FACT SHEET

Valuer-General's prices for land valuation services provided to councils

Based on *Draft Determination and Draft Report: Review of prices for land valuation services provided by the Valuer-General to councils from 1 July 2014 to 30 June 2019*
April 2014

The Valuer-General is required to provide land valuation lists and supplementary lists to councils of areas under the *Local Government Act 1993 (NSW)* for their rating purposes. These land valuation services are declared as government monopoly services under section 4 of the IPART Act 1992 (NSW).[1]

On 7 April 2014, IPART released its Draft Determination and Draft Report on the prices that the Valuer-General can charge for providing these services to councils during the 5 years from 1 July 2014 to 30 June 2019.

This fact sheet summarises the key decisions in our Draft Determination.

Draft prices

Our draft prices reflect our assessment of the Valuer-General's efficient costs of providing land valuation services to councils.

Under our draft decisions, the Valuer-General's maximum prices to councils for land valuation services decrease by 1.2% in 2014/15, compared to current prices. This excludes the effects of inflation. Prices remain constant in real terms thereafter, until 2018/19 (see Table 1).

1 *The Independent Pricing and Regulatory Tribunal Act 1992.*

Table 1 IPART's draft decision on the Valuer-General's prices to councils ($/per valuation, $2013/14)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
IPART's draft decision						
Residential	5.37	5.30	5.30	5.30	5.30	5.30
Non-Residential	11.81	11.66	11.66	11.66	11.66	11.66
% change[a]		-1.2%	0%	0%	0%	0%

[a] Based on pre-rounded results.

Key decision – cost allocation to councils

The difference between our draft determination and the Valuer-General's proposal (which would have resulted in a 2.8% real increase in prices) is due mainly to our draft decision to lower the allocation of costs to councils to 34% from the 40% proposed by the Valuer-General. This means that, despite the increase in the Valuer-General's costs, prices remain relatively constant.

In setting prices, we used the 'building block' approach to calculate the Valuer-General's notional revenue requirement of providing land valuation services for both *rating* and *taxing* purposes. We then determined the portion of this revenue required by the Valuer-General to service councils (ie, land valuations for rating purposes only).

In allocating costs to councils, we considered how much and how frequently the Valuer-General's services are used by councils. In particular, we applied an allocation approach based on:

1. **usage share of mass valuations** - allocating *mass valuation contract costs* based on the number of valuations received by councils as a portion of the total number of valuations *issued* by the Valuer-General annually
2. **direct costs to councils** - allocating *other costs* on an activity basis or client specific basis, where possible
3. **frequency of valuations** - allocating *remaining costs* based on the number of valuations received by councils as a portion of valuations *conducted* by the Valuer-General.

Over the 5-year determination period, the difference between the amount which the Valuer-General proposed to be recovered from councils and our draft decision is approximately $15.4 million:

- Approximately $13.7 million of this difference is due to our draft decision to allocate 34% of costs to councils, rather than the Valuer-General's proposed 40%.
- The remaining amount, about $1.7 million, is due to our draft decisions on operating costs, the Weighted Average Cost of Capital (WACC) and treatment of depreciation, tax and working capital.

The $13.7 million difference in revenue due to the lower allocation of costs to councils should not be lost to the Valuer-General, but will need to be recovered from the Office of State Revenue (OSR), the Valuer-General's other customer.

We note that changing the allocation between councils and OSR has budget implications for the NSW Government. This is because funding from OSR for the valuation services provided by the Valuer General is based on a grant from NSW Treasury.

What happens next?

We invite all interested stakeholders to make written submissions to the review by **28 April 2014.** Late submissions may not be accepted at the discretion of IPART.

Our 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.

We would prefer to receive submissions electronically via our online submission form:

http://www.ipart.nsw.gov.au/Home/For_Consumers/Having_your_say/Lodge_a_submission

or via email: ipart@ipart.nsw.gov.au.

During the next stage of the review, we will consider all matters raised in the submissions in response to the Draft Report and Draft Determination, and then make our Final Determination in May 2014.