Independent Pricing and Regulatory Tribunal

Review of prices for valuation services provided by the Office of the Valuer General for local councils

Other Industries — Draft Report
May 2008

IPART
New South Wales

Independent Pricing and Regulatory Tribunal

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Invitation for submissions

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

Submissions are due by 13 June 2008.

We would prefer to receive them by email <ipart@ipart.nsw.gov.au>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

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Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au>. 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 on the previous page.

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. IPART will then make every effort to protect that information, but it could be subject to appeal under Freedom of Information legislation.

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

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1 Introduction

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) is responsible for setting charges for government monopoly services. The services of "furnishing valuation lists to authorities 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*" are declared to be government monopoly services for the purpose of section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act).

IPART last made a determination of the maximum prices for valuation services in 1995[1]. These prices applied from 1 July 1996. The Premier wrote to IPART on 7 December 2007 requesting a new determination[2].

This report explains IPART's review process and pricing decisions. It accompanies and explains IPART's Draft Determination. This Draft Determination proposes prices for the period from 1 July 2009 to 30 June 2014.

1.1 The Valuer General's services

The statutory functions of the Valuer General set out in the *Valuation of Land Act 1916* include:

- establishing and maintaining the Register of Land Values containing, among other things, information about the location or description of land as well as the ownership, occupation, title and value of that land
- making valuations of land
- dealing with objections and appeals against valuations of land under the Act.

The Office of the Valuer General consists of a team of six people within the Department of Lands. It is supported by Valuation Services Land and Property Information (VSLPI), a discrete unit within Land and Property Information (LPI). LPI is itself a division of the Department of Lands.

1 Government Pricing Tribunal, *Valuer-General's Office Charges to Councils from 1 July 1995*.
2 The Terms of Reference for this determination are in Appendix A.

VSLPI provides assistance to the Valuer General by carrying out land valuations and maintaining a database of those valuations. This is one of the three main functions of LPI, the others being maintenance of the State's spatial data information and the keeping of a register of land title.

More specifically, VSLPI undertakes the following valuation services on behalf of the Valuer General:

- general valuations
- supplementary valuations
- objections
- land data management services
- compensation and special valuation services (which are conducted on a fee for service basis).

The main users of land valuation services are:

- **local councils,** which use land valuations to derive property rates
- **Office of State Revenue (OSR)**, which uses land valuations to determine annual land tax obligations
- **NSW Fire Brigade**, which imposes levies on the insurance industry and local councils calculated with reference to land values
- **State Government agencies,** such as NSW Maritime and Crown Lands, which use valuations for the calculation of leases and other agencies which use land valuations to determine compensation for the compulsory acquisition of land
- **Commonwealth Grants Commission**, which uses land valuations to assist in the allocation of Commonwealth grants between States and Territories.

Valuation information is also used by private property information brokers and members of the public who purchase data on land values.

1.2 Scope of the review

IPART's review covered the Valuer General's prices for valuation services provided to local councils.

This review was conducted under section 12 of the IPART Act. Section 15 of the IPART Act requires IPART to consider a broad range of matters when conducting reviews, including:

- the **cost** of providing the services
- the **protection of consumers** from abuses of monopoly power in terms of prices, pricing policies and standard of services

- 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
- the **effect on general price inflation** over the medium term
- the **need for greater efficiency** in the supply of the services so as to reduce costs for the benefit of consumers and taxpayers
- the **need to maintain ecologically sustainable development** by appropriate pricing policies that take account of all the feasible options available to protect the environment
- 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
- 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
- the **need to promote competition** in the supply of the services
- **considerations of demand management** (including levels of demand) and least cost planning
- the **social impact** of IPART's determinations and recommendations
- **standards of quality, reliability and safety** of the services.

In considering these matters in the course of this review, IPART has had to balance the needs and interests of stakeholders and the requirement that the Office of the Valuer General and VSLPI are adequately recompensed for the services they provide.

1.3 Review process

IPART's review included investigation of the costs of the Office of the Valuer General and VSLPI, interviews with the Valuer General and a public consultation process. As part of the review, IPART:

- invited the Valuer General to make a submission detailing his pricing proposals, as well as requiring his office to provide detailed financial and performance data on the current and future capital and operating expenditure necessary to maintain customer service levels
- released an Issues Paper in February 2008[3] to assist in identifying and understanding the key issues for review
- invited other interested parties to make submissions[4].

3 IPART, *Review of prices for valuation services provided by the Office of the Valuer General for local councils,* Other Industries – Issues Paper, February 2008.

4 A total of nine written submissions were received from other interested parties. These are listed in Appendix C.

IPART examined the Valuer General's submission, submissions received from other interested parties and undertook its own analysis. It also considered the matters it is required to consider under section 15 of the IPART Act (see section 1.2 above and Appendix B).

IPART will progress this review by holding a public workshop at its offices on Wednesday 4 June 2008. Following the workshop and the receipt of submissions to this Draft Report and the Draft Determination IPART will consider all matters raised. IPART anticipates that it will publish and release its Final Determination (and accompanying report) before 31 July 2008.

1.4 Overview of the determination

The prices charged by the Valuer General have not increased since 1996. The effects of inflation since that time have meant that, in the period 1996/97 to 2007/08, there has been a real decline of approximately 24 per cent[5] in the prices charged for valuation services.

Over this same period productivity growth in the Australian economy has varied between 1.1 and 2.3 per cent[6] per annum, with an overall improvement of approximately 15 per cent over the whole period[7]. The Valuer General has been, and is, investing heavily in information technology and productivity improvements in the information technology sector have been significantly greater than the national average[8]. However, the costs of information technology are only part of the costs arising from providing the Valuer General's services.

The Valuer General provided a detailed costing for the provision of valuation services in both his original and supplementary submissions. The Valuer General has benchmarked the cost of service provision against similar service providers in support of his argument that his costs are efficient[9]. In addition, a number of inquiries in recent years[10] have reviewed the service and service levels provided by the Valuer General. The principal outcome of these inquiries has been an increase in the number of individual property valuations. This reduced reliance on mass valuations has increased the Valuer General's resource requirements.

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5 Sourced from ABS Consumer Price Index 6401.0 Index 1996=119.0, Index 2007 = 155.6.

6 ABS 5204.0 Australian System of National Accounts 2006-07.

7 *Ibid* p 8.

8 ABS 6457.0 International Trade Price Indexes Dec 2007.

9 Department of Lands submission, *Price review of rating valuation services by the Valuer General to local government*, January 2008, p 52.

10 NSW Ombudsman, *Improving the Quality of Land Valuations issued by the Valuer General: A special report to Parliament under s31 and s26 of the Ombudsman Act 1974*, October 2005 (Ombudsman's Report 2005).
Reports of the Joint Committee on the Office of the Valuer General 2003-2007
Deloitte Touche Tohmatsu, *Review of Competitive Tendering for Mass Valuation Services: Final Report*, October 2001 and
Julie Walton, *Report of Inquiry Into Operation of Valuation of Land Act*, October 1999.

IPART has modelled the annual revenue requirement (ARR) for the Valuer General. In undertaking its calculations IPART used the Valuer General's nominated operating expenditure and regulatory asset base (RAB) for comparison purposes. However, IPART used the methods usually employed for regulatory purposes to calculate the return of and on assets using a rate of return of 7 per cent (real pre-tax) for the Valuer General.

IPART's calculations found that the prices to obtain the ARR were comparable to adjusting the prices in the 1995 Determination by changes in the Consumer Price Index (CPI). IPART has therefore decided to set prices from 2009/10 by adjusting prices in the 1995 Determination by the change in CPI. Given IPART's findings on efficient costs and improvements in the quality of the services provided by the Valuer General in recent years, IPART considers this to be an equitable outcome.

IPART believes that the increased costs of additional service provision flowing from these inquiries can be adequately accommodated by increasing prices by changes in CPI from 1996/97 to 2007/08. Beyond that date IPART has assumed a 1 per cent per year efficiency gain.

IPART has determined a 10 per cent increase in the nominal price for residential valuations in 2009/10 and a gradual increase to full efficient cost recovery prices in 2013/14.

Based on projected volumes of valuations prepared by the Valuer General, IPART's prices provide a Net Present Value (NPV) of $54.4m in revenue compared to $54.2m using prices proposed by the Valuer General.

2 The Valuer General's submission

The Valuer General's submission outlines the business structure of VSLPI within the LPI division of the Department of Lands[11]. The submission includes a detailed breakdown of the direct costs incurred in providing rating valuations to local councils between 2007 and 2014[12] and outlines the rationale for allocating indirect costs incurred within LPI. The price path proposed by the Valuer General allows for the proportion of recovery of efficient costs to increase from approximately 65 per cent in 2008/09 to full cost recovery (with efficiency savings) in 2013/14[13].

The Valuer General notes that costs have increased over recent years as a result of steps taken to implement recommendations made in the Ombudsman's Report 2005 and other reports. The cost increases are expected to continue through financial years 2007/08 and 2008/09 as a consequence of increases in staffing levels.

The Valuer General contends that the recent reviews of the valuation service, by the Ombudsman and others, verify that the service is being provided efficiently. Once all the recommendations made in those reviews have been implemented, costs will have peaked and there will be scope for on-going productivity improvements and therefore real cost reduction beyond that point.

The Valuer General has calculated the allocation of costs between the major users - OSR and local councils - and other "minor" users. The average cost of providing services to the major users is determined by the number of valuations used by each user and the proportion of staff and resources employed in providing the valuation services. Minor users are charged on the basis of the additional costs incurred for providing the required information.

2.1 Total revenue requirement

The Valuer General has estimated the efficient cost of providing valuation services to local councils to be $14.5 million (real 2007/08) in 2007/08, increasing to $15.2 million (real 2007/08) in 2008/09[14]. The real increase of 4.9 per cent between 2007/08 and

11 The Department of Lands' principal submission and clarifications made in supplementary submissions can be sourced from www.IPART.nsw.gov.au.

12 Department of Lands submission, January 2008, Table 5.1, p 27.

13 Department of Lands submission, January 2008, Figure 1, p 2.

14 Department of Lands submission (Addendum 1), February 2008, Table 5.1, p 6. This is based on an allocation of 40 per cent of total costs to local councils and 60 per cent OSR.

2008/09 reflects the increased staffing levels necessary to meet the higher service levels demanded by the Ombudsman's recommendations. After 2008/09 the total costs are projected to stay approximately constant in real terms. However, the Valuer General has proposed a target revenue reduction of 1 per cent per annum, which requires productivity improvements to deliver a corresponding reduction in total costs. In addition, the Valuer General proposes to reduce unit costs further in line with the anticipated number of additional properties to be valued.

The Valuer General notes that 43 per cent of operating expenditure is incurred through competitively tendered contracts. The Valuer General argues that this ensures that these costs, being market tested, are efficient.

2.1.1 Return on and of capital

Most of the assets utilised in the valuation process are located within LPI. Therefore, the return on and of assets is predominately an allocation from LPI. These have been allocated on an average cost basis between VSLPI and other services provided by LPI. The proportion of each asset allocated to the provision of valuation services is determined on a discretionary basis by senior management within the Department of Lands taking into account such variables as FTE[15] staff employed in the service and building occupancy rates. The amount allocated from LPI to the Valuer General represents 8.5 per cent of LPI's total asset base. If the allocation was done purely on a FTE basis the allocation would be 15.3 per cent.

2.1.2 Rate of return

The Valuer General has proposed a rate of return on assets of 5 per cent above the risk free rate[16] by nominating the business to be a medium risk enterprise[17]. The justification for this proposal is that the assets are predominantly owned by LPI and LPI's business is exposed to the property market cycle.

2.2 Allocation of costs

The Valuer General has allocated fixed costs solely between local councils and OSR. The submission includes details of each cost item and the allocation to each. The resulting overall cost allocation is calculated as 40 per cent to local councils and 60 per cent to OSR. All other users are either not charged or pay the marginal (incremental) cost of extending the service to them.

15 Full Time Equivalent.

16 Department of Lands submission, January 2008, p 34.

17 The reference cited is Australian Government Competitive Neutrality Complaints Office (2004), *Australian Valuation Office: Investigation No 11*, p 8.

2.3 Price proposals

The Valuer General has proposed a glide path to achieve full recovery of efficient costs by 2013/14[18]. The Valuer General's submission proposed that the prices charged to City of Sydney Council (City of Sydney) increase at a rate approximately 20 per cent higher per year than the increase in charge to other local councils to reflect the difference in the cost of providing the valuation service. The Valuer General's proposed prices are given in Table 2.1.

Table 2.1 Real price forecasts for 2009-10 to 2013-14 ($real 2007/08)

	Current prices	Proposed prices ($ real 2007/08) ($ per property)				
Proposed (real) prices	**2007/08**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Residential	$3.60	$3.74	$3.99	$4.26	$4.54	$4.84
Non-residential	$7.90	$8.22	$8.76	$9.34	$9.96	$10.62
City of Sydney	$4.67	$5.76	$7.28	$9.21	$11.64	$14.71
Total real revenue (millions)	$10.0	$10.6	$11.5	$12.4	$13.4	$14.5

Source: Department of Lands submission, Addendum 1, February 2008, Table 7.1, p 8.

18 The Valuer General has applied efficiency savings of 1 per cent per annum over the price path. The 2013/14 proposed revenue reflects these savings.

3 Other stakeholders' submissions

3.1 Total revenue required

Those local councils that made submissions to IPART agreed that the Valuer General should recover reasonable levels of costs but that efficiencies should be built in for external contracts and technological improvements. They agreed that efficiency savings of 1 per cent per annum should be achievable. They also noted that investment in IT should lower costs, and not result in price increases.

The main point made by Murray Shire Council is that prices in NSW need to be directly comparable with those in Victoria, where there is a contestable market for valuing properties for rateable purposes. Murray Shire Council believes that there is no justification for the proposed price increases. Murray Shire Council further argues that since water rights have been separated from property titles this makes the valuation service simpler and should lead to a reduction, rather than increase, in the price of valuation services for Murray Shire.

Ryde Council's submission focused on the lack of contestability for valuation services for local councils. Ryde Council notes that local councils do not need accurate valuations each year. Councils simply need to have valuations that are relatively accurate between properties in their municipality because changes in valuations do not increase overall rate revenue, only the burden on whom they fall.

3.2 Return on and of capital

The Local Government and Shires Associations of NSW (LGSA) accepted that competitive tendering of valuation contracts results in efficient costs. However, Blacktown City Council queried whether there is sufficient competition for the provision of valuation services and suggested that there should be further investigation into the costs associated with valuation contracts. Many local councils who made submissions contended that the rate of return proposed by the Valuer General was not considered appropriate given that it is not a competitive service and that councils are obliged by legislation to use the valuation services of the Office of the Valuer General for valuation services for rating.

Ryde City Council also questioned the average life of intangible assets. It considers that 4 years is insufficient and that a much longer life is appropriate.

3.3 Allocation of costs

The general consensus across many submissions was that costs should be allocated on an average cost basis across all users. An extension of differential pricing beyond the current differential between residential and non-residential is not supported.

3.4 Price proposals

Many of the stakeholders' submissions noted that current pegging of councils' rates was set at 3.5 per cent and that the proposed increase of 9.3 per cent (nominal) for the Valuer General's services represents a significant increase in costs.

Most local councils who made submissions also believe that the current standard or quality of valuation services is satisfactory and has remained constant or improved since 2005. This contention was, however, countered by a private submission that suggested poor service quality.

3.4.1 Differential pricing

City of Sydney queried the methodology for competitively tendering valuation contracts since the contract for valuation services in the City of Sydney has higher charges than those for other local council areas. The submission also notes that changes in the boundaries of contract areas can significantly affect the average price for each valuation in a particular area. City of Sydney prepared examples of the impact of combining the valuation contracts with different area boundaries (in effect to dilute the higher valuation cost). In one of the examples provided the average cost is reduced by approximately 40 per cent.

City of Sydney challenged the differential pricing proposed for it. It argued that 55 per cent of local council areas have mass valuation contracts above the average price yet all other councils are charged a postage stamp price.

City of Sydney also noted that 11 per cent of valuations within its area are for non-rateable properties. It does not believe that it should pay for valuations for properties such as the Sydney Opera House, University of Sydney and University of Technology, for which it is not able to charge rates.

4 Context of IPART's decisions

IPART's decisions have been made in the context of the regulatory and business environment within which the Valuer General operates.

The Government has nominated LPI as a Government Business Enterprise (GBE), and as such LPI is required to operate as a commercial entity with competitive neutrality.

The *Local Government Act 1993* and *Valuation of Land Act 1916* require local councils to use the Valuer General for the land valuations it uses to set rates. This removes any scope for local councils to obtain valuations elsewhere and also eliminates any revenue risk for the Valuer General.

The *Valuation of Land Act 1916* also requires the Valuer General to notify the landowner of any valuation that is supplied to a local council for that parcel of land.

5 Costs of service provision

Finding

1 IPART finds that the increased costs of additional service provision flowing from the Ombudsman's 2005 Report[19], up to and including 2008/09, can be adequately accommodated by increasing prices by changes in CPI from 1996/97 to 2007/08.

2 IPART finds that an ongoing productivity improvement of 1 per cent per annum can be expected in the period 2007/08 to 2013/14.

As part of its review IPART modelled the costs (revenue requirement) for the 2007/08 financial year for the provision of valuation services. In the first instance IPART used the financial information given in the Valuer General's submission, rather than incurring additional costs in undertaking further investigations. The revenue requirement is described below and represented in Table 5.1[20].

IPART normally determines the ARR using the building block approach. This approach involves establishing the efficient costs of the Valuer General that comprise:

- operating expenditure
- return on capital (rate of return on capital)
- return of capital (depreciation).

5.1 Operational expenditure

Estimating the efficient operating expenditure of providing valuation services involves identifying the costs associated with each of the following:

- direct costs of the Office of the Valuer General, predominantly labour costs
- direct costs of VSLPI, including:
  - direct labour costs and on-costs
  - rent
  - postage (property value notifications to ratepayers)
  - mass valuation contracts

19 The Ombudsman's Report 2005.

20 IPART used the 1995 Determination as the basis for its calculations. Modelling of efficient costs was undertaken for comparison purposes only.

  - other valuation contracts (objections and appeals)
- allocated costs from LPI, including:
  - graphic services
  - administration costs
  - other allocated costs.

IPART used the financial information provided by the Valuer General to represent operating costs in the format required for the building block approach.

IPART accepts that the 43 per cent of total operating expenditure, which consists of competitively tendered valuation contracts, represents efficient costs.

The Valuer General's submission benchmarks services against comparable organisations to demonstrate efficiency of nearly all of the remaining costs.

In his submission the Valuer General notes that labour rates are market driven and that the average wage for VSLPI employees decreased to below the average public sector wage benchmark in 2005/06. The average VSLPI wage is predicted to increase in 2007/08 due to increases in the experience and expertise in the workforce but then is forecast to remain constant in real terms throughout the price path. The Valuer General notes that, in practice, this may be unrealistic but proposes to absorb any real increases within efficiency savings. The number of employees providing valuation services was reviewed as part of the Ombudsman's Report (2005). VSLPI also undertook an internal review to asses the implications, on staffing requirements, of adopting the recommendations within the report. The Valuer General noted in his submission that the proposed staffing levels were endorsed by NSW Cabinet[21].

The Valuer General's submission also provides benchmarking information for postage, rent, graphic services, administration and cost of capital, which accounts for approximately 87 per cent of the operating costs allocated to local councils.

The Valuer General notes that rental rates are higher than the average for NSW Government staff but that this is explained by the larger areas required for plans and maps. There are also procedures in place to minimise future rent payments through use of Government guidelines and merging office space with regional Crown Lands' offices. Rent comprises only 2 per cent of the operating costs allocated to local councils.

The remaining benchmarking evidence presented by the Valuer General demonstrates that graphic services are comparable to the private sector. The Valuer General quoted an internally commissioned study by KPMG that concluded that IT, finance and human resources expenditure compares favourably with other organisations despite the unique nature of much of the software used.

21 Department of Lands submission, January 2008.

Having reviewed the evidence presented in the Valuer General's submission, IPART accepts that the operating expenditure in that submission is at an efficient level.

5.2 Rate of return and depreciation

To determine both a return on assets (rate of return) and a return of assets (depreciation) it is necessary to determine an efficient Regulatory Asset Base (RAB) and the full and remaining lives for each asset class. The Valuer General's submission included allowances for return on assets and return of assets, but the method of calculation used was different from that used in a regulatory environment. IPART's calculations utilise the same input values but the calculation methods used have been amended.

IPART has estimated the opening RAB for 2007/08 using the allocated closing asset base for 2006/07, proposed by the Valuer General and adjusting for CPI. Based on IPART's calculations, using the Valuer General's financial information, the opening RAB (for 2007/08) is $11.6 million.

IPART has estimated the regulatory depreciation for 2007/08 at $1.52 million. This is significantly lower than the amount proposed by the Valuer General[22] in supplementary information provided to IPART. The variation between the two estimates is due to the following:

- IPART has not included depreciation on land in its calculation.
- IPART has assumed that all assets under construction are depreciated over their full economic life rather than the average remaining life of the asset class.
- IPART has assumed that data processing equipment is within the plant and equipment asset group and has a remaining asset life of 2.5 years. In contrast, the Valuer General's figures use 2.0 years (being the remaining asset life for intangibles)

5.2.1 Rate of return

The Valuer General proposed a rate of return of 11 per cent nominal (approximately 8 per cent real).

IPART has used the CAPM[23] in determining the rate of return for other entities that it regulates, such as Sydney Water and Energy Australia. Under this approach the cost of capital varies according to the degree of systematic (economic) risk that the business faces. This depends on the extent to which revenues and costs are correlated with economic activity. IPART considers that the Valuer General has considerably less revenue volatility, and no greater cost volatility than other regulated agencies such as Sydney Water Corporation. Variation in economic

22 The Valuer General proposed a figure of $3.42million.
23 Capital Asset Pricing Model

activity will affect the demand of the commercial and industrial sectors for water and wastewater services, and therefore Sydney Water's revenues. By contrast the demand for valuation services is driven by statutory requirements and is unaffected by economic activity.

In its recent draft determination IPART decided, using information available at December 2007, that Sydney Water's rate of return should be 7.1 per cent (real pre-tax)[24]. IPART notes that debt costs have risen since that time. Having regard to the above IPART has decided that a rate of return of 7.0 per cent (real pre-tax) should be used to calculate the return on assets and the NPV of cash-flows for the Valuer General.

5.2.2 Asset lives

Using the asset lives and asset values proposed by the Valuer General IPART estimated the average remaining asset life as 6.92 years as at 2007/08. This short asset life is due to the high proportion of IT assets and specialised software. IPART accepted the Valuer General's proposed asset lives, for each asset class[25], for modelling and comparison purposes.

5.3 Annual Revenue Requirement

Table 5.1 below compares the ARR for 2007/08 using the Valuer General's submission and IPART's calculation methods.

IPART has used the assumptions drawn earlier in this chapter to calculate the ARR for the Valuer General. The calculations incorporate the following:

- The operating expenditure and the value of the RAB, as proposed by the Valuer General, are efficient[26].
- Depreciation has been recalculated using the methods usually employed for regulatory purposes.
- Return on assets has been calculated using a rate of return of 7 per cent (real pre-tax).

24 IPART, *Review of Prices for Sydney Water Corporation's Water, Sewerage, Stormwater and other services*, Draft Report, March 2008.

25 However, IPART reallocated data processing equipment to the plant and equipment asset class rather than intangibles as used by the Valuer General.

26 As noted in section 5.1 this conclusion is drawn from the market testing and benchmarking evidence provided by the Valuer General and has not been investigated further.

Table 5.1 Valuer General's revenue requirement 2007/08

($,000 real 2007/08)	Valuer General's submission		IPART's calculation	
Operating expenditure				
Direct Valuer General costs	841		841	
Direct VSLPI costs	28,922		28,922	
Allocated LPI costs	4,425		4,425	
		34,188		34,188
Return on Assets[27]		1,493		976
Return of Assets (depreciation)		3,421		1,517
Total		**39,102**		**36,681**

Source: Department of Lands submission, January 2008 and IPART's calculations.

5.4 Productivity gains

5.4.1 Since the last determination

The Australian Bureau of Statistics (ABS) estimates that the average productivity growth in the Australian economy has been between 1.1 and 2.3 per cent per annum since 1996[28]. ABS data indicates that the prices of office machines have fallen rapidly in recent years[29]. Since information technology is an important input, this suggests that the Valuer General has had some scope to make efficiency gains[30]. However, the quality of the services provided by the Valuer General and the costs incurred have also been increasing.

IPART notes the additional investment made by the Valuer General in implementing the recommendations made in the Ombudsman's Report 2005 and improving the quality of the service provided. The Ombudsman's Report included thirty eight recommendations that sought to remedy the deterioration in the quality of the baseline data and improve the quality assurance procedures surrounding future valuations. Additional costs have been incurred as a result of the employment of additional staff (particularly District Valuers) and improvements in valuation methodologies to achieve more accurate valuations. The report specifically identified

27 This was calculated on a 2007/08 asset base of $11.6 million.

28 ABS 5204.0 Australian System of National Accounts 2006-07.

29 ABS 6457.0 International Trade Price Indexes Dec 2007, Table 5 ADP (Office Machines and Automatic Data Processing Machines).

30 Note, that while the Valuer General's expenditure comprises a high proportion of IT hardware costs there are other components, such as labour and software development costs, that need to be combined with this figure to calculate a realistic efficiency target.

areas in which additional resources were required. These requirements were quantified by an internal review within VSLPI.

Since 2003 the Valuer General has worked with the Joint Committee on the Office of the Valuer General to "monitor and review the exercise of the Valuer General's functions….."[31] In particular, this included the review of valuation methodologies and service contract negotiations and monitoring of the standard of valuation services provided under the contracts.

The Valuer General notes that the changes introduced as a result of the reviews and reports have improved the quality of services provided, increased the level of scrutiny applied to valuations, increased the volume of work and changed the way in which the work is undertaken.

IPART considers that the increased costs of additional service provision flowing from these reports, up to and including 2008/09, can be adequately accommodated by increasing prices by changes in CPI from 1996/97 to 2007/08.

5.4.2 Future efficiency gains

The Valuer General has proposed a 1 per cent cumulative efficiency gain per year from 2008/09 to 2013/14. This is after a 4.9 per cent (real) increase in costs from 2007/08 to 2008/09. In addition, the Valuer General has claimed that additional volumes of valuations, of approximately 1 per cent per annum, will be processed for the same costs, resulting in additional efficiency savings[32]. The Valuer General's efficiency savings only become effective after the cost increases of 2008/09.

IPART has assumed that efficiencies can be achieved from 2007/08. Accordingly, a 1 per cent cumulative efficiency saving per annum has been incorporated from 1 July 2008 and continues throughout the price path period.

5.5 Conclusions on efficient costs

IPART's calculations found that the prices required to recover the ARR were comparable to adjusting the prices in the 1995 Determination by changes in the Consumer Price Index (CPI).

IPART therefore adopted a 'top-down' approach. This means that changes in CPI have been applied to the 1995 Determination to achieve prices that will recover the efficient costs by 2013/14 of providing the Valuer General's services, as assessed by IPART.

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31 Joint Committee on the Office of the Valuer General, *Report on the First General Meeting with the Valuer General*, Report no. 53/01, December 2004.

32 IPART's analysis of real efficiency gains proposed by the Valuer General range from approximately 7 per cent, when comparing 2007/08 with 2013/14, to 11 per cent, when comparing 2008/09 with 2013/14.

6 Allocation of costs

Finding

3 IPART finds that the 40 per cent share of efficient costs allocated to local councils, as proposed by the Valuer General, is valid.

In allowing for the allocation of LPI costs to VSLPI, IPART considered whether an average cost or marginal cost approach to pricing the Valuer General's services to local councils was appropriate. IPART accepts that valuation services are an integral and indivisible part of LPI and therefore should make a contribution to the efficient fixed costs of LPI.

Allocation of costs between the OSR and councils

IPART considered a number of ways of allocating the efficient costs of the Valuer General between local councils and other users. Given that:

- there are 2.4 million valuations undertaken per annum
- local councils receive approximately 800,000 valuations per annum with each household receiving a revised valuation for rating purposes every three or four years
- OSR receives all 2.4 million valuations each year, using them to set the land tax threshold, and issue approximately 160,000 land tax bills per annum.

Two simple allocation methods were considered:

1. Allocating costs based on the **number of actions resulting from the valuations** (800,000 changes to council rating values per annum plus 160,000 changes to land tax assessments per annum). Using this method, local councils would pay approximately 80 per cent of the Valuer General's efficient costs.
2. Allocating costs based on the **number of valuations received (used) per annum**. Using this method, local councils would pay approximately 25 per cent of the Valuer General's efficient costs, with OSR paying the remainder.

IPART has adopted the approach of allocating the costs on the basis of the number of valuations received per annum with adjustments for economies of scale and client specific costs. After considering the matters detailed below IPART accepts the Valuer General's proposed allocation of 40 per cent of costs to local councils and 60 per cent of costs to OSR.

In arriving at a 40 per cent share of total costs being allocated to local councils IPART considered:

- Local councils benefit from the fact that valuations are conducted annually. Although councils only use valuations on a three yearly cycle, the cost to update valuations after three years would be higher than the annual cost. Local councils are therefore benefiting from a lower unit cost.
- While OSR needs accurate land values to calculate land tax, local councils are currently subject to rate-pegging. This means that changes in property valuations in the local government area do not increase or decrease rate revenue but merely re-allocate the burden between land owners. The local councils argued that the level of detail provided by the Valuer General is beyond the requirements of the local councils for rating purposes but is necessary for OSR's taxation requirements.
- Although local councils' requirements for valuation services could be covered with a lower level of service it accepts the Valuer General's estimates that the standalone costs of providing such a service is significantly greater than local councils paying a proportional amount for the higher level of service.
- It could be argued that rate-payers value the quality of valuations received. The Government requires that local councils use the Valuer General's valuation services and, in practice, the Government has endorsed the adoption of a higher standard by accepting the Ombudsman's report and funding improvements to date.
- OSR receives the valuation data annually by electronic means. The Valuer General is required by legislation to provide each rating valuation to the relevant land owner. The provision of this information on an individual basis requires printing and graphic services and postage services. The Valuer General has separately identified these costs and has allocated 100 per cent to local councils. IPART considers this is reasonable since these additional costs are required only for local councils.
- The source of objections to valuations is attributed 40:60[33] between land tax assessments and council rates. However, land tax objections tend to be more complex. The Valuer General has therefore assumed an allocation of the costs of processing objections 50:50 between local councils and OSR.
- After considering all submissions and the figures provided by the Valuer General, IPART accepts that the services provided to other (minor) users is a by-product of the services provided to OSR and local councils and that the costs and revenues have been excluded from the calculations.

Assuming that the majority of costs are allocated between OSR and local councils on the basis of the number of valuations received per annum (75:25) the factors discussed above would increase the percentage of total efficient costs that local

33 Department of Lands submission, January 2008, p 82.

councils should pay. On balance, IPART accepts that the 40 per cent share of efficient costs allocated to local councils, as proposed by the Valuer General, is valid.

7 Price framework

Decision

1 IPART has decided to retain the current price structure for residential and non-residential properties.

2 IPART has decided to levy the standard non-residential charge on all properties in the City of Sydney local government area.

The current price structure for valuation services to local councils allows for different prices for residential and non-residential properties. This price structure aims to reflect the costs incurred in providing the service and acknowledges the higher costs involved in valuing non-residential properties. These higher costs are primarily due to the complexity of the valuations and the uniqueness of these properties. There have been a number of developments in land valuation techniques since the 1995 Determination but the cost differential for providing valuations for residential and non-residential properties remains. IPART has therefore decided to retain the current price structure.

The Valuer General's submission proposed a postage stamp price for residential and non-residential properties, excluding the City of Sydney[34]. The Valuer General believes that cost reflectivity for the City of Sydney would see each valuation charged at over three times the standard residential price by the end of the proposed price path and has provided justification for a unit price of 2.63 times the standard price in 2007.

There are a number of reasons cited for the higher costs in the City of Sydney area. Valuation contracts are generally spread over a number of council areas. However, City of Sydney has an individual valuation contract. The unit price for the valuations under this contract is calculated by the Valuer General as 2.63 times the average unit price for all other contracts. The Valuer General has used this multiplier for the allocation of VSLPI costs (of overseeing the contracts) to the City of Sydney.

In its submission City of Sydney argued that, although there was a Government requirement to value all properties in its area, it was not permitted to collect rates from approximately 11 per cent of properties, such as the Opera House and other iconic properties. While there are a number of properties in each local council area

34 Department of Lands submission, January 2008, p 60.

which are exempt from rates, the number of such properties in the City of Sydney area is significant.

On the basis of the evidence presented by the Valuer General IPART accepts that there are additional contract costs incurred for the valuation of properties in the City of Sydney area. IPART also acknowledges the argument prepared by the City of Sydney that demonstrates that varying the valuation contract boundaries can alter the average unit valuation cost for an area. However, in this instance IPART must rely on the expertise of the Valuer General in determining boundaries to obtain the highest quality outputs and most competitive prices. This process has been reviewed in the past[35].

With respect to allocated costs for the provision of valuation services to the City of Sydney, IPART has further considered the Valuer General's submission but does not accept that the costs of overseeing the contract are increased by the same proportion as the unit contract prices.

In light of the evidence presented by the Valuer General and City of Sydney IPART has decided to levy the standard non-residential charge on all properties in the City of Sydney local government area. IPART considers that this is the correct balance between the special circumstances that pertain to rateable properties in the City of Sydney area, the increased costs incurred in providing valuation service in this area and the relative efficiency of having, as far as possible, a postage stamp (simple) price framework.

IPART has calculated the effect of this decision on the total charges paid by City of Sydney. Using the Valuer General's proposed prices and volumes the NPV of charges to City of Sydney is $1.20m, compared to IPART's proposal of $1.18m (NPV) over the period of the determination. However, the final price is $10.04 (2007/08) compared to $14.71 (2007/08) proposed by the Valuer General.

[35] Deloitte Touche Tohmatsu, *Review of Competitive Tendering for Mass Valuation Services: Final Report*, October 2001.

8 Adjustment mechanism for future price changes

Decision

3 IPART's draft determination incorporates an initial price increase of 10% in 2009/10. Prices then increase in equal increments in each subsequent year to recover full efficient costs by 2013/14.

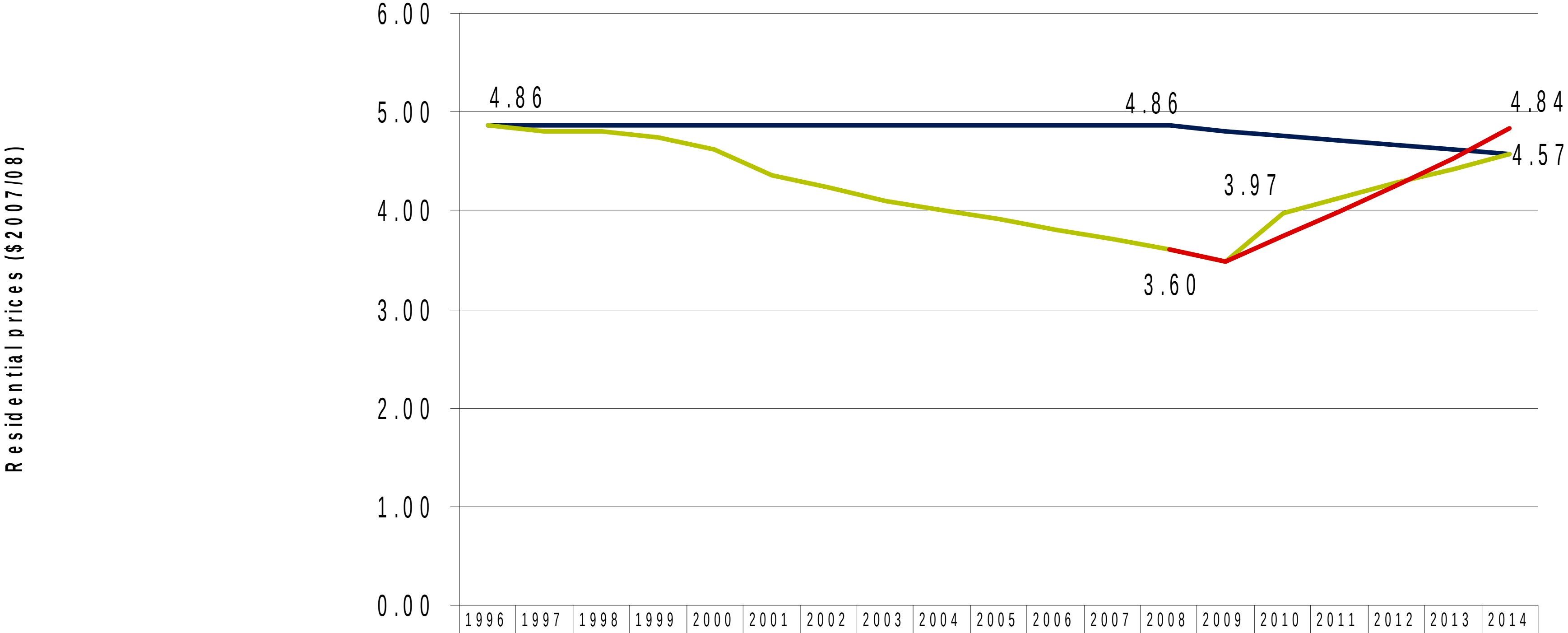
4 IPART's draft determination is for the prices for valuation services provided to local governments to be as shown in Tables 8.1 and 8.2.

IPART has increased prices to reflect the efficient costs of providing valuation services. This equates to increasing the 1996 prices by changes in CPI over the period to 2007/08. From 2007/08 onwards IPART has calculated the efficient prices (in real terms) by applying a 1 per cent cumulative efficiency saving per annum. This calculation sets the target efficient prices to be charged throughout the Determination. This is represented graphically by the blue line in Figure 8.1 below.

In balancing the impact on councils and the revenue required by the Valuer General, and given that prices have not risen since 1996, IPART has decided to increase prices in the first year of the determination period (2009/10) by 10 per cent. This equates to approximately 40 per cent of the difference between current prices and target prices in 2013/14. The rest of the necessary price increases will be recovered proportionately over the following four years of the price path. This is represented by the green line in Figure 8.1 below. The price adjustment mechanism is given in Table 8.1.

The full efficient costs of providing valuation services to councils by 2013/14 incorporate the efficiency savings detailed in section 5.4 above. The decision to gradually increase prices over the period of the determination is broadly in line what was proposed by the Valuer General. IPART's determination will see prices rise by 15 per cent in real terms over the period of the determination.

Figure 8.1 Comparison of IPART determined efficient residential prices and the Valuer General's submission



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Efficient prices ($2007/08)	4.86	4.86	4.86	4.86	4.86	4.86	4.86	4.86	4.86	4.86	4.86	4.86	4.86	4.81	4.76	4.71	4.67	4.62	4.57
Actual and determined prices ($2007/08)	4.86	4.80	4.81	4.75	4.62	4.36	4.23	4.09	4.01	3.92	3.81	3.72	3.60	3.48	3.97	4.12	4.27	4.42	4.57
Valuer General Proposed Prices ($2007/08)													3.60	3.48	3.74	3.99	4.26	4.53	4.84

Financial Year Ending June 30

Table 8.1 Maximum Prices for the Monopoly Services for Residential Land located outside the City of Sydney Council Local Government Area

Commencement date to 30 June 2010 ($)	1 July 2010 to 30 June 2011 ($)	1 July 2011 to 30 June 2012 ($)	1 July 2012 to 30 June 2013 ($)	1 July 2013 to 30 June 2014 ($)
3.97 x $(1+\Delta CPI_1)$	4.12 x $(1+\Delta CPI_2)$	4.27 x $(1+\Delta CPI_3)$	4.42 x $(1+\Delta CPI_4)$	4.57 x $(1+\Delta CPI_5)$

Note: See clause 1.1, Schedule 2 of the Draft Determination for a definition of "CPI" and an explanation of the above formulas.

Table 8.2 Maximum Prices for the Monopoly Services for Non-Residential Land and Residential Land located within the City of Sydney Council Local Government Area

Commencement date to 30 June 2010 ($)	1 July 2010 to 30 June 2011 ($)	1 July 2011 to 30 June 2012 ($)	1 July 2012 to 30 June 2013 ($)	1 July 2013 to 30 June 2014 ($)
8.72 x $(1+\Delta CPI_1)$	9.05 x $(1+\Delta CPI_2)$	9.38 x $(1+\Delta CPI_3)$	9.71 x $(1+\Delta CPI_4)$	10.04 x $(1+\Delta CPI_5)$

Note: See clause 1.1, Schedule 2 of the Draft Determination for a definition of "CPI" and an explanation of the above formulas.

Based on projected volumes of valuations prepared by the Valuer General, IPART's prices provide a Net Present Value (NPV) of $54.4m in revenue compared to $54.2m using prices proposed by the Valuer General.

Appendices

A Terms of reference

7 DEC 2007

Premier of New South Wales
Australia

RECEIVED
10 DEC 2007
INDEPENDENT PRICING & REGULATORY TRIBUNAL

TCO/03057

Dr Michael Keating
Chairman
Independent Pricing and Regulatory Tribunal
PO BOX Q290
QVB POST OFFICE NSW 1230

Dear Dr Keating

I am writing regarding the price of rating valuation services provided by the Valuer General to local government.

Under Part 5 of the *Valuation of Land Act 1916*, the Valuer General must provide local councils with land valuation and supplementary lists, which are used by councils for rating purposes. As you are aware, the services are a declared monopoly under section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the Act) as a result of the *Government Pricing Tribunal (Valuer-General's Services) Order 1993*, and the maximum price which may be charged by the Valuer General is subject to IPART's pricing determination.

I am advised that the price of these rating valuation services has not changed in over ten years.

I therefore request, pursuant to sections 12(1) and (3) of the Act, that the Independent Pricing and Regulatory Tribunal make a new determination of the pricing for the rating valuation services provided by the Valuer General, to apply for five years.

The investigation relating to the pricing determination is to be conducted in accordance with the attached Terms of Reference.

If you require further information, please contact Mr Paul Elton, Policy Manager, Natural Resources and Economic Development Branch, Department of Premier and Cabinet, on (02) 9228 5493.

Thank you for your assistance in this matter.

Yours sincerely

Morris Iemma MP
Premier

LEVEL 39, GOVERNOR MACQUARIE TOWER, 1 FARRER PLACE, SYDNEY 2000, AUSTRALIA. TEL: (02) 9228 5239 FAX: (02) 9228 3935
G.P.O. BOX 5341, SYDNEY 2001

PRICE REVIEW OF RATING VALUATION SERVICES PROVIDED BY THE VALUER GENERAL TO LOCAL GOVERNMENT

TERMS OF REFERENCE

Background

The following services are declared government monopoly services pursuant to an Order dated 11 August 1993 made under section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992*:

> "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*"

The latest pricing review by IPART pursuant to the Order was undertaken in 1996. The pricing structure of rating valuation services has therefore not been reviewed for ten years.

Reference to the Tribunal

The Independent Pricing and Regulatory Tribunal is therefore requested by the Premier under sections 12(1) and (3) of the *Independent Pricing and Regulatory Tribunal Act 1992* to undertake a new determination of the pricing for the rating valuation services provided by the Valuer General to local government to apply for five years.

The Tribunal is specifically requested to develop a transparent framework for the price of valuation services.

In so doing IPART is requested to:

1. Identify the Valuer General's full efficient economic costs of service provision;
2. Develop an efficient, effective and transparent pricing framework for the Valuer General's valuation services;
3. Ensure full recovery of the Valuer General's efficient costs;
4. Ensure that prices equitably allocate the costs of valuation services between the users of those services in accordance with relevant economic and pricing principles; and
5. Develop a methodology to adjust for any future changes in the Valuer General's cost base.

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

In making determinations IPART is 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 5
b) the protection of consumers from abuses of monopoly power	Chapters 4, 5, 6 and 7
c) the appropriate rate of return and dividends	Chapter 5
d) the effect on general price inflation	Not applicable
e) the need for greater efficiency in the supply of services	Chapter 5
f) ecologically sustainable development	Not applicable
g) the impact on borrowing, capital and dividend requirements	Chapter 5
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 5 and 7
i) need to promote competition	Not applicable
j) considerations of demand management and least cost planning	Not applicable
k) the social impact	Chapter 5
l) standards of quality, reliability and safety	Chapter 5

C List of submissions

Submissions received
Blacktown City Council
Campbelltown City Council
David Lander Stewart Lawyers
Kempsey Shire Council
Local Government Association and Shire Association of NSW
Murray Shire Council
Office of the NSW Valuer General (Department of Lands)
Ryde City Council
City of Sydney Council
Upper Hunter Shire Council

IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Valuer-General Charges to Councils

Draft Determination No. 2. 2008

Reference no. 08/56

Contents

Preliminary

1. Background

(1) Section 12 of the *Independent Pricing and Regulatory Tribunal Act 1992* (**IPART Act**) provides that IPART will conduct investigations and make reports to the Minister on the determination of the pricing for a specified government monopoly service referred to IPART by the Minister.

(2) By the *Government Pricing Tribunal (Valuer-General's Services) Order* dated 11 August 1993 and made under section 4 of the IPART Act (**Order**), 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* (NSW) by the Valuer-General to a council of an area under the *Local Government Act 1993* (NSW) (**Monopoly Services**).

(3) On 26 September 1995 IPART issued Determination No 7, 1995. This pricing determination prescribed maximum prices for the Monopoly Services for the period from 1 July 1995 to 30 June 1996 and further maximum prices for the period from 1 July 1996.

(4) On 10 December 2007, IPART received a letter from the Premier requesting that IPART, pursuant to section 12 of the IPART Act, make a new determination of the pricing for the provision of the Monopoly Services to apply for a period of 5 years. This letter attached terms of reference for the price review (the **Terms of Reference**).

(5) In investigating and reporting on the pricing of the Monopoly Services, IPART has had regard to a broad range of matters, including:

  (a) the issues set out in the Terms of Reference; and

  (b) the criteria set out in section 15(1) of the IPART Act.

(6) In accordance with section 13A of the IPART Act, IPART has fixed maximum prices for the Monopoly Services.

(7) Under section 18(2) of the IPART Act, the Valuer-General may not fix a price below that determined by IPART for the Monopoly Services without the approval of the Treasurer.

2. Application of this determination

(1) This determination fixes the maximum prices that the Valuer-General may charge for the Monopoly Services.

(2) This determination commences on the later of 1 July 2009 and the date that it is published in the NSW Government Gazette (**Commencement Date**).

(3) The maximum prices in this determination apply from the Commencement Date to 30 June 2014. The maximum prices in this determination prevailing at 30 June 2014 continue to apply beyond 30 June 2014 until this determination is replaced.

3. Replacement of Determination No. 7 of 1995

This determination replaces Determination No 7 of 1995 from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under Determination No 7 of 1995 prior to its replacement.

4. Monitoring

IPART may monitor the performance of the Valuer-General for the purposes of:

(a) establishing and reporting on the level of compliance by the Valuer-General with this determination; and

(b) preparing a periodic review of pricing policies in respect of the Monopoly Services supplied by the Valuer-General.

5. Schedule

Schedule 1 sets out the maximum prices that the Valuer-General may charge for the Monopoly Services.

6. Definitions and Interpretation

Definitions and interpretation provisions used in this determination are set out in Schedule 2.

Schedule 1 – Maximum Prices for the Monopoly Services

1. Application

This Schedule sets the maximum prices that the Valuer-General may charge for supplying the Monopoly Services.

2. Categories for pricing purposes

Prices for Monopoly Services have been determined for 3 categories:

(a) Residential Land located outside the City of Sydney Local Government Area;

(b) Residential Land located within the City of Sydney Local Government Area; and

(c) Non-Residential Land.

3. Charges for Monopoly Services with respect to Residential Land located outside the City of Sydney Local Government Area

The maximum price that may be levied by the Valuer-General for each entry on the Valuation Roll relating to Residential Land located outside the City of Sydney Local Government Area, is a single annual charge equal to the price in Table 1 corresponding to the applicable Period in that table.

4. Charges for Monopoly Services with respect to Residential Land located within the City of Sydney Local Government Area

The maximum price that may be levied by the Valuer-General for each entry on the Valuation Roll relating to Residential Land that is located within the City of Sydney Local Government Area, is a single annual charge equal to the price in Table 2 corresponding to the applicable Period in that table.

5. Charges for Monopoly Services with respect to Non-Residential Land

The maximum price that may be levied by the Valuer-General for each entry on the Valuation Roll relating to Non-Residential Land is a single annual charge equal to the price in Table 2 corresponding to the applicable Period in that table.

Tables 1 and 2

Table 1 Maximum Prices for the Monopoly Services - Residential Land located outside the City of Sydney Local Government Area

Commencement date to 30 June 2010 ($) per entry	1 July 2010 to 30 June 2011 ($) per entry	1 July 2011 to 30 June 2012 ($) per entry	1 July 2012 to 30 June 2013 ($) per entry	1 July 2013 to 30 June 2014 ($) per entry
$3.97 \times (1+\Delta CPI_1)$	$4.12 \times (1+\Delta CPI_2)$	$4.27 \times (1+\Delta CPI_3)$	$4.42 \times (1+\Delta CPI_4)$	$4.57 \times (1+\Delta CPI_5)$

Note: See clause 1.1, Schedule 2 for a definition of "CPI" and an explanation of the above formulas.

Table 2 Maximum Prices for the Monopoly Services - Non-Residential Land and Residential Land located within the City of Sydney Local Government Area

Commencement date to 30 June 2010 ($) per entry	1 July 2010 to 30 June 2011 ($) per entry	1 July 2011 to 30 June 2012 ($) per entry	1 July 2012 to 30 June 2013 ($) per entry	1 July 2013 to 30 June 2014 ($) per entry
$8.72 \times (1+\Delta CPI_1)$	$9.05 \times (1+\Delta CPI_2)$	$9.38 \times (1+\Delta CPI_3)$	$9.71 \times (1+\Delta CPI_4)$	$10.04 \times (1+\Delta CPI_5)$

Note: See clause 1.1, Schedule 2 for a definition of "CPI" and an explanation of the above formulas.

Schedule 2 – Definitions and Interpretation

1. Definitions

In this determination:

City of Sydney Local Government Area means the area that is constituted by proclamation of the Governor under Chapter 9 the *Local Government Act 1993* from time to time to be the City of Sydney**.**

Commencement Date means the Commencement Date as defined in clause 2(2) of the section of this determination entitled "Preliminary".

Council has the meaning given to it under the *Local Government Act 1993.*

Gazette means the NSW Government Gazette.

Governor means the governor of the State.

IPART means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

IPART Act means the *Independent Pricing and Regulatory Tribunal Act 1992*.

Land means either Residential Land or Non-Residential Land.

Monopoly Services means the Monopoly Services described in clause 1(2) of the section of this determination entitled "Preliminary".

Non-Residential Land means land categorised as farmland, mining or business for the purposes of ordinary rates under Chapter 15, Part 3 of the *Local Government Act 1993.*

Order means the *Government Pricing Tribunal (Valuer-General's Services) Order* dated 11 August 1993 and made under section 4 of the IPART Act, as described in clause 1(2) of the section of this determination entitled "Preliminary".

Period means the Commencement Date to 30 June 2010, 1 July 2010 to 30 June 2011, 1 July 2011 to 30 June 2012 or 1 July 2012 to 30 June 2013 (as the case may be).

Residential Land means land categorised as residential for the purposes of ordinary rates under Chapter 15, Part 3 of the *Local Government Act 1993*.

State means the state of New South Wales.

Terms of Reference means the Terms of Reference described in clause 1(4) of the section of this determination entitled "Preliminary".

Valuation Roll has the meaning given to it under section 53 of the *Valuation of Land Act 1916*.

Valuer-General means the person from time to time appointed to that position in accordance with section 8 of the *Valuation of Land Act 1916*.

1.1 Consumer Price Index

"CPI" means the consumer price index All Groups index number for the weighted average of eight capital cities, published by the Australian Bureau of Statistics, or if the Australian Bureau of Statistics does not or ceases to publish the index, then CPI will mean an index to be determined by IPART.

$$\Delta CPI_1 = \left(\frac{CPI_{Jun2008} + CPI_{Sep2008} + CPI_{Dec2008} + CPI_{Mar2009}}{CPI_{Jun2007} + CPI_{Sep2007} + CPI_{Dec2007} + CPI_{Mar2008}} \right) - 1$$

$$\Delta CPI_2 = \left(\frac{CPI_{Jun2009} + CPI_{Sep2009} + CPI_{Dec2009} + CPI_{Mar2010}}{CPI_{Jun2007} + CPI_{Sep2007} + CPI_{Dec2007} + CPI_{Mar2008}} \right) - 1$$

$$\Delta CPI_3 = \left(\frac{CPI_{Jun2010} + CPI_{Sep2010} + CPI_{Dec2010} + CPI_{Mar2011}}{CPI_{Jun2007} + CPI_{Sep2007} + CPI_{Dec2007} + CPI_{Mar2008}} \right) - 1$$

$$\Delta CPI_4 = \left(\frac{CPI_{Jun2011} + CPI_{Sep2011} + CPI_{Dec2011} + CPI_{Mar2012}}{CPI_{Jun2007} + CPI_{Sep2007} + CPI_{Dec2007} + CPI_{Mar2008}} \right) - 1$$

$$\Delta CPI_5 = \left(\frac{CPI_{Jun2012} + CPI_{Sep2012} + CPI_{Dec2012} + CPI_{Mar2013}}{CPI_{Jun2007} + CPI_{Sep2007} + CPI_{Dec2007} + CPI_{Mar2008}} \right) - 1$$

each as calculated by IPART and notified in writing by IPART to the Valuer-General.

2. Interpretation

2.1 General provisions

In this determination:

(a) headings are for convenience only and do not affect the interpretation of this determination;

(b) a reference to a schedule, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;

(c) words importing the singular include the plural and vice versa;

(d) a reference to a law or statute includes all amendments or replacements of that law or statute;

(e) a reference to a person includes any company, partnership, joint venture, association, corporation, other body corporate or government agency;

(f) a reference to an officer includes a reference to the officer which replaces it or which substantially succeeds to its powers or functions; and

(g) a reference to a body, whether statutory or not:

(i) which ceases to exist; or

(ii) whose powers or functions are transferred to another body,

is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

2.2 Explanatory notes and Clarification Notice

(a) Explanatory notes or footnotes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.

(b) IPART may publish a clarification notice in the NSW Government Gazette to correct any manifest error in this determination as if that clarification notice formed part of this determination.

2.3 Prices inclusive of GST

Prices specified in this determination do not include GST.