Review of prices for land valuation services provided by the Valuer General to councils: Issues for public hearing

5 February 2019

WHAT

IPART is reviewing the maximum prices the Valuer General can charge for land valuation services provided to councils from 1 July 2019.

Land valuations are the basis on which councils calculate and issue rates notices to ratepayers. The Valuer General may charge a fee for land valuation services provided to councils.

IPART last set the maximum charges the Valuer General may charge in May 2014, for a five-year period. The current determination expires on 30 June 2019.

We released an Issues Paper on 17 October 2018 and received the Valuer General's proposal on 30 November 2018. We invited stakeholders to comment and we received eight submissions, which are now published on our website.

We are holding a public hearing to provide stakeholders with additional opportunity to provide comment on IPART's Issues Paper and the Valuer General's proposal.

WHERE

IPART will hold a public hearing at **IPART Offices, Level 15, 2-24 Rawson Place, Sydney** on **12 February 2019.** You can register to attend at IPART's website.

If you are attending the public hearing, please present **photo ID** to reception on the day of the hearing.

HOW

The public hearing will include a brief overview of the proposal by the Office of the Valuer General and discussion will be structured around three sessions:

- The Valuer General's efficient costs
- Allocating efficient costs to councils
- How to structure prices to recover efficient costs, taking into account the impact on councils.

Stakeholders are invited to attend and participate in each session relevant to their interests in this review.

WHEN

Key dates for this review:

17 October 2018	IPART released Issues Paper
30 November 2018	Valuer General's proposal received
11 January 2019	Close of submissions on Issues Paper and Valuer General proposal
12 February 2019	Public hearing
Early April 2019	IPART releases Draft Report and Draft Determination
Late April 2019	Submissions due on Draft Report and Determination
Late May 2019	IPART releases Final Report and Determination

WHAT NEXT?

We will release a **Draft Report and Draft Determination** in early April 2019 with submissions due on the Draft Report and Determination in late April 2019.

We will consider all stakeholder views prior to releasing our Final Report and Determination in May 2019.

1 Summary of Valuer General's proposal

Table 1 presents a summary of the Valuer General's proposal against the current 2014 Determination (valid until 30 June 2019).

Table 1.1 Summary of the Valuer General's proposal against the 2014 Determination

Issue	Current 2014 Determination	Valuer General's proposal
Determination Period	Five year determination	Six year determination to capture two complete valuation cycles (three years each)
Form of regulation	Price cap methodology	Maintain price cap methodology
Notional revenue requirement (NRR)	Average allowed annual NRR of $17.1m	Proposed an increase of 6.5% in NRR over the six years, resulting in an average annual NRR of $18.2m
Operating expenditure (OPEX)	Average allowed annual opex of $16.1m (council share of opex)	Proposed an increase of 6.5% in average annual opex compared to the 2014 Determination: - Largely driven by increases in labour costs and mass valuation contracts (procurement is being finalised).
Capital expenditure (CAPEX)	Average allowed annual capex of $1.9m Note that actual capex in the period was 59% lower than what was used to set prices at the 2014 Determination.	Increase of 142% in capex compared to that used to set prices at the 2014 Determination: - Nearly all of this increase is from proposed IT and digital transformation investment.
Allocation of VG costs to monopoly services	Allocated 34% of total costs to councils	Allocation of 32.5% of total costs to councils: - Main drivers of change include an increase in the allocation for labour and a decrease for 'other valuation' (ie objection) costs
Price Model	Geographically uniform pricing model: - One price for residential valuations and one price for non-residential valuations across all regions in NSW	Geographically differential pricing model: - No distinction between residential and non-residential valuations, but valuation prices vary by region - Four regional areas, ie Country, Coastal, Metro and City of Sydney.

Source: Valuer General's proposal, 30 November 2018; IPART analysis.

The Valuer General is proposing to increase total prices by 2% ($2018-19 real terms) compared to prices last set in the 2014 Determination.

Table 2 shows the differences between the geographically uniform and differential pricing models across the four regions, under the Valuer General's proposal over the six year period. Note that the total notional revenue attributable to the Valuer General under both proposed price models are the same.

Table 2 Comparison between geographically uniform and differential pricing models (Valuer General's proposal)

Region	Uniform pricing $2018-19		Differential pricing $2018-19
	Residential	Non-residential	Single price
Country	$5.99 ($5.87 in 2014 Determination)	$13.17 ($12.91 in 2014 Determination)	$8.24
Coastal			$6.92
Metro			$6.06
City of Sydney			$12.71

Source: Valuer General's proposal, 30 November 2018, table 8-1 and table 8-2.

Under the proposed geographically differential pricing, there would likely be a decrease in the total annual charge to councils in the Metro region and an increase in the total annual charge to councils in the Country, Coastal and City of Sydney regions.

2 Key themes from stakeholder submissions received on our Issues Paper

We received eight stakeholder submissions to our Issues Paper and the Valuer General's proposal.

Most submissions expressed concerns with differential pricing and some submissions questioned the efficient costs of the Valuer General and the allocation of costs to councils. The inclusion of a tax allowance was also raised as a concern in three submissions.

Most submissions agreed with the current form of regulation (ie, price caps) and the Valuer General's proposed determination period (ie, a single six year determination period).

3 Discussion guide for the public hearing

Session 1: Level of the Valuer General's efficient costs

- Should we set prices over a single six year determination period, or a three year determination period, followed by another three year determination period?
- Is it reasonable that proposed costs have increased in real terms?
- Is the Valuer General's proposed operating expenditure efficient?
- If the mass valuation contracts are finalised before the Determination commences, should the Valuer General's cost allowances be updated to reflect this finalised cost?
- Is the Valuer General's proposed capital expenditure prudent and efficient?
- Do you agree with the Valuer General's proposal to upgrade IT systems and are there any issues with the scope, scale or timing of the proposed IT investment?

Session 2: Allocating efficient cost to councils

- Is there any reason to move from the current approach of allocating costs to councils?
- Is the Valuer General's proposed cost allocation to councils reasonable?

Session 3: Prices – Structure and impact

- Should the current geographically uniform price structure of residential and non-residential prices be retained or is there a more appropriate price structure?
- Should we adopt the Valuer General's proposal to have regional prices?
- How would the proposed changes to prices impact you or your organisation?