

# **Review of prices for land valuation services provided by the Valuer-General to councils**

**Other Industries — Issues Paper**  
January 2014



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## Invitation for submissions

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

**The Valuer-General's submission is due 31 January 2014.**

**Public submissions are due by 7 February 2014.**

We would prefer to receive them electronically via our online submission form <[www.ipart.nsw.gov.au/Home/Consumer\\_Information/Lodge\\_a\\_submission](http://www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission)>.

You can also send comments by mail to:

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Independent Pricing and Regulatory Tribunal

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Late submissions may be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website <[www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)> as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed on the previous page.

We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

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



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# 1 Introduction

The Independent Pricing and Regulatory Tribunal of NSW (IPART – hereafter referred to as "we," "us," or "our") is responsible for setting charges for government monopoly services.

Under Part 5 of the *Valuation of Land Act 1916* (NSW) (Valuation of Land Act), the Valuer-General must provide valuation lists and supplementary lists to councils of areas under the *Local Government Act 1993* (NSW) (Local Government Act) for their rating purposes.<sup>1</sup> These land valuation services to councils are declared as government monopoly services under section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW) (IPART Act).<sup>2</sup>

The current determination (2009 Determination) for the Valuer-General was released in July 2008.<sup>3</sup> It sets maximum prices for the period 1 July 2009 to 30 June 2014. Before that, IPART made a determination in 1995, which prescribed maximum prices for the period from 1 July 1995.<sup>4</sup>

In this review, we will determine maximum prices to apply from 1 July 2014 for the Valuer-General's land valuation services to local councils (2014 Determination). We aim to set prices to recover an appropriate level of revenue needed to support its regulated services in an efficient and effective manner.

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<sup>1</sup> Valuation lists must be furnished to councils at least every 4 years (s 48, Valuation of Land Act). Supplementary lists are to be furnished to each council in accordance with any agreement in force between the Valuer-General and the council, or at such times as the Valuer-General may determine (s 49, Valuation of Land Act).

<sup>2</sup> Under the *Government Pricing Tribunal (Valuer-General's Services) Order 1993* (Gazette No. 89, 13 August 1993, page 4571), the following services have been declared by the Premier to be 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*."

<sup>3</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008.

<sup>4</sup> Government Pricing Tribunal, *Valuer-General's Office Charges to Councils from 1 July 1995*.

## 1.1 Purpose of this Issues Paper

This Issues Paper has been released with the aim of obtaining the Valuer-General's and stakeholders' views on the issues that are raised in it. To assist stakeholders in making submissions, the Issues Paper explains how the review is to be undertaken, provides background information, and outlines issues on which we particularly seek comments.

All submissions made on time to the review will be considered in making our Draft and Final Determinations.

## 1.2 What has IPART been asked to do?

IPART does not have a standing reference to determine prices for the Valuer-General's monopoly services. Rather, we conduct these price determinations when referred to us by the NSW Government under section 12 of the IPART Act.

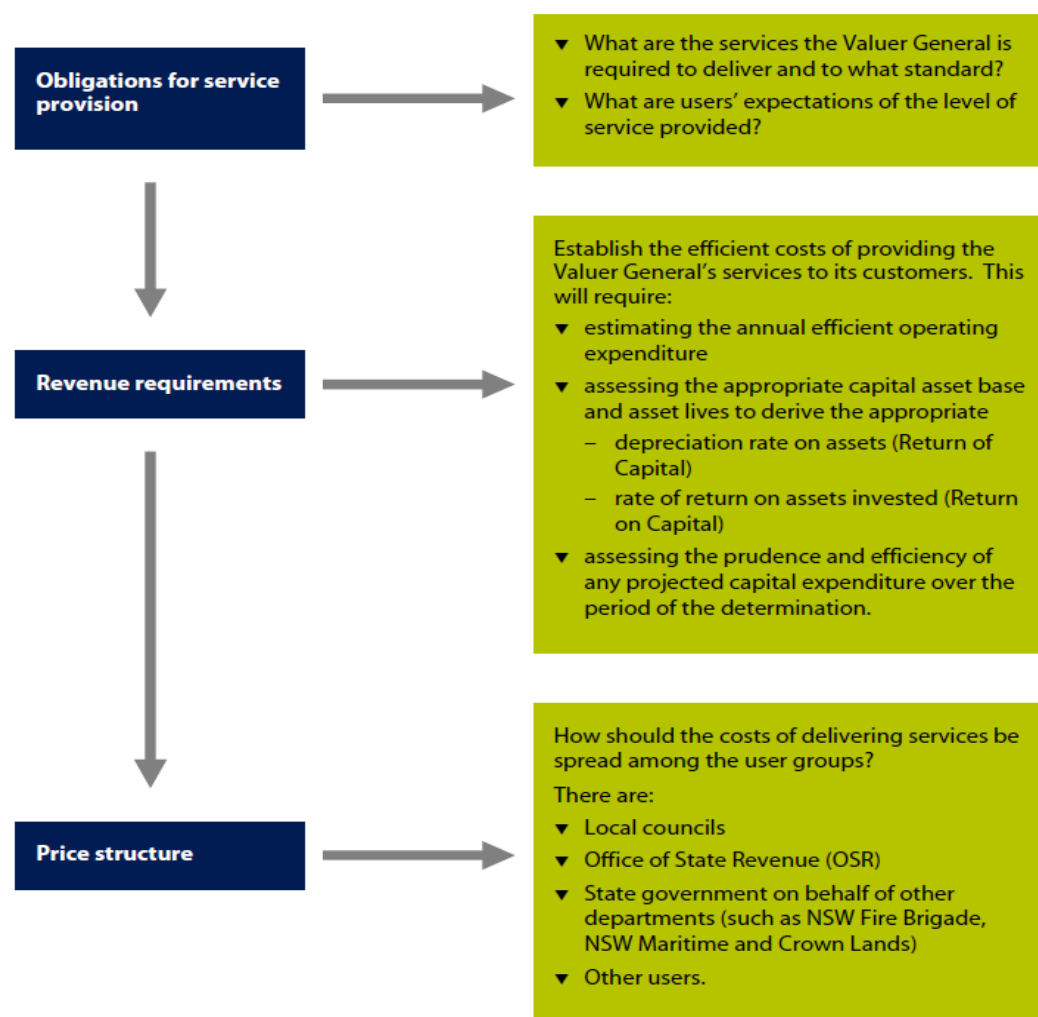
The Premier wrote to IPART on 30 December 2013 to request a new price determination, so that determined maximum prices take effect from 1 July 2014. The Terms of Reference (ToR) for this review are similar to the last review and included at Appendix A.

In accordance with our ToR, our proposed approach to the review involves:

- ▼ establishing (not setting) the services provided by the Valuer-General to its customers (ie, the obligations for service and expected level of service provided)
- ▼ establishing the efficient costs of providing those services (ie, determining the revenue requirements), including consideration of the scope for efficiency savings
- ▼ allocating the costs of the operation (revenue requirements) to the various user groups (in particular, councils)
- ▼ setting maximum prices for the valuation services provided to councils – by either determining a price path for the charges or a methodology for determining those charges in future years.

The ToR ask us to undertake a new determination to apply in total for a period of 5 years (ie, referral period is 2014/15 to 2018/19). The referral may extend to annual or other periodic pricing determinations.

In making this determination, we are also to have regard to a range of matters under section 15 of the IPART Act (see Appendix B). This includes the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services, and the social impact of the determination. Our approach to the review is presented in Figure 1.1. The remainder of the Issues Paper is structured around this approach.

**Figure 1.1** IPART's approach to the review

### 1.3 The review process

We will conduct our own research and analysis to determine prices for this review, using selected consultant investigations if required and public consultation. Throughout this Issues Paper we list issues on which we seek particular stakeholder comment. We provide a consolidated list of these issues in section 1.4 below.

The Valuer-General and stakeholders may also raise and discuss any other issues they believe are relevant to the review. Details on how stakeholders can make submissions are given at the start of this Issues Paper. Stakeholders will have a further opportunity to present their views at a public hearing.

We will release a Draft Determination and Draft Report following this consultation, and comments from stakeholders and the Valuer-General will be invited. We will consider all comments received before making our Final Determination and publishing our Final Report.

An indicative review timetable is set out in Table 1.1.

**Table 1.1 Indicative review timetable for price determination for Valuer-General**

Task	Date
Release Issues Paper	10 January 2014
Receive Valuer-General's submission and information returns	31 January 2014
Receive public submissions	7 February 2014
Conduct a public hearing	25 February 2014
Release Draft Determination and Report	4 April 2014
Receive submissions to Draft Determination and Report	24 April 2014
Release Final Determination and Report	30 May 2014

**Note:** These dates are indicative and are subject to change.

## 1.4 Issues for comment

To assist in identifying and understanding the key issues for this review, we seek comment on issues which are discussed throughout this paper. The issues for stakeholder comment with corresponding page numbers are listed below. The issues for the Valuer-General's comment are listed in Appendix C. Stakeholders can also provide comment on the issues in Appendix C.

### 1.4.1 List of issues for stakeholder comment

- |   |  |    |
|---|--|----|
| 1 | Should IPART set one 5-year determination or undertake multiple periodic determinations over the 5-year referral period? | 14 |
| 2 | In what circumstances should IPART consider making a new determination?  | 14 |
| 3 | Have the land valuation services provided by the Valuer-General changed since the 2009 Determination?                    | 16 |
| 4 | Is the quality of land valuation services provided by the Valuer-General meeting customers' expectations?                | 16 |
| 5 | What is an appropriate rate of return for the Valuer-General's assets?   | 20 |
| 6 | What is the appropriate equity beta and gearing ratio on which to calculate the Valuer-General's rate of return?         | 20 |

- 7 Is there a case for changing the methodology for allocating costs to councils?  
If so, on what basis should costs be allocated? 21
- 8 Should the current price structure of residential and non-residential prices be  
retained, or is there a more appropriate pricing structure for land valuation  
services (eg, a single price)? 23
- 9 What is the impact on customers (ie, councils) from the proposed change in  
price structures? 23
- 10 Is there new evidence that would warrant differential pricing for councils and a  
move away from a common charge across all councils? 23
- 11 Should an indexation approach be used to set the maximum prices for the  
Valuer-General's land valuation services to councils? 25
- 12 How should the price path account for customer impacts? 25

## 2 Context for the review

This chapter provides background and context to the review. We outline the role of the Valuer-General as prescribed in the Valuation of Land Act, the valuation services provided, and the users of these valuation services. We also outline key developments since our 2009 Determination and their potential implications for this review.

In providing context for the review, we note that our remit is to review prices charged for a specific portion of the services performed by the Valuer-General – ie, furnishing land valuations to councils for rating purposes. The Valuer-General’s other land valuation functions are not government monopoly services and therefore outside the scope of this review.

This review also does not address issues with the land valuation system itself, including the integrity of valuations. However, the methodology used to determine land values is outlined as background, as it influences the costs of undertaking land valuations.

### 2.1 What is the role of the Valuer-General?

The Valuer-General is an independent statutory officer appointed by the Governor of New South Wales to oversee the valuation system.<sup>5</sup> It 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 general role of the Valuer-General is to:<sup>6</sup>

- ▼ exercise functions with respect to the valuation of land in the State
- ▼ ensure the integrity of valuations
- ▼ keep a Register of Land Value, which must contain information on ownership, occupation, title, location, description, area, and value of the land.<sup>7</sup>

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<sup>5</sup> s 8, Valuation of Land Act.

<sup>6</sup> s 8, Valuation of Land Act.

<sup>7</sup> s 14CC, Valuation of Land Act.

### 2.1.1 Governance and administrative arrangements

The statutory functions of the Valuer-General are set out in the Valuation of Land Act. The Valuer-General reports administratively to the Minister for Finance and Services and the Director-General, Department of Finance and Services (DFS).<sup>8</sup>

The Valuer-General may only be removed from office through a strict process. The protections in place establish the structural separation of the valuation and rating/taxing functions of government.<sup>9</sup>

The Parliamentary Committee on the Office of the Valuer-General (the Committee) monitors and reviews the exercise of the Valuer-General's functions with respect to land valuations. The Committee was first established in 2003 as a statutory committee, and re-established in 2008 as a joint standing committee.<sup>10</sup>

The Office of the Valuer-General is a small team of about 6 people. Land and Property Information (LPI), a division of DFS, manages the valuation system on behalf of the Valuer-General. This includes managing valuation contracts and maintaining a database of valuations (the Registry). Each year, the Valuer-General enters into a service level agreement with LPI, which defines the services that LPI is required to deliver.<sup>11</sup>

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

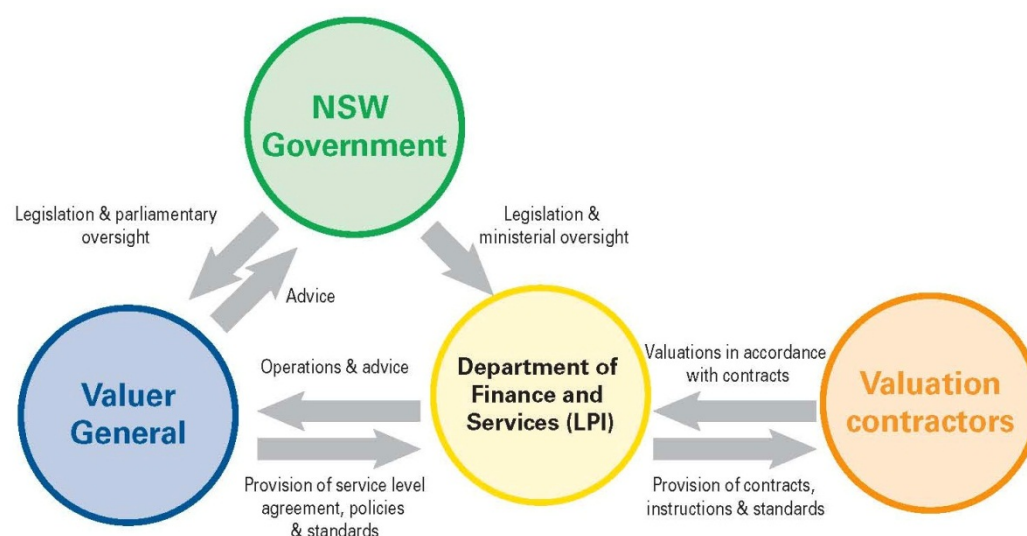
<sup>8</sup> NSW Government, *Valuer-General's role*, accessed 26 November 2013 from [http://www.lpi.nsw.gov.au/valuation/role\\_of\\_the\\_valuer\\_general](http://www.lpi.nsw.gov.au/valuation/role_of_the_valuer_general)

<sup>9</sup> Joint Standing Committee on the Office of the Valuer-General, Parliament NSW, *Report on the inquiry into the land valuation system and the eighth general meeting with the Valuer-General*, Report 2/55, May 2013, p 2.

<sup>10</sup> Joint Standing Committee on the Office of the Valuer-General, Parliament NSW, *Report on the inquiry into the land valuation system and the eighth general meeting with the Valuer-General*, Report 2/55, May 2013, p 3.

<sup>11</sup> Joint Standing Committee on the Office of the Valuer-General, Parliament NSW, *Report on the inquiry into the land valuation system and the eighth general meeting with the Valuer-General*, Report 2/55, May 2013, p 10.

**Figure 2.1 Operational framework for the Valuer-General**



**Source:** NSW Government, *Valuer-General's role*, accessed on 26 November 2013 from [http://www.lpi.nsw.gov.au/valuation/role\\_of\\_the\\_valuer\\_general](http://www.lpi.nsw.gov.au/valuation/role_of_the_valuer_general)

### 2.1.2 What valuation services does the Valuer-General provide?

The Valuer-General provides the following valuation services:<sup>12</sup>

- ▼ land values for rating and taxing 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.

In this review, we are setting maximum prices for only the land valuations provided to councils for rating purposes. The Valuer-General's other land valuation functions are not government monopoly services and therefore outside the scope of this review. This includes valuation services provided to Government for taxing purposes.

<sup>12</sup> NSW Government, *Valuer-General's role*, and *NSW land values*, accessed on 26 November 2013 from [http://www.lpi.nsw.gov.au/valuation/role\\_of\\_the\\_valuer\\_general](http://www.lpi.nsw.gov.au/valuation/role_of_the_valuer_general), and [http://www.lpi.nsw.gov.au/land\\_valuation/nsw\\_land\\_values](http://www.lpi.nsw.gov.au/land_valuation/nsw_land_values)



However, in determining the Valuer-General's prices for valuation services to councils, we plan to assess the Valuer-General's total required revenue for providing land valuation services for both *rating and taxing* purposes. We will allocate a proportion of these costs to councils on which to set prices. The components of the revenue required to provide valuation services are outlined in further detail in Chapter 3.

The different valuation services provided by the Valuer-General, including those to councils for ratings purposes, are outlined below.

### Valuation of land for council rates and land tax

The principal purpose for assessing and recording values of land is to enable the levying of taxes, rates, and duties by the State and local government.

The Valuer-General must issue land values to councils for rating at least every 4 years.<sup>13</sup> These land values are fixed for rating until new land values are issued to 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.<sup>14</sup>

Land values are also provided each year to the Office of State Revenue (OSR) for the calculation of land tax under the *Land Tax Management Act 1956* (NSW).<sup>15</sup> We do not price regulate these services and, as noted, remove the costs of providing these services from the revenue requirement before setting prices for councils (see Chapter 3).

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.<sup>16</sup> 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.

### Compensation for compulsory acquisitions

State and local government agencies may acquire land through a compulsory process for a range of purposes.

<sup>13</sup> s 48, Valuation of Land Act. (the Valuer-General may furnish a valuation list for an area within 6 years if the Valuer-General is of the opinion that there has been so little movement in values in the area that a valuation within 4 years is not warranted)

<sup>14</sup> s 29, Valuation of Land Act.

<sup>15</sup> s 48, Valuation of Land Act

<sup>16</sup> Joint Standing Committee on the Office of the Valuer-General, Parliament NSW, *Report on the inquiry into the land valuation system and eighth general meeting with the Valuer-General*, Report 2/55, May 2013, p 4.

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.<sup>17</sup> Relevant matters determining compensation include the market value of the land. LPI manages this process under delegated authority from the Valuer-General.<sup>18</sup>

These valuations are charged on a fee-for-service basis. They are not declared a government monopoly service and therefore outside the scope of this review.

### Private valuations and valuation services to other government agencies

The Valuer-General may make a valuation of land at the request of any person.<sup>19</sup> 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:

- ▼ **NSW Fire Brigade:** to set levies on the insurance industry and local councils. Land values are provided for all rateable land within any area constituted as a fire district under section 5 of the *Fire Brigades Act 1989* (NSW).<sup>20</sup>
- ▼ **NSW Government agencies:** various agencies, including NSW Maritime and Crown Lands, use valuations for the calculation of leases (rental of Government property). These agencies do not pay for access to the information.
- ▼ **Commonwealth Grants Commission:** uses land valuations to assist in the allocation of Commonwealth grants between States and Territories.

Private valuations and the valuation services provided to other government agencies are generally charged on a fee-for-service basis. They are not declared a government monopoly service and therefore outside the scope of this review.

## 2.2 Land valuation process

Most land in New South Wales is valued using mass valuation, where properties are valued in groups called components.<sup>21</sup> The properties in each component are similar or are expected to reflect changes in value in a similar way.

<sup>17</sup> s 68, Valuation of Land Act.

<sup>18</sup> NSW Government, *Compulsory acquisition of land*, accessed on 26 November 2013 from [http://www.lpi.nsw.gov.au/valuation/compulsory\\_acquisition\\_of\\_land](http://www.lpi.nsw.gov.au/valuation/compulsory_acquisition_of_land)

<sup>19</sup> s 9A, Valuation of Land Act.

<sup>20</sup> The Valuer-General must provide these valuations under s 67, Valuation of Land Act.

<sup>21</sup> NSW Government, *Land valuation process*, accessed on 27 November 2013 from [http://www.lpi.nsw.gov.au/valuation/land\\_valuation\\_process](http://www.lpi.nsw.gov.au/valuation/land_valuation_process)

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.<sup>22</sup> The change is then applied to all properties in the component to determine their new land values. Sample valuations are then checked to confirm the accuracy of the new values.<sup>23</sup>

Land values refer to the value of the land plus 'site' or 'ground' improvements (eg, clearing, levelling, drainage, and improvement of soil fertility).<sup>24</sup> Capital improvements to the land are excluded from land valuations.<sup>25</sup> Land value is also based upon the 'best use' of the land that the current zoning allows.<sup>26</sup>

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.<sup>27</sup> Finding a comparable sales base is difficult for certain, more specialised property types.<sup>28</sup>

When comparing property sales to the land being valued, valuers consider factors such as:<sup>29</sup>

- ▼ location of the land
- ▼ constraints on use such as zoning and heritage restrictions
- ▼ land size, shape and land features such as slope and soil type
- ▼ nearby development and infrastructure
- ▼ views.

Our review does not address the integrity of land valuations nor how they are used (ie, as the basis for *ad valorem* taxes). We note that the land valuation process (ie, the basis on which land is valued, the frequency of valuations, and sampling methods used to determine land values) will influence the cost of undertaking mass valuations (eg, contractor costs) and ultimately prices charged to users of the Valuer-General's land valuation services.

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<sup>22</sup> s 14B, Valuation of Land Act.

<sup>23</sup> NSW Government, *Land valuation process*, accessed on 27 November 2013 from [http://www.lpi.nsw.gov.au/valuation/land\\_valuation\\_process](http://www.lpi.nsw.gov.au/valuation/land_valuation_process).

<sup>24</sup> s 6A and 4, Valuation Of Land Act.

<sup>25</sup> Therefore, the rent of land, which determines its value, is a pure surplus, not a consequence of any economic actions by the land owner. 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 4.

<sup>26</sup> s 6A and 4, Valuation Of Land Act.

<sup>27</sup> NSW Government, *Land valuation process*, accessed on 27 November 2013 from [http://www.lpi.nsw.gov.au/valuation/land\\_valuation\\_process](http://www.lpi.nsw.gov.au/valuation/land_valuation_process)

<sup>28</sup> 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.

<sup>29</sup> NSW Government, *Land valuation process*, accessed on 27 November 2013 from [http://www.lpi.nsw.gov.au/valuation/land\\_valuation\\_process](http://www.lpi.nsw.gov.au/valuation/land_valuation_process)

## 2.3 Key developments since the 2009 Determination

This section outlines our understanding of the key developments since our 2009 Determination of the Valuer-General's prices to councils.

### 2.3.1 Inquiry into the land valuation system

The Parliamentary Committee on the Office of the Valuer-General (the Committee) completed its inquiry into the land valuation system in January 2013. The Committee reviewed the exercise of the Valuer-General's functions with respect to land valuations under the Valuation of Land Act and the *Land Tax Management Act 1956*.<sup>30</sup> The Committee made 29 recommendations to address concerns that it identified with the:

- ▼ integrity of valuations and, in particular, their volatility
- ▼ transparency of valuation methodologies
- ▼ procedural fairness currently afforded to landholders.

The Committee's main recommendations included:<sup>31</sup>

- ▼ **New governance framework:** replace the Valuer-General with a Valuation Commission. The model involves 3 Valuation Commissioners (a Chief Commissioner to lead the valuation system, and separate Commissioners for general valuations and objection and compulsory acquisition valuations). The Committee noted that the independence of the valuation system from executive government has been undermined through LPI performing functions that should be performed by the Valuer-General.
- ▼ **Rules-based approach to valuations:** issue public guidelines for the valuation of land in New South Wales that bind valuers, and allow landholders to apply to use an alternative methodology for valuation reviews (but not initial valuations).
- ▼ **Improving valuation integrity:** by introducing 3 year averaging for council rate valuations.
- ▼ **Fair and engaging process:** establish the right for landholders in objection valuations and compulsory acquisition valuations to make submissions, and for these rights to be statutorily protected.

<sup>30</sup> This report addresses the terms of reference for the Committee's inquiry into the land valuation system, as well as those for the Committee's eighth general meeting with the Valuer-General. Joint Standing Committee on the Office of the Valuer-General, Parliament NSW, *Report on the inquiry into the land valuation system and eight general meeting with the Valuer-General*, Report 2/55, May 2013, p vii.

<sup>31</sup> Joint Standing Committee on the Office of the Valuer-General, Parliament NSW, *Report on the inquiry into the land valuation system and eight general meeting with the Valuer-General*, Report 2/55, May 2013, p ix.

- ▼ **Enhancing capability:** improving the IT systems required to maintain sufficient financial and operational data to audit, monitor and improve the valuation system. Also, that a strong dispute resolution capability be developed so that valuers have the skills to engage with landholders.

Further, the Committee found that the valuation system is currently extremely cost effective, and that valuations show a strong correlation with the market.<sup>32</sup> Our 2009 Determination established efficient costs for land valuation services and set prices towards recovering the efficient costs of these services provided to councils by 2013/14.

### What are the implications of the inquiry into the land valuation system for this review?

In its response to the inquiry, the NSW Government considered that further work needs to be undertaken, including consultation with stakeholders, before it can determine whether it supports many of the recommendations.<sup>33</sup>

We note that the major governance and procedural recommendations, if supported and implemented over the course of the determination period, could potentially change the nature and level of costs for land valuations services.

Our ToR allows us to undertake periodic determinations over the 5-year referral period. Prices in the last determination were set for 5 years. We are seeking feedback from stakeholders whether the new determination period should also apply for 5 years.

We are also seeking feedback from stakeholders as to whether we should issue a new determination in the event that the NSW Government were to support some of these material reforms and the reforms were to be implemented during the referral period (over the next 5 years).<sup>34</sup>

We note that the NSW Government accepted some of the Committee's recommendations that relate to improved transparency, reporting and capabilities.<sup>35</sup> Implementation of these recommendations may have some implications for costs over the next determination period.

<sup>32</sup> Joint Standing Committee on the Office of the Valuer-General, Parliament NSW, *Report on the inquiry into the land valuation system and eight general meeting with the Valuer-General*, Report 2/55, May 2013, p ix.

<sup>33</sup> NSW Government, *Response to the Joint Standing Committee on the Office of the Valuer-General's inquiry into the land valuation system*, November 2013, mainly Recommendations 1, 5, 11.

<sup>34</sup> s 13(5), IPART Act

<sup>35</sup> For example, Recommendations 1, 5, 11. NSW Government, *Response to the Joint Standing Committee on the Office of the Valuer-General's inquiry into the land valuation system*, November 2013.

IPART seeks comments on the following

- 1 Should IPART set one 5-year determination or undertake multiple periodic determinations over the 5-year referral period?
- 2 In what circumstances should IPART consider making a new determination?

## 3 Revenue requirement

An important step in the price-setting process is to determine the revenue required to calculate prices. We propose to use the ‘building block’ methodology to calculate the Valuer-General’s revenue requirement, consistent with the last review. The building block costs of service provision comprise operations costs, depreciation (return of capital), rate of return (return on capital) and taxation costs.

Generally, our approach is to translate the notional revenue requirement (which reflects the agency’s efficient building block costs) into a target revenue (ie, revenue to be recovered via prices), having regard to the matters listed in section 15 of the IPART Act. In the 2009 Determination, we set prices that aimed to recover the Valuer-General’s efficient costs of providing its valuation services to councils by 2013/14. For this review, we expect to continue setting prices that recover the full, efficient cost of the Valuer-General’s services.

### 3.1 Service levels

To calculate efficient costs, the first step is to define what level of service is to be provided.

As outlined in Chapter 2, the functions of the Valuer-General are statutorily defined and much of the nature of the land valuation services provided to councils is also prescribed under the Valuation of Land Act (eg, general valuation is to be valued as at 1 July in the valuing year, information contained in the Register of Land Values, requirements to notify valuations to landowners).<sup>36</sup>

We also note that the quality of the valuation services provided by the Valuer-General is regularly monitored and has been the subject of a number of recent inquiries. As noted in Chapter 2, the most recent inquiry was the Committee’s 2013 inquiry into the land valuation system.<sup>37</sup> Other inquiries include those of the Ombudsman<sup>38</sup> and the earlier inquiries by the Committee (2004-2010).<sup>39</sup>

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<sup>36</sup> ss 14B, 14CC, and 32, Valuation of Land Act.

<sup>37</sup> Parliament of NSW, *Report on the Inquiry into the Land Valuation System*, Report 2/55, May 2013.

<sup>38</sup> 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.

<sup>39</sup> Parliament of NSW, accessed on 19 December 2013 from

IPART does not intend to prescribe the service level required, as this has been comprehensively addressed by the Ombudsman and most recently the Committee. However, we do seek the views of stakeholders on the quality of the services received from the Valuer-General since our last review in 2009.

We are also interested in knowing if the nature of services provided by the Valuer-General has changed since the last review. This may relate to the mass valuation methodology used. If the valuation methodology has changed, for example by having larger sample sizes for valuation purposes, then this may affect the level of service and costs of the Valuer-General.

The nature of the services may also change over the next 5 years as a result of the recommendations made by the Committee in its inquiry into the land valuation system. In particular, we note that the NSW Government has supported:<sup>40</sup>

- ▼ establishing a strong dispute resolution system to improve procedural fairness
- ▼ improving reporting capabilities, in particular financial reporting.

IPART seeks comments on the following:

- 3 Have the land valuation services provided by the Valuer-General changed since the 2009 Determination?
- 4 Is the quality of land valuation services provided by the Valuer-General meeting customers' expectations?

### 3.2 Revenue requirement

In the 2009 Determination, we calculated the revenue requirement for the Valuer-General using the building block approach. We first determined the Valuer-General's revenue requirement for its valuation services provided to councils and OSR. We estimated the total revenue requirement for 2013/14 to be about \$36.5 million (\$2007/08).<sup>41</sup> We then allocated 40% of this revenue requirement to councils, and set prices towards recovering these costs.

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<http://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/V3ListInquiries?open&vw=V3InquiriesByCttee&vwcat2=valuer-general>

<sup>40</sup> NSW Government, *Response to the Joint Standing Committee on the Office of the Valuer-General's inquiry into the land valuation system*, November 2013, mainly Recommendations 14, 25, 27.

<sup>41</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 24.



Determining the total revenue requirement involves establishing the efficient costs of the Valuer-General that comprise:

- ▼ operating expenditure
- ▼ return of capital (depreciation)
- ▼ return on capital (including a weighted average cost of capital (WACC))
- ▼ a tax allowance.<sup>42</sup>

Operating costs include the ongoing expenses of providing and maintaining valuation services. Return of capital and return on capital are calculated with reference to the Regulatory Asset Base (RAB). The RAB includes all prudent and efficient capital expenditure.

The components of the building block as they relate to the mass valuation services provided by the Valuer-General are discussed in the following sections.

### 3.2.1 Operating costs

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

- ▼ Direct costs of the Valuer-General's office, predominantly labour costs.
- ▼ Direct costs of LPI providing general valuation services, including but not limited to:
  - direct labour costs and on-costs
  - rent
  - postage (property value notifications to ratepayers)
  - mass valuation contracts
  - other valuation contracts (for objections and appeals).
- ▼ Allocated joint costs from LPI, including but not limited to:
  - graphic services
  - administration costs
  - other allocated costs.

We are seeking the views of stakeholders on the efficiency of expenditure incurred in the provision of valuation services. We note, at the time of our last determination, operating costs accounted for 93.4% of the Valuer-General's revenue requirement.<sup>43</sup>

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<sup>42</sup> IPART, *The incorporation of company tax in pricing determinations – Final Decision*, December 2011.

<sup>43</sup> IPART, internal analysis.

The largest operating cost item was the mass valuation contracts (43.2% of total operating costs).<sup>44</sup> Although these contracts are competitively tendered, we are interested in whether the tendering process leads to efficient costs. For example, we are interested in the views of stakeholders as to whether the tendering process could be improved in order to enhance competition and the efficiency of costs for the Valuer-General. We are also interested in whether the volume of valuations has changed over the period, and how this relates to contract costs and other operating costs.

More generally, we are seeking stakeholders' views on the cost drivers faced by the Valuer-General over the next 5 years. This could relate to changes in service levels resulting from the Committee's inquiry into the land valuation system or to meet customers' expectations.

We are also interested in the potential for productivity gains over the next 5-year period, noting that the Valuer-General is largely an information service. In the 2009 Determination, we incorporated the Valuer-General's proposed efficiency target of 1% per annum into the efficient cost base (ie, required revenue).<sup>45</sup>

The efficiency of many of the Valuer-General's operating costs items can be established through benchmarking against comparable organisations or appropriate cost indexes from the Australian Bureau of Statistics (ABS). Efficiency gains can also potentially be obtained by streamlining activities and providing services in better ways.

### Allocating Costs from LPI to the Valuer-General

In the 2009 Determination, we accepted that valuation services are an integral and indivisible part of LPI. Therefore, we considered that the Valuer-General should make a contribution to the efficient fixed costs of LPI (ie, those incurred across all of LPI's functions).<sup>46</sup> The fixed costs were allocated on an average cost basis, using FTE and occupancy rates, and comprised 8.5% of LPI's total fixed costs.<sup>47</sup>

To achieve stable prices, we consider it important to maintain the basis on which costs are allocated and propose to use the same approach from the 2009 Determination. However, if the Valuer-General or other stakeholders believe there is a case for changing the allocation of costs from LPI, then they should put this case forward in their submission, along with supporting evidence.

<sup>44</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 8.

<sup>45</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 14.

<sup>46</sup> Most of the assets used in the valuation process are located within LPI. Therefore, the return on and of assets is also predominately an allocation from LPI.

<sup>47</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 22.

### 3.2.2 Capital expenditure

To determine any additions to the Regulatory Asset Base (RAB) for pricing purposes, we need to know the amount of capital expenditure that the Valuer-General is forecasting to spend over the upcoming determination, as well as the proposed asset lives for each class of capital expenditure. We note that the Valuer-General relies heavily on information technology, with these assets tending to have very short asset lives.

In setting prices for the Valuer-General, we will review the prudence and efficiency of the proposed capital expenditure and determine whether it should be included in the RAB for pricing purposes. We will also determine the appropriate asset lives for the Valuer-General's assets to calculate depreciation (see below).

In the 2009 Determination, the Valuer General proposed capital expenditure of approximately \$2.3 million per annum over 5 years.<sup>48</sup> Approximately 60% of this proposed expenditure was for intangibles, such as in-house developed software and databases. We seek comments and feedback on the Valuer-General's proposed capital expenditure and asset lives.

### 3.2.3 Depreciation – return of assets

To determine a return of assets (depreciation), we need to determine an efficient RAB and the full and remaining lives for each asset class. Changing the assumed asset lives affects the returns on and of capital.

In the 2009 Determination, we used the asset lives and asset values proposed by the Valuer-General to estimate the average remaining asset life as 7.9 years as at 2007/08. The short asset life is due to the high proportion of IT assets and specialised software. We accepted the Valuer-General's proposed asset lives, for each asset class, for modelling and comparison purposes.<sup>49</sup>

<sup>48</sup> IPART, *Review of prices for valuation services provided by the Office of the Valuer General for local councils – Issues Paper*, February 2008, p 10.

<sup>49</sup> However, IPART reallocated data processing equipment to the plant and equipment asset class rather than intangibles as used by the Valuer-General. IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 18.

### 3.2.4 Rate of return – return on assets

In the 2009 Determination, we calculated the return on assets by basing the Valuer-General's Weighted-Average Cost of Capital (WACC) on Sydney Water's WACC at the time.<sup>50</sup> We are proposing to calculate a WACC from first principles for the 2014 Determination.

It is important that the WACC has regard to the risk characteristics inherent in the business. For the Valuer-General, this will require us estimating the following specific parameters:

- ▼ equity beta (the systematic risk of the business operations when compared to the market)
- ▼ efficient gearing ratio (debt to total assets).

As a starting point, we propose using the equity beta (0.6 to 0.8) and gearing ratio (60%) in our most recent metropolitan water decision.<sup>51</sup>

We also note that since the 2009 Determination, we have changed our methodology for calculating the WACC.<sup>52</sup> The real post-tax WACC is determined by taking the midpoint of 2 WACC estimates,<sup>53</sup> which are derived from current market data and long term averages. We select a final WACC based on this midpoint taking into account the level of economic uncertainty.

IPART seeks comments on the following:

- 5 What is an appropriate rate of return for the Valuer-General's assets?
- 6 What is the appropriate equity beta and gearing ratio on which to calculate the Valuer-General's rate of return?

### 3.2.5 Incorporation of company tax in pricing

Since the 2009 Determination, we have decided to calculate a more accurate and commercially based tax allowance as a discrete building block, and to use a post-tax WACC.<sup>54</sup>

<sup>50</sup> Sydney water's real pre-tax WACC was 7.5% in its 2009 Determination. We deducted 0.5 percentage points to set a 7% real pre-tax WACC for the Valuer-General. IPART, *Review of Prices for Sydney Water Corporation's Water, Sewerage, Stormwater and other services - Final Report*, June 2008, p 156; and IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 17.

<sup>51</sup> IPART, *Review of prices for Hunter Water Corporation's water, sewerage, stormwater drainage and other services from 1 July 2013 to 30 June 2017 – Final Report*, June 2013, pp 81-83.

<sup>52</sup> IPART, *Review of WACC Methodology – Final Report*, December 2013.

<sup>53</sup> The 2 WACC estimates are the midpoints of 2 separate WACC ranges based on long-term averages and current market data.

<sup>54</sup> IPART, *The incorporation of company tax in pricing determinations – Final Decision*, December 2011.

We calculate tax allowances in each year by applying a 30% statutory corporate tax rate adjusted for gamma<sup>55</sup> to the business' (nominal) taxable income. Taxable income is the notional revenue requirement (excluding tax allowance) less operating cost allowances, tax depreciation, and interest expenses. The Valuer-General will need to forecast tax depreciation for the 2014 period. Interest expenses would be based on the parameters used for the WACC.<sup>56</sup>

### 3.3 Allocating costs to councils

The final step in determining required revenue (and prices) is to allocate costs to councils. There are a number of ways that the costs for the Valuer-General's services can be recouped from users, such as through using an average cost or marginal cost approach. Under an average cost approach, all users make a contribution towards the fixed costs of providing a service. Under a marginal cost approach, fixed costs are borne by the principal users of a service and other users are charged the marginal or avoidable cost of extending the service to them.

In the 2009 Determination, the costs of the providing general valuation services were split 40:60 between councils and OSR. All other users were either not charged, or paid the additional (marginal) cost of extending the service to them.<sup>57</sup> This 40% of costs allocated to councils was based on the proportion of total valuations received per annum by councils (about 25%) and, among other things:

- ▼ adjustments for economies of scale in valuations for OSR, because councils only use valuations on a 3-yearly cycle, but benefit from the fact that valuations are conducted annually for OSR
- ▼ costs of printing, graphic services and postage services fully allocated to local councils
- ▼ 50% of the costs of processing objections allocated to councils.

For this review, we need to make decisions on allocating costs from the Valuer-General between councils, OSR and other users. We consider that the methods we used for allocating costs in the 2009 Determination were robust and reasonable. If stakeholders propose changes to the cost allocation methodologies, then a sound case should be made for change, noting that any change in the way costs are allocated to councils could have a significant step effect on prices.

IPART seeks comment on:

- 7 Is there a case for changing the methodology for allocating costs to councils? If so, on what basis should costs be allocated?

<sup>55</sup> Under a post-tax framework, the value of franking credits (gamma) enters the regulatory decision only through the estimate of the tax liability.

<sup>56</sup> The nominal cost of debt is the sum of the nominal risk free rate and nominal debt margin.

<sup>57</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 9 and 23.

## 4 Pricing framework

Our ToR require us to:

- ▼ develop an efficient, effective and transparent pricing framework for the land valuation services provided to councils
- ▼ ensure full recovery of the Valuer-General's efficient costs of providing these services over the relevant determination period
- ▼ ensure that prices efficiently allocate the costs of the services between councils in accordance with relevant economic and pricing principles.

In this chapter, we seek stakeholder views on the appropriate pricing framework for the upcoming determination period. This includes the appropriate pricing structures and paths to recover efficient costs, and their potential impact on councils.

### 4.1 Price structures

The sections below consider options for how to structure prices to recover the Valuer-General's efficient costs of service provision to councils.

#### 4.1.1 Residential and non-residential prices

The current price structure for valuation services to councils allows for different prices for residential and non-residential properties. This price structure reflects 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.<sup>58</sup>

We are seeking views from stakeholders as to whether pricing on this basis is still appropriate or practical. We note that a change in price structures, however, should strike a balance between a more efficient pricing framework and one that is relatively simple and transparent to administer. For example, a single 'postage stamp price' for all land valuations (ie, merging the residential and non-residential charge) could improve the simplicity and transparency of the current

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<sup>58</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 25.

pricing framework. On the other hand, a single price for all land valuation services has the potential to shift costs between councils (ie, councils with more non-residential properties could potentially pay less under this price structure and those councils with predominately residential properties could pay more).

IPART seeks comments on the following:

- 8 Should the current price structure of residential and non-residential prices be retained, or is there a more appropriate pricing structure for land valuation services (eg, a single price)?
- 9 What is the impact on customers (ie, councils) from the proposed change in price structures?

#### 4.1.2 Differential prices for councils

We considered the issue of differential pricing for councils in the 2009 Determination. In particular, the Valuer-General proposed a differential price for the City of Sydney Council.<sup>59</sup> The Valuer-General singled out the City of Sydney Council due to the uniqueness of properties within the area, which increases the number of benchmark properties required and therefore the cost of valuing these properties.

The City of Sydney Council noted that while it was required to value all properties in its area, it was not permitted to collect rates from approximately 11% of properties (eg, the Opera House). The council also demonstrated an inverse correlation between the number of valuations in a contract area and the price per valuation the successful tenderer bid to perform the valuation services in that contract area.<sup>60</sup>

On balance, we decided not to accept the Valuer-General's proposal because there was insufficient evidence to warrant the change. However, we noted that we would consider the matter again in future determinations if there is new evidence presented.

IPART seeks comments on the following:

- 10 Is there new evidence that would warrant differential pricing for councils and a move away from a common charge across all councils?

<sup>59</sup> IPART, *Review of prices for valuation services provided by the Office of the Valuer General for local councils – Issues Paper*, February 2008, p 14.

<sup>60</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 26.



## 4.2 Price paths to recover efficient costs

In setting the level of prices, we need to balance the impact on councils and the revenue required by the Valuer-General. We note that the price path over the upcoming determination period may also depend on underlying price structures and the cost allocation to councils. For example:

- ▼ A change in the cost allocation to councils could require a step change in prices in the first year of the determination period or the need to transition prices towards efficient costs (ie, a 'glide path').
- ▼ A move to a different price structure, such as merging residential and non-residential prices into one price, could also affect councils and require consideration of glide paths over the determination period.

In the 2009 Determination, we applied a glide path to mitigate price impacts on councils. This was because prices had not increased in nominal terms since 1995/96 (ie, prices had decreased in real terms by about 24%<sup>61</sup>). We increased prices by 10% in the first year of the determination (2009/10) and then in equal dollar increments over the 5-year determination period, which equated to about a CPI+3.5% path or 15% cumulative increase in prices.<sup>62</sup>

As discussed in Chapter 3, we allocated 40% of the Valuer-General's total required revenue to councils. Prices were set in our 2009 Determination to recover 36.9% of the total revenue requirement or 92.3% of the revenue requirement allocated to councils by the final year.<sup>63</sup>

### 4.2.1 Using a cost index as an alternative approach to setting prices

Once an efficient cost base is established (eg, via the building block methodology), an alternative approach going forward (as opposed to ongoing application of the building block methodology) is to apply an annual indexation to the established base price (or current prices if deemed appropriate). That is, we could set prices according to an index based on projections and the composition of efficient costs over the determination period and expected efficiency savings. The weightings for cost items in any index developed would be the cost items' percentage share of total costs.

<sup>61</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 4.

<sup>62</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 28.

<sup>63</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government – Final Report and Final Determination*, July 2008, p 24.



In particular, for the valuation services provided to councils we note that:

- ▼ about 40.3% of current prices could be adjusted to reflect projected changes in the cost of mass valuation contracts, subject to a review of the tendering process to ensure these costs are efficient and appropriately market tested
- ▼ the remaining portion of prices could then be adjusted for
  - efficiency gains
  - changes in the level of service (eg, due to Government recommendations)
  - changes in other input costs different to changes in the rate of inflation.

We consider that using an indexation approach to setting the maximum prices for the Valuer-General's valuation services to councils would be a proportionate approach to regulation going forward.

IPART seeks comments on the following:

- 11 Should an indexation approach be used to set the maximum prices for the Valuer-General's land valuation services to councils?
- 12 How should the price path account for customer impacts?





## Appendices



## A Terms of Reference



2013-515987

Dr Peter Boxall AO  
Chair  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office NSW 1230

30 DEC 2013

Dear Dr Boxall *Peter,*

I am writing regarding the pricing 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 declared as government monopoly services under section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act) and the *Government Pricing Tribunal (Valuer-General's Services) Order 1993*, and the maximum prices which may be charged by the Valuer-General for the government monopoly services are subject to an IPART pricing determination in effect.

I am advised that IPART's last determination of these prices applies until 30 June 2014.

I therefore request, pursuant to sections 12(1) and (3) of the IPART Act, that the Independent Pricing and Regulatory Tribunal (IPART) make a new determination of the maximum pricing for the rating valuation services provided by the Valuer-General, to apply from 1 July 2014.

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 Tim Hampton, Director Economic Policy, Department of Premier and Cabinet, on 02 9228 5293.

Thank you for your assistance in this matter.

Yours sincerely

A handwritten signature in blue ink, which appears to read 'Barry O'Farrell'.

Barry O'Farrell MP  
Premier

## TERMS OF REFERENCE PRICE REVIEW OF RATING VALUATION SERVICES PROVIDED BY THE VALUER-GENERAL TO LOCAL GOVERNMENT

I Barry O'Farrell, Premier - pursuant to sections 12(1) and (3) of the IPART Act, request that the Independent Pricing and Regulatory Tribunal (IPART) make a new determination of the maximum pricing for the rating valuation services provided by the Valuer-General, to apply from 1 July 2014. In making its recommendations IPART is to consider the Terms of Reference set out below.

### Background

By the *Government Pricing Tribunal (Valuer-General's Services) Order* dated 11 August 1993 and made under section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992* (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 7 December 2007, the Premier requested that, pursuant to section 12 of the IPART Act, the Independent Pricing and Regulatory Tribunal (IPART) make a determination of the pricing for the provision of the Monopoly Services to apply for a period of 5 years

In July 2008, IPART released its determination of maximum prices for the Monopoly Services provided by the Valuer General.<sup>1</sup> These maximum prices apply until 30 June 2014.

### Reference to the Tribunal

IPART is requested by the Premier, under sections 12(1) and (3) of the IPART Act, to undertake a new determination or determinations of the maximum pricing for the Monopoly Services provided by the Valuer-General to apply in total for a period of 5 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.

In doing so, IPART is requested 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;
- ▼ Ensure full recovery of the Valuer-General's efficient costs of providing the Monopoly Services over the relevant determination period or periods;
- ▼ Ensure that prices efficiently allocate the costs of the Monopoly Services between the users of those services in accordance with relevant economic and pricing principles;

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<sup>1</sup> IPART, *Price review of rating valuation services provided by the Valuer-General to local government*, Final Determination No.2, 2008.

- ▼ Consider the scope for the Valuer-General to achieve efficiency savings in providing the Monopoly Services;
- ▼ Consider any relevant NSW Government policies; and
- ▼ Specify the duration of the relevant determination period or periods.

In addition, IPART may take into account any other matters it considers relevant.

IPART should consult with key stakeholders, including government agencies responsible for management of the land valuation and rating systems. IPART is to submit its final report and determination to the Premier by 31 May 2014 and is to submit any subsequent reports and determinations to the Premier on such other date or dates as agreed.

It is intended that the determination or, in the event of a periodic determination of pricing, the first determination, will commence on 1 July 2014.



The Hon Barry O'Farrell MP

Premier

## B Matters to be considered by IPART under section 15 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).



## C Information required from the Valuer-General

We seek comment from the Valuer-General on the following issues:

### Land valuation process

- 1 Has there been any material change to the land valuation process? How does this impact the cost of undertaking valuations (ie, contract costs)?
- 2 Should IPART set one 5-year determination or undertake multiple periodic determinations over the 5-year referral period?
- 3 In what circumstances should IPART consider making a new determination?
- 4 What is the forecast number of valuations in each year?
  - split between OSR and the councils
  - residential and non-residential.

### Service levels

- 5 Have the land valuation services provided by the Valuer-General changed since the 2009 Determination?
- 6 Is the quality of services provided by the Valuer-General meeting customers' expectations?

### Revenue requirement

- 7 What is the revenue requirement forecast for each year of the referral period (ie, next 5 years)?
  - revenue from primary and secondary users
  - revenue by valuation service.

### Operating expenditure

- 8 What is the Valuer-General's operating expenditure over the current determination period, by item and year?
- 9 What is the efficient operating expenditure incurred by the Valuer-General in the provision of general valuation services over the referral period (ie, next 5 years)?

- 10 What are the main drivers or determinants of the Valuer-General's efficient costs of providing valuation services to councils?
- 11 Does the tendering process for general valuations lead to efficient costs?
- 12 What is the scope for the Valuer-General to achieve efficiency gains over the referral period (ie, next 5 years)?
- 13 How should costs be allocated from LPI to the Valuer-General?

### **Capital expenditure**

- 14 What is the Valuer-General's capital expenditure over the current determination period, by item and year?
- 15 What is the prudent and efficient level of capital expenditure of providing general valuation services over the referral period (ie, next 5 years)?

### **Depreciation**

- 16 What is the appropriate asset life for each class of capital expenditure?

### **WACC**

- 17 What is an appropriate rate of return for the Valuer-General's assets?
- 18 What is the appropriate equity beta and gearing ratio on which to calculate the Valuer-General's rate return?

### **Tax allowance**

- 19 What is an appropriate tax allowance for the Valuer-General?

### **Allocation to councils**

- 20 Is there a case for changing the methodology for allocating costs to councils? If so, on what basis should costs be allocated?

### **Price structures**

- 21 What are the Value-General's proposed prices to councils over the referral period?
- 22 Should the current price structure of residential and non-residential prices be retained, or is there a more appropriate pricing structure for land valuation services (eg, a single price)?
- 23 What is the impact on customers (ie, councils) from the proposed change in price structures?

- 24 Is there new evidence that would warrant differential pricing for councils and a move away from a common charge across all councils?

**Price path**

- 25 Should an indexation approach be used to set the maximum prices for the Valuer-General's land valuation services to councils?
- 26 What level of efficiency savings should be achieved over the price path?
- 27 How should the price path account for customer impacts?

## Glossary

2009 Determination	Refers to the current price period – ie, prices from 1 July 2009 to 30 June 2014.
2014 Determination	Refers to the upcoming price period – ie, prices from 1 July 2014 to 30 June 2019 (unless the 2014 Determination is replaced by a subsequent determination during the referral period).
ABS	Australian Bureau of Statistics
<i>Ad valorem</i> tax	A tax based on the value of real estate or personal property.
The Committee	The 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.
Council	Councils of areas under the Local Government Act.
Declared services	The services declared to be government monopoly services under the <i>Government Pricing Tribunal (Valuer-General's Services) Order 1993</i> (Gazette No. 89, 13 August 1993, page 4571): "Furnishing valuation lists and supplementary lists under Part 5 of the <i>Valuation of Land Act 1916</i> by the Valuer-General to a council of an area under the <i>Local Government Act 1993</i> ".
DFS	Department of Finance and Services
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	<i>Independent Pricing and Regulatory Tribunal Act 1992 (NSW)</i>
LPI	Land and Property Information is part of the Department of Finance and Services, and manages the valuation system on behalf of the Valuer-General.
Local Government Act	<i>Local Government Act 1993 (NSW)</i>
Valuation of Land Act	<i>Valuation of Land Act 1916 (NSW)</i>
NPV	Net present value
RAB	Regulatory asset base
Referral period	The period over which the determination is to apply, ie, from 2014/15 to 2018/19. 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 5 years.
Valuer-General	An independent statutory officer appointed by the Governor of New South Wales to oversee the valuation system.