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 to 30 June 2025

Final Report
Local Government

May 2019

ISBN 978-1-76049-338-7

The Independent Pricing and Regulatory Tribunal (IPART)

IPART provides independent regulatory decisions and advice to protect and promote the ongoing interests of the consumers, taxpayers and citizens of NSW. IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website: https://www.ipart.nsw.gov.au/Home.

Tribunal Members

The Tribunal members for this review are:

Dr Paul Paterson, Chair

Mr Ed Willett

Ms Deborah Cope

Enquiries regarding this document should be directed to a staff member:

John Madden	(02) 9113 7780
Kumi Cuthbertson	(02) 9290 8479

Contents

1 Executive summary

1.1 What are we reviewing?

The Independent Pricing and Regulatory Tribunal of NSW (IPART or 'we' or 'our') has set the maximum prices the Valuer General can charge councils for the provision of land valuation services.[1] The prices will take effect on 1 July 2019 and continue until 30 June 2025.

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) are included as 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. Throughout this report we use the Valuer General's revised pricing submission, received in March 2019, for comparative purposes. All dollar figures in this Final Report are in $2018-19, unless stated otherwise.[4]

This Final Report, which accompanies a Final Determination, explains our 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
- The pricing framework, including the structure of prices the Valuer General can charge councils.

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 submission, March 2019).

4 The Final Determination accompanying this Final Report presents prices for the 2019 determination period in $2019-20 (which are the IPART determined prices listed in this Final Report in $2018-19, adjusted to $2019-20 using a CPI figure of 1.3%). Prices for 2019-20 apply as presented in the Final Determination. However, prices that apply from the second year of the 2019 determination period will need to be adjusted for future changes in CPI. The Final Determination specifies the method the Valuer General must follow when adjusting prices that apply from the second year of the 2019 determination period for future changes in CPI.

1.2 Overview of our Determination

1.2.1 The 2019 determination period

We have made a decision to adopt a single 6-year determination period. This aligns with that proposed 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 prices for valuation services are in aggregate 4.5% lower than those proposed in the Valuer General's revised submission we received in March 2019.[5]

We have made a series of decisions which affect prices as shown in Table 1.1. In the March 2019 submission, the Valuer General proposed a 2.0% increase in average annual prices over the 2019 determination period compared to the 2014 determination period. We estimate our prices over the 2019 determination period will be 2.5% lower than the 2014 determination period.[6]

Table 1.1 IPART's 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 decision							
Country	5.87 for residential	7.51	7.51	7.51	7.51	7.51	7.51
Coastal	12.91 for non-residential	6.40	6.40	6.40	6.40	6.40	6.40
Metro	across all NSW councils	5.90	5.90	5.90	5.90	5.90	5.90
City of Sydney		12.21	12.21	12.21	12.21	12.21	12.21
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 submission, March 2019, p 6; IPART, *Review of prices for land valuation services provided by the Valuer General to councils, Final Determination May 2014*, p 4; and IPART analysis.

5 We calculate Country, Coastal, Metro and City of Sydney are 4.57%, 4.49%, 4.47% and 4.50% lower respectively.

6 'Prices' in this context refers to the councils' share of notional revenue requirement (NRR) per valuation that is recovered by the Valuer General.

1.2.3 Notional Revenue Requirement

In setting our 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 $56.1 million per year, on average. This is 2.3% higher than the Valuer General's proposal of $54.9 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.

The average annual NRR is $6.4 million (or 12.9%) higher than we used to set prices at the 2014 Determination.

Forecast operating expenditure

We have decided 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%) per year higher 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 $3.3 million reduction in operating costs arising from cost savings from the commissioning of Valnet III.[7] This is the outcome of our 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

We have included 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 decision to include $27.4 million of forecast capital expenditure in the RAB over the 2019 determination period is $0.4 million lower than that proposed by the Valuer General.

The majority of the proposed capital expenditure ($23.5 million) is focused 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 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 decision increases the Valuer General's average annual NRR by $0.06 million once the deferred expected operating cost saving of Valnet III is also taken into account.

---

7 The valuations ICT system holding the Register of Land Values.

Weighted average cost of capital

Our decision on the WACC is 3.3%, compared to a WACC of 3.5% used in our draft decision. The decision to use a lower WACC reduced our assessment of the Valuer General's average NRR by $0.08 million (or 0.14%).

Working capital

We have decided to set an average working capital allowance of $1.6 million per year, which is higher than the $0.1 million proposed by the Valuer General. Our 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 2.8%.

1.2.4 Our cost allocation approach is different

The change in prices is largely driven by our 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 taxation 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.[8]

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 30.5% of the Valuer General's total NRR (or efficient costs) to councils.

After allocating 30.5% of the total NRR to councils, the councils' average annual share of the NRR is around $17.1 million per year. This is around $0.8 million (or 4.4%) 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 decision is to set zone-specific prices for the following four geographical zones:

- Country
- Coastal
- Metro
- City of Sydney.

8 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 differential. The new zonal approach allows 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 our decisions on councils

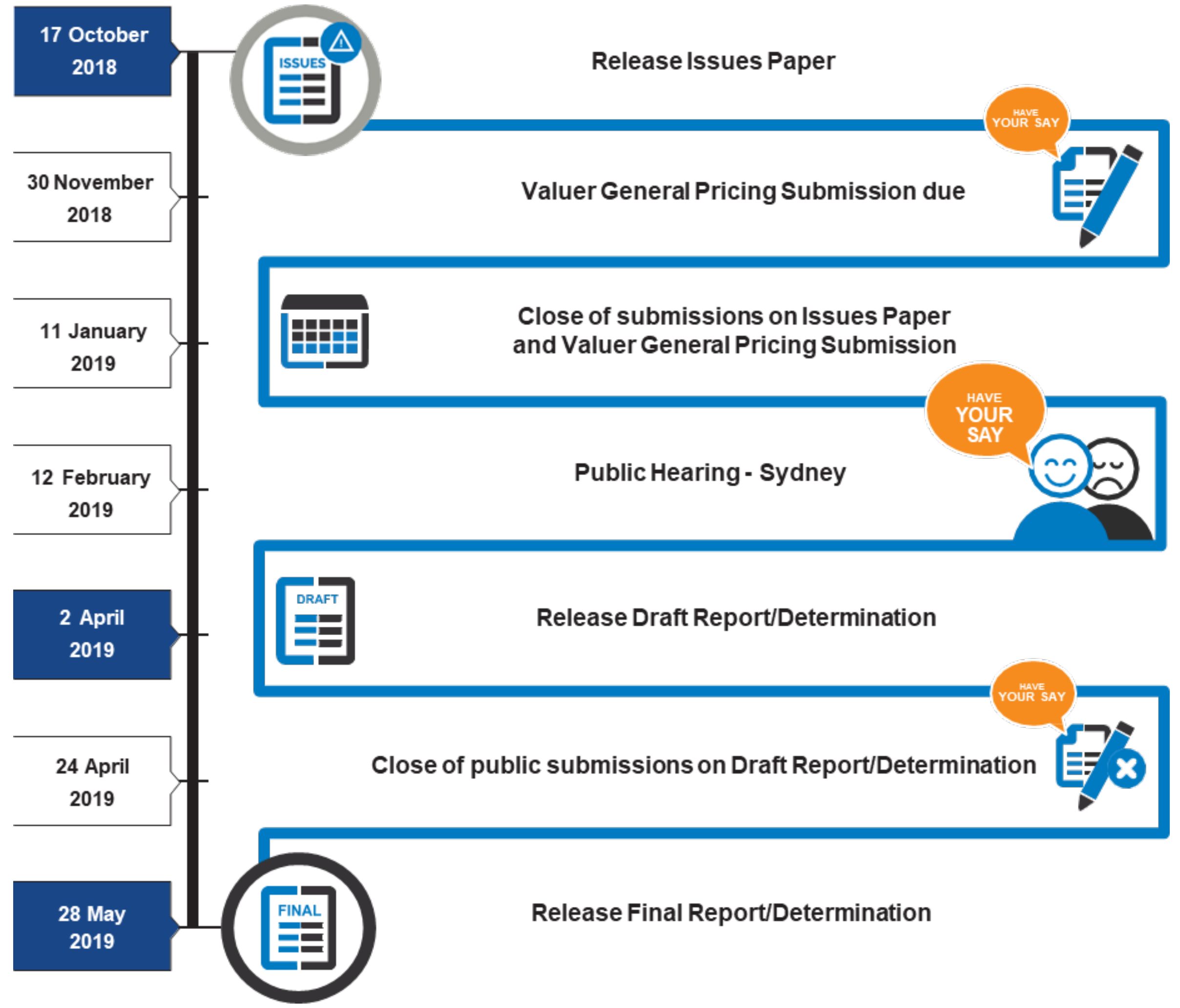
Our prices would result in an average $8,300 (or 6.9%) decrease in the bills paid by 99 councils in 2019-20 compared to what the estimated bill is for 2018-19. Conversely, 29 councils would pay a higher bill in 2019-20, with an average bill increase of around $15,400 (or 8.2%). We note that the average bill increase for 28 councils falls to around $10,600 (or 5.7%) 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, Draft Report and the Valuer General's submission. We also received feedback at the Public Hearing which was conducted in February 2019.

This Final Report sets out our decisions and provides information about how we reached our decisions.

Figure 1.1 Timeline for this review



1.4 Structure of this report

The following chapters provide more information on this review, including detail on how we reached our decisions and comparisons with the Valuer General's pricing proposal:

- Chapter 2 outlines the key context for the review.
- Chapter 3 discusses our 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 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, regulatory depreciation (return of assets), the allowances for a return on assets, and tax and working capital.
- Chapter 5 discusses our decisions to recover the councils' share of the Valuer General's NRR.
- Chapter 6 outlines our decisions on prices and price structure.
- Chapter 7 explores the impact our prices have on councils' bills.

1.5 List of decisions

15	Not allocate any fixed costs to minor users of the Valuer General's land valuation services.	40
16	Allocate 30.5% 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).	48
18	Set prices for the 2019 determination period as shown in Table 6.1.	48
19	Adopt the Valuer General's forecast number of valuations shown in Table 6.3 as the basis for setting prices, based on a growth rate of 0.7% per annum.	50

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 final 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
- Provide an overview of the Valuer General's pricing 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).[9]

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
- Take into account any other matters considered relevant.

---

9 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.

Our full ToR is provided as 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 in 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.[10] 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:[11]

- 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.[12]

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).[13]

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.

10 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.
11 Section 8 of the VoL Act.
12 Section 14CC of the VoL Act.
13 NSW Government, *Valuer General Governance and accountability*, http://www.valuergeneral.nsw.gov.au/about_us/governance_and_accountability, accessed 19 February 2019.

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)[14] and enter into valuation service contracts for the provision of valuation services.[15]

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.[16]

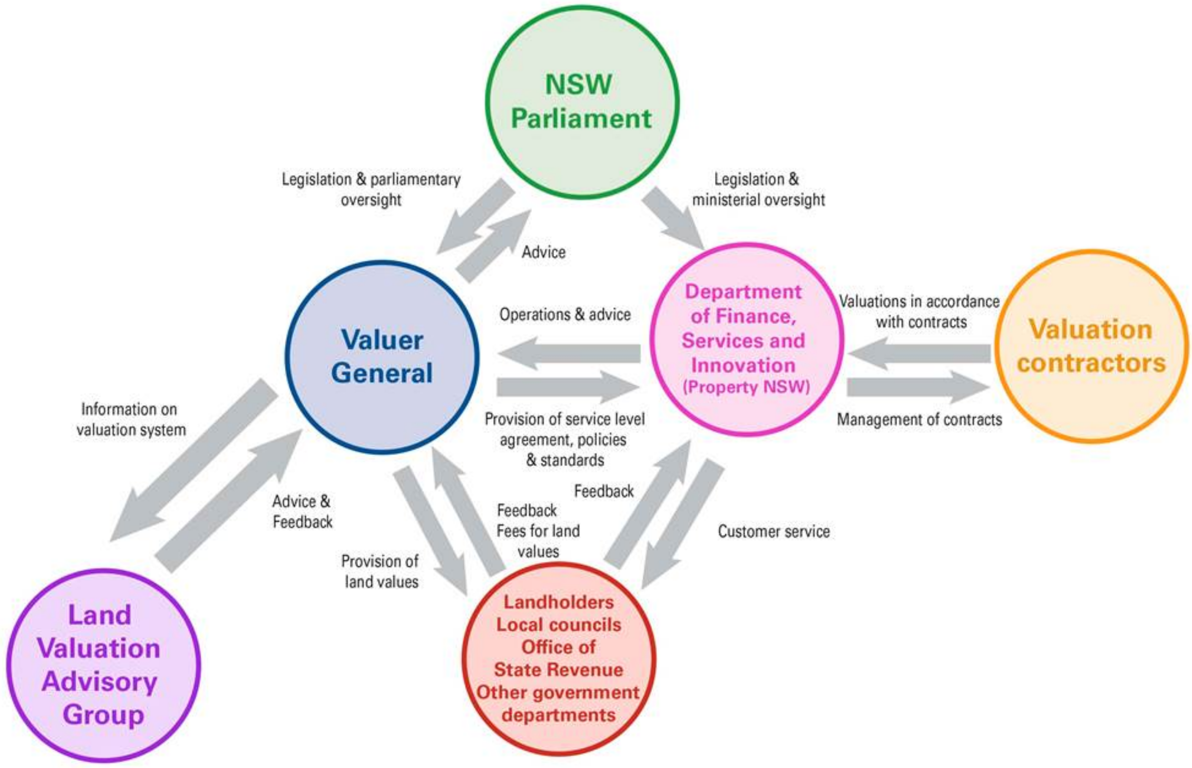
Other bodies that have a role in the governance of the valuation system include:

- The Joint Standing Committee on the OVG, 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 (VJSC), which comprises the Valuer General, the Executive Director of Valuation Services and representatives from the OVG and Property NSW. The VJSC coordinates senior management planning and oversight of the valuation system.[17]

14 Under section 8 of the VoL Act, the Valuer General may delegate any functions conferred or imposed on him to any other person.
15 Section 13A of the VoL Act.
16 http://www.valuergeneral.nsw.gov.au/about_us/valuation_system_management, accessed 19 February 2019.
17 Valuer General submission, November 2018, pp 17-18.

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

Figure 2.1 Governance and accountability



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

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 taxation purposes
- The determination of compensation following the compulsory acquisition of land
- An objections and appeals process against valuations
- 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.[18] These land values are fixed for rating purposes until new land values are issued 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.[19]

Land values are also provided each year to Revenue NSW for the calculation of land tax under the *Land Tax Management Act 1956* (NSW).[20] 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.[21] 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.[22]

The Valuer General may make a valuation of land at the request of any person.[23] 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.[24]
- **NSW Government agencies**: various agencies, including Roads & Maritime Services (RMS) 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.

18 Section 48 of the VoL Act.
19 Section 29 of the VoL Act.
20 Part 3 of the *Land Tax management Act 1956*.
21 Part 4 of the VoL Act.
22 Section 68 of the VoL Act.
23 Section 9A of the VoL Act.
24 Fire and Rescue NSW use rateable land values to calculate the apportionment of the Emergency Services Levy (ESL) between councils, within each fire district.

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.[25] 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.[26] 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.[27]

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.[28] Finding a comparable sales base can be difficult for certain, more specialised property types.[29]

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
- Nearby development and infrastructure.[30]

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

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 appropriation of

25 NSW Government, *Valuer General, Valuation Method*, http://www.valuergeneral.nsw.gov.au/land_values/valuation_method, accessed on 20 February 2019.

26 Section 14B of the VoL Act.

27 NSW Government, *Valuer General, Valuation Method*, http://www.valuergeneral.nsw.gov.au/land_values/valuation_method, accessed on 20 February 2019.

28 NSW Government, *Valuer General, Valuation Method*, http://www.valuergeneral.nsw.gov.au/land_values/valuation_method, accessed on 20 February 2019.

29 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.

30 NSW Government, *Valuer General, Valuation Method*, http://www.valuergeneral.nsw.gov.au/land_values/valuation_method, accessed on 20 February 2019.

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.[31]

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.[32]

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 (FESL) was postponed,[33] the Valuer General noted that any outstanding costs of implementing the Levy were absorbed through additional state government funding.[34]

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.[35]

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.[36]

---

31 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.

32 NSW Government, *NSW Valuer General Annual Report 2016-17*, p 21.

33 The implementation of the proposed Fire and Emergency Service Levy (FESL) was postponed in May 2017. Nevertheless, the Valuer General has maintained the common valuation cycle implemented in 2017. Under the current Emergency Services Levy (ESL), funding for emergency services will continue to be sourced from insurers as well as councils and government, whereas under the FESL, if it were to be implemented, funding for emergency services would be sourced from councils and government only.

34 Public Hearing Transcript, p 5.

35 Valuer General submission, November 2018, pp 41-42.

36 Valuer General submission, November 2018, p 21.

2.5 Overview of the Valuer General's submission

The Valuer General's 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.

As noted in Chapter 1, the Valuer General provided IPART with a revised submission in March 2019, which reflected updated mass valuation contract costs that are significantly lower than estimated in the November 2018 submission.

For the 2019 determination period, the Valuer General proposed a total NRR that was 11.8% 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).[37] The proportion of the total NRR allocated to councils was 32.6%, which is lower than the 34% allocated in the 2014 Determination.[38]

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

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 prices 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.

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.[39]

Table 2.1 shows the Valuer General's proposed prices in November 2018 and revised prices in March 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 determination period.

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

Zone	Prices – November 2018	Prices – March 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 submission, March 2019, p 6.

37 IPART analysis based on Valuer General submission, March 2019.

38 IPART, *Review of prices for land valuation services provided by the Valuer-General to councils*, from 1 July 2014 to 30 June 2019, p 47.

39 Valuer General 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 NRR
- Our approach to converting the NRR into prices.

3.1 Length of the determination period

We made a 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 captures two complete valuation cycles. The Valuer General has stated that the required expenditure can be reasonably accurately forecast over the next six years.[40]

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 six years (rather than multiple). Some councils preferred two 3-year determination periods over the referral period.[41]

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

40 Public Hearing Transcript, p 15.
41 Public Hearing Transcript, p 14.

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
- 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 our decisions, the Valuer General's efficient level of operating expenditure makes up around 93% of the Valuer General's NRR (discussed in Chapter 4). Actual operating expenditure was relatively stable over 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 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 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.

3.2 Approach to determining the notional revenue requirement

The NRR represents our view of the Valuer General's full, efficient costs of providing land valuation services for rating and taxation purposes for each year of the determination period.

We have used the building block approach to calculate the Valuer General's NRR over the determination period. In doing so, we made 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 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 RAB.
- 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 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.[42]
- 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.[43]

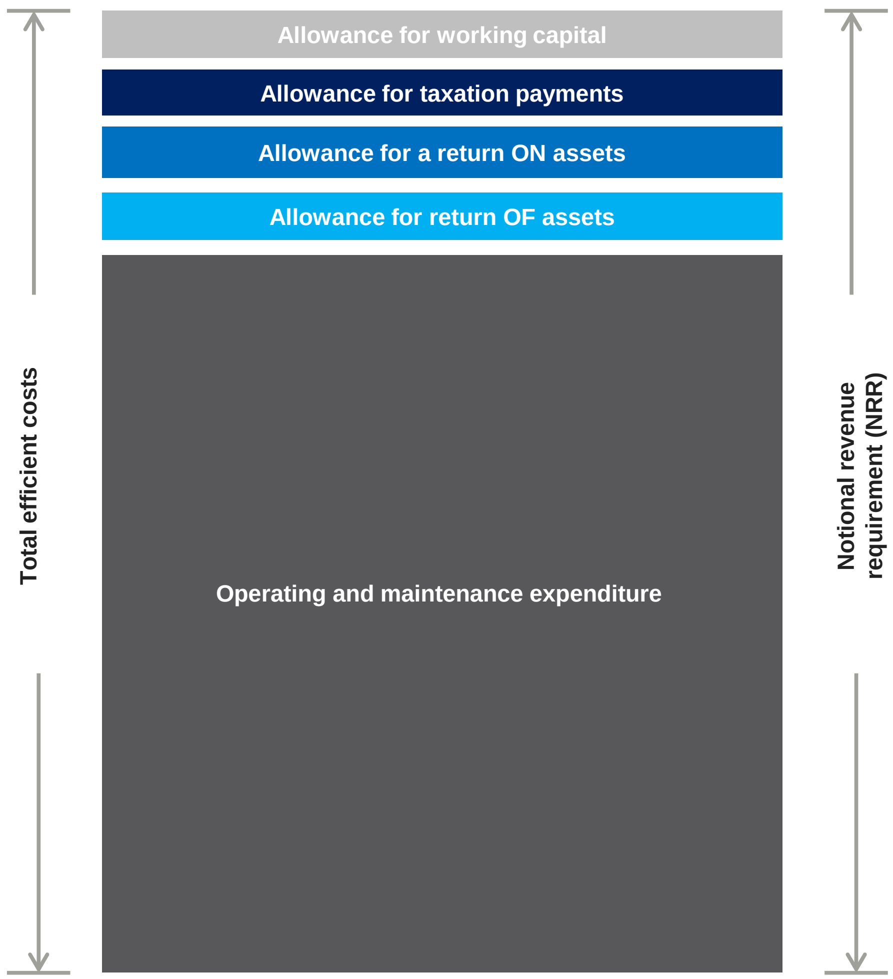
In setting prices, we aimed to replicate, as closely as possible, competitive markets. Fully cost reflective pricing is important in ensuring the optimal use and allocation of resources across society. Transparency around costs enables focus on services and costs to target actions to reduce costs, and provide impetus for innovation in high cost areas. 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 NRR) over the determination period (see Figure 3.1).

42 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))*, p 3, available at: https://www.coag.gov.au/about-coag/agreements/competition-principles-agreement). Accessed on 20 February 2019.

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

Figure 3.1 IPART's building block approach



Source: IPART analysis.

3.3 Approach for converting the notional revenue requirement into prices

Once we determined 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 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 councils. Our consideration of the potential impacts of our pricing decisions are outlined in Chapter 7.

4 Revenue requirement

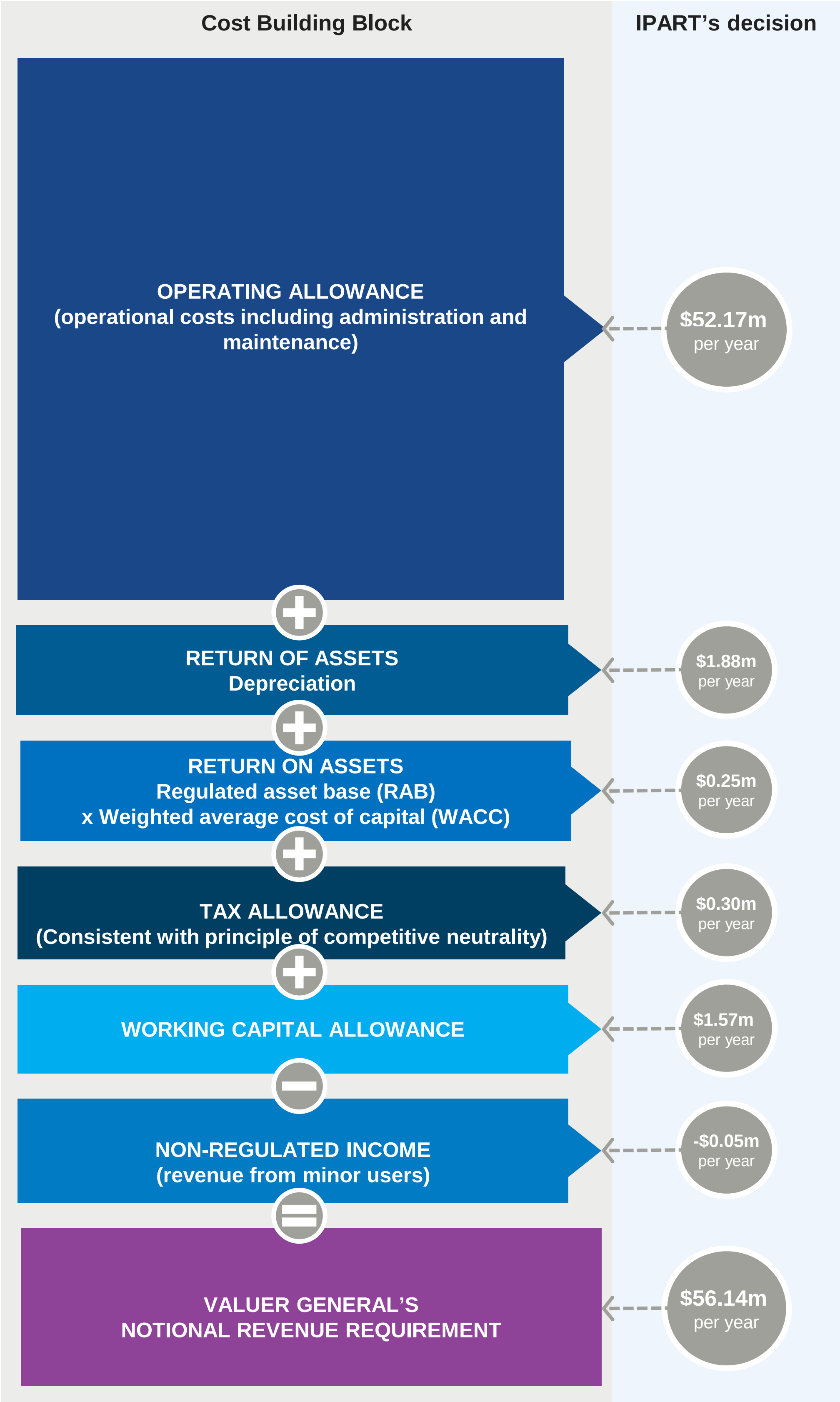
As described in Chapter 3, we used a building block approach to calculate the Valuer General's NRR in each year of the determination period. In this chapter, we outline our decisions on each building block component, including allowances for:

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

Figure 4.1 shows our decision on each of the building block components. As indicated, we have also subtracted the non-regulated income (the revenue from the minor users of the valuation services) when determining the Valuer General's NRR (see more in Section 5.1).

Note that in Chapter 4, we use the Valuer General's 27 March 2019 submission for comparison.

Figure 4.1 IPART's 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 decision to:

2 Set the Valuer General's notional revenue requirement for land valuation services provided for rating and taxation purposes for the 2019 determination period at $336.8 million as shown in Table 4.1.

Table 4.1 IPART's 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 submission								
Operating Expenditure	53,501	50,735	50,869	53,639	51,591	49,448	51,631	309,784
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	4,955
Return on working capital	101	72	86	130	128	123	107	639
Tax allowance	23	40	66	83	91	105	68	407
Notional Revenue Requirement	**54,822**	**53,094**	**54,628**	**57,828**	**55,555**	**53,360**	**54,881**	**329,287**
IPART's decision								
Operating Expenditure	53,501	50,735	50,869	54,889	51,591	51,448	52,172	313,034
Return of assets (Depreciation)	885	1,075	1,633	2,346	2,644	2,717	1,883	11,299
Return on assets	-78	-30	161	450	543	480	254	1,527
Return on working capital	1,525	1,512	1,498	1,653	1,620	1,617	1,571	9,426
Tax allowance	256	263	278	330	342	355	304	1,826
Revenue Requirement	**56,089**	**53,556**	**54,440**	**59,668**	**56,741**	**56,618**	**56,185**	**337,111**
Less: other revenue from minor users	46	46	46	46	46	46	46	275
Notional Revenue Requirement	**56,043**	**53,510**	**54,395**	**59,622**	**56,695**	**56,572**	**56,139**	**336,837**

Source: Valuer General submission, March 2019, p 7 and IPART analysis.

Table 4.2 below compares our decision on the total NRR over the six years of the 2019 determination period with that proposed by the Valuer General. Our decision is $7.5 million (or 2.3%) higher than the Valuer General's proposal in March 2019.

Table 4.2 IPART's 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 decision	Difference	Difference %
Operating Expenditure	309.8	313.0	3.3	1.0%
Depreciation (regulatory)	13.5	11.3	-2.2	-16.3%
Return on assets	5.0	1.5	-3.4	-69.2%
Return on working capital	0.6	9.4	8.8	1,374.8%
Tax allowance	0.4	1.8	1.4	348.4%
Less: revenue from minor users	0.0	0.3	0.3	–
Notional Revenue Requirement	**329.3**	**336.8**	**7.5**	**2.3%**

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

Source: Valuer General submission, March 2019, p 7 and IPART analysis.

Our decision on the average annual NRR is $6.4 million (or 12.9%) 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 decision versus 2014 Determination ($'000, $2018-19)

Building block component	2014 Determination	IPART's decision	Difference	Difference %
Operating Expenditure	46,817	52,172	5,355	11.4%
Depreciation (regulatory)	484	1,883	1,399	288.7%
Return on fixed assets	2,204	254	-1,949	-88.5%
Return on working capital	140	1,571	1,431	1,020.1%
Tax allowance	65	304	239	367.9%
Less other revenue from minor users	–	46	46	–
Notional Revenue Requirement	**49,711**	**56,139**	**6,429**	**12.9%**

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

Source: IPART analysis.

This increase is mainly due to an:

- Average annual increase of $5.4 million (or 11.4%) in efficient operating expenditure
- Average annual increase of $1.4 million (or 288.7%) in depreciation due to a significant increase in the size of the RAB
- Average annual increase of $1.4 million (or 10 times greater) on the return on working capital, which contributes to a higher tax allowance of $0.2m (or around 4 times greater).

The sections that follow outline our considerations in reaching the final 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 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 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
IPART's decision	**53.5**	**50.7**	**50.9**	**54.9**	**51.6**	**51.4**	**313.0**
Valuer General Proposed	53.5	50.7	50.9	53.6	51.6	49.4	309.8
Difference	–	–	–	1.3	–	2.0	3.3
Difference %	0.0%	0.0%	0.0%	2.3%	0.0%	4.0%	1.0%

Source: Valuer General submission, March 2019, p 7 and IPART analysis.

Our decision on the Valuer General's efficient operating expenditure is 1% higher 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 5.0% higher than our 2014 decision on operating expenditure that 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 decision for the 2014 determination period ($'000, $2018-19)

	2014-15	2015-16	2016-17	2017-18	2018-19[a]	Total
Total operating expenditure						
Actual	46,523	49,624	49,448	50,114	49,998	245,708
IPART allowance	46,817	46,817	46,817	46,817	46,817	234,086
Difference	-294	2,807	2,631	3,297	3,181	11,622
Difference (%)	-0.6%	6.0%	5.6%	7.0%	6.8%	5.0%
Councils' share of total operating expenditure						
Actual	15,603	16,947	18,133	16,763	15,970	83,416
IPART allowance	15,918	15,918	15,918	15,918	15,918	79,589
Difference	-315	1,029	2,215	845	52	3,827
Difference (%)	-2.0%	6.5%	13.9%	5.3%	0.3%	4.8%

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; and IPART analysis.

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

- Other valuation contracts (43.7% higher)
- Labour costs (4.5% higher), and
- Mass valuation contracts (1.3% higher).[44]

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 $4.8 million (or 10.3%) 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	33%
Mass valuation contracts	19.5	19.9	20.5	21.1	21.7	20.1	20.5	40%
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	**53.5**	**50.7**	**50.9**	**53.6**	**51.6**	**49.4**	**51.6**	**100%**

Source: Valuer General Information Return, February 2019 and 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
- Other valuation contracts.

Directly attributable costs – Labour

Labour costs represent about 33% of the Valuer General's proposed operating expenditure over the 2019 determination period. In terms of labour costs, we note that:

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

- The Valuer General forecasts that Property NSW will require an average of 130 full time equivalent (FTE) positions over the 2019 determination period, which is an increase of five FTEs (or 3.8%) over the 125 FTEs we used when setting prices in 2014.[45] This is broadly in line with the forecast growth in the number of valuations of 4.3% over six years.[46]
- The average salary per FTE is currently $94,059, [47] which is nearly identical to the average NSW Government salary of $94,047.[48]
- There is evidence that Property NSW has taken steps to restructure its workforce and improve productivity, reducing overall FTEs since the separation from LPI in 2015-16.[49]
- There are further reductions proposed following the commissioning of Valnet III, which will lead to a further reduction of seven FTEs.[50]

The Valuer General's submission to our 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.[51]

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.

However, the Valuer General's updated forecasts include a $1.3 million reduction in labour costs saved by the commissioning of Valnet III.[52] As set out in Section 4.3.2 below, we have made a 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 $1.3 million forecast saving in labour costs. As such, our decision is to make an upward adjustment to labour costs of $1.3 million, relative to the Valuer General's proposal.

Directly attributable costs – Mass valuation contract costs

Mass valuation (MV) contract costs represent about 40% 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 taxation (Revenue NSW) and rating (councils) purposes. The Valuer General's submission in November 2018 proposed a total of $129.1 million over six years.[53]

At the public hearing on 12 February 2019, Property NSW stated that it was in the final stages of procuring new mass valuation contracts.[54] Until 2019, there were 41 mass valuation contracts covering NSW. The contract areas were based on geographical boundaries. In

45 Valuer General submission, November 2018, p 51.
46 Valuer General information return, November 2018 and IPART analysis.
47 Valuer General submission, November 2018, p 52.
48 Valuer General submission, November 2018, p 52.`
49 Email correspondence from Property NSW, 28 February 2019.
50 Valuer General submission, November 2018, p 52.
51 Valuer General submission, November 2018, p 52.
52 Email correspondence from Property NSW, 25 February 2019.
53 Valuer General submission, November 2018, p 53.
54 Public Hearing Transcript, p 14.

2018-19, Property NSW undertook a new round of contract procurement, with the number of contract areas reduced from 41 to 18.[55] This was designed to decrease the overall cost of MV contracts through economies of scale, and increasing competition for fewer contracts.

In March 2019, the Valuer General submitted a revised submission to IPART 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.[56]

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.[57] As set out in Section 4.3.2 below, we have made a 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 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 decision on mass valuation contract costs compared to the Valuer General's March 2019 pricing proposal.

Table 4.7 IPART's 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	19.5	19.9	20.5	21.1	21.7	20.1	122.8
Valnet III deferral						2.0	2.0
IPART's decision	**19.5**	**19.9**	**20.5**	**21.1**	**21.7**	**22.1**	**124.8**

Source: Valuer General submission, March 2019, p 7; Valuer General Email to IPART 25 February 2019; and IPART analysis.

Other proposed operating expenditure is efficient

The other components 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.

55 Valuer General submission, November 2018, p 53.
56 Valuer General submission, March 2019, p 2.
57 Email correspondence from Property NSW, 25 February 2019.

4.3 Capital expenditure

We have made decisions to:

4 Accept the Valuer General's actual historical capital expenditure 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 $5.6 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 LPI, and is set out in Table 4.8.

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	412	-404	-97.9%
Plant and Equipment	107	5,830	-5,723	-98.2%
Intangibles	3,762	3,246	515	15.9%
Total	**3,878**	**9,489**	**-5,611**	**-59.1%**

Note: 2018-19 figures are forecast.

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

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

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

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Actual/IPART decision	**0.4**	**0.4**	**0.2**	**0.2**	**0.9**	**1.8**	**3.9**
IPART 2014 Determination	2.6	1.9	1.7	1.7	1.9	2.0	11.8
Difference	-2.2	-1.5	-1.5	-1.5	-1.0	-0.2	-7.9
Difference %	-85.3%	-80.0%	-88.7%	-89.9%	-50.6%	-7.8%	-67.0%

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; and IPART analysis.

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

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

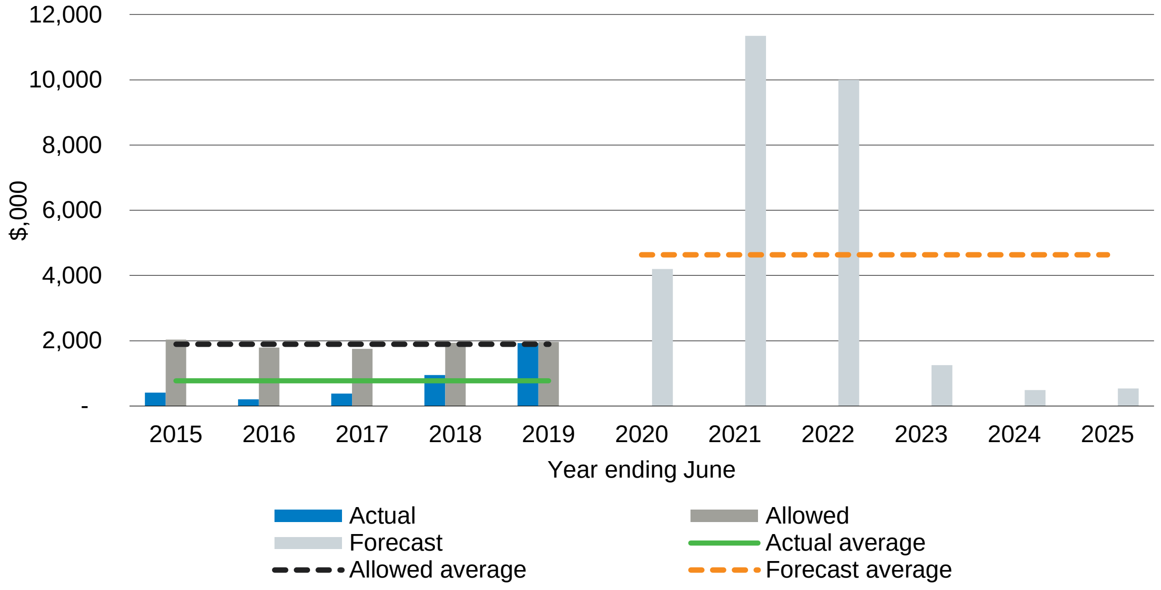
Table 4.10 IPART's decision on the capital expenditure by category for the 2019 determination period ($'000, $2018-19)

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 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 144%) higher than the average forecast we used to set prices in 2014. It is $3.9 million per year (or 498%) 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 and IPART analysis.

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

Our 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
- Valnet III will deliver higher quality services, and create operating efficiencies through productivity savings.[58]

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

In its submission to our Draft Report, City of Sydney argued that Valnet III is a major cost driver of the prices the Valuer General charges councils. It also suggested that the proposed capital cost is unnecessarily high and the project is not well justified.[59]

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 OVG, 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.[60] As such, the longer term impact on the Valuer General's total NRR will be small, as capital costs will be largely offset by flow-on savings 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.

58 Valuer General submission, November 2018, p 63.
59 City of Sydney submission to IPART Draft Report, April 2019, p 2.
60 Email correspondence from Property NSW, 25 February 2019.

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 decision is to set the capital expenditure allowance by assuming that Valnet III is deferred for a year, by re-phasing 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 relative to the Valuer General's proposal. As such, we have increased forecast operating costs by $3.3 million to reflect the deferral of productivity benefits.

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 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
- 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	1,945	1,612
Plus: Indexation	274	109	33	-11	-47	-49
Closing RAB	**7,067**	**4,932**	**-672**	**-2,710**	**-3,762**	**-3,611**

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

Our modelling arrived at an opening RAB at 1 July 2019 of -$3.61 million. This compares to the Valuer General's proposed opening RAB at 1 July 2019 of $2.45 million.[61] 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

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

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 of the RAB to ensure that customers receive the benefit of the depreciation they have already paid for.[62]

Asset disposals should be deducted from the RAB

We have made a 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 decision on the value of the asset disposals are set out in Table 4.13.

Table 4.13 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 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.

62 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 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	-3,762	-3,611	-2,105	-820	9,092	16,262	14,516
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	1,612	899	1,092	1,660	2,384	2,687	2,761
Plus: Indexation	-49	–	–	–	–	–	–
Closing RAB	**-3,611**	**-2,105**	**-820**	**9,092**	**16,262**	**14,516**	**12,293**

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

4.5 Calculating allowances for regulatory depreciation and a return on assets

4.5.1 Return of assets (regulatory depreciation)

We have made decisions to:

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

8 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 are 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 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 and IPART analysis.

4.5.2 The Weighted Average Cost of Capital (WACC)

We have made decisions to:

9 Adopt a real post-tax WACC of 3.3% 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) up to the end of March 2019
- A current cost of debt based on 6-year transition to a trailing average.

10 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 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 3.3%, compared to the Valuer General's proposed WACC of 5.1%.[63] 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 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.

4.5.3 Return on assets

We have made a decision to:

11 Set an allowance for a return on assets for the 2019 determination period at $1.5 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).

63 Valuer General submission, November 2018, p 65.

4.6 Other building block components

4.6.1 Tax allowance

We have made a decision to:

12 Set a tax allowance for the 2019 determination period at $1.8 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[64] to the Valuer General's (nominal) taxable income.

Our decision is to allow for a tax allowance at an annual average of $0.3 million.

We note some stakeholders did not support the inclusion of a tax allowance for monopoly services noting that most government agencies do not pay tax.[65]

The Valuer General does not currently pay tax or tax equivalents because it is administratively part of the Department of Finance, Services and Innovation. We note that the Valuer General undertakes valuation services on a commercial fee for service basis. Most Government organisations that undertake user-pays commercial activities are State-Owned Corporations which are subject to the NSW Treasury's Tax Equivalent Regime policy.[66] Given the nature of its activities, we consider that the Valuer General's prices should reflect tax equivalents.

While the Tax Equivalent Regime policy does allow for exemptions in some cases, we consider that the Valuer General would not qualify for any of these exemptions.

In order to qualify for an exemption, a business must meet both of the following:

1. Specific conditions warrant the Government business being regarded as non-commercial.
2. Competitive neutrality issues are unlikely to arise.

We consider neither of these conditions apply to the Valuer General's commercial services and, while competitive neutrality issues do not arise now, they could possibly arise in the future.

In its submission to the Draft Report, Local Government NSW (LGNSW) stated that in setting the tax allowance:

> …no allowance was made for the reduction in corporate tax rates that are to be phased in during the determination period.[67]

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

65 NSW Revenue Professionals submission to IPART Issues Paper, October 2018, p 4; NSW Revenue Professionals submission to IPART Draft Report, April 2019, p 4; LGNSW submission to IPART Issues Paper, October 2018, p 8; LGNSW submission to IPART Draft Report, April 2019, p 1; and The Hills Shire Council submission to IPART Issues Paper, October 2018, p 3.

66 NSW Treasury, Commercial Policy Framework, Tax Equivalent Regime for Government Business, p 7.

67 LGNSW submission to IPART Draft Report, April, 2019, p 2.

We note the reduction in corporate tax rates to 2021-22 applies to companies that fall below the aggregated annual turnover threshold of $50 million.[68] In estimating the tax allowance, we have applied a 30% corporate tax rate over the determination period as the Valuer General's total NRR is greater than the $50 million threshold during each year of the determination period.

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 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.

4.6.2 Working capital

We have made a decision to:

13 Set an allowance for a return on working capital for the 2019 determination period at $9.4 million as shown in Table 4.1.

The Valuer General bills councils at the end of the financial year for their valuation services.[69] This means that the Valuer General needs to fund the holding cost of expenditure throughout the year, prior to receiving payment from councils. This decision on 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 2.8%. The average annual return on working capital is $1.6 million as set out in Table 4.17 below.

Table 4.17 IPART's 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	1,525	1,512	1,498	1,653	1,620	1,617

Source: IPART analysis.

68 https://www.ato.gov.au/general/new-legislation/in-detail/direct-taxes/income-tax-for-businesses/reducing-the-corporate-tax-rate/, accessed on 16 May 2019.
69 Email correspondence from Property NSW, 12 February 2019.

4.7 Forecast other revenue to be shared with customers

We have made a decision to:

14 Set the Valuer General's notional 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 Roads & Maritime Services, 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.[70] 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 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: Email correspondence from Property NSW, 25 February 2019; and IPART analysis.

70 Email correspondence from Property NSW, 25 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 taxation purposes. Valuation services are also provided to other minor customers. In Chapter 4, we outlined our 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.[71]

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
- 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.

71 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 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, RMS and NSW Crown Lands
- The Commonwealth Grants Commission
- Private brokers and the general public.

These users are charged on a fee for service basis.[72]

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.[73] 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.[74]

LGNSW'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.[75]

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
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%.[76]

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 leases on domestic waterfront tenancies annually.[77] However, both agencies use around

72 The average annual revenue received by the Valuer General from minor users between 2014-15 and 2018-19 was $45,768 (Email correspondence from Property NSW, 25 February 2019 and IPART analysis).

73 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.

74 City of Sydney submission to IPART Issues Paper, October 2018, p 6; and Campbelltown City Council submission to IPART Issues Paper, October 2018, p 4.

75 LGNSW submission to IPART Issues Paper, October 2018, p 9.

76 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.

77 IPART, *Review of method for determining rents for domestic waterfront tenancies in NSW*, December 2011, p 30.

8,900[78] valuations per year, compared to around 2.6 million valuations[79] 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.

In its submission to our Draft Report, LGNSW argued that:

> While the relative usage rate for minor users' is currently low, it could potentially increase during the six year determination period. LGNSW therefore believes minor users should be charged on an average cost basis, not on a marginal cost basis.[80]

We consider that, given the stability of minor users' utilisation of valuation services and the overall materiality thereof, marginal cost pricing remains appropriate. As such we have maintained our draft decision to not allocate any of the Valuer General's fixed costs to minor users. At our next price review, we will review the number and type of minor users' use of valuation services and consider whether the allocation of fixed costs to some or all of those users is justified.

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 around 31% of the Valuer General's efficient costs to councils

We have made a decision to:

16 Allocate 30.5% 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
- Using frequency of valuations[81] to allocate **shared fixed costs**.

For the 2019 Determination, the Valuer General has proposed allocating 32.6% of costs to councils.[82] 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:

---

78 Update to net rates of return for domestic waterfront tenancies, 2019: RMS Information Request December 2018, and Crown Lands and Water Information Request October 2018.

79 Valuer General Information Return November 2018.

80 LGNSW submission to IPART Draft Report, April 2019, p 2.

81 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.

82 Valuer General submission, March 2019, p 7.

- 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.[83]

Stakeholders have suggested that there is an argument for using a lower cost allocation than the 32.5% proposed by the Valuer General. In submissions to our Issues Paper, the City of Sydney argued that a more appropriate allocation is 16.6% for most of the Valuer General's cost items.[84] Both NSW Revenue Professionals[85] and Campbelltown City Council[86] suggested an allocation of 20% for the majority of cost items. NSW Revenue Professionals argued that:

> 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.[87]

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 30.5% of the Valuer General's total NRR (or efficient costs) to councils. Table 5.1 below sets out our 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	IPART Final decision
Mass valuation contract costs	25.0	25.0	25.0
Labour costs	36.5	30.6	31.8
Other valuation contracts costs	38.0	38.0	38.0
Other direct costs [a]	100.0	100.0	100.0
Other indirect costs [b]	33.0	28.9	29.3
Total	**32.6**	**30.1**	**30.5**

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, March 2019, p 7 and IPART analysis.

83 Valuer General submission, November 2018, pp 52 and 55.
84 City of Sydney submission to IPART Issues Paper, October 2018, pp 6-9.
85 NSW Revenue Professionals submission to IPART Issues Paper, October 2018, pp 5-6.
86 Campbelltown City Council submission to IPART Issues Paper, October 2018, pp 4-5.
87 NSW Revenue Professionals submission to IPART Issues Paper, October 2018, p 5.

In our Draft Report, we set the allocation of costs to councils at 30.1%. The Valuer General's submission to the Draft Report provided updated information on the number and function of employees within Property NSW. The resulting adjustments to our calculation arising from the revised information results in an overall increase in allocations for:

- Labour costs, which has increased from 30.6% in the Draft Report to 31.8%.
- Other indirect costs, which has increased from 28.9% in the Draft Report to 29.3%.

These changes are discussed further below. 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; and IPART analysis.

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%.[88] This is the same as our 2014 Determination.

In our Draft Report, we agreed with the Valuer General and allocated 25% of mass valuation contract costs to councils.

In submissions to the Draft Report, both City of Sydney and NSW Revenue Professionals[89] argued that the allocation of mass valuation contract costs to councils should be lower. City of Sydney stated:

> In a three year-cycle, councils and Revenue NSW are equal users of the service in one of the three years only. The cost of the other two years should be fully allocated to Revenue NSW as councils do not require the mass valuations in these years. The allocation to councils of the total mass valuation contract costs should be one sixth, which is 16.7%.[90]

88 Valuer General submission, November 2018, p 53.
89 NSW Revenue Professionals submission to IPART Draft Report, April 2019, p 5.
90 City of Sydney submission to IPART Draft Report, April 2019, p 1.

The precise allocation of mass valuation contract costs is difficult. There are arguments for adopting an allocation of anywhere between 16.7% (as argued by City of Sydney), and 50% (split equally between the two main users of general valuation lists). We note that even though most councils only receive a general valuation list every third year, the preparation of those lists in other years also produces some benefits to councils. For example, the Valuer General can issue a new general valuation list to any council if necessary. This is a rationale for moving away from the lower estimate of allocating 16.7% to councils.

Furthermore, if councils were the only user of the Valuer General's valuation services, the mass valuation costs required to prepare the general valuation lists under that scenario would almost certainly be higher than one sixth of the total under current mass valuation costs.

Based on the proportional use of the service, where Revenue NSW receives three general valuation lists every three years, and councils receive one, we have decided 25% is the most appropriate allocation of mass valuation costs.

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%.[91] 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 valuations per year, and the councils using around 800,000 valuations per year, or one third.[92]

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.

The Valuer General has provided information about the structure of Property NSW[93] as shown in Table 5.3 below. Currently, there are 128 FTE positions in OVG and Property NSW to oversee and deliver all of the Valuer General's valuation services with:

- 79 FTEs[94] dedicated to direct valuation activities
- 49 FTEs which support them, and the valuation system in general.

91 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 51.

92 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.

93 Property NSW undertakes all valuation work on behalf of the Valuer General (Valuer General submission, November 2018, p 5).

94 This excludes 15 FTEs dedicated to compensation and special valuations, which are ring fenced from the Valuer General's proposed labour costs.

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

Team	FTEs
Direct valuations related staff	**79[a]**
Contract and quality management	10
Valuations	41
Land data management	28
Support teams staff	**49**
Executive Director and office	3
Customer experience	21
Business improvement	18
Office of the Valuer General	7
Total	**128**

a This excludes 15 FTEs in the Compensation and special valuations team.

Source: Valuer General submission to IPART Draft Report, April 2019, p 2; Valuer General Annual Report 2017-18, p 10; and IPART analysis.

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

- Councils for rating purposes
- Revenue NSW for taxation purposes.

The Valuer General has stated that out of 79 FTEs involved in direct valuations, 28 FTEs (within the Land data management team) are devoted entirely to undertaking **supplementary valuations**.[95],[96] Property NSW 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.[97]

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, 51 FTEs, should be allocated based on the frequency of use of the general valuation list, ie 25% to councils. With 28 FTEs x 50% and 51 FTEs x 25%, this produces a weighted allocation of 33.9% for direct valuations labour costs.

There are also 49 FTEs in support teams. Of these, we consider:

- That 7.8 FTEs (or 16% of the support teams' 49 FTEs) be allocated to councils at 0%. This recognises that support staff also support the ring fenced compensation team.[98]
- The most appropriate way to allocate the remaining 41.2 support FTEs is to use the overall allocation for valuation staff, ie 33.9% to councils.

95 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.

96 Email correspondence from Property NSW, 28 February 2019.

97 Valuer General submission, November 2018, p 52.

98 There are 15 FTEs in Property NSW's compensation and special valuations team. This is 16% of the combined direct valuations FTEs: 15/(15+79) = 16.0%.

Including all direct valuation and support staff, this produces an overall weighted allocation of labour costs to councils of 31.8%.

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 valuation contract costs. The Valuer General's 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%.[99]

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 print 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.[100]

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
- Other valuation contracts.

99 Valuer General submission, November 2018, p 54.

100 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 51.

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 29.3%. We have therefore allocated 29.3% of other indirect costs to councils for the purpose of determining prices.

5.4 Required revenue from councils is lower

We set out our findings on the Valuer General's total NRR in Chapter 4. After allocating 30.5% of the total NRR to councils, the councils' average annual share of the NRR is around $17.1 million per year. This is around $0.8 million (or 4.4%) lower than proposed.

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 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	17,466	16,563	16,607	17,511	16,843	16,143	16,856
Depreciation (regulatory)	317	550	848	921	878	894	735
Return on fixed assets	74	184	329	377	345	308	270
Return on working capital	33	23	28	42	42	40	35
Tax allowance	7	13	22	27	30	34	22
Total NRR	**17,898**	**17,333**	**17,834**	**18,879**	**18,137**	**17,420**	**17,917**
IPART's decision							
Operating Expenditure	16,318	15,474	15,515	16,741	15,735	15,692	15,913
Depreciation (regulatory)	270	328	498	715	806	829	574
Return on fixed assets	-24	-9	49	137	166	146	78
Return on working capital	465	461	457	504	494	493	479
Tax allowance	78	80	85	101	104	108	93
Revenue requirement	***17,107***	***16,334***	***16,604***	***18,199***	***17,306***	***17,268***	***17,136***
Less: Minor users' revenue	14	14	14	14	14	14	14
Total NRR	**17,093**	**16,320**	**16,590**	**18,185**	**17,292**	**17,255**	**17,123**

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, March 2019; Valuer General Information Return, February 2019; Valuer General pricing model, February 2019; and 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.

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

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, transparency and price stability of potential price structures.

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

6.1 Decision on prices

We have made decisions 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 structure 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 decision on the total NRR allocated to councils is 4.4% lower than the Valuer General's proposal in March 2019. The Valuer General's March submission was based on the outcomes of a new procurement process for valuation services, which has a material impact on the adopted 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 decisions.[101]

101 Valuer General submission, March 2019, p 2.

Our final prices are in aggregate around 4.5%[102] lower than the prices proposed by the Valuer General in March 2019.[103] As we are moving to a zonal price structure, it is not possible to directly compare our prices for the 2019 determination period with current prices.

Table 6.1 IPART's 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 decision							
Country	5.87 for residential	7.51	7.51	7.51	7.51	7.51	7.51
Coastal	12.91 for non-residential	6.40	6.40	6.40	6.40	6.40	6.40
Metro	across all NSW councils	5.90	5.90	5.90	5.90	5.90	5.90
City of Sydney		12.21	12.21	12.21	12.21	12.21	12.21
Valuer General's proposed prices March 2019							
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

Source: Valuer General submission, March 2019, p 6; IPART, Review of prices for land valuation services provided by the Valuer General to councils, Final Determination May 2014, p 4; and IPART analysis.

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). After the initial price change from 2018-19 to 2019-20, prices would 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	17,093	16,320	16,590	18,185	17,292	17,255	90,680
Target revenue	16,820	16,938	17,057	17,177	17,298	17,420	90,680
Difference	263	-618	-467	1,007	-6	-165	0

Note: Totals may vary due to rounding.

Source: IPART analysis.

102 Country, Coastal, Metro and City of Sydney are 4.57%, 4.49%, 4.47% and 4.50% lower respectively; IPART analysis.

103 The percentage difference between the Valuer General's proposed and our final NRRs and prices is caused by our decision to defer capital expenditure on Valnet III by one year, and to increase operating expenditure to allow for the associated delay in productivity savings.

In its submission to the Draft Report, Albury City Council suggested benchmarking land valuation services and prices in other Australian states to inform our decisions.[104] We consider that the legislative and regulatory requirements, standards, government subsidies and valuation approach in other states makes informative benchmarking of limited value at this time. However, during our next price review, which is due in 2024-25, we will re-investigate the land valuation services and costs in other jurisdictions in making our decisions.

6.2 Number of valuations

We have made a 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 growth rate of 0.7% per annum.

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

Table 6.3 IPART's decision on the total number of valuations for the 2019 determination period ('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

Note: The figure for 2018-19 is a forecast based on actual number of valuations for 2017-18 growing by 0.7%.

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

The Valuer General estimated a growth rate of 0.7% per annum in the number of properties over the referral period from 2019-20 to 2024-25.[105] This is less than the 1.0% growth rate estimated for the 2014 determination period.[106]

We note that the actual growth in valuation numbers over the 2014 determination period was around 0.9%.[107] The Valuer General submitted that the forecast volumes of valuations for this determination period are based on 10 years of historical data.[108] 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.

104 Albury City Council submission to IPART Draft Report, April 2019, p 1.

105 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.

106 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.

107 Valuer General submission, November 2018, p 25 and IPART analysis.

108 Valuer General submission, November 2018, p 70.

6.3 Price structures

Our final 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,[109] 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:[110]

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

6.3.2 Price structure from 1 July 2019

The Valuer General has proposed a move away from state-wide uniform pricing with a residential and non-residential charge, to a structure based solely on four geographical zones[111] as it more clearly reflects the cost of delivering the service, which has been market tested through a robust procurement process. Under the proposed structure, one price per valuation applies (irrespective of whether it is for a residential or non-residential property) for four geographical zones (Country, Coastal, Metro and City of Sydney).

For the 2019 Determination, we have decided to adopt the Valuer General's proposed price structure. We consider the Valuer General's proposed pricing structure is reasonable, as it is based on robust market outcomes. 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 and property type). The zonal approach also makes costs and prices more transparent, which can help drive efficiency gains over time.

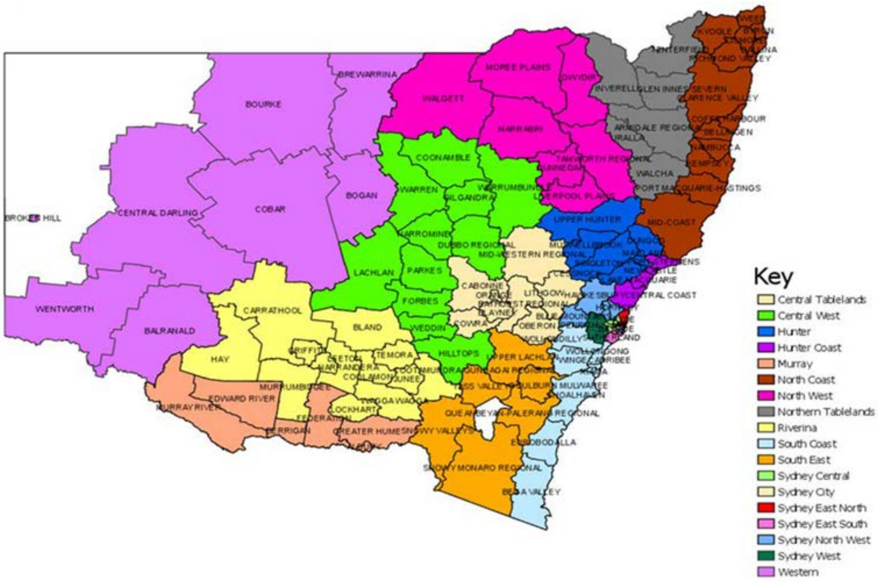
We also took into account that under the current price structure there is uncertainty around whether the current 1:2.2 ratio for the cost difference between residential and non-residential valuations is accurate. The zonal approach allows the market to determine the price differential between residential and non-residential valuation costs which are built-in to the specific costs for each contract area.

109 IPART has set prices for the Valuer General's valuation services to councils since 1994.
110 Valuer General submission, November 2018, p 73.
111 Valuer General submission, November 2018, p 11.

The Valuer General's specification of zones is based on the costs of delivering mass valuation services across 18 contract areas in NSW (see Figure 6.1). Previously, there were 41 contract areas, which the Valuer General has now rationalised to 18.[112]

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.[113]

Figure 6.1 Contract areas

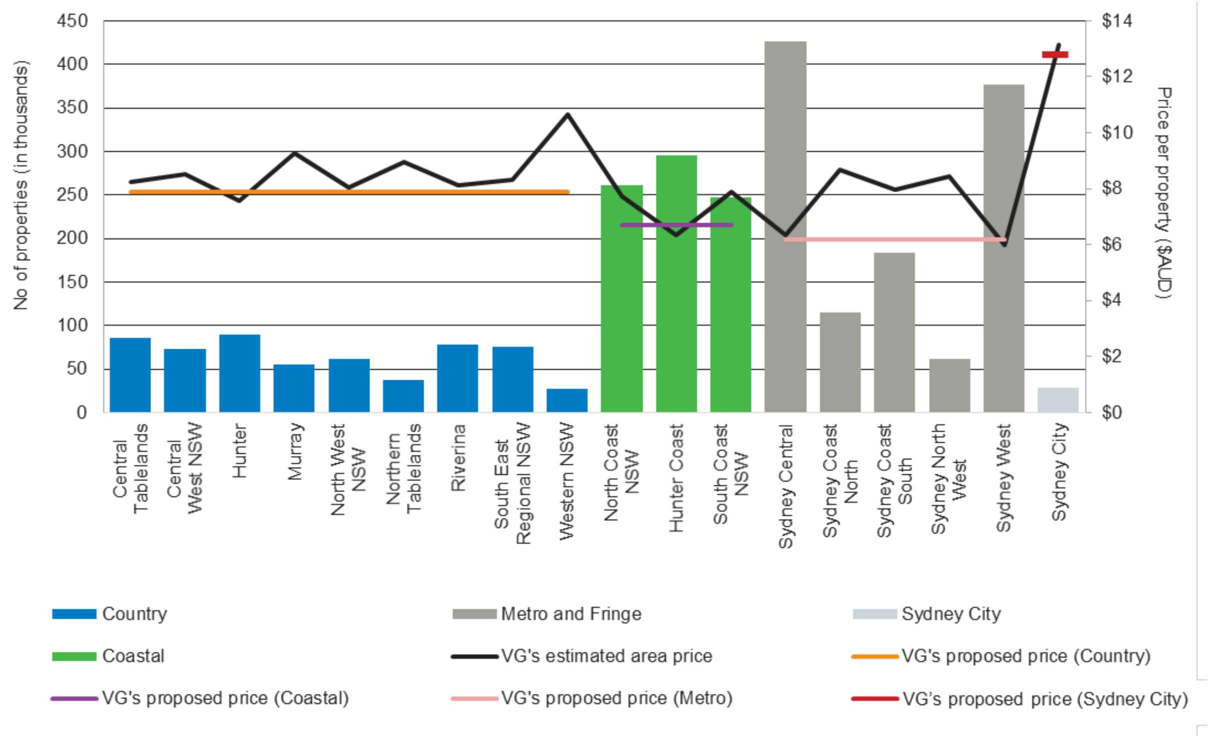


Source: Valuer General submission, November 2018, p 96.

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

112 Public Hearing Transcript, 12 February 2019, p 9.
113 Public Hearing Transcript, 12 February 2019, p 9.

Figure 6.2 Valuer General's estimate of prices for 18 contract areas for year 2019-20 ($2018-19 per valuation)



Note: The black line shows the Valuer General's estimated price per property for each of the 18 contract areas to recover proposed costs for 2019-20 only. The coloured lines represent the Valuer General's proposed price for each zone over the full determination period. The coloured bars show the number of properties (valuation sites) in each area.

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

Some stakeholders opposed a move to a zonal pricing structure, noting that it unfairly subjects councils to decisions made in determining the contract areas.[114] Cessnock City Council objected to the differential in charge between Country and Coastal zones noting that although it is located in the Country zone, it shares many characteristics with its Coastal neighbours.

As part of adopting zonal pricing, we have also accepted the boundaries for contract areas as defined by the Valuer General. At the Public Hearing, the Valuer General noted that the 18 contract areas closely align with the 14 regional reports that Valuation Services has historically prepared and are based on:

> 'naturally aggregated areas that represent similar attributes across the state'.[115]

LGNSW stated that 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.[116]

114 City of Sydney submission to IPART Issues Paper, October 2018, p 9; City of Sydney submission to IPART Draft Report, April 2019, pp 2-3; and Campbelltown City Council submission to IPART Issues Paper, October 2018, p 6.

115 Public Hearing Transcript, 12 February 2019, p 42.

116 LGNSW submission to IPART Issues Paper, October 2018, p 10.

In our view there is not a strong case for transitional arrangements as the Valuer General's charges represent a very small proportion of councils' total operating expenditure (around 0.4% for rual councils and 0.1% for City of Sydney).[117]

A number of stakeholders supported moving to a single rate for residential and non-residential valuations.[118] Three stakeholders continued to support the 'postage stamp' approach as advocated by Revenue Professionals, considering this a 'more equitable and reasonable approach'.[119] The 'postage stamp' approach is based on a single price across NSW calculated by dividing the total NRR by the total number of valuations across NSW.[120]

We consider that the 'postage stamp' approach, while simple, is less cost reflective than the zonal approach and would adversely impact councils with large numbers of routine valuations, even though routine valuation costs are generally cheaper. As noted by the Valuer General at the Public Hearing, homogeneous areas are less complex to value as they lend themselves to a mass valuation process.[121]

As noted above, the rationale for moving to a zonal pricing structure is that it reflects the outcomes of the Valuer General's mass valuation tendering process, where the cost of serving each zone is revealed by the market. Valuation Services (part of Property NSW) confirmed that the contract process was 'run in accordance with the NSW Procurement Framework with the key objective being achievement of best value for money'.[122]

We consider that, on average, there is likely to be a cost difference between valuations of residential and non-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 prices.

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 properties subject to successful objection the previous year, mines, shopping centres, contaminated sites, and high value properties), require the contractor to spend more time in developing the valuations.[123],[124] Higher risk properties also require more frequent verification, adding to the contract cost for the area.[125]

---

117 Based on the Office of Local Government data on the average operating expenditure in 2016-17 for councils. Office of Local Government, *Time Series Data 2016/17*.

118 City of Sydney submission to IPART Issues Paper, October 2018, p 9; Campbelltown City Council submission to IPART Issues Paper, October 2018, p 6; NSW Revenue Professionals submission to IPART Issues Paper, October 2018, p 6; and LGNSW submission to IPART Issues Paper, October 2018, p 11.

119 City of Sydney submission to IPART Draft Report, April 2019, p 4; Cessnock City Council submission to IPART Draft Report, April 2019, p 2; and Revenue Professionals submission to IPART Draft Report, April 2019, p 5.

120 Revenue Professionals submission to IPART Issues Paper, October 2018, p 6.

121 Public Hearing Transcript, 12 February 2019, pp 40-41.

122 Email correspondence from Property NSW, 1 May 2019.

123 Public Hearing Transcript, 12 February 2019, p 38.

124 High risk (or Risk Rating 1) properties are individually reviewed every year and include properties subject to successful objections, high value properties, shopping centres and properties with significant value change. Moderate risk (or Risk Rating 2) properties include commercial, industrial and rural zoned lands, and heritage listings. Low risk (or Risk Rating 3) properties are residential, village/rural residential lands, open spaces, special use and reservation zoned lands. Moderate risk properties are individually reviewed every 3 years. Low risk properties are individually reviewed every 5 years (Email correspondence from Property NSW, 1 February 2019).

125 NSW Government, Property NSW, Request for Tender, Provision of Land Valuation Services for Government Rating and Taxing, pp 29-30.

City of Sydney strongly objected to being the only council to have its own contract area. It submitted that its contract area has the second lowest number of properties across the 18 contract areas and has only 327 out of a total of 104,222 'high risk' properties across NSW.[126] It also objected to the 75% increase in charges it would face under the proposed zonal pricing structure.

City of Sydney proposed that it be included with other metropolitan councils, arguing that this would have minimal impact on average prices but provide the council with dampening price effects when subsumed in a much larger contract area.[127]

In developing the contract areas, the Valuer General noted that the complexities and uniqueness of City of Sydney has meant it has consistently been its own contract area. Some elements of complexity include the number of heritage properties, complex town planning regulations, and the uniqueness of the city streetscapes, all of which contribute to specialised and time consuming analysis for contractors when verifying valuations.[128]

This is consistent with data provided by Property NSW on the proportion of properties in each risk category by zone.[129] We note that City of Sydney has:

- A higher proportion of 'high risk' properties compared to the Metro zone (5.6% for City of Sydney compared to 2.9% for Metro)
- A higher proportion of 'moderate risk 'properties compared to the Metro zone (37.6% for City of Sydney compared to 10.2% for Metro)
- A lower proportion of 'low risk' properties compared to the Metro zone (56.8% compared to 86.8%, respectively).

Based on the above, we accept the Valuer General's position that a separate zone and price for City of Sydney is warranted, due to its unique characteristics.

Table 6.4 provides IPART's decision on the price for each of the four zones. 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."[130]

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.

126 City of Sydney submission to IPART Draft Report, April 2019, p 3.
127 City of Sydney submission to IPART Draft Report, April 2019, p 4.
128 Public Hearing Transcript, 12 February 2019, p 38.
129 Email correspondence from Property NSW, Submission in response to IPART's request for supplementary information, 1 February 2019.
130 Public Hearing Transcript, 12 February 2019, p 9.

Table 6.4 Comparison of prices between zones from IPART's decision ($2018-19)

Zone	Price per zone $	Difference in price between Metro and other zones
Metro	5.90	–
Coastal	6.40	8.4%
Country	7.51	27.2%
City of Sydney	12.21	106.9%

Source: IPART analysis.

The Valuer General noted that around 41% of the total costs of servicing councils are incurred from mass valuation contracts.[131] As the mass valuation contract costs for each of the four 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 zones based on the proportion of total properties for each zone.

We consider that our proposed zonal price structure 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 2019 Determination.

6.3.3 Alternative pricing structures

In making our decision, we also considered the following alternative pricing structures:

- A 'postage stamp' approach with one price across the state
- Including the City of Sydney in the Metro zone
- A **two zone approach** – ie, by segmenting the 18 contract areas in NSW into a 'City of Sydney zone' and a 'rest of NSW zone', and
- **An 18 zone** approach based on the 18 mass valuation contract areas used for the Valuer General's valuation procurement process.

As noted above, we assessed that the 'postage stamp' approach is likely to be less cost reflective than the zonal approach and would adversely impact councils with large numbers of routine valuations, even though routine valuation costs are generally cheaper.

We also discuss in Section 6.3.2 above, that we consider that the City of Sydney has complex and unique characteristics that warrant maintaining a separate zone and price rather than including it in the metropolitan zone.

131 Valuer General submission, November 2018, p 72.

The two-zone and 18-zone 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.[132]

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 as 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)
- Density of properties.

We consider that, on balance, the costs within the three zones outside of City of Sydney, are sufficiently different to warrant a 4-zone price structure.

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

132 Valuer General submission, March 2019, Table 4.3, p 6.

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

Table 6.5 Valuer General's estimated price by contract area for 2019-20 ($2018-19 per valuation)

Contract Area	Zone	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 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 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 period and the first year of the 2019 determination period 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 estimated average bill per council is around $63,000 in the Country zone and $226,000 in the Metro zone in 2019-20. The average bill for City of Sydney is around $349,000 for 2019-20. To provide context and an indication of the possible effects on inflation, the bill is estimated to represent around 0.4% of operating expenditure for a typical country[133] council and around 0.1% of operating expenditure for City of Sydney.

7.1 Impacts on councils' bills from our prices

Before examining 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 (see Table 7.1). We found that under our adopted prices:

- Of the 128 councils, 99 will face bill decreases and 29 will face bill increases.
- In the Country zone, 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 29 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 price structure with improved cost reflectivity.

133 Based on Office of Local Government, *Time Series Data 2016/17.*

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	21	50	71
Coastal	7	18	25
Metro	0	31	31
City of Sydney	1	0	1
Total	**29**	**99**	**128**

Source: IPART analysis.

As shown in Table 7.2, we found that under our price structure:

- The aggregate bill for the City of Sydney zone will increase in 2019-20 by around $148,000 or about 73.5%
- The aggregate bill for Country, Coastal and Metro zones will decrease in 2019-20 by around $3,000, $63,000 and $460,000 or 0.1%, 1.2% and 6.2%, respectively.

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

Zone	Aggregate bill 2018-19 (2014 Determination)	Aggregate bill 2019-20 (2019 Determination)	Difference ($)	Difference (%)
Country	4,449	4,446	-3	-0.1
Coastal	5,307	5,244	-63	-1.2
Metro	7,460	7,000	-460	-6.2
City of Sydney	201	349	148	73.5
Total	**17,418**	**17,039**	**-379**	**-2.2**

Note: Our determination sets prices to recover costs over the entire referral period. Annual differences will therefore break even over the referral period. Totals may vary due to rounding.

Source: IPART analysis.

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 adopted price 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 $40,000 (Maitland) and $27,000 (Central Coast), respectively
- The greatest bill decreases in the Country and Coastal zones are around $38,000 (Snowy Valleys) and $16,000 (Mid-Coast), respectively.

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

Council	Current Bill 2018-19 (2014 Determination)	2019-20 Bill (2019 Determination)	Difference ($)	Difference (%)
Top 3 councils with bill decreases				
Snowy Valleys	109	71	-38	-35.1
Snowy Monaro Regional	132	106	-25	-19.1
Upper Lachlan	63	50	-13	-20.1
Top 3 councils with bill increases				
Maitland	209	249	40	19.0
Cessnock	164	193	29	17.7
Albury	153	174	21	13.4

Source: IPART analysis.

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

Council	Current bill 2018-19 (2014 Determination)	2019-20 Bill (2019 Determination)	Difference ($)	Difference (%)
Top 3 councils with bill decreases				
Mid-Coast	351	334	-16	-4.7
Lismore	135	119	-16	-12.2
Clarence Valley	184	169	-15	-8.4
Top 3 councils with bill increases				
Central Coast	794	820	27	3.4
Shoalhaven	370	381	10	2.8
Lake Macquarie	517	529	11	2.2

Source: IPART analysis.

Table 7.5 Councils with greatest bill impact 2018-19 versus 2019-20 – Metro zone ($'000, $nominal)

Council	Current Bill 2018-19 (2014 Determination)	2019-20 Bill (2019 Determination)	Difference ($)	Difference (%)
Top 3 councils with bill decrease				
Inner West	347	311	-36	-10.3
Blacktown	693	662	-32	-4.6
Canterbury-Bankstown	564	531	-33	-5.9
There are no councils with a bill increase				

Source: IPART analysis.

Our 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.[134]

Overall our 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 are provided in Appendix F.

134 These were mainly councils in OLG Group 4, which are classified as Regional Town/City. Office of Local Government, *Time Series Data 2016/17*.

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

GPO Box 5341 Sydney NSW 2001 ▪ P: (02) 8574 5000 ▪ F: (02) 9339 5500 ▪ W: premier.nsw.gov.au

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(1) 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(1) 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 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 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 7 outlines our estimate that the impact of our prices on general inflation is negligible.
e) the need for greater efficiency in the supply of services	Chapter 4 sets out our 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 C 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	Chapter 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. Chapter 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 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 Weighted Average Cost of Capital

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 for final report

	Step 1		Step 2 – Final WACC range		
	Current market data	Long term averages	Lower	Midpoint	Upper
Nominal risk free rate	2.0%	3.6%			
Inflation	2.4%	2.4%			
Implied Debt Margin	2.3%	2.6%			
Market Risk premium	8.7%	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)	6.0%	6.3%			
Cost of equity (real-post tax)	3.5%	3.8%			
Cost of debt (nominal pre-tax)	4.4%	6.2%			
Cost of debt (real pre-tax)	2.0%	3.7%			
Nominal Vanilla (post-tax nominal) WACC	5.3%	6.3%	5.3%	5.8%	6.3%
Post-tax real WACC	**2.8%**	**3.8%**	**2.8%**	**3.3%**	**3.8%**
Pre-tax nominal WACC	6.2%	7.3%	6.2%	6.7%	7.3%
pre-tax real WACC point estimate	3.7%	4.7%	3.7%	4.2%	4.7%

Note: The final WACC range is given by the midpoints of the WACC ranges estimated using current market data and long-term averages. In Step 1, we estimate the midpoint of the WACC range estimated using current market data (Column C) and the midpoint of the WACC range estimated using long-term averages (Column D). In Step 2, the minimum of the 2 midpoints from Step 1 will be the lower bound of the final WACC range, and the maximum of the 2 midpoints from Step 1 will be the upper bound of the final WACC range.

Source: IPART analysis

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 the 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.[135] 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.[136]

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 market risk premium (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)

---

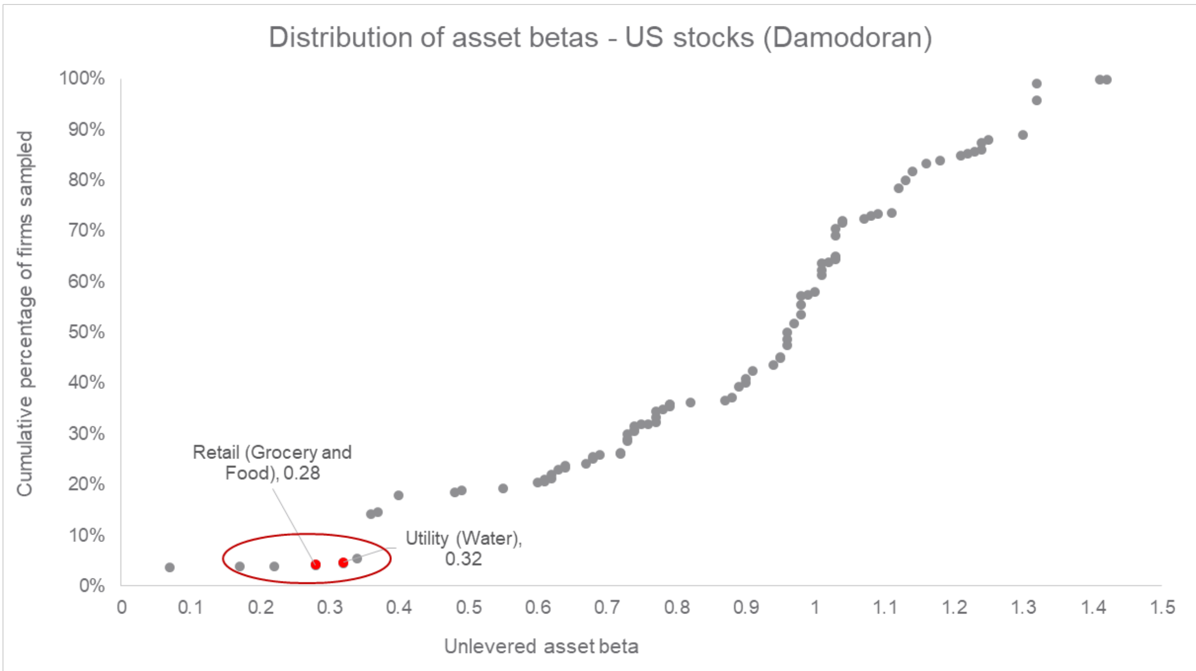
135 This risk is not firm-specific as all firms in this industry will be affected, though to a different degree depending on their level of financial/operating leverage.

136 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 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. 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 73.

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 in 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,[137] the median equity beta is 0.45 and the median gearing is 45%.

Figure C.1 Distribution of asset betas



Source: A. Damodaran, Beta, Unlevered beta and other risk measures, www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls (last updated on 5 January 2019); and IPART analysis.

Gearing ratio

We have adopted 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.

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

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[138] 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 professional services firms that had some connection to the property or real estate industries. The median equity beta of this larger set was close to one, 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 one, which does not reflect the Valuer General's risk profile.

Comparison to other betas published by IPART

Our adopted equity beta of 0.45 with 45% gearing corresponds to an asset beta of 0.29, 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 adopted asset beta values (including Valuer General 2019)

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
Valuer General (2019 Determination)	**0.29**
Water industry	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: IPART analysis.

138 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 73.

D Analysis of changing price structure

In the following section, we present the indicative impact on council bills from the changing price structure in 2019-20, relative to the current 2-price state-wide uniform model (that is maintaining the current price structure). That is, for 2019-20, this section holds all else constant, apart from the change in price structure, to enable assessment of the impact of the change in price structure alone. Impacts are presented in $2018-19.

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

To assess the impact of changing price structure (ie, the impact of the current price structure versus the adopted price structure), we compared the aggregate bill for each council for each of the four zones under our 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, 93 would experience bill decreases and 35 would experience bill increases. In general, regional centres with significant built-up areas would 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 35 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 would pay relatively more than less built-up areas due to the 'flat' pricing structure. The bill increase for City of Sydney would reflect 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 adopted price structure by zone

Zone	Number of councils with bill increase	Number of councils with bill decrease	Total councils
Country	24	47	71
Coastal	10	15	25
Metro	0	31	31
City of Sydney	1	0	1
Total	**35**	**93**	**128**

Source: IPART analysis.

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 would increase in 2019-20 by around $41,000 and $148,000 or 0.9% and 75.2%, respectively
- The aggregate bill for Coastal and Metro zones would decrease in 2019-20 by around $9,000 and $380,000 or 0.2% and 5.2%, respectively.

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

Zone	Aggregate bill State wide 2-price structure ($)	Aggregate bill 4-zone structure ($)	Difference 2019-20 aggregate bill ($)	Difference 2019-20 aggregate bill (%)
Country	4,348	4,389	41	0.9
Coastal	5,186	5,176	-9	-0.2
Metro	7,290	6,910	-380	-5.2
City of Sydney	197	345	148	75.2
Total	17,020	16,820	-200	-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 analysis.

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 pricing structure would mean that (in $2018-19):

- All councils in the Metro zone would experience a bill decrease
- The highest bill increases in the Country and Coastal zones would be around $41,000 (Maitland) and $34,000 (Central Coast), respectively
- The greatest bill decreases in the Country and Coastal zones would be around $37,000 (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 ($)	4-zone structure bill ($)	Bill impact ($)	Bill impact (%)
Top 3 councils with bill decrease				
Snowy Valleys	106	70	-37	-34.5
Snowy Monaro Regional	129	105	-24	-18.3
Upper Lachlan	61	50	-12	-19.3
Top 3 councils with bill increase				
Maitland	205	246	41	20.2
Cessnock	160	191	30	18.9
Albury	150	171	22	14.6

Source: IPART analysis.

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

Council	State wide 2-price structure bill ($)	4-zone structure bill ($)	Bill impact ($)	Bill impact (%)
Top 3 councils with bill decrease				
Lismore	132	117	-15	-11.3
Clarence Valley Regional	180	167	-13	-7.4
Kyogle	48	35	-13	-27.3
Top 3 councils with bill increase				
Central Coast	776	810	34	4.4
Lake Macquarie	506	522	16	3.2
Shoalhaven	362	376	14	3.8

Source: IPART analysis.

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

Council	State wide 2-price structure bill ($)	4-zone structure bill ($)	Bill impact ($)	Bill impact (%)
Top 5 councils with bill decrease				
Inner West	339	307	-32	-9.4
Canterbury-Bankstown	551	524	-27	-5.0
Blacktown	677	653	-24	-3.6
Fairfield	342	317	-24	-7.1
Liverpool	375	351	-24	-6.4
There are no councils with a bill increase				

Source: IPART analysis.

The change in pricing structure would result in a change in bills for all councils. Other than City of Sydney, the councils with the largest percentage increase in annual bill would be concentrated in the Country zone and are classed as Regional Towns/Cities.[139]

[139] These were mainly councils in OLG Group 4, which are classified as Regional Town/City. Office of Local Government, *Time Series Data 2016/17.*

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

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

Region	Contract area	Council	Uniform[a] 2019-20 $'000	4-zone[b] 2019-20 $'000	4-zone[b] 2024-25 $'000
Country	Central Tablelands				
		Bathurst Regional	133	144	169
		Blayney	32	31	37
		Cabonne	62	57	66
		Cowra	59	57	67
		Lithgow	85	91	107
		Mid-Western Regional	103	108	126
		Oberon	33	29	34
		Orange	119	137	161
Country	Central West NSW				
		Coonamble	25	21	25
		Dubbo Regional	163	176	207
		Forbes	46	42	49
		Gilgandra	24	20	23
		Hilltops	84	88	103
		Lachlan	40	34	40
		Narromine	29	27	32
		Parkes	64	63	74
		Warren	19	16	19
		Warrumbungle	54	49	57
		Weddin	26	22	25
Country	Hunter				
		Cessnock	162	193	226
		Dungog	39	40	47
		Maitland	207	249	292
		Muswellbrook	55	59	69
		Singleton	74	82	96
		Upper Hunter	63	60	70
Country	Murray				
		Albury	152	174	203
		Berrigan	39	39	46
		Edward River	42	41	47
		Federation	56	59	69
		Greater Hume	62	53	62
		Murray River	67	60	71
Country	North West NSW				
		Gunnedah	50	49	57
		Gwydir	30	25	29
		Liverpool Plains	37	35	40
		Moree Plains	54	53	62
		Narrabri	58	54	64
		Tamworth Regional	196	212	249
		Walgett	41	40	47

Region	Contract area	Council	Uniform[a] 2019-20 $’000	4-zone[b] 2019-20 $’000	4-zone[b] 2024-25 $’000
Country	Northern Tablelands				
		Armidale Regional	93	102	119
		Glen Innes Severn	42	41	48
		Inverell	62	63	73
		Tenterfield	43	39	46
		Uralla	24	24	28
		Walcha	18	15	17
Country	Riverina				
		Bland	40	33	39
		Carrathool	21	16	19
		Coolamon	26	23	27
		Cootamundra-Gundagai Regional	53	51	60
		Griffith	79	83	97
		Hay	15	14	17
		Junee	25	23	27
		Leeton	39	40	47
		Lockhart	26	20	24
		Murrumbidgee	25	20	24
		Narrandera	31	29	34
		Temora	33	30	35
		Wagga Wagga	191	210	246
Country	South East Regional NSW				
		Goulburn Mulwaree	110	118	138
		Queanbeyan-Palerang Regional	151	171	201
		Snowy Monaro Regional	130	106	125
		Snowy Valleys	108	71	83
		Upper Lachlan	62	50	59
		Yass Valley	59	59	69
Country	Western NSW				
		Balranald	16	14	16
		Bogan	19	16	19
		Bourke	18	16	19
		Brewarrina	11	9	11
		Broken Hill	69	81	95
		Central Darling	17	15	17
		Cobar	27	25	29
		Wentworth	36	32	38
Country Total			**4,405**	**4,446**	**5,210**

Region	Contract area	Council	Uniform[a] 2019-20 $'000	4-zone[b] 2019-20 $'000	4-zone[b] 2024-25 $'000
Coastal	North Coast NSW				
		Ballina	105	100	118
		Bellingen	43	40	47
		Byron	92	89	104
		Clarence Valley	183	169	198
		Coffs Harbour	180	182	213
		Kempsey	102	94	110
		Kyogle	48	35	41
		Lismore	134	119	139
		Mid-Coast	347	334	392
		Nambucca	64	61	72
		Port Macquarie-Hastings	214	209	245
		Richmond Valley	77	67	79
		Tweed	207	203	237
Coastal	Hunter Coast				
		Central Coast	786	820	961
		Lake Macquarie	512	529	619
		Newcastle	370	380	446
		Port Stephens	197	198	232
Coastal	South Coast NSW				
		Bega Valley	123	123	144
		Eurobodalla	161	159	187
		Kiama	65	64	75
		Shellharbour	158	165	193
		Shoalhaven	367	381	446
		Wingecarribee	157	151	177
		Wollondilly	118	119	140
		Wollongong	442	451	528
Coastal Total			**5,253**	**5,244**	**6,144**

Region	Contract area	Council	Uniform[a] 2019-20 $'000	4-zone[b] 2019-20 $'000	4-zone[b] 2024-25 $'000
Metro	Sydney Central				
		Burwood	50	47	55
		Canada Bay	116	110	128
		Canterbury-Bankstown	558	531	622
		Cumberland	319	304	356
		City of Parramatta	308	290	340
		Hornsby	261	248	291
		The Hills Shire	326	321	376
		Inner West	343	311	364
		Ku-ring-gai	207	203	238
		Ryde	166	158	185
		Strathfield	48	45	52
Metro	Sydney Coast North				
		Hunters Hill	24	23	26
		Lane Cove	50	47	56
		Mosman	44	42	49
		North Sydney	74	63	74
		Northern Beaches	427	413	483
		Willoughby	113	105	123
Metro	Sydney Coast South				
		Bayside	214	198	233
		Georges River	224	216	253
		Randwick	166	160	187
		Sutherland	384	369	433
		Waverley	83	80	93
		Woollahra	85	81	95
Metro	Sydney North West				
		Blue Mountains	238	223	262
		Hawkesbury	159	148	174
Metro	Sydney West				
		Blacktown	686	662	775
		Camden	227	208	244
		Campbelltown	346	324	379
		Fairfield	346	321	377
		Liverpool	380	356	417
		Penrith	411	394	462
Metro Total			**7,385**	**7,000**	**8,202**
Sydney City		City of Sydney	199	349	410
Sydney City Total			**199**	**349**	**410**

a Indicative bill for uniform pricing 2019-20 based on IPART decision of $5.77 for residential and $12.69 for non-residential ($nominal).

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

Source: IPART analysis.

F Indicative bill impact – current 2018-19 bill versus 2019-20 bill under adopted pricing structure

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

Region	Contract area	Council	2018-19 2014 Determination[a] $'000	2019-20 2019 Determination[b] $'000	2024-25 2019 Determination[b] $'000
Country	Central Tablelands				
		Bathurst Regional	134	144	169
		Blayney	33	31	37
		Cabonne	63	57	66
		Cowra	60	57	67
		Lithgow	86	91	107
		Mid-Western Regional	104	108	126
		Oberon	33	29	34
		Orange	120	137	161
Country	Central West NSW				
		Coonamble	25	21	25
		Dubbo Regional	165	176	207
		Forbes	47	42	49
		Gilgandra	24	20	23
		Hilltops	85	88	103
		Lachlan	41	34	40
		Narromine	30	27	32
		Parkes	65	63	74
		Warren	19	16	19
		Warrumbungle	55	49	57
		Weddin	26	22	25
Country	Hunter				
		Cessnock	164	193	226
		Dungog	39	40	47
		Maitland	209	249	292
		Muswellbrook	56	59	69
		Singleton	74	82	96
		Upper Hunter	64	60	70
Country	Murray				
		Albury	153	174	203
		Berrigan	39	39	46
		Edward River	43	41	47
		Federation	57	59	69
		Greater Hume	63	53	62
		Murray River	68	60	71
Country	North West NSW				
		Gunnedah	50	49	57
		Gwydir	30	25	29
		Liverpool Plains	37	35	40
		Moree Plains	55	53	62
		Narrabri	59	54	64
		Tamworth Regional	198	212	249
		Walgett	41	40	47

Region	Contract area	Council	2018-19 2014 Determination[a] $'000	2019-20 2019 Determination[b] $'000	2024-25 2019 Determination[b] $'000
Country	Northern Tablelands				
		Armidale Regional	94	102	119
		Glen Innes Severn	43	41	48
		Inverell	63	63	73
		Tenterfield	44	39	46
		Uralla	24	24	28
		Walcha	18	15	17
Country	Riverina				
		Bland	40	33	39
		Carrathool	22	16	19
		Coolamon	26	23	27
		Cootamundra-Gundagai Regional	53	51	60
		Griffith	79	83	97
		Hay	15	14	17
		Junee	25	23	27
		Leeton	39	40	47
		Lockhart	27	20	24
		Murrumbidgee	26	20	24
		Narrandera	31	29	34
		Temora	34	30	35
		Wagga Wagga	193	210	246
Country	South East Regional NSW				
		Goulburn Mulwaree	111	118	138
		Queanbeyan-Palerang Regional	152	171	201
		Snowy Monaro Regional	132	106	125
		Snowy Valleys	109	71	83
		Upper Lachlan	63	50	59
		Yass Valley	60	59	69
Country	Western NSW				
		Balranald	17	14	16
		Bogan	20	16	19
		Bourke	19	16	19
		Brewarrina	11	9	11
		Broken Hill	70	81	95
		Central Darling	17	15	17
		Cobar	27	25	29
		Wentworth	36	32	38
Country Total			**4,449**	**4,446**	**5,210**

Region	Contract area	Council	2018-19 2014 Determination[a] $'000	2019-20 2019 Determination[b] $'000	2024-25 2019 Determination[b] $'000
Coastal	North Coast NSW				
		Ballina	106	100	118
		Bellingen	44	40	47
		Byron	93	89	104
		Clarence Valley	184	169	198
		Coffs Harbour	182	182	213
		Kempsey	103	94	110
		Kyogle	49	35	41
		Lismore	135	119	139
		Mid-Coast	351	334	392
		Nambucca	65	61	72
		Port Macquarie-Hastings	216	209	245
		Richmond Valley	78	67	79
		Tweed	209	203	237
Coastal	Hunter Coast				
		Central Coast	794	820	961
		Lake Macquarie	517	529	619
		Newcastle	374	380	446
		Port Stephens	199	198	232
Coastal	South Coast NSW				
		Bega Valley	124	123	144
		Eurobodalla	162	159	187
		Kiama	66	64	75
		Shellharbour	160	165	193
		Shoalhaven	370	381	446
		Wingecarribee	159	151	177
		Wollondilly	119	119	140
		Wollongong	447	451	528
Coastal Total			**5,307**	**5,244**	**6,144**

Region	Contract area	Council	2018-19 2014 Determination[a] $'000	2019-20 2019 Determination[b] $'000	2024-25 2019 Determination[b] $'000
Metro	Sydney Central				
		Burwood	51	47	55
		Canada Bay	117	110	128
		Canterbury-Bankstown	564	531	622
		Cumberland	322	304	356
		City of Parramatta	311	290	340
		Hornsby	264	248	291
		The Hills Shire	330	321	376
		Inner West	347	311	364
		Ku-ring-gai	209	203	238
		Ryde	168	158	185
		Strathfield	49	45	52
Metro	Sydney Coast North				
		Hunters Hill	24	23	26
		Lane Cove	50	47	56
		Mosman	45	42	49
		North Sydney	75	63	74
		Northern Beaches	432	413	483
		Willoughby	114	105	123
Metro	Sydney Coast South				
		Bayside	216	198	233
		Georges River	226	216	253
		Randwick	168	160	187
		Sutherland	388	369	433
		Waverley	83	80	93
		Woollahra	86	81	95
Metro	Sydney North West				
		Blue Mountains	240	223	262
		Hawkesbury	160	148	174
Metro	Sydney West				
		Blacktown	693	662	775
		Camden	229	208	244
		Campbelltown	349	324	379
		Fairfield	350	321	377
		Liverpool	384	356	417
		Penrith	415	394	462
Metro Total			**7,460**	**7,000**	**8,202**
Sydney City		City of Sydney	201	349	410
Sydney City Total			**201**	**349**	**410**

a Indicative bill for 2018-19 based on current determination $5.87 for residential and $12.91 for non-residential ($2018-19) and IPART's estimate of the 2018-19 number of properties based on forecast property numbers over the 2019 Determination provided by the Valuer General.

b Indicative bill for 2019-20 and 2024-25 based on IPART decision under 4-zone price structure, inflated at CPI forecast ($nominal).

Source: IPART analysis.

G Glossary

2014 Determination	Refers to the current price period – ie, prices from 1 July 2014 to 30 June 2019 under IPART's *Review of prices for land valuation services provided by the Valuer-General to councils from 1 July 2014 to 30 June 2019.*
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).
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.
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.
Local Government Act	*Local Government Act 1993* (NSW)
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.
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 2019 to 30 June 2025. 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 six 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.
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.
WACC	Weighted average cost of capital