPART analysis.

The two primary users of the Valuer General's services are:

- Councils for rating purposes, and
- Revenue NSW for taxing purposes.

The Valuer General has provided information indicating that out of 94 FTEs involved in direct valuations, 21 FTEs (within the Land data management team) are devoted entirely to undertaking **supplementary valuations**.[72,73] PNSW argues that labour costs associated with supplementary valuations should be split 50:50 between councils and Revenue NSW, as both parties are equal users of the service.[74]

We accept the Valuer General's argument that the cost of producing supplementary lists should be split between Revenue NSW and councils 50:50.

We consider that the balance of direct valuations staff, 73 FTEs, should be allocated based on the frequency of use of the general valuation list, ie 25% to councils. With 21 FTEs x 50% and 73 FTEs x 25%, this produces a weighted allocation of around 31% for labour.

There are also 42 FTEs in support teams. We consider the most appropriate way to allocate support FTEs is to use the weighted allocation for all valuation staff, ie 31% to councils.

Other valuation contract costs

Other valuation contract costs relate primarily to undertaking valuations for property owners' objections to land values. The Valuer General proposes to reduce the allocation of other valuation contract costs to councils from 50% in our 2014 Determination, to 38%. The Valuer General argues that the number of objections to land values is the main driver of other

72 Supplementary lists are produced throughout each year as a result of changes in land type. New lists are then issued to both Revenue NSW and councils, including the revised value of new or rezoned land.

73 Email correspondence from PNSW, 25 February 2019.

74 Valuer General submission, November 2018, p 52.

valuation contract costs. His forecasting model, based on historical data over the past 10 years, suggests that the:

> …average number of objections attributed to ratings for councils is approximately 38%.[75]

We accept the Valuer General's proposal, and therefore we have allocated 38% of other valuation contract costs to councils.

Postage and graphic services costs

Both postage and graphic services are direct costs to councils. The costs incurred on postage and graphics only apply to councils. Graphic services produce and prints Notices of Valuations, which are provided for ratings purposes only. The Valuer General does not print valuation notices for Revenue NSW. Similarly, the postage costs are only for Notice of Valuations posted to councils' ratepayers.

As such, we have attributed 100% of postage and graphics services to councils.

Other indirect costs

Other indirect costs include corporate overheads, rent, spatial services and other costs. The Valuer General proposes to maintain councils' share of these costs at 33%, as we used in setting prices in our 2014 Determination.

Given the nature of these support-related costs, it is not possible to identify an appropriate input or output based allocator specific to these costs. However, we wish to reflect the scale of resources used to service councils.

As such, we consider that these costs should be allocated between the two primary users of the Valuer General's services in proportion to allocation of the key functional and expenditure items of:

- Labour
- Mass valuation contracts, and
- Other valuation contracts.

We consider that these items represent the core of the activities undertaken by the Valuer General to deliver his function. By weighting the percentage allocations to councils of these three cost items by their total expenditure, the weighted average council share is 29%. We have therefore allocated 29% of other indirect costs to councils for the purpose of determining prices.

75 Valuer General submission, November 2018, p 54.

5.4 Required revenue from councils is lower

We set out our draft findings on the Valuer General's total NRR in Chapter 4. After allocating 30% of the total NRR to councils, the councils' average annual share of the NRR is around $16.9 million per year. This is around $1.3 million (or 6.9%) lower than proposed by the Valuer general.

Table 5.4 below sets out our findings on the Valuer General's notional revenue requirement for providing valuation services to councils.

Table 5.4 IPART's draft finding on the Valuer General's notional revenue requirement (NRR) for providing valuation services to councils ($'000, $2018-19)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Average[a]
Valuer General's proposal							
Operating Expenditure	17,715	16,825	16,875	17,778	17,111	16,421	17,121
Depreciation (regulatory)	316	547	844	917	874	890	731
Return on fixed assets	73	183	328	376	343	307	268
Return on working capital	33	24	29	43	42	41	35
Tax allowance	7	13	21	27	30	34	22
Total NRR	**18,145**	**17,592**	**18,097**	**19,140**	**18,399**	**17,694**	**18,178**
IPART's draft decision							
Operating Expenditure	16,104	15,271	15,312	16,521	15,529	15,486	15,704
Depreciation (regulatory)	267	324	492	706	795	817	567
Return on fixed assets	-25	-10	51	143	173	153	81
Return on working capital	474	471	467	515	505	504	489
Tax allowance	79	81	86	102	106	110	94
Preliminary NRR	***16,899***	***16,138***	***16,407***	***17,988***	***17,108***	***17,069***	***16,935***
Less: Minor users' revenue	14	14	14	14	14	14	14
Total	**16,886**	**16,124**	**16,394**	**17,974**	**17,094**	**17,056**	**16,921**

a Average amount of revenue required per year over the 6-year Determination period.

Note: Totals may not add due to rounding.

Source: Valuer General submission; November 2018; Valuer General Information Return; November 2018, Valuer General pricing model, 30 November 2018; IPART analysis.

6 Prices – structures and levels

Our ToR require us to develop an efficient, effective and transparent pricing framework for setting maximum prices for monopoly services that the Valuer-General provides to local councils.

When considering pricing structures, we aim to ensure that prices allocate the costs of the services between councils in line with the costs generated by each council. A cost reflective price structure should result in councils that impose similar costs on the system, paying similar prices. In addition to cost reflectivity, we have taken into account the ease of implementation and transparency of price structures.

In this chapter, we present our draft decisions on the maximum prices the Valuer General can charge councils for the provision of valuation services. In doing so, we discuss our draft decision to change the structure of the Valuer General's prices.

Maximum prices are set to recover the councils' share of the Valuer General's NRR, established in Chapter 5.

6.1 Draft decision on prices

We have made a draft decision to:

17 Adopt the Valuer General's proposed zonal pricing structure, with a price per property applied to councils within four geographical zones (Country, Coastal, Metro and City of Sydney).

18 Set prices for the 2019 determination period as shown in Table 6.1.

For the 2019 Determination we have decided to move to a zonal pricing model as proposed by the Valuer General, with a price per property for councils within four geographical zones as seen in Table 6.1. This is a change from the current 2-price structure, one for residential properties and one for non-residential properties, uniformly applied across all councils. More detail on our rationale for moving to a zonal pricing structure is provided in Section 6.3.

As noted in Chapter 5, our draft decision on the total NRR allocated to councils is 6.9% lower than the Valuer General's proposal in November 2018. In March 2019, the Valuer General informed IPART of the outcomes of a new procurement process for valuation services, which has a material impact on the proposed prices, as the mass valuation costs were in aggregate 4.9% lower than what the Valuer General had previously estimated in November 2018. We have accepted these new mass valuation contract costs, as one of our draft decisions.[76] Our draft prices are around 5.6% lower than the prices proposed by the Valuer General in March 2019.

As we are moving to a zonal price structure, it is not possible to directly compare our draft prices for the 2019 determination period with current prices.

76 Valuer General revised submission, March 2019, p 2.

Table 6.1 IPART's draft decision on the Valuer General's maximum charges to councils ($/valuation, $2018-19)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
IPART's draft decision							
Country	5.87 for residential	7.42	7.42	7.42	7.42	7.42	7.42
Coastal	12.91 for non-residential	6.32	6.32	6.32	6.32	6.32	6.32
Metro	across all NSW councils	5.83	5.83	5.83	5.83	5.83	5.83
City of Sydney		12.07	12.07	12.07	12.07	12.07	12.07
Valuer General's proposed prices March 2019[a]							
Country	As above	7.87	7.87	7.87	7.87	7.87	7.87
Coastal		6.70	6.70	6.70	6.70	6.70	6.70
Metro		6.18	6.18	6.18	6.18	6.18	6.18
City of Sydney		12.79	12.79	12.79	12.79	12.79	12.79

a The Valuer General's prices are based on the adjusted costs for mass valuation contracts as provided in February 2019 and indicated in the Valuer General's revised submission, March 2019.

Source: Valuer General revised submission, March 2019, p 6 and IPART calculations.

We have decided to smooth prices and hold maximum prices constant in real terms over the course of the new determination period (see Table 6.1). That is, after an initial price change from 2018-19 to 2019-20, prices would then only increase by the rate of inflation over 2019-20 to 2024-25. These smoothed prices are set so that the present value of the forecast revenue from prices ('the target revenue') equals the present value of councils' share of the Valuer General's NRR over the determination period (see Table 6.2).

Table 6.2 IPART's decision on Valuer General's target revenue from councils ($'000, $2018-19)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Present Value
NRR	16,886	16,124	16,394	17,974	17,094	17,056	89,116
Target revenue	16,622	16,739	16,856	16,975	17,094	17,215	89,116
Difference	264	-614	-463	999	0	-159	0

Note: Totals may vary due to rounding.

Source: IPART calculations.

6.2 Number of valuations

We have made a Draft Decision to

19 Adopt the Valuer General's forecast number of valuations shown in Table 6.3 as the basis for setting prices, based on a per annum growth of 0.7% in the number of properties.

We have accepted the forecasts of total valuations as provided in the Valuer General's November submission.

Table 6.3 IPART's decision on the total number of valuations ('000s)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total number of valuations	2,574	2,592	2,610	2,629	2,647	2,666	2,684

Source: Valuer General submission, November 2018, p 70.

The Valuer General estimated a 0.7% per annum growth in the number of properties over the referral period from 2019-20 to 2024-25.[77] This is less than the 1.0% growth rate estimated for the 2014 determination period.[78]

We note that the actual growth in valuation numbers over the 2014 determination period was around 0.9%.[79] The Valuer General submitted that the forecast volumes of valuations for this determination period are based on 10-years of historical data.[80] The 0.7% growth rate was derived from a forecast growth rate of 0.74% per annum for residential and 0.48% per annum for non-residential valuations in the referral period. The Valuer General noted that the property market is difficult to predict as property growth rates can be affected by market fluctuations and sector volatility.

We accept that the Valuer General's forecast growth rate of 0.7% per annum is reasonable.

6.3 Price structures

Our draft decision is to accept the Valuer General's proposal to implement a zonal pricing structure. This means we have set a maximum price per property applied to councils within each of four geographical zones (Country, Coastal, Metro and City of Sydney).

6.3.1 Current uniform price structure

For the 2014 and previous Determinations,[81] we set a maximum price for residential and a separate price for non-residential properties, which applied uniformly across all NSW councils. The price structure used a 1:2.2 ratio between residential and non-residential prices, to reflect the additional cost of valuing non-residential properties (which can include more complex property types) compared to residential properties.

Under this price structure, in 2018-19, councils paid:

- $5.87 for each residential valuation, and
- $12.91 for each non-residential valuation, regardless of where they were located in NSW.

77 Valuer General submission, November 2018, p 70. This is the Valuer General's projected growth rate for the number of properties on the Register of Land Values.

78 IPART, *Review of prices for land valuation services provided by the Valuer-General to councils from 1 July 2014 to 30 June 2019*, Final Report, May 2014, p 59.

79 Valuer General submission, November 2018, p 25 and IPART calculations.

80 Valuer General submission, November 2018, p 70.

81 IPART has set prices for the Valuer General's valuation services to councils since 1994.

The Valuer General has proposed a move away from the state-wide uniform pricing model, citing that a geographical zone model rather than property type is more representative of the way contract costs for valuations are determined.[82]

6.3.2 Price structure from 1 July 2019

For this draft determination we have decided to move to the Valuer General's proposed zonal pricing model, ie, we have decided to move from a 'property type' to a 'geographic area based' pricing structure. This model applies one price per valuation (irrespective of whether it is for a residential or non-residential property) for each of four geographical zones (Country, Coastal, Metro and City of Sydney).[83]

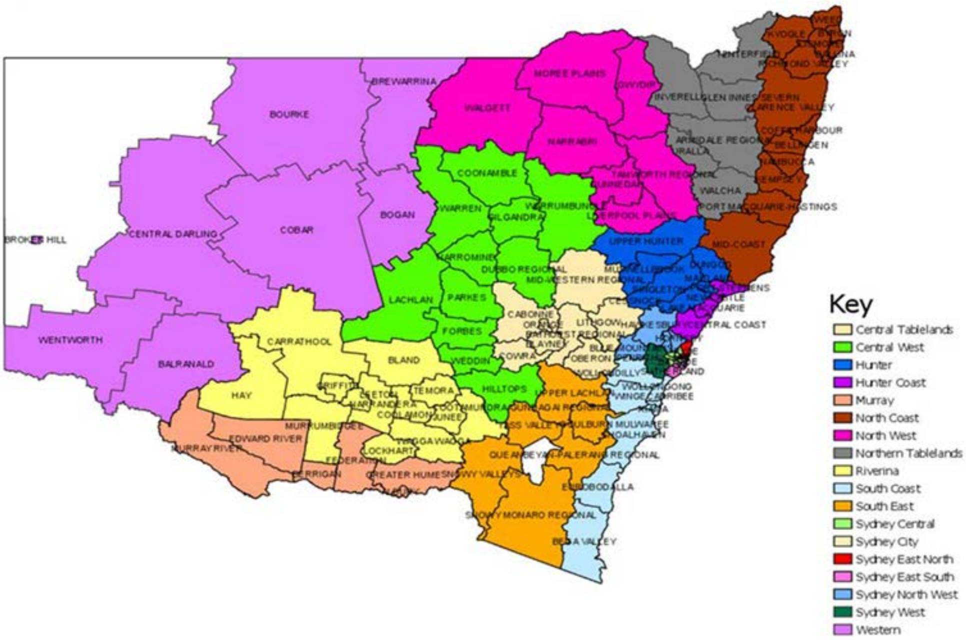
We consider the Valuer General's proposed pricing structure is reasonable, and therefore have accepted a move away from the historical price structure for this determination, as:

- There is uncertainty around the level of the cost difference between residential and non-residential valuations, and in particular whether the current 1:2.2 ratio is accurate
- The zonal approach allows prices to reflect market-tested valuation costs, including the extent to which these costs vary by zone (reflecting the effect of different cost drivers in each zone, such as location, property types, etc).

The Valuer General's zonal model incorporates the costs of delivering mass valuation services across 18 contract areas in NSW (see map in Figure 6.1). Previously, there were 41 contract areas, which the Valuer General has now rationalised down to 18. As set out in Chapter 4, the Valuer General considers that the economies of scale and increased competition generated from aggregating contract areas, have delivered management efficiencies, better quality valuations and a reduction in costs.[84]

82 Valuer General submission, November 2018, p 71.
83 Valuer General submission, November 2018, p 11.
84 Public Hearing Transcript, p 9.

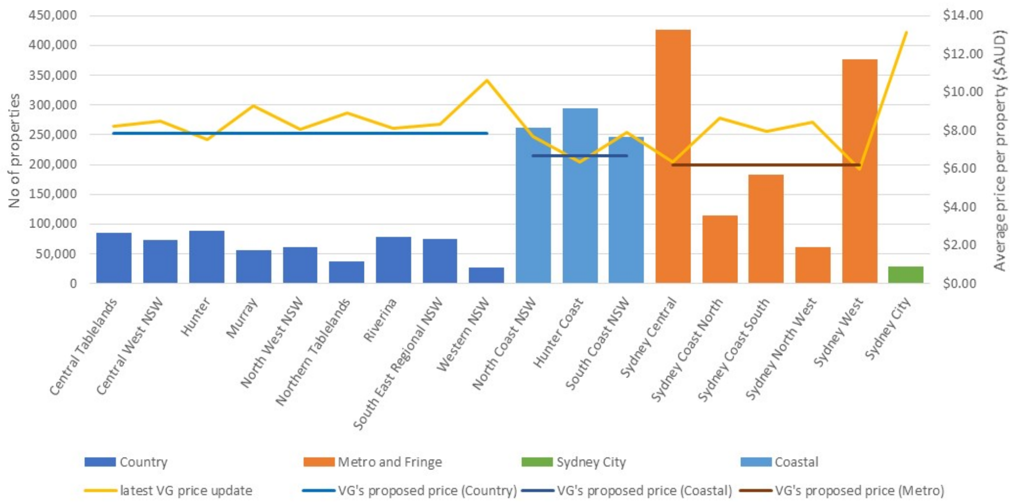
Figure 6.1 Contract areas



Source: Valuer General submission, November 2018, p 96.

Figure 6.2 shows the number of properties (ie, valuation sites) and the Valuer General's estimate of the average price per property for year 2019-20, for each of the 18 contract areas. The 18 contract areas are further categorised into four sub-zones, with the Valuer General's proposed 4-zonal price per property shown in Figure 6.2.

Figure 6.2 Valuer General's estimate of average price for 18 contract areas for year 2019-20



Note: The yellow line represents the estimated average contract cost per property as indicated in the Valuer General's revised submission, March 2019. The coloured lines are the weighted average price for each of the four zones. The coloured blocks (or bars) show the number of properties (valuation sites) in each area.

Source: Valuer General revised submission, March 2019, Table 4.3, p 6 and IPART calculations.

Some stakeholders opposed a move to a 'differential' (or zonal) pricing structure, noting that it unfairly subjects councils to decisions made in determining the contract areas.[85] One stakeholder supported the move,[86] while Local Government NSW stated there was a lack of consensus within local government on an appropriate pricing structure, but that any change should be based on sound rationale and accompanied by appropriate transition/compensation arrangements.[87] A number of stakeholders supported one rate for both residential and non-residential valuations.[88]

We consider that, on average, there is likely to be a cost difference between valuations of non-residential and residential properties. However, we note that information on the proportion of residential to non-residential properties is provided in the mass valuation contracting process, so the influence of this factor is still reflected in our draft zonal prices.

The rationale for moving to a zonal model is that it reflects the outcomes of the Valuer General's mass valuation tendering process, where the cost of serving each region (or zone) is revealed by the market. A number of factors specific to a region can drive the cost of service for the region including, for example, travel distance and the number and mix of property types. For example, 'high-risk' properties (such as high value properties, properties subject to successful objection the previous year, mines, shopping centres, and contaminated sites), require the contractor to spend more time in developing the valuations.[89] Higher risk properties also require more frequent verification, adding to the contract cost for the area.[90]

Table 6.4 provides IPART's draft decision on the price for each of the four zones in our proposed model. There is a clear difference in the price between zones. As noted by the Valuer General at the Public Hearing:

> "overall the current cost per valuation is lower in metropolitan areas than regional areas due to the higher number of residential properties in metropolitan areas and the cost of travel in rural areas."[91]

In particular, we note prices for the 'Country' and 'City of Sydney' zones are 27.2% and 106.9% higher than the Metro zone, respectively.

Table 6.4 Comparison of prices between zones from IPART's draft decision

Zone	Price per zone $	Difference in price between Metro and other zones
Metro	5.83	-
Coastal	6.32	8.4%
Country	7.42	27.2%
City of Sydney	12.07	106.9%

Source: Valuer General revised submission, March 2019, p 6.

85 City of Sydney submission, p 6; Campbelltown submission, p 7.
86 Public Hearing Transcript, p 39, as noted by Hills Shire Council.
87 LGNSW submission, p 10.
88 City of Sydney submission, p 6; Campbelltown submission, p 9, NSW Revenue Professionals submission, p 6 and LGNSW submission, p 11.
89 Public Hearing Transcript, p 38.
90 NSW Government, Property NSW, Request for Tender, Provision of Land Valuation Services for Government Rating and Taxing, pp 29-30.
91 Public Hearing Transcript, p 39.

The Valuer General noted that around 41% of the total costs of servicing councils are incurred from mass valuation contracts.[92] As the mass valuation contract costs for each of the four sub-zones are known, we use actual mass valuation contract costs as an input into calculating prices. We allocate the remaining costs, such as labour, postage, rent and overheads (Chapter 4 provides a full list of other costs) to the four geographic zones based on the proportion of total properties for each zone.

We consider that our proposed zonal model is more cost reflective than the previous 'property type' model, as it is based on market-tested costs, is more transparent, and remains administratively simple.

In Appendix D and E, we provide further analysis on the indicative impact on council bills between maintaining the current price structure (ie, 2-price state-wide uniform model) and moving to the 4-zone price structure proposed in the draft 2019 determination.

6.3.3 Alternative pricing structures

In making our draft decision, we also considered two alternative price structures with:

- T**wo zones** – ie, by segmenting the 18 contract areas in NSW into a 'City of Sydney zone' and a 'rest of NSW zone', and
- **18 zones** based on the 18 mass valuation contract areas used for the Valuer General's valuation procurement process.

These options were assessed by examining the mass valuation contract costs per property and the resultant prices per valuation across the 18 contract areas as provided by the Valuer General.[93] Table 6.5 below shows these indicative prices for 2019-20, in ascending order.

We note there is some variability in the mass valuation costs and resultant prices within and between the 18 contract areas shown in Table 6.5. For example prices range from:

- $6.00 to $8.67 for the Metro and Fringe zone
- $6.34 to $7.89 for the Coastal zone
- $7.55 to $10.64 for the Country zone.

As noted above, there are a number of factors that may affect the mass valuation cost, and hence the resultant prices, including the:

- number of properties in a contract area
- type of properties (eg commercial zoned land), and
- density of properties.

We consider that, on balance, there is sufficient difference in costs between three zones outside of City of Sydney to warrant a 4-zone price structure.

92 Valuer General submission, November 2018, p 72.
93 ` Valuer General revised submission, March 2019, Table 4.3, p 6.

Having 18 pricing zones may accurately reflect mass valuation costs. However, these costs may be influenced by the specification of the contract areas and some aggregation of similar areas reduces the risk of price volatility arising from the procurement process at a point in time. The larger geographical pricing zones (under a 4-zone structure compared to an 18-zone structure) are likely to have more stable prices over time while reflecting inherent structural differences that directly affect the costs of mass valuation services.

At this stage, we consider that our draft decision to move to a 4-zone structure is the best option available given current information, as it achieves a reasonable balance between the principles of cost-reflectivity and price stability.

However, we welcome feedback on both the 2-zone and 18-zone models.

Table 6.5 Estimated average price by contract areas for 2019-20 ($2018-19)

Contract Area	Zone	Average price per valuation
Sydney West	Metro and Fringe	6.00
Hunter Coast	Coastal	6.34
Sydney Central	Metro and Fringe	6.35
Hunter	Country	7.55
North Coast NSW	Coastal	7.71
South Coast NSW	Coastal	7.89
Sydney Coast South	Metro and Fringe	7.96
North West NSW	Country	8.06
Riverina	Country	8.12
Central Tablelands	Country	8.23
South East Regional NSW	Country	8.31
Sydney North West	Metro and Fringe	8.45
Central West NSW	Country	8.52
Sydney Coast North	Metro and Fringe	8.67
Northern Tablelands	Country	8.94
Murray	Country	9.28
Western NSW	Country	10.64
Sydney City	Sydney City	13.13

Source: Valuer General revised submission, March 2019, Table 4.3 p 6.

7 Bill impacts from our pricing decisions

In this chapter we examine the bill impacts on councils of our draft pricing decisions relative to bills councils currently pay in 2018-19. That is, we capture the overall effect of the changes to prices between the last year of the 2014 Determination and the first year of the 2019 Determination resulting from changes to the price structures as well as to costs.

The tables below are presented in nominal dollars (ie, including the effects of inflation). Throughout the 2019 determination period, our prices will be indexed in line with inflation and the bills actually paid by councils will be based on nominal prices – ie, including the effects of inflation.

The annual bill for valuation services can vary widely between councils. For example the average bill per council in the Country zone is around $62,000 and around $224,000 in the Metro zone. The highest bill is for the City of Sydney at $347,000. To provide context and an indication of the possible effects on inflation, the bill represents about 0.3% of operating expenditure for a typical rural council. For the City of Sydney our draft prices mean that the Valuer General's bill represents around 0.6% of operating expenditure.

7.1 Impacts on councils' bills from our draft prices

Before examing bills by council we have analysed the proportion of councils that will pay more in 2019-20 than in 2018-19 across each pricing zone (Table 7.1). We found that under our draft prices:

- Of the 128 councils, 102 will face bill decreases and 26 will face bill increases.
- In county areas, regional centres with significant built-up areas will pay relatively more in comparison to smaller, sparser areas with a higher proportion of non-residential areas, given they would no longer be subject to the relatively higher non-residential price.
- Of the 26 councils facing a bill increase, the majority are located in the Country zone, with a few councils in the Coastal zone.
- The bill increase for City of Sydney reflects the higher mass valuation contract price for the zone as a result of a move to a zonal structure with improved cost reflectivity.

Table 7.1 Change in annual bills by zone using nominal dollars - 2018-19 bill compared to 2019-20 bill

Zone	Councils with bill increase	Councils with bill decrease	Total councils
Country	20	51	71
Coastal	5	20	25
Metro	0	31	31
City of Sydney	1	0	1
Total	26	102	128

Source: IPART calculations.

As shown in Table 7.2, we found that under our draft prices:

- The aggregate bill for City of Sydney zone will increase in 2019-20 by around $144,000 or about 70.9%, however
- The aggregate bill for Country, Coastal and Metro zones will decrease in 2019-20 by around $70,000, $142,000 and $568,000 or 1.6%, 2.7% and 7.6% respectively.

Table 7.2 Indicative bill impact 2018-19 vs 2019-20 (nominal $'000) – by zone

Zone	Total bill 2018-19 (under 2014 Determination)	Total bill 2019-20 (under 2019 Determination)	Difference ($)	Difference (%)
Country	4,481	4,411	-70	-1.6
Coastal	5,344	5,202	-142	-2.7
Metro	7,513	6,945	-568	-7.6
City of Sydney	203	347	144	70.9
Total	**17,540**	**16,904**	**-636**	**-3.6**

Note: Our draft determination sets prices to recover costs over the entire referral period. Annual differences will therefore break even over the referral period.

Source: IPART calculations.

In Table 7.3, Table 7.4, Table 7.5 we present the councils with the greatest bill impacts (both increase and decrease) in each of the Country, Coastal and Metro zones.

The impact of our draft pricing structure will mean that:

- All councils in the Metro zone will face a bill decrease
- The highest bill increases in the Country and Coastal zones are around $36,000 (Maitland) and $15,000 (Central Coast), respectively
- The greatest bill decreases in the Country and Coastal zones are around $40,000 (Snowy Valleys) and $21,000 (Mid-Coast), respectively.

Table 7.3 Councils with greatest bill impact 2018-19 vs 2019-20 – Country zone (nominal $'000)

Council	Bill 2018-19	Proposed bill 2019-20	Bill impact $	Bill impact %
Top 3 councils with bill decrease				
Snowy Valleys	110	70	-40	-36.1%
Snowy Monaro Regional	132	106	-27	-20.3%
Upper Lachlan	63	50	-13	-21.3%
Top 3 councils with bill increase				
Maitland	211	247	36	17.2%
Cessnock	165	192	26	16.0%
Albury	154	172	18	11.7%

Note: Totals may vary due to rounding.

Source: IPART calculations.

Table 7.4 Councils with greatest bill impact 2018-19 vs 2019-20 – Coastal zone (nominal $'000)

Council	Bill 2018-19 $	Proposed bill 2019-20 $	Bill impact $	Bill impact %
Top 3 councils with bill decrease				
Mid-Coast	353	332	-21	-6.1%
Lismore	136	118	-18	-13.5%
Clarence Valley	186	168	-18	-9.7%
Top 3 councils with bill increase				
Central Coast	799	814	15	1.8%
Shoalhaven	373	378	5	1.2%
Lake Macquarie	521	524	3	0.6%

Source: IPART calculations.

Table 7.5 Councils with greatest bill impact 2018-19 vs 2019-20 – Metro zone (nominal $)

Council	Bill 2018-19 $	Proposed bill 2019-20 $	Bill impact $	Bill impact %
Top 3 councils with bill decrease				
Blacktown	698	656	-42	-6.0%
Canterbury-Bankstown	568	527	-42	-7.3%
Inner West	349	308	-41	-11.6%
There are no councils with a bill increase				

Source: IPART calculations.

Our draft prices result in a change in bills for all councils. Other than City of Sydney, the councils with the largest percentage increase in annual bill are concentrated in the Country zone and are classed as Regional Towns/Cities[94].

Overall our draft prices result in a reduction in costs across the local government sector in NSW and would have a very small deflationary effect.

Full details of bill impacts for each council is provided in Appendix F.

[94] Department of Local Government Group Numbers. Group 4 – Regional Town/City.

Appendices

A Terms of Reference

NSW GOVERNMENT

Gladys Berejiklian MP
Premier of New South Wales

Ref: A2725812

Dr Peter Boxall
Chair
Independent Pricing and Regulatory Tribunal NSW
PO Box K35
HAYMARKET NSW 1240

Dear Dr ~~Boxall~~ Peter,

Thank you for your correspondence of 3 October 2018, regarding the request for a new pricing determination for land valuation services provided to local councils by the Valuer General.

Noting the outcomes of stakeholder consultation, I approve the final Terms of Reference attached to this letter without changes. Please commence this review.

I look forward to receiving the final report and determination by 31 May 2019.

Yours faithfully,

Gladys Berejiklian MP
Premier

CC: The Hon Victor Dominello, Minister for Finance, Services and Property

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PRICE REVIEW OF RATING VALUATION SERVICES PROVIDED BY THE VALUER-GENERAL TO LOCAL GOVERNMENT – FINAL TERMS OF REFERENCE

I Gladys Berejiklian, Premier of New South Wales, under section 12 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act), refer the matter set out in these 'terms of reference' to the Independent Pricing and Regulatory Tribunal (IPART) for investigation and report.

Background

By the *Government Pricing Tribunal (Valuer-General's Services) Order* dated 11 August 1993 made under section 4 of the IPART Act, the following services provided by the Valuer-General were declared as government monopoly services:

> "Furnishing valuation lists and supplementary lists under Part 5 of the *Valuation of Land Act 1916* by the Valuer-General to a council of an area under the *Local Government Act 1993*" **(Monopoly Services).**

On 30 December 2013, the Premier requested that, pursuant to section 12 of the IPART Act, IPART make a determination of the pricing for the provision of the Monopoly Services to apply for a period of 5 years

In May 2014, IPART released its determination of maximum prices for the Monopoly Services provided by the Valuer General.[1] These maximum prices apply until 30 June 2019.

Reference to the Tribunal

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.

Matters for consideration

In its investigation, IPART should:

- identify the Valuer-General's full efficient economic costs of providing the Monopoly Services over the determination period or periods;
- develop an efficient, effective and transparent pricing framework for the Monopoly Services;
- consider the Valuer-General's efficient costs of providing the Monopoly Services over the relevant determination period or periods;
- 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;
- consider the scope for the Valuer-General to achieve efficiency savings in providing the Monopoly Services; and
- specify the duration of the relevant determination period or periods.

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

[1] IPART, *Review of prices for land valuation services provided by the Valuer-General to councils – From 1 July 2014 to 30 June 2019*, Determination No.2, 2014.

Consultation

IPART must undertake such consultation as is required under the IPART Act and may undertake such further consultation as it considers appropriate, including with key stakeholders such as government agencies responsible for management of the land valuation and rating systems.

Reporting

IPART is to submit its final report and determination to the Premier by 31 May 2019 and is to submit any subsequent reports and determinations to the Premier on such other date or dates as agreed.

Determination commencement

It is intended that the determination or, in the event of a periodic determination of pricing, the first determination, will commence on 1 July 2019.

B Matters to be considered by IPART under section 15 of the IPART Act

In making pricing determinations, we are required by the IPART Act to have regard to the following matters (in addition to any other matters IPART considers relevant):

a) the cost of providing the services concerned

b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services

c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales

d) the effect on general price inflation over the medium term

e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers

f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment

g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets

h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body

i) the need to promote competition in the supply of the services concerned

j) considerations of demand management (including levels of demand) and least cost planning

k) the social impact of the determinations and recommendations

l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

Table B.1 Consideration of section 15 matters by IPART

Section 15(1)	Report reference
a) the cost of providing the services	Chapter 4 sets out the total efficient costs the Valuer General requires to deliver valuation services to councils. Further detail is also provided on prudent historical expenditure and efficient forecast expenditure.
b) the protection of consumers from abuses of monopoly power	We consider our draft decisions would protect consumers from abuses of monopoly power, as they reflect the efficient costs the Valuer General requires to deliver services. This is addressed throughout the report, particularly in Chapter 4 (where we establish the prudent historical costs and efficient forecast costs) and Chapter 6 (where we set out our draft pricing decisions).
c) the appropriate rate of return and dividends	Chapter 4 outlines that we have allowed a market-based rate of return on debt and equity which would enable a benchmark business to return an efficient level of dividends to shareholders.
d) the effect on general price inflation	Chapter 6 outlines our estimate that the impact of our draft prices on general inflation is negligible.
e) the need for greater efficiency in the supply of services	Chapter 4 sets out our draft decisions on the Valuer General's prudent historical expenditure and efficient forecast expenditure.
f) ecologically sustainable development	Chapter 4 set out the prudent historical expenditure and efficient forecast expenditure that allows the Valuer General to meet regulatory requirements.
g) the impact on borrowing, capital and dividend requirements	Chapter 4 and Appendix 3 explain how we have provided the Valuer General with an allowance for a return on and of capital. An assessment of financeability is not applicable.
h) impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body	Chapters 4 determines the prudent and efficient cost of the service for councils. The mass valuation costs have been directly included into the notional revenue requirement for the provision of these services by private providers under contract.
i) need to promote competition	In determining efficient costs, we have been mindful of relevant principles such as competitive neutrality (eg, we have included a tax allowance for the Valuer General as set out in Chapter 4).
j) considerations of demand management and least cost planning	Chapter 4 outlines our approach to forecasting the volume of services and our consideration of service standards. Chapters 4 outlines how we have assessed prudent historical and efficient forecast expenditure required to deliver the Valuer General's valuation services at least cost. Chapter 4 also outlines how we have reviewed proposed capital expenditures, including that for ICT.
k) the social impact	Chapter 7 considers the potential impact of our draft pricing decisions on councils that may pass these increases and decreases to ratepayers.
l) standards of quality, reliability and safety	Chapter 4 details our assessment of the Valuer General's prudent historical and efficient forecast costs to enable meeting the required standards of quality and reliability in delivering services.

C WACC

Our WACC estimate

Our WACC estimate is set out in Table C.1 below. In keeping with our standard WACC method, we adopted current market observations for the cost of debt, inflation and the market risk premium. We adopted the following firm-specific parameters:

- Gearing ratio of 45%
- Equity beta of 0.45

We discuss the reasons for these choices below.

Table C.1 Valuer General WACC proposed for draft report

	Step 1		Step 2 - Final WACC range		
	Current market data	Long term averages	Lower	Midpoint	Upper
Nominal risk free rate	2.4%	3.6%			
Inflation	2.4%	2.4%			
Implied Debt Margin	2.5%	2.7%			
Market Risk premium	8.6%	6.0%			
Debt funding	45%	45%			
Equity funding	55%	55%			
Total funding (debt + equity)	100%	100%			
Gamma	0.25	0.25			
Corporate tax rate	30%	30%			
Effective tax rate for equity	30%	30%			
Effective tax rate for debt	30%	30%			
Equity beta	0.45	0.45			
Cost of equity (nominal post-tax)	6.2%	6.3%			
Cost of equity (real-post tax)	3.7%	3.809%			
Cost of debt (nominal pre-tax)	4.8%	6.3%			
Cost of debt (real pre-tax)	2.4%	3.809%			
Nominal Vanilla (post-tax nominal) WACC	5.6%	6.3%	5.6%	6.0%	6.3%
Post-tax real WACC	**3.1%**	**3.8%**	**3.1%**	**3.5%**	**3.8%**
Pre-tax nominal WACC	6.6%	7.3%	6.6%	6.9%	7.3%
pre-tax real WACC point estimate	4.1%	4.8%	4.1%	4.4%	4.8%

Challenges posed by beta estimation for the Valuer General

In estimating the WACC for the Valuer General, our benchmark entity is a firm operating in a competitive market facing similar risks to Valuer General, which is a firm providing land valuation services for local councils in a competitive market. The total number of valuations councils buy is generally stable over time, and outside councils' discretion as every property requires a valuation in order to establish the council rates owners must pay. Since revenue is driven by the number of properties in NSW, they also remain stable over time. This implies that revenue is only weakly correlated, if at all, with current market conditions.

This hypothetical competition between benchmark entities would be likely to increase the unpredictability of profit from valuation services for individual firms. This volatility of service revenues represents an idiosyncratic (ie, diversifiable) industry-specific risk.[95] Thus, it will not affect the systematic risk of the marginal investor who holds the market portfolio. From first principles, we assess that the systematic risk facing the Valuer General for its business of statutory valuations for Local Government is extremely low.

In determining an equity beta for a regulated firm, we try to identify proxy companies that have a comparable risk profile. Ordinarily, that is done by examining firms in the same or similar industries. In this case, there are no industries that have a comparable risk profile to the Valuer General, so traditional proxy company analysis is unlikely to produce relevant estimates of beta.[96]

An alternative approach for proxy company analysis might be to identify companies where demand for a firm's product is generally fixed and not affected by the market. Unfortunately, we do not observe such firms on stock exchanges. These considerations lead us to examine what would be the minimum acceptable return to an equity investor in a very low-risk firm.

Lowest observed betas

In order to make an empirical assessment of the minimum return an equity investor would require for a very low-risk investment, we considered the range of asset betas observed across the universe of listed firms in the United States. We chose the United States because it is a large, diversified economy for which relevant data is readily available. Professor Aswath Damodaran (who is also the author of one of the MRP methods we use) regularly publishes a set of beta estimates for each of 94 industries in the United States in spreadsheet form:

www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls (last updated on 5 January 2019)

We sorted the industries in his list in order of increasing asset beta (unlevered beta). We calculated the cumulative number of firms sampled in each industry. By plotting the cumulative fraction of firms against asset beta, we were able to construct a cumulative probability density function for asset beta. The result is shown below at Figure C.1.

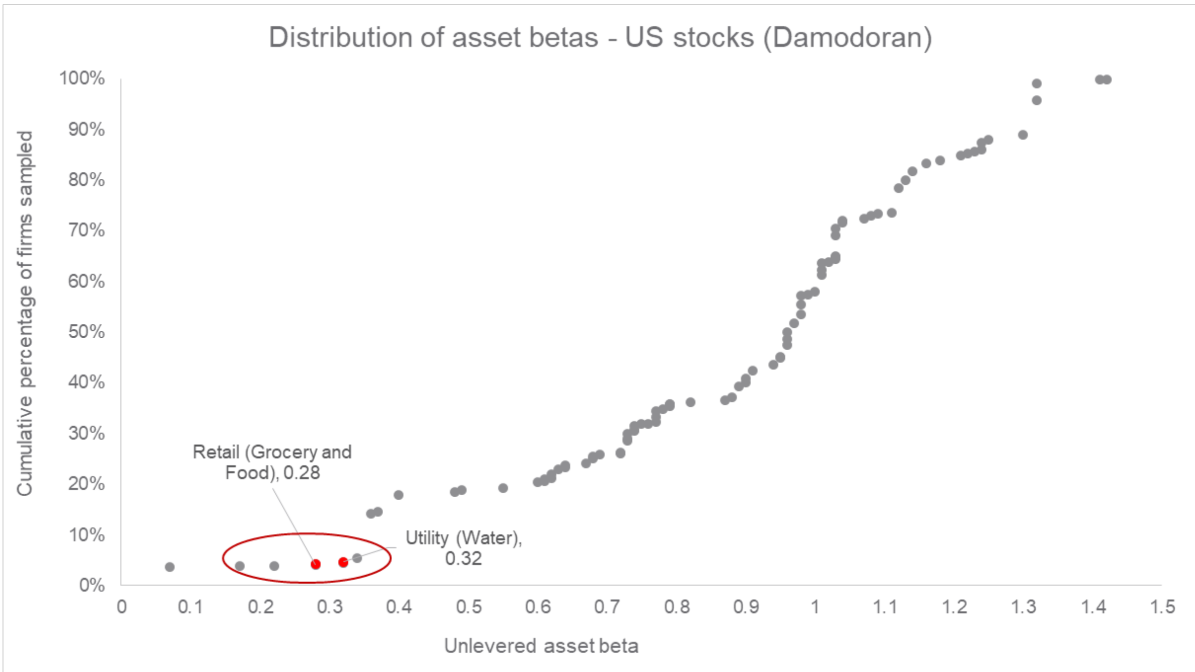
There are eight industries (comprising 387 sampled firms) in the lowest decile for asset beta. Of these, we eliminated "Financial Services (non-bank & insurance)", which has a gearing ratio of 92%. Financial firms are often unsuitable proxies because of their highly geared capital structures. For the remaining seven industries,[97] the median equity beta is 0.45 and the median gearing is 45%.

95 This risk is not firm-specific as all firms in this industry will be affected, though to a different degree depending on their level of financial/operating leverage.

96 In our 2014 review of the Valuer General's prices, we employed a proxy set compiled from the industry classification of 'business support services.' The median equity beta of that set was 0.7 but there were only seven firms in the sample. In this review, we examined a related proxy set of professional services firms with a connection to real estate. The median equity beta of this 41 firm set was close to one. An equity beta of one is not representative of a low risk firm, so we did not consider that proxy company set suitable for our purpose.

97 These seven industries are: Utility (general), Rubber & Tires, Retail (Grocery and Food), Bank (Money Center), Utility (Water), Auto & Truck, Power.

Figure C.1 Distribution of asset betas



Gearing ratio

We propose to adopt a gearing level of 45% based on the median of the seven remaining industry groups (after excluding Financial Services (non-bank & insurance)) within the lowest decile of asset beta from the Damodaran data set. This gearing level is matched to the industry with the median equity beta from that set, so it represents an example of an industry in which people are actually prepared to invest equity at the implied equity return.

WACC parameters from 2014 Valuer General price review

In our 2014 Final Report on the review of prices for land valuation services provided by the Valuer General to councils (p 73) we undertook a proxy company analysis. Noting that it is difficult to find suitable proxy firms, we considered at the time that the services in question most closely match the industry classification of 'business support services.' There were only seven firms in the chosen proxy set, including Slater & Gordon Ltd and Worley Parsons Ltd. The median equity beta from that set was 0.7 and the median gearing was 61%.

We undertook a similar analysis in this review in which we examined a proxy set containing 41 professional services firms that had some connection to the property or real estate industries. The median equity beta of this larger set was 1.0, which is inconsistent with a low-risk business.

We did not continue with the 2014 approach for two reasons. First, it is based on a proxy set that does not well capture the relevant systematic risks. Second, if we were to apply it to the data available today it would yield an equity beta of 1, which does not reflect the Valuer General's risk profile.

Comparison to other betas published by IPART

The proposed equity beta of 0.45 with 45% gearing corresponds to an asset beta of 0.28, which is at the bottom end of asset betas previously adopted by IPART. Table C.2 below shows the range of asset beta values we have previously adopted.

Table C.2 Range of asset beta values previously adopted by IPART, including Valuer General proposal

Industry	Asset beta adopted by IPART
Cruise terminal	0.60
Private ferries, Sydney ferries	0.45
Rural and regional buses	0.43
Rail access (freight rail)	0.38
Sydney and NSW Trains (passenger rail)	0.36
Light rail	0.35
Valuer General (2014, implied from equity beta and gearing)	0.34
Water industry	0.28
Valuer General (2019, proposed here)	0.28

Note: Equity beta values will be higher than these asset betas because they also reflect financial risk. The conversion between the two depends on each firm's gearing and the prevailing corporate tax rate.

Source: Final decision WACC for private ferries, p 6.

D Key impacts on council bills under proposed draft pricing structure

In the following section, we present the indicative impact on council bills from changing price structure in 2019-20, relative to if the current 2-price state-wide uniform model were adopted (that is maintaining the current price structure).

D.1 Impacts on councils' bills from zonal price structure

To assess the impact of changing price structure (ie, the impact of the current price structure versus the new proposed price structure), we compared the aggregate bill for each council for each of the four zones under our draft structure and the current structure.

Table D.1 shows the number of councils impacted by bill increases and decreases within each zone. We found that under a 4-zone pricing structure:

- Of the 128 councils, 94 will experience bill decreases and 34 will experience bill increases. In general, regional centres with significant built-up areas will pay relatively more in comparison to smaller, sparser areas with a higher proportion of non-residential areas, given they would no longer be subject to the relatively higher non-residential price.
- Of the 34 councils facing a bill increase, the majority are located in the Country zone, with some councils in the Coastal zone. As noted above, within zones, more built-up areas will pay relatively more than less built-up areas due to the 'flat' pricing structure. The bill increase for City of Sydney reflects the higher contract price for the zone due to the higher proportion of properties designated as complex or high risk in the area.

Table D.1 Number of councils impacted by draft pricing structure - by zone

Zone	Number of councils with bill increase	Number of councils with bill decrease	Total councils
Country	23	48	71
Coastal	10	15	25
Metro	0	31	31
City of Sydney	1	0	1
Total	**34**	**94**	**128**

Source: IPART calculations

As shown in Table D. 2, we found that under a 4-zone pricing structure:

- The aggregate bill for Country and City of Sydney zones will increase in 2019-20 by around $39,000 and $146,000 or 0.9% and 75.1% respectively
- The aggregate bill for Coastal and Metro zones will decrease in 2019-20 by around $11,000 and $378,000 or 0.2% and 5.3% respectively.

Table D.2 Indicative annual aggregate bill under draft pricing structure compared to property type price structure ($'000, $2018-19)

Zone	Total bill State wide 2-price structure	Total bill Proposed 4-zone structure	Difference 2019-20 aggregate bill ($)	Difference 2019-20 aggregate bill (%)
Country	4,298	4,337	39	0.9
Coastal	5,126	5,115	-11	-0.2
Metro	7,207	6,828	-378	-5.3
City of Sydney	195	341	146	75.1
Total	**16,826**	**16,622**	**-204**	**-1.2**

Note: Under our determination, prices are set to recover costs over the entire referral period. Annual differences will therefore break even over the entire referral period.

Source: IPART calculations

In Table D.3, Table D.4 and Table D.5 we present the councils with the greatest bill impacts (both increase and decrease) in each of the Country, Coastal and Metro zones.

Our draft pricing structure will mean that:

- All councils in the Metro zone will experience a bill decrease
- The highest bill increases in the Country and Coastal zones are around $41,000 (Maitland) and $34,000 (Central Coast), respectively
- The greatest bill decreases in the Country and Coastal zones are around $36,000 (Snowy Valleys) and $15,000 (Lismore), respectively.

Table D.3 Councils with greatest bill impact – Country zone ($'000, $2018-19)

Council	State wide 2-price structure Bill $	Proposed 4-zone structure Bill $	Bill impact $	Bill impact %
Top 3 councils with bill decrease				
Snowy Valleys	105	69	-36	-34.5
Snowy Monaro Regional	127	104	-23	-18.3
Upper Lachlan	61	49	-12	-19.3
Top 3 councils with bill increase				
Maitland	202	243	41	20.2
Cessnock	158	188	30	18.9
Albury	148	169	22	14.5

Source: IPART calculations

Table D.4 Councils with greatest bill impact – Coastal zone ($'000, $2018-19)

Council	State wide 2-price structure Bill $	Proposed 4-zone structure Bill $	Bill impact $	Bill impact %
Top 3 councils with bill decrease				
Lismore	131	116	-15	-11.3
Clarence Valley Regional	178	165	-13	-7.5
Kyogle	47	34	-13	-27.3
Top 3 councils with bill increase				
Central Coast	767	800	34	4
Lake Macquarie	500	516	16	3.2
Shoalhaven	358	371	14	3.8

Source: IPART calculations

Table D.5 Councils with greatest bill impact – Metro zone ($'000, $2018-19)

Council	State wide 2-price structure Bill $	Proposed 4-zone structure Bill $	Bill impact $	Bill impact %
Top 5 councils with bill decrease				
Inner West	335	303	-32	-9.4%
Canterbury-Bankstown	545	518	-27	-5.0%
Blacktown	670	645	-24	-3.6%
Fairfield	338	314	-24	-7.1%
Liverpool	371	347	-24	-6.4%
There are no councils with a bill increase				

Source: IPART calculations

The draft change in pricing structure results in a change in bills for all councils. Other than City of Sydney, the councils with the largest percentage increase in annual bill are concentrated in the Country zone and are classed as Regional Towns/Cities[98].

[98] Department of Local Government Group Numbers. Group 4 – Regional Town/City.

E Indicative bill impact – maintaining uniform pricing in 2019-20 versus IPART proposed 4-zonal pricing structure – all councils

Table E.1 Indicative bill impact – maintaining uniform pricing versus IPART draft 2019 determination ($'000, $nominal)

Region	Contract area	Council	Uniform[a] 2019-20 $'000	4 zonal[b] 2019-20 $'000	4 zonal[b] 2024-25 $'000
Country	Central Tablelands				
		Bathurst Regional	132	143	167
		Blayney	32	31	36
		Cabonne	62	56	66
		Cowra	59	57	67
		Lithgow	84	90	106
		Mid Western Regional	102	107	125
		Oberon	33	29	34
		Orange	118	136	160
Country	Central West NSW				
		Coonamble	25	21	24
		Dubbo Regional	162	175	205
		Forbes	46	41	48
		Gilgandra	23	20	23
		Hilltops	84	87	102
		Lachlan	40	34	39
		Narromine	29	27	31
		Parkes	63	62	73
		Warren	19	16	18
		Warrumbungle	54	48	57
		Weddin	26	22	25
Country	Hunter				
		Cessnock	161	192	224
		Dungog	39	39	46
		Maitland	206	247	290
		Muswellbrook	55	58	68
		Singleton	73	81	95
		Upper Hunter	63	60	70
Country	Murray				
		Albury	150	172	202
		Berrigan	38	39	45
		Edward River	42	40	47
		Federation	56	59	69
		Greater Hume	62	52	61
		Murray River	67	60	70
Country	North West NSW				
		Gunnedah	50	49	57
		Gwydir	29	25	29
		Liverpool Plains	37	34	40
		Moree Plains	54	52	61
		Narrabri	58	54	63
		Tamworth Regional	194	211	247
		Walgett	40	40	46

Region	Contract area	Council	Uniform[a] 2019-20 $'000	4 zonal[b] 2019-20 $'000	4 zonal[b] 2024-25 $'000
Country	Northern Tablelands				
		Armidale Regional	93	101	118
		Glen Innes Severn	42	41	48
		Inverell	62	62	73
		Tenterfield	43	39	46
		Uralla	24	24	28
		Walcha	18	14	17
Country	Riverina				
		Bland	39	33	38
		Carrathool	21	16	19
		Coolamon	26	23	27
		Cootamundra-Gundagai Regional	52	51	60
		Griffith	78	82	96
		Hay	15	14	17
		Junee	24	23	27
		Leeton	38	40	46
		Lockhart	26	20	24
		Murrumbidgee	25	20	24
		Narrandera	31	28	33
		Temora	33	30	35
		Wagga Wagga	189	208	244
Country	South East Regional NSW				
		Goulburn Mulwaree	109	117	137
		Queanbeyan-Palerang Regional	150	170	199
		Snowy Monaro Regional	129	106	124
		Snowy Valleys	107	70	82
		Upper Lachlan	62	50	58
		Yass Valley	59	58	68
Country	Western NSW				
		Balranald	16	14	16
		Bogan	19	16	19
		Bourke	18	16	18
		Brewarrina	11	9	11
		Broken Hill	68	80	94
		Central Darling	16	14	17
		Cobar	27	25	29
		Wentworth	35	32	38
Country Total			**4,371**	**4,411**	**5,169**

Region	Contract area	Council	Uniform[a] 2019-20 $’000	4 zonal[b] 2019-20 $’000	4 zonal[b] 2024-25 $’000
Coastal	North Coast NSW				
		Ballina	105	100	117
		Bellingen	43	40	47
		Byron	92	88	103
		Clarence Valley	181	168	197
		Coffs Harbour	179	181	212
		Kempsey	101	93	109
		Kyogle	48	35	41
		Lismore	133	118	138
		Mid-Coast	345	332	389
		Nambucca	64	61	71
		Port Macquarie-Hastings	212	207	243
		Richmond Valley	76	67	78
		Tweed	206	201	236
Coastal	Hunter Coast				
		Central Coast	780	814	954
		Lake Macquarie	508	524	615
		Newcastle	367	377	442
		Port Stephens	196	196	230
Coastal	South Coast NSW				
		Bega Valley	122	122	143
		Eurobodalla	159	158	185
		Kiama	64	64	74
		Shellharbour	157	164	192
		Shoalhaven	364	378	443
		Wingecarribee	156	150	176
		Wollondilly	117	118	139
		Wollongong	439	447	524
Coastal Total			**5,214**	**5,202**	**6,096**

Region	Contract area	Council	Uniform[a] 2019-20 $'000	4 zonal[b] 2019-20 $'000	4 zonal[b] 2024-25 $'000
Metro	Sydney Central				
		Burwood	50	46	54
		Canada Bay	115	109	127
		Canterbury-Bankstown	554	527	617
		Cumberland	317	301	353
		City of Parramatta	306	288	337
		Hornsby	259	246	288
		The Hills Shire	324	319	373
		Inner West	341	308	361
		Ku-ring-gai	205	201	236
		Ryde	165	157	184
		Strathfield	48	44	52
Metro	Sydney Coast North				
		Hunters Hill	24	22	26
		Lane Cove	49	47	55
		Mosman	44	41	48
		North Sydney	74	62	73
		Northern Beaches	424	409	480
		Willoughby	112	104	122
Metro	Sydney Coast South				
		Bayside	212	197	231
		Georges River	222	214	251
		Randwick	165	159	186
		Sutherland	381	366	429
		Waverley	82	79	93
		Woollahra	85	80	94
Metro	Sydney North West				
		Blue Mountains	236	222	260
		Hawkesbury	157	147	172
Metro	Sydney West				
		Blacktown	681	656	769
		Camden	225	206	242
		Campbelltown	343	321	376
		Fairfield	343	319	374
		Liverpool	377	353	414
		Penrith	408	391	459
Metro Total			**7,329**	**6,945**	**8,137**
Sydney City		City of Sydney	198	347	406
Sydney City Total			**198**	**347**	**406**

a Indicative bill for uniform pricing 2019-20 based on IPART draft decision of $5.63 for residential and $12.38 for non-residential ($nominal)

b Indicative bill for 2019-20 and 2024-25 based on IPART draft decision under 4 – zonal pricing, inflated at CPI forecast ($nominal)

F Indicative bill impact – current 2018-19 bill versus 2019-20 bill under proposed zonal pricing structure – all councils

Table F.1 Indicative bill impact – 2014 Determination versus IPART Draft 2019 Determination ($'000, $nominal – ie, including the effects of inflation)

Region	Contract area	Council	2018-19 2014 Determination[a] $'000	2019-20 2019 Draft Determination[b] $'000	2024-25 2019 Draft Determination[b] $'000
Country	Central Tablelands				
		Bathurst Regional	135	143	167
		Blayney	33	31	36
		Cabonne	63	56	66
		Cowra	60	57	67
		Lithgow	86	90	106
		Mid Western Regional	105	107	125
		Oberon	33	29	34
		Orange	121	136	160
Country	Central West NSW				
		Coonamble	25	21	24
		Dubbo Regional	166	175	205
		Forbes	47	41	48
		Gilgandra	24	20	23
		Hilltops	86	87	102
		Lachlan	41	34	39
		Narromine	30	27	31
		Parkes	65	62	73
		Warren	19	16	18
		Warrumbungle	55	48	57
		Weddin	26	22	25
Country	Hunter				
		Cessnock	165	192	224
		Dungog	40	39	46
		Maitland	211	247	290
		Muswellbrook	56	58	68
		Singleton	75	81	95
		Upper Hunter	64	60	70
Country	Murray				
		Albury	154	172	202
		Berrigan	39	39	45
		Edward River	43	40	47
		Federation	57	59	69
		Greater Hume	63	52	61
		Murray River	68	60	70
Country	North West NSW				
		Gunnedah	51	49	57
		Gwydir	30	25	29
		Liverpool Plains	38	34	40
		Moree Plains	55	52	61
		Narrabri	59	54	63
		Tamworth Regional	199	211	247
		Walgett	41	40	46

Region	Contract area	Council	2018-19 2014 Determination[a] $'000	2019-20 2019 Draft Determination[b] $'000	2024-25 2019 Draft Determination[b] $'000
Country	Northern Tablelands				
		Armidale Regional	95	101	118
		Glen Innes Severn	43	41	48
		Inverell	63	62	73
		Tenterfield	44	39	46
		Uralla	24	24	28
		Walcha	18	14	17
Country	Riverina				
		Bland	40	33	38
		Carrathool	22	16	19
		Coolamon	26	23	27
		Cootamundra-Gundagai Regional	54	51	60
		Griffith	80	82	96
		Hay	15	14	17
		Junee	25	23	27
		Leeton	39	40	46
		Lockhart	27	20	24
		Murrumbidgee	26	20	24
		Narrandera	32	28	33
		Temora	34	30	35
		Wagga Wagga	194	208	244
Country	South East Regional NSW				
		Goulburn Mulwaree	112	117	137
		Queanbeyan-Palerang Regional	153	170	199
		Snowy Monaro Regional	132	106	124
		Snowy Valleys	110	70	82
		Upper Lachlan	63	50	58
		Yass Valley	60	58	68
Country	Western NSW				
		Balranald	17	14	16
		Bogan	20	16	19
		Bourke	19	16	18
		Brewarrina	11	9	11
		Broken Hill	70	80	94
		Central Darling	17	14	17
		Cobar	27	25	29
		Wentworth	36	32	38
Country Total			**4,481**	**4,411**	**5,169**

Region	Contract area	Council	2018-19 2014 Determination[a] $'000	2019-20 2019 draft Determination[b] $'000	2024-25 2019 draft Determination[b] $'000
Coastal	North Coast NSW				
		Ballina	107	100	117
		Bellingen	44	40	47
		Byron	94	88	103
		Clarence Valley	186	168	197
		Coffs Harbour	183	181	212
		Kempsey	104	93	109
		Kyogle	49	35	41
		Lismore	136	118	138
		Mid-Coast	353	332	389
		Nambucca	66	61	71
		Port Macquarie-Hastings	217	207	243
		Richmond Valley	78	67	78
		Tweed	211	201	236
Coastal	Hunter Coast				
		Central Coast	799	814	954
		Lake Macquarie	521	524	615
		Newcastle	376	377	442
		Port Stephens	200	196	230
Coastal	South Coast NSW				
		Bega Valley	125	122	143
		Eurobodalla	163	158	185
		Kiama	66	64	74
		Shellharbour	161	164	192
		Shoalhaven	373	378	443
		Wingecarribee	160	150	176
		Wollondilly	120	118	139
		Wollongong	450	447	524
Coastal Total			**5,344**	**5,202**	**6,096**

Region	Contract area	Council	2018-19 2014 Determination[a] $'000	2019-20 2019 draft Determination[b] $'000	2024-25 2019 draft Determination[b] $'000
Metro	Sydney Central				
		Burwood	51	46	54
		Canada Bay	118	109	127
		Canterbury-Bankstown	568	527	617
		Cumberland	325	301	353
		City of Parramatta	314	288	337
		Hornsby	265	246	288
		The Hills Shire	332	319	373
		Inner West	349	308	361
		Ku-ring-gai	210	201	236
		Ryde	169	157	184
		Strathfield	49	44	52
Metro	Sydney Coast North				
		Hunters Hill	24	22	26
		Lane Cove	51	47	55
		Mosman	45	41	48
		North Sydney	75	62	73
		Northern Beaches	435	409	480
		Willoughby	115	104	122
Metro	Sydney Coast South				
		Bayside	218	197	231
		Georges River	228	214	251
		Randwick	169	159	186
		Sutherland	390	366	429
		Waverley	84	79	93
		Woollahra	87	80	94
Metro	Sydney North West				
		Blue Mountains	242	222	260
		Hawkesbury	161	147	172
Metro	Sydney West				
		Blacktown	698	656	769
		Camden	231	206	242
		Campbelltown	352	321	376
		Fairfield	352	319	374
		Liverpool	387	353	414
		Penrith	418	391	459
Metro Total			**7,513**	**6,945**	**8,137**
Sydney City		City of Sydney	203	347	406
Sydney City Total			**203**	**347**	**406**

[a] Indicative bill for 2018-19 based on current determination $5.87 for residential and $12.91 for non-residential ($2018-19)

[c] Indicative bill for 2019-20 and 2024-25 based on IPART draft decision under 4 – zonal pricing, inflated at CPI forecast ($nominal)

G Glossary

2019 Determination	Refers to the upcoming price period – ie, prices from 1 July 2019 to 30 June 2025 (unless the 2019 Determination is replaced by a subsequent determination during the referral period).
2014 Determination	Refers to the current price period – ie, prices from 1 July 2014 to 30 June 2019.
ABS	Australian Bureau of Statistics
Ad valorem tax	A tax based on the value of real estate or personal property.
ATO	Australian Tax Office
Council	Councils of areas under the Local Government Act
Declared services	The services declared to be government monopoly services under the *Government Pricing Tribunal (Valuer-General's Services) Order 1993* (Gazette No. 89, 13 August 1993, page 4571): “Furnishing valuation lists and supplementary lists under Part 5 of the *Valuation of Land Act 1916* by the Valuer-General to a council of an area under the *Local Government Act 1993”.*
DFSI	Department of Finance, Service and Innovation.
OFS	Office of Finance and Services (now DFSI)
Glide path	A method of setting prices such that they transition towards cost-recovery over the determination period.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
IPART Act	*Independent Pricing and Regulatory Tribunal Act 1992* (NSW)
JSCOVG	The Joint Standing Parliamentary Committee on the Office of the Valuer-General that monitors and reviews the exercise of the Valuer-General's functions with respect to land valuations.

LPI	Land and Property Information - previously part of the Department of Finance and Services, which managed the valuation system on behalf of the Valuer-General. Functions now transferred to Property NSW.
Local Government Act	*Local Government Act 1993* (NSW)
NPV	Net present value
NRR	Notional revenue requirement
Property NSW	Part of DFSI - manages the valuation system on behalf of the Valuer General under a Service Level Agreement (SLA).
RAB	Regulatory asset base
RBA	Reserve Bank of Australia
Referral period	The period over which the determination(s) is to apply - ie, from 1 July 2014 to 30 June 2019. The ToR require that new determination(s) of maximum pricing for the Valuer-General's land valuation services to councils apply in total for a period of five years.
SLA	Service Level Agreement, which is reviewed regularly, establishes performance standards and defines the separation of responsibilities and accountabilities between the Valuer General and Property NSW.
Valuation of Land Act	*Valuation of Land Act 1916* (NSW)
VoL Act	*Valuation of Land Act 1916* (NSW)
Valuer General	An independent statutory officer appointed by the Governor of New South Wales to oversee the valuation system.
VSLPI	Valuation Services business unit of LPI, which provides the majority of valuation services to the Valuer-General.
WACC	Weighted average cost of capital