IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Price review of rating valuation services provided by the Valuer General to local government

Other Industries— Final Determination and Final Report

July 2008

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Independent Pricing and Regulatory Tribunal

Price review of rating valuation services provided by the Valuer General to local government

Final Determination No. 2, 2008

Reference no. 08/56

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Preliminary

1. Background

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

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

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

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

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

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

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

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

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

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

2. Application of this determination

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

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

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

3. Replacement of Determination No. 7 of 1995

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

4. Monitoring

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

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

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

5. Schedule

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

6. Definitions and Interpretation

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

Schedule 1 – Maximum Prices for the Monopoly Services

1. Application

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

2. Categories for pricing purposes

Prices for Monopoly Services have been determined for 2 categories:

(a) Residential Land; and

(b) Non-Residential Land.

3. Charges for Monopoly Services with respect to Residential Land

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

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

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

5. Worked example

A worked example to determine the maximum price is set out in Schedule 2.

Tables 1 and 2

Table 1 Maximum Prices for the Monopoly Services - Residential Land

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

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

Table 2 Maximum Prices for the Monopoly Services - Non-Residential Land

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

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

Schedule 2 – Definitions and Interpretation

1. Definitions

In this determination:

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

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

Gazette means the NSW Government Gazette.

Governor means the governor of the State.

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

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

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

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

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

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

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

State means the state of New South Wales.

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

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

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

1.1 Consumer Price Index

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

$$\Delta CPI_1 = \left(\frac{CPI_{Jun2008} + CPI_{Sep2008} + CPI_{Dec2008} + CPI_{Mar2009}}{CPI_{Jun2006} + CPI_{Sep2006} + CPI_{Dec2006} + CPI_{Mar2007}} \right) - 1$$

$$\Delta CPI_2 = \left(\frac{CPI_{Jun2009} + CPI_{Sep2009} + CPI_{Dec2009} + CPI_{Mar2010}}{CPI_{Jun2006} + CPI_{Sep2006} + CPI_{Dec2006} + CPI_{Mar2007}} \right) - 1$$

$$\Delta CPI_3 = \left(\frac{CPI_{Jun2010} + CPI_{Sep2010} + CPI_{Dec2010} + CPI_{Mar2011}}{CPI_{Jun2006} + CPI_{Sep2006} + CPI_{Dec2006} + CPI_{Mar2007}} \right) - 1$$

$$\Delta CPI_4 = \left(\frac{CPI_{Jun2011} + CPI_{Sep2011} + CPI_{Dec2011} + CPI_{Mar2012}}{CPI_{Jun2006} + CPI_{Sep2006} + CPI_{Dec2006} + CPI_{Mar2007}} \right) - 1$$

$$\Delta CPI_5 = \left(\frac{CPI_{Jun2012} + CPI_{Sep2012} + CPI_{Dec2012} + CPI_{Mar2013}}{CPI_{Jun2006} + CPI_{Sep2006} + CPI_{Dec2006} + CPI_{Mar2007}} \right) - 1$$

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

2. Interpretation

2.1 General provisions

In this determination:

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

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

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

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

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

(f) a reference to an officer includes a reference to the officer who replaces him or her, or who substantially succeeds to his or her powers or functions; and

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

(i) which ceases to exist; or

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

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

2.2 Explanatory notes and Clarification Notice

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

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

2.3 Prices inclusive of GST

Prices specified in this determination do not include GST.

3. Worked Example

To determine the actual maximum price to be charged from 1 July 2009 for Residential Land, the following formula applies:

$3.97 x (1+$\Delta CPI_1$).

To determine ΔCPI, the following formula applies:

$$\mathbf{\Delta CPI_1} = \left(\frac{CPI_{Jun2008} + CPI_{Sep2008} + CPI_{Dec2008} + CPI_{Mar2009}}{CPI_{Jun2006} + CPI_{Sep2006} + CPI_{Dec2006} + CPI_{Mar2007}} \right) - 1$$

At the time of issuing this determination, the following CPI numbers are known:

June 2006 - 154.3

September 2006 - 155.7

December 2006 - 155.5

March 2007 - 155.6

June 2008 - 164.6

Assume for the purposes of this example only, the following further CPI numbers:

September 2008 - 165.8

December 2008 - 167.1

March 2009 - 168.3

then the formula is applied as follows:

$$\mathbf{\Delta CPI_1} = \left(\frac{164.6 + 165.8 + 167.1 + 168.3}{154.3 + 155.7 + 155.5 + 155.6} \right) - 1$$

$$\mathbf{\Delta CPI_1} = \left(\frac{665.8}{621.1} \right) - 1$$

$$\mathbf{\Delta CPI_1} = 0.072$$

The maximum charge for Residential Land from 1 July 2009 to 30 June 2010:

= $3.97 x (1 + 0.072)

= $4.26 ($2009/10)

Independent Pricing and Regulatory Tribunal

Price review of rating valuation services provided by the Valuer General to local government

Other Industries — Final Report

July 2008

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1 Introduction

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) is responsible for setting charges for government monopoly services. The services of "furnishing valuation lists to authorities and supplementary lists under Part 5 of the *Valuation of Land Act 1916* by the Valuer General to a council of an area under the *Local Government Act 1993*" are declared to be government monopoly services for the purpose of section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act).

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

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

1.1 The Valuer General's services

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

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

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

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

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

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

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

The main users of land valuation services are:

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

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

1.2 Scope of the review

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

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

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

- the **appropriate rate of return** on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales
- the **effect on general price inflation** over the medium term
- the **need for greater efficiency** in the supply of the services so as to reduce costs for the benefit of consumers and taxpayers
- the **need to maintain ecologically sustainable development** by appropriate pricing policies that take account of all the feasible options available to protect the environment
- the **impact on pricing policies of borrowing, capital and dividend requirements** of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets
- the **impact on pricing policies** of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body
- the **need to promote competition** in the supply of the services
- **considerations of demand management** (including levels of demand) and least cost planning
- the **social impact** of IPART's determinations and recommendations
- **standards of quality, reliability and safety** of the services.

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

1.3 Review process

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

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

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

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

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

IPART released its Draft Determination on 12 May 2008. IPART then conducted a public hearing at its offices on 4 June 2008.

IPART considered carefully all the matters raised at the public hearing and those raised in submissions in response to the workshop and the Draft Report[5].

1.4 Overview of the determination

The prices charged by the Valuer General have not increased since 1996. The effects of inflation since that time have meant that, in the period 1996/97 to 2007/08, there has been a real decline of approximately 24 per cent[6] in the prices charged for valuation services. This has seen the local councils' share of the Valuer General's revenue fall to approximately 27.3 per cent in 2007/08. This is projected to decline further to approximately 25.4 per cent in 2008/09 before this Determination takes effect. In contrast, in 1993 IPART[7] set the local councils' share of revenue at 47 per cent[8].

Over this same period productivity growth in the Australian economy has varied between 1.1 and 2.3 per cent[9] per annum, with an overall improvement of approximately 15 per cent over the whole period[10]. The Valuer General has been, and is, investing heavily in information technology. Productivity improvements in the information technology sector have been significantly greater than the national average[11]. However, the costs of information technology are only part of the costs incurred by the Valuer General.

The Valuer General provided a detailed costing for the provision of valuation services in both his original and supplementary submissions. The Valuer General has benchmarked the cost of service provision against similar service providers in support of his argument that his costs are efficient[12]. In addition, a number of

5 IPART received a total of 5 submissions in response to the Draft Report and public workshop. All stakeholders who provided submissions throughout the review are listed at appendix C.

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

7 IPART was then known as the Government Pricing Tribunal.

8 Government Pricing Tribunal, *Determination No 8 Valuer General's Office-Charges to Councils*, 1993 (pp 13-14).
In 1993/94 the Tribunal's determination forecast revenue from councils to be $7.4 million ($1993/94) and revenue from the Office of State Revenue (OSR) to be $8.25 million ($1993/94).

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

10 *Ibid* p 8.

11 ABS 6457.0 International Trade Price Indexes Dec 2007.

12 Department of Lands submission, January 2008, p 52.

inquiries in recent years[13] have reviewed the service and service levels provided by the Valuer General. The principal outcome of these inquiries has been an increase in the number of individual property valuations. This reduced reliance on mass valuations has increased the Valuer General's resource requirements.

IPART modelled the Valuer General's annual revenue requirement (ARR). In doing so it allowed both increases in costs resulting from improved service quality and reductions in costs resulting from productivity gains. In undertaking its calculations IPART used the Valuer General's proposed operating expenditure (opex). However, IPART revised the Valuer General's calculation of depreciation and used a rate of return of 7 per cent (real pre-tax).

IPART found that the prices required to obtain the ARR, are comparable to adjusting the prices to Councils in the 1995 Determination by changes in the Consumer Price Index (CPI) from 1996/97 to 2007/08. IPART believes that the increased costs of additional service provision flowing from the recent inquiries[14] can be adequately accommodated by this adjustment. IPART considers that it is reasonable to expect that a 1 per cent efficiency gain can be achieved from 2008/09.

IPART has concluded that the services provided to councils are responsible for 40% of the costs incurred by the Valuer General. Since councils presently pay less than this amount IPART considers that prices should be increased progressively to approximate this level of cost recovery by 2013/14.

IPART has therefore decided that the prices charged to Councils for all valuation services should increase in 2009/10 by 10 per cent (plus inflation) over the 2007/08 level. Prices thereafter should increase by equal annual increments to achieve the required level of cost recovery in 2013/14. The cumulative real increase in prices for 2007/08 to 2013/14 is 15 plus inflation.

The percentage of efficient costs[15] allocated to councils will rise from approximately 27.3 per cent in 2007/08 to around 36.9 per cent in 2013/14. IPART considers that the 36.8 per cent allocation to councils achieved by the end of the price determination is equitable, but IPART will re-examine this issue at the next determination.

IPART has made one significant change from the Draft Determination. The Tribunal has decided to set the City of Sydney prices at the same level for residential and non-residential properties as the rest of the state. IPART's analysis showed that this

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

14 i) The NSW Parliament Joint Standing Committee on the Office of the Valuer General.
ii) The NSW Ombudsman's Report 2005.

15 Based on the Valuer General's proposed opex in 2008/09 and RAB but using IPART's calculations for return on assets and depreciation.

reduced the Valuer General's total revenue over the period of the price path by less than 1 per cent from the Draft Determination.

Based on projected volumes of valuations prepared by the Valuer General, this Determination's prices provide a Net Present Value (NPV) of $47.0 million in revenue compared to $47.3 million using prices proposed by the Valuer General over the period of the determination.

2 The Valuer General's submission

The Valuer General's submission outlined the business structure of VSLPI within the LPI division of the Department of Lands[16]. The submission included a detailed breakdown of the direct costs incurred in providing rating valuations to local councils between 2007 and 2014[17] and outlined the rationale for allocating indirect costs incurred within LPI. The price path proposed by the Valuer General allowed for the proportion of recovery of efficient costs to increase from approximately 65 per cent in 2008/09 to full cost recovery (with efficiency savings) in 2013/14[18].

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

The Valuer General contended that the recent reviews of the valuation service, by the Ombudsman and others, verify that the service is being provided efficiently. Once all the recommendations made in those reviews have been implemented, costs will peak in 2008/09 and there will be scope for on-going productivity improvements and therefore real cost reduction beyond that point.

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

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

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

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

2.1 Total revenue requirement

The Valuer General estimated the efficient cost of providing valuation services to local councils to be $14.5 million (real 2007/08) in 2007/08, increasing to $15.2 million (real 2007/08) in 2008/09[19]. The real increase of 4.9 per cent between 2007/08 and 2008/09 reflects the increased staffing levels necessary to meet the higher service levels demanded by the Ombudsman's recommendations. After 2008/09 the total costs are projected to stay approximately constant in real terms. However, the Valuer General proposed a target revenue reduction of 1 per cent per annum post 2008/09, which requires productivity improvements to deliver a corresponding reduction in total costs. In addition, the Valuer General proposed to reduce unit costs further in line with the anticipated number of additional properties to be valued.

The Valuer General noted that 43 per cent of operating expenditure is incurred through competitively tendered valuation contracts. Additionally, approximately 45 per cent of total costs were made up of functions that were benchmarked against "best practice" costs. The Valuer General argues that this ensures that these costs, being market tested, are efficient.

2.1.1 Return on and of capital

Most of the assets utilised in the valuation process are located within LPI. Therefore, the return on and of assets is predominately an allocation from LPI. These have been allocated on an average cost basis between VSLPI and other services provided by LPI. The proportion of each asset allocated to the provision of valuation services is determined on a discretionary basis by senior management within the Department of Lands taking into account such variables as FTE[20] staff employed in the service and building occupancy rates. The amount allocated from LPI to the Valuer General represented 8.5 per cent of LPI's total asset base. If the allocation was done purely on a FTE basis the allocation would be 15.3 per cent.

2.1.2 Rate of return

The Valuer General proposed a rate of return on assets of 5 per cent above the risk free rate[21] by nominating the business to be a medium risk enterprise[22]. The justification for this proposal was that the assets are predominantly owned by LPI and LPI's business is exposed to the property market cycle.

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

20 Full Time Equivalent.

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

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

2.2 Allocation of costs

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

2.3 Price proposals

The Valuer General proposed a glide path to achieve full recovery of efficient costs by 2013/14[23]. The Valuer General's submission proposed that the prices charged to City of Sydney Council (City of Sydney) increase at a rate approximately 20 per cent higher per year than the increase in charges to other local councils to reflect the difference in the cost of providing the valuation service. The Valuer General's proposed prices are given in Table 2.1.

Table 2.1 Proposed prices for 2009-10 to 2013-14 ($2007/08)

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

Source: Valuer General's submission, Addendum 1, February 2008, Table 7.1, p 8.

Subsequent to the Public Workshop the Valuer General made another submission that highlighted that the price path proposed in the original submission that sought to reduce the burden on councils adjusting to increasing prices to the level required to recover efficient costs resulted in $10 million in foregone revenue.

The Valuer General restated his position that a 40 per cent allocation of efficient costs to local councils was appropriate and that the City of Sydney was a special case and warranted differential charging. The submission stated that to deal with objections in the City of Sydney area cost 1.7 times the state average. The Valuer General proposed that if IPART was to equalise the City of Sydney charges with those for the rest of the State's local councils then the prices that IPART proposed for local councils in the Draft Determination should be increased to deliver the same revenue as the Draft Determination.

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

3 Other stakeholders' submissions

3.1 Total revenue required

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

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

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

Mr David Singer's submission stated that he believed that the quality of valuations had not improved to the level portrayed by the Valuer General. Mr Singer cited a number of cases in the Sydney City and Woollahra council areas where he believed the property values had been adjusted to give the perception that the mass valuation system was more accurate than it really is. Mr Singer proposed that IPART not allow any price increases for the Valuer General's services until the valuation system was corrected.

3.2 Return on and of capital

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

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

3.3 Allocation of costs

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

3.4 Price proposals

Many of the stakeholders' submissions noted that current pegging of councils' rates was set at 3.5 per cent and that the proposed increase[24] for the Valuer General's services represents a significant increase in costs.

Most local councils who made submissions also believe that the current standard or quality of valuation services is satisfactory and has remained constant or improved since 2005. This contention was, however, not shared by Mr Singer's submission that suggested poor service quality.

3.4.1 Differential pricing

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

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

City of Sydney also noted that 11 per cent of valuations within its area are for non-rateable properties. It does not believe that it should pay for valuations for

24 The increase is 10 per cent in real terms in the first year of the determination.

properties such as the Sydney Opera House, University of Sydney and University of Technology, for which it is not able to charge rates.

Upper Hunter Shire Council on the other hand argued that land valuations are more contentious for non-residential as well as city and coastal residential properties. Upper Hunter Council proposed that IPART determine a lower charge for rural residential properties.

4 Context of IPART's decisions

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

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

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

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

5 Costs of service provision

Finding

1 IPART finds that the increased costs of additional service provision flowing from the Ombudsman's 2005 Report[25], up to and including 2008/09, can be adequately accommodated by increasing prices by changes in CPI from 1996/97 to 2007/08.

2 IPART finds that an ongoing productivity improvement of 1 per cent per annum can be expected in the period 2008/09 to 2013/14.

As part of its review IPART modelled in aggregate the costs for the provision of valuation services to Councils and the Office of State Revenue. In the first instance IPART used the financial information included in the Valuer General's submission. As noted this information is supported by extensive benchmarking that has been undertaken by the Valuer General.

The components that would be used to derive a revenue requirement using IPART's standard building block approach are described below and the resultant revenue requirement, had IPART determined prices using the Valuer General's proposed opex and asset base are presented in Table 5.1[26].

IPART normally determines the ARR using the building block approach.

This approach involves establishing the efficient costs of the Valuer General that comprise:

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

The ARR is the amount that should be recovered from both local councils, and the Office of State Revenue in total.

25 The NSW Ombudsman's Report 2005, *Improving the Quality of Land Valuations issued by the Valuer General: A special report to Parliament under S31 & S26 of the Ombudsman Act 1974*.

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

5.1 Operational expenditure

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

- direct costs of the Office of the Valuer General, predominantly labour costs
- direct costs of VSLPI, including:
  - direct labour costs and on-costs
  - rent
  - postage (property value notifications to ratepayers)
  - mass valuation contracts
  - other valuation contracts (objections and appeals)
- allocated costs from LPI, including:
  - graphic services
  - administration costs
  - other allocated costs.

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

- that 43 per cent of the Valuer General's total operating expenditure, which consists of competitively tendered valuation contracts, represents efficient costs
- the Valuer General's submission benchmarks services against comparable organisations to demonstrate efficiency of most of the remaining costs.

In his submission the Valuer General notes that labour rates are market driven and that the average wage for VSLPI employees was below the average public sector wage benchmark in 2005/06. The average VSLPI wage is predicted to increase in 2007/08 due to increases in the experience and expertise in the workforce but then is forecast to remain constant in real terms throughout the price path. The Valuer General notes that, in practice, this may be unrealistic but proposes to absorb any real increases within efficiency savings. The number of employees providing valuation services was reviewed as part of the Ombudsman's Report (2005). VSLPI also undertook an internal review to asses the implications, on staffing requirements, of adopting the recommendations within the report. The Valuer General noted in his submission that the proposed staffing levels were endorsed by NSW Cabinet[27].

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

27 Department of Lands submission, January 2008.

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

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

IPART carefully considered the presentation made by Mr David Singer at the public workshop and the two submissions also prepared by him. IPART reviewed all the matters raised and had three separate meetings with the Office of the Valuer General to investigate the matters raised by Mr Singer. Given the explanations received and the fact that the valuation methodology has been reviewed by both the NSW Parliament's Joint Committee on the Office of the Valuer General and the NSW Ombudsman, IPART is satisfied as to the quality of the valuation services provided by the Valuer General.

Having reviewed the evidence presented in the Valuer General's submission, IPART considers that the operating expenditure in that submission approximates the efficient level.

5.2 Rate of return and depreciation

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

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

IPART estimated the regulatory depreciation for 2007/08 at $1.52 million. This is significantly lower than the amount proposed by the Valuer General[28] in supplementary information provided to IPART. The variation between the two estimates is due to the following:

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

5.2.1 Rate of return

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

IPART has used the CAPM[29] in determining the rate of return for other entities that it regulates, such as Sydney Water and Energy Australia. Under this approach the cost of capital varies according to the degree of systematic (economic) risk that the business faces. This depends on the extent to which revenues and costs are correlated with economic activity. IPART considers that the Valuer General has considerably less revenue volatility, and no greater cost volatility than other regulated agencies such as Sydney Water Corporation. Variation in economic activity will affect the demand of the commercial and industrial sectors for water and wastewater services, and therefore Sydney Water's revenues. By contrast the demand for valuation services is driven by statutory requirements and is largely unaffected by economic activity.

In its recent final determination IPART decided, using information available at May 2008, that Sydney Water's rate of return should be 7.5 per cent (real pre-tax)[30]. Having regard to the above IPART decided that a rate of return of 7.0 per cent (real pre-tax) should be used to calculate the return on assets and the NPV of cash-flows in estimating the revenue requirement for the Valuer General.

28 The Valuer General proposed a figure of $3.42 million.
29 Capital Asset Pricing Model
30 IPART, *Review of Prices for Sydney Water Corporation's Water, Sewerage, Stormwater and other services*, Final Report, June 2008, p 156.

5.2.2 Asset lives

Using the asset lives and asset values proposed by the Valuer General IPART estimated the average remaining asset life as 6.92 years as at 2007/08. This short asset life is due to the high proportion of IT assets and specialised software. IPART accepted the Valuer General's proposed asset lives, for each asset class[31], for modelling and comparison purposes.

5.3 Annual Revenue Requirement

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

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

- The operating expenditure and the value of the RAB, as proposed by the Valuer General[32].
- Depreciation has been recalculated using the methods usually employed for regulatory purposes.
- Return on assets has been calculated using a rate of return of 7 per cent (real pre-tax).

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

32 As noted in section 5.1 this conclusion is drawn from the market testing and benchmarking evidence provided by the Valuer General.

Table 5.1 Valuer General's revenue requirement 2007/08

($,000 real 2007/08)	Valuer General's submission		IPART's calculation	
Operating expenditure				
Direct Valuer General costs	841		841	
Direct VSLPI costs	28,922		28,922	
Allocated LPI costs	4,425		4,425	
Total Operating Expenditure		**34,188**		**34,188**
Return on Assets		**1,493**		**894**[33]
Return of Assets (depreciation)		**3,421**		**1,517**
Total		**39,102**		**36,599**

Source: Valuer General's submission, January 2008 and IPART's calculations.

5.4 Productivity gains

5.4.1 Since the last determination

The Australian Bureau of Statistics (ABS) estimates that the average productivity growth in the Australian economy has been between 1.1 and 2.3 per cent per annum since 1996[34]. ABS data indicates that the prices of office machines have fallen rapidly in recent years[35]. Since information technology is an important input, this suggests that the Valuer General has had some scope to make efficiency gains[36]. However, the quality of the services provided by the Valuer General and the costs incurred have also been increasing.

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

33 This was calculated on a 2007/08 opening RAB of $11.6 million and capital expenditure in 2007/08 of $2.3 million. The closing RAB was calculated as $12.5 million.

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

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

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

methodologies to achieve more accurate valuations. The report specifically identified areas in which additional resources were required. These requirements were quantified by an internal review within VSLPI.

Since 2003 the Valuer General has worked with the Joint Committee on the Office of the Valuer General to "monitor and review the exercise of the Valuer General's functions….."[37] In particular, this included the review of valuation methodologies and service contract negotiations and monitoring of the standard of valuation services provided under the contracts.

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

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

5.4.2 Future efficiency gains

The Valuer General proposed a 1 per cent cumulative efficiency gain per year can be made starting in 2009/10. This is after a 4.9 per cent (real) increase in costs from 2007/08 to 2008/09. In addition, the Valuer General has claimed that additional volumes of valuations, of approximately 1 per cent per annum, will be processed for the same costs, resulting in additional efficiency savings[38]. The Valuer General's efficiency savings only become effective after the cost increases of 2008/09.

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

IPART has found that the total amount required to recover the Valuer General's ARR in 2007/08 is similar to the amount calculated by adjusting the ARR by the consumer price index for 1996/97 to 2007/08. A one per cent cumulative efficiency gain has been applied in each year from 2008/09 to 2013/14.

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

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

5.5 Conclusions on efficient costs

IPART found that the prices required to recover the ARR calculated by using the Valuer General's proposed opex and IPART's figures for depreciation and return on assets were comparable to adjusting the prices in the 1995 Determination by changes in the Consumer Price Index (CPI) from 1996/97 to 2007/08.

This means that changes in CPI for the period from 1996/97 to 2007/08 have been applied to the 1995 determined prices with a one per cent real efficiency gain each year applied to the period from 2008/09 to 2013/14. IPART's decision will achieve prices that will recover the efficient costs by 2013/14 of providing the Valuer General's services, as assessed by IPART.

6 Allocation of costs

In allowing for the allocation of LPI costs to the Valuer General, IPART considered whether an average cost or marginal cost approach to pricing the Valuer General's services to local councils was appropriate. IPART accepts that valuation services are an integral and indivisible part of LPI and therefore should make a contribution to the efficient fixed costs of LPI. The average allocation of LPI costs to the Valuer General is 8.5 per cent[39]. These allocated costs from LPI have been taken into account in chapter 5 in the opex and asset base considerations.

Finding

3 IPART finds that councils are responsible for activities that cause 40 percent of the Valuer General's costs to be generated.

4 IPART finds that the proportion of costs recovered from Councils should increase progressively from the level of 27.3 per cent in 2007/08 towards 40 per cent by 20013/14.

Allocation of costs between the OSR and councils

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

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

Two simple allocation methods were considered:

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

39 Department of Lands submission, January 2008, p 77.

2. Allocating costs based on the **number of valuations received (used) per annum**. Using this method, local councils would pay approximately 25 per cent of the Valuer General's efficient costs, with OSR paying the remainder.

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

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

- Local councils benefit from the fact that valuations are conducted annually. Although councils only use valuations on a three yearly cycle, the cost to update valuations after three years would be higher than the annual cost. Local councils are therefore benefiting from a lower unit cost.
- While OSR needs accurate land values to calculate land tax, local councils are currently subject to rate-pegging. This means that changes in property valuations in the local government area do not increase or decrease rate revenue but merely re-allocate the burden between land owners. The local councils argued that the level of detail provided by the Valuer General is beyond the requirements of the local councils for rating purposes but is necessary for OSR's taxation requirements.
- Although local councils' requirements for valuation services could be covered with a lower level of service it accepts the Valuer General's estimates that the standalone costs of providing such a service is significantly greater than local councils paying a proportional amount for the higher level of service.
- It could also be argued that rate-payers value the quality of valuations received because of the impact on their individual rates payable. The Government requires that local councils use the Valuer General's valuation services and, in practice, the Government has endorsed the adoption of a higher standard by accepting the Ombudsman's report and funding improvements to date.
- OSR receives the valuation data annually by electronic means. The Valuer General is required by legislation to provide each rating valuation to the relevant land owner. The provision of this information on an individual basis requires printing and graphic services and postage services. The Valuer General has separately identified these costs and has allocated 100 per cent to local councils. IPART considers this is reasonable since these additional costs are required only for local councils.

- The source of objections to valuations is attributed 40:60[40] between land tax assessments and council rates. However, land tax objections tend to be more complex. The Valuer General has therefore assumed an allocation of the costs of processing objections 50:50 between local councils and OSR.
- After considering all submissions and the figures provided by the Valuer General, IPART accepts that the services provided to other (minor) users is a by-product of the services provided to OSR and local councils and that the costs and revenues have been excluded from the calculations.

Assuming that the majority of costs are allocated between OSR and local councils on the basis of the number of valuations received per annum (75:25) the factors discussed above would increase the percentage of total efficient costs that local councils should pay. On balance, IPART accepts that the 40 per cent share of efficient costs allocated to local councils, as proposed by the Valuer General, is valid if a "bottom up" approach were adopted.

By way of comparison IPART has estimated the percentage of the total efficient costs (as calculated in Table 5.1) that the local councils will pay as a result of the prices IPART has decided for this Determination. These *effective* allocations are displayed in Table 6.1 below

Table 6.1 Effective allocation of Valuer General costs to local councils ($2007/08)

Year	2007/08	2008/09	2009/10	2010/11	20011/12	2012/13	2013/14
Valuer General Efficient Costs	36,599,044	38,392,397	38,012,274	37,635,915	37,263,282	36,894,339	36,529,048
Forecast Revenue from Councils	9,983,443	9,738,971	11,243,367	11,783,766	12,333,850	12,893,756	13,463,628
Effective Allocation of cost to Councils	27.3%	25.4%	29.6%	31.3%	33.1%	34.9%	36.9%

Note:

(i) The Valuer General efficient costs in 2007/08 are those calculated by IPART in Table 5.1. The value in 2008/09 has been estimated by inflating the 2007/08 figure by 4.9% as per the Valuer General's submission. The 2009/10 to 2013/14 figures are successive reductions of 1% in real terms on the previous year. This replicates the 1% efficiency gains proposed by the Valuer General.

(ii) The expected revenue from councils is derived from the prices in this Determination. The number of valuations have been inflated by 1% per annum to account for grow in property numbers. This has the impact of increasing the councils' effective allocation.

IPART considered all submissions, and comments from the public workshop, regarding the percentage allocation of efficient costs to the local councils. IPART is satisfied with the path toward a 40 per cent allocation that this determination provides but will consider the matter again at the next price determination.

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

7 Price framework

Decision

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

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

The Valuer General's submission proposed a postage stamp price for residential and non-residential properties, excluding the City of Sydney[41]. The Valuer General believes that cost reflectivity for the City of Sydney would see each valuation charged at over three times the standard residential price by the end of the proposed price path and has provided justification for a unit price of 2.63 times the standard price in 2007.

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

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

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

In the Draft Determination IPART accepted the Valuer General's proposal to have differential pricing for the City of Sydney and a common charge for all other councils for residential valuations and a common charge for all non-residential valuations. IPART considered that the Valuer General's proposed price for the City of Sydney was excessive and instead decided to set the price for all properties in the City of Sydney council area at the non-residential rate. It should be noted the last determination had common charges for all councils including the City of Sydney.

However, based on evidence presented at the public hearing and in the City of Sydney's submission to the draft report IPART has reconsidered its draft decision.

Appendix D was prepared and presented by the City of Sydney. The Valuer General was presented with a copy of the presentation at the public hearing and had access to the City of Sydney's submission.

Appendix D shows a very strong inverse correlation between number of properties in a contract area and the price per property the successful tenderer bid to perform valuation services in that contract area. IPART is aware that the Valuer General has had an external review of its contract areas[42] but this in itself does not justify differential pricing. IPART is not in a position to criticise the contract boundaries the Valuer General chooses. IPART is prepared to accept that the current boundaries may minimise the total cost to the Valuer General for valuation services. However, changing the boundaries may decrease the cost in some of the valuation areas albeit increasing the cost in other. IPART considers this to be the case for the City of Sydney.

In his submission subsequent to the Draft Determination and public workshop the Valuer General stated that the cost of dealing with objections in the City of Sydney contract area was 1.7 times more expensive than the state average. This does not necessarily make Sydney City an outlier as a comparison with other specific contract areas was not presented.

On balance, a change from "postage stamp" pricing to council specific pricing would be a significant change in principle. IPART has decided there has been insufficient evidence presented to warrant such a change. IPART has decided to continue with the postage stamp approach to local government charges. Therefore the City of Sydney will pay the same price as all other councils for each residential valuation and the City of Sydney will pay the same price as all other councils for each non-residential valuation. Whilst the Tribunal has decided to retain "postage stamp" prices for all local councils for this determination it will consider the matter again in future determinations if there is more evidence supporting a change.

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

IPART has modelled the impact this decision would have on the revenue the Valuer General will receive over the period of the Determination. The Valuer General is expected to receive 99.03 per cent[43] of the revenue projected in the Draft Determination and 99.35 per cent[44] of the revenue he proposed in his original submission.

IPART has therefore decided not to increases prices for all other council valuations from the levels outlined in the Draft Determination.

43 $47.0 million in NPV terms ($2007/08).

44 $47.3 million in NPV terms ($2007/08).

8 Adjustment mechanism for future price changes

Decision

2 IPART's draft determination incorporates an initial price increase to local councils of 10 per cent in 2009/10. Prices then increase in equal increments in each subsequent year to recover local councils' share of full efficient costs by 2013/14.

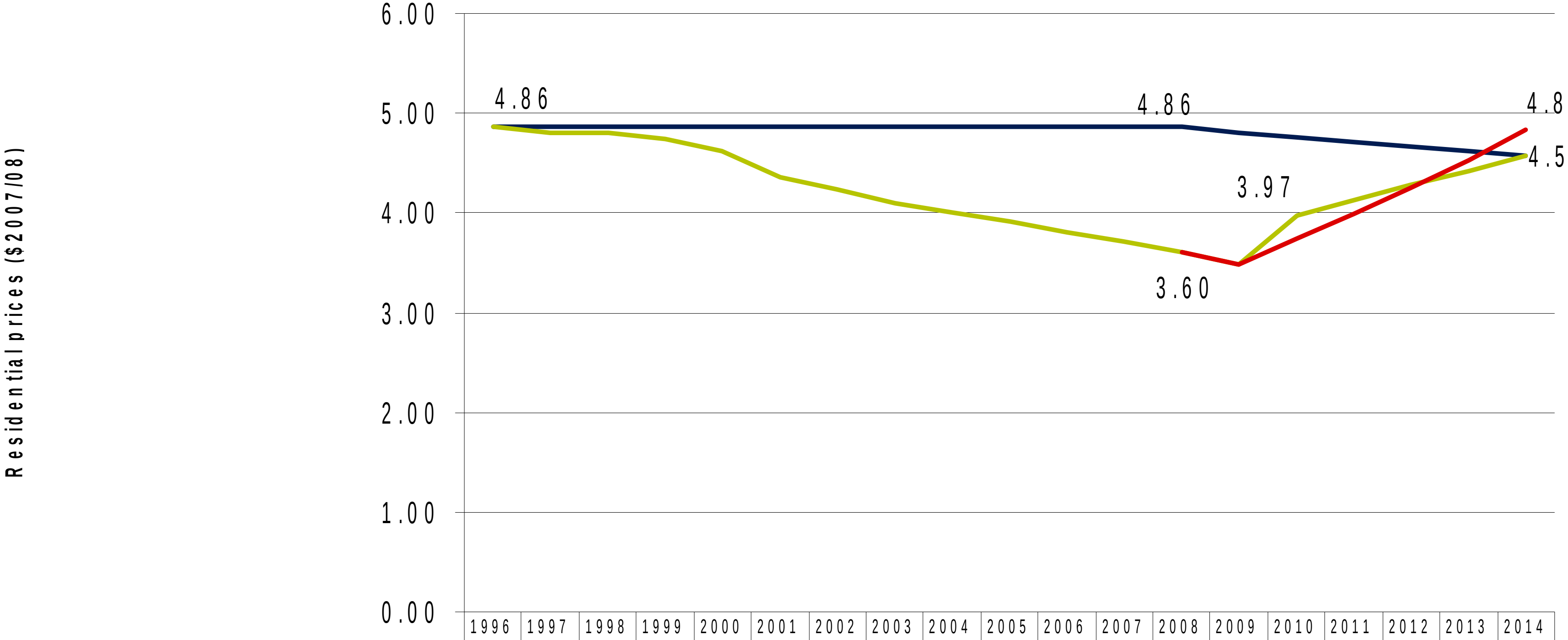
3 IPART's draft determination is for the prices for valuation services provided to local governments to be as shown in Tables 8.1 and 8.2.

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

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

The full efficient costs of providing valuation services to councils by 2013/14 incorporate the efficiency savings detailed in section 5.4 above. The decision to gradually increase prices over the period of the determination is broadly in line what was proposed by the Valuer General. IPART has estimated that this gradually increase or glidepath to efficient prices will provide the local councils with a $4.6 million discount in NPV terms compared to not having a glidepath over the length of the Determination. IPART's determination will see prices rise by 15 per cent in real terms over the period of the determination.

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



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

Financial Year Ending June 30

Table 8.1 Maximum Prices for the Monopoly Services for Residential Land

Commencement date to 30 June 2010 ($)	1 July 2010 to 30 June 2011 ($)	1 July 2011 to 30 June 2012 ($)	1 July 2012 to 30 June 2013 ($)	1 July 2013 to 30 June 2014 ($)
3.97 x (1+ΔCPI$_1$)	4.12 x (1+ΔCPI$_2$)	4.27 x (1+ΔCPI$_3$)	4.42 x (1+ΔCPI$_4$)	4.57 x (1+ΔCPI$_5$)

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

Table 8.2 Maximum Prices for the Monopoly Services for Non-Residential Land

Commencement date to 30 June 2010 ($)	1 July 2010 to 30 June 2011 ($)	1 July 2011 to 30 June 2012 ($)	1 July 2012 to 30 June 2013 ($)	1 July 2013 to 30 June 2014 ($)
8.72 x (1+ΔCPI$_1$)	9.05 x (1+ΔCPI$_2$)	9.38 x (1+ΔCPI$_3$)	9.71 x (1+ΔCPI$_4$)	10.04 x (1+ΔCPI$_5$)

Note:

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

ii) All the prices and values in this report and the attached determination are in 2007/08 dollars. This determination will take effect from 1 July 2009. There will be two (2) years of CPI adjustments to adjust the prices in the above tables to 2009/10 dollars.

Based on projected volumes of valuations prepared by the Valuer General, IPART's prices provide a Net Present Value (NPV)[45] of $47.0m in revenue compared to $47.3m using prices proposed by the Valuer General.

In compliance with s16 of the IPART Act, IPART has calculated that if the Valuer General does not charge the maximum prices determined in Tables 8.1 & 8.2 but instead continued to charge the current prices it would place a $10.9 million dollar burden on Consolidated Fund over the period of the Determination.[46]

45 The NPV calculation uses a base year of 2007/08 wit h an annual discount rate of 7.0 per cent. The revenue included in the calculation is for the years included in the Determination ie, the financial years 2009/10 to 2013/14 inclusive.

46 This is calculated in NPV terms using a base year of 2007/08 with an annual discount rate of 7.0 per cent. The revenue included in the calculation is for the years included in the Determination ie, the financial years 2009/10 to 2013/14 inclusive.

Appendices

A Terms of reference

7 DEC 2007

Premier of New South Wales
Australia

RECEIVED
10 DEC 2007
INDEPENDENT PRICING & REGULATORY TRIBUNAL

TCO/03057

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

Dear Dr Keating

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

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

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

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

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

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

Thank you for your assistance in this matter.

Yours sincerely

Morris Iemma MP
Premier

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

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

TERMS OF REFERENCE

Background

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

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

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

Reference to the Tribunal

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

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

In so doing IPART is requested to:

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

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

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

a) the cost of providing the services concerned

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

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

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

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

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

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

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

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

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

k) the social impact of the determinations and recommendations

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

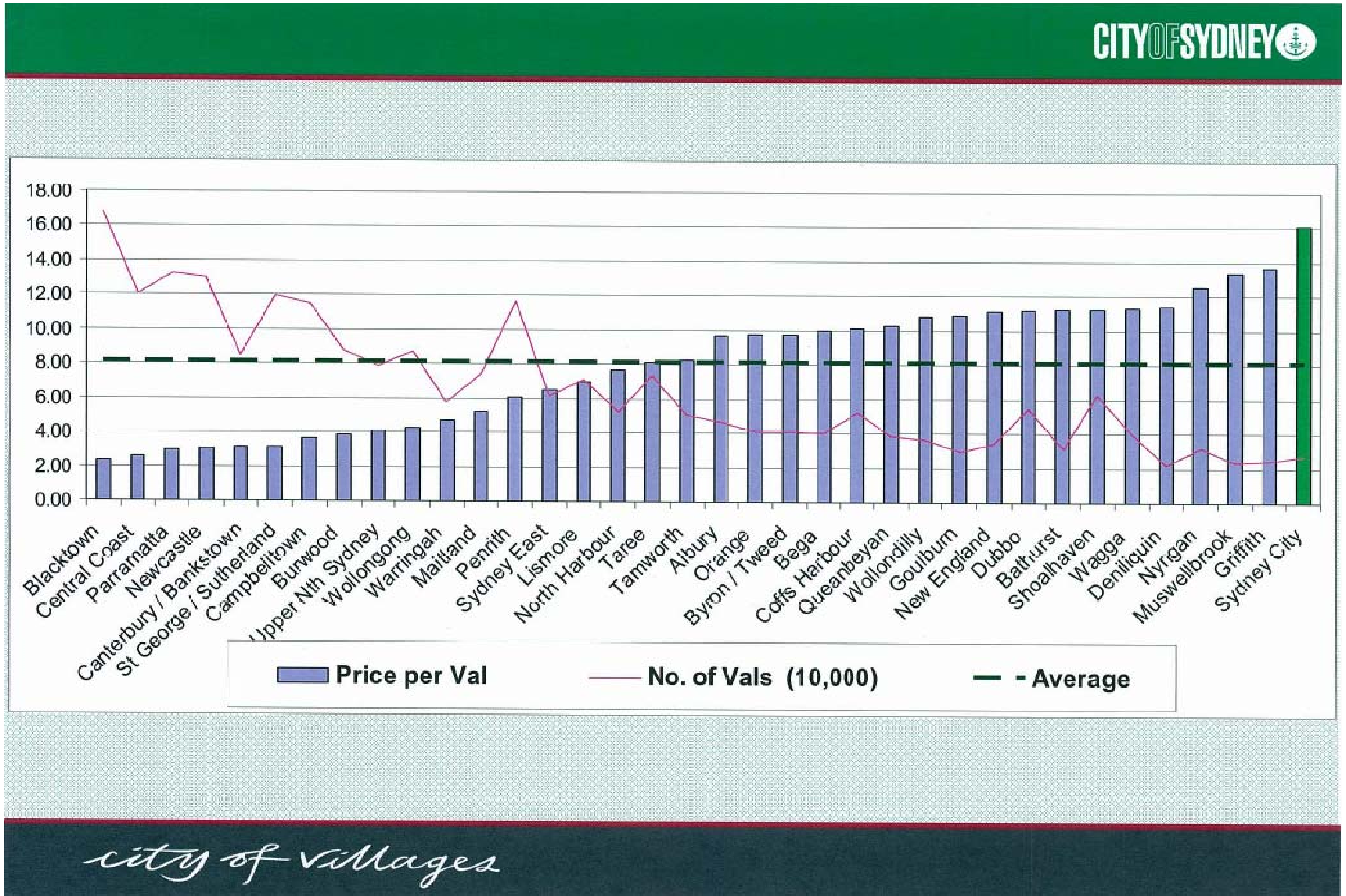
Table B.1 Consideration of Section 15 matters by IPART

Section 15 (1)		Report reference
a)	the cost of providing the services	Chapter 5
b)	the protection of consumers from abuses of monopoly power	Chapters 4, 5, 6 and 7
c)	the appropriate rate of return and dividends	Chapter 5
d)	the effect on general price inflation	Not applicable
e)	the need for greater efficiency in the supply of services	Chapter 5
f)	ecologically sustainable development	Not applicable
g)	the impact on borrowing, capital and dividend requirements	Chapter 5
h)	impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body	Chapters 5 and 7
i)	need to promote competition	Not applicable
j)	considerations of demand management and least cost planning	Not applicable
k)	the social impact	Chapter 5
l)	standards of quality, reliability and safety	Chapter 5

C List of submissions

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

D Valuation Contracts-sizes and prices



Source: City of Sydney Council.