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Independent Pricing and Regulatory Tribunal  
Po Box K35  
Haymarket Post Shop NSW 1240

### Review of Valuer General's Charges

Dear Tribunal Members,

Please find attached a submission from the City of Sydney Council regarding the review of the Valuer General's Charges to local government. The City welcomes the opportunity to provide comments and feedback on the key issues regarding this topic and to assist the Tribunal in assessing an equitable and transparent pricing mechanism.

The City's submission highlights the issue of the differential pricing proposed in the Office of the Valuer General's submission. The City strongly opposes this approach and methodology and believes the proposed categorisation based on four geographical areas across the state, does not provide a transparent and equitable outcome for local councils who have no choice in the delivery of the service.

The Valuer General has included very little reasoning for the proposed differential pricing model. The City could find only a comment on page 72 of the Valuer General's submission to substantiate it: "The reason for this change is that the main cost categories of mass valuation and objection contractors (41.3 per cent of total costs) can be attributed to geographical areas." It could be disputed that the cost of mass valuations are based heavily on volumes and economies of scale rather than purely geographical location. The City requests that more information on this methodology is provided and does not support its application at this time.

The Valuer General submission states on page 75, that the cost differential is based on "higher proportions of residential properties in metropolitan areas leading to price efficiencies in producing large numbers of valuations through the mass valuation methodology." However, the choice to excise the City of Sydney as the only stand-alone council from other metropolitan areas denies it this exact benefit, regardless of the fact that over 80% of the City of Sydney's valuations are residential.

The case made by the Valuer General for having a separate City of Sydney fee appears to be limited to a comment on page 75 that "the City of Sydney comprises the highest valued and most difficult to value properties in the state." The City of Sydney should not be segregated from other councils because its land values are higher.

*city of villages*

Further, the City cannot understand any significant and additional difficulty in valuing land in the Sydney CBD and its surrounding suburban areas as compared to valuing land in any other mix of similar CBD and suburban areas, such as Parramatta, Ryde and North Sydney.

The Valuer General has also quoted the need for annual land value verifications for "higher risk" properties in the City of Sydney. However, the City has not requested annual verifications, nor does it receive any and should not be forced to pay for this level of service as a result.

The Valuer General has identified on page 71 that both models are revenue neutral to the Valuer General. Thus, there is no substantive reason that the City can see to move to a differential model.

The City proposes that a simpler, one fee per valuation, regardless of geographical location or rating category, would be the most efficient and transparent pricing mechanism for all councils.

The City also objects to the increase in costs to councils, as stated by the Valuer General in his submission at page 11, that are due to:

1. Actual mass valuation contract prices increasing in recent years due to variation in contract requirements; and
2. Changes in the way costs are allocated to the Valuer General following the separation from LPI and integration into PNSW, still within the Department of Financial Services and Innovation (DFSI).

Local councils have no control over these decisions and have seen no benefit from them. The City is unaware of exactly what the "variation in contract requirements" entails. The Valuer General has explained these variations as being in response to changes of local government boundaries, but this seems unlikely to have increased contract costs as the total land area across the state has not changed.

Furthermore, the implications of the organisational restructures resulted in an ongoing increase in cost of ICT, corporate services and rent. The decisions for internal change by the NSW government that result in added cost to the Valuer General and therefore an added proposed cost to NSW councils, is another form of cost shifting from the state government to councils. It results in no additional service to councils and the proposed increase in costs to councils should be removed accordingly or countered with an efficiency deduction to compensate.

It is difficult to understand why the mass valuation contract costs have increased when the Valuer General stated (at pg. 75) that efficiencies and cost savings are anticipated from the reduction in contract areas. If savings are anticipated, the City is uncertain why the forecasts are based on historical contract costs rather than the new, lower costs.

Further, the City believes the basis for the Valuer General to associate local government rate income levels to determine the level of fees for valuation services is flawed. Fee determination should be based on genuine costs to deliver the service required and an appropriate allocation of those costs.

The City of Sydney encourages the Tribunal to consider this submission and to deliver an equitable and transparent outcome for all councils, including the City of Sydney.

Should you wish to speak with a Council officer about this submission, please contact Suzi Flynn, Revenue Manager on 9265 9333 or at [REDACTED]

Yours sincerely

[REDACTED]

**Monica Barone**  
Chief Executive Officer

## **THE CITY OF SYDNEY SUBMISSION TO THE KEY ISSUES REGARDING VALUER-GENERAL'S SUBMISSION TO IPART**

The City of Sydney is responding to the "Review of Prices for valuation services to Councils from 1 July 2019" Issues Paper, dated October 2018.

The City of Sydney is a local government entity and customer of the Valuer General and Valuation Services for the provision of land valuation data. The City will be greatly impacted by the price schedule recommended by the Valuer General under the differential pricing model. If accepted, the City would be required to pay nearly \$1 million dollars in additional fees over the six year period for no extra service.

The City's submission focuses on the key issues highlighted by IPART in the Issues Paper in order of appearance within the Issues Paper. Specifically, the City's submission questions the methodologies utilised by the Valuer General to derive the recommended differential pricing schedule as well as the costs forecast and the allocation of those costs to councils.

**Should IPART set one 6-year determination, or two 3-year determinations over the 6-year referral period?**

The City believes one 6-year determination is appropriate at this time. It is recognised that IPART has provided NSW Government with recommendations on the local government rating legislation which likely includes a recommendation to move to using capital improved valuations. The Parliamentary Inquiry into the Fire and Emergency Services Levy also concluded that any move to introduce such a levy in NSW should only be done if capital improved valuations are in place. The City supports a move to capital improved valuations and recognises that a change may be put into motion by the NSW Government within the 6-year period.

**Have the land valuation services provided by the Valuer General changed since the 2014 Determination?**

**Is the quality of land valuation services provided by the Valuer General meeting customers' expectations?**

The services have not changed significantly since the 2014 determination apart from the harmonisation of mass valuations.

The City acknowledges that a handful of properties in this local government area are complex developments and would be more difficult to value than others. However, these complex valuations would be limited to a select few and would be no different to those existing in other CBD areas such as Parramatta, North Sydney and Ryde. Furthermore, the quality of land valuation services for the complex matters received by the City requires specific mention due to its impact on the operations of the City.

Examples of the lower than expected level of service include

1. The City made a request for mixed development apportionment factors on three properties in July 2017. The City made over 20 follow-up requests before finally being issued with the amended valuations in June 2018, 11 months after the request.

2. The City made a request in May 2018 for new valuations in Barangaroo. This request was also not actioned until subsequent follow up requests were made. The new valuations were issued to the City in December 2018, 7 months after the request.
3. The City received valuations in a supplementary list in June 2018, then received a phone call from the Property NSW Land Data Team instructing us not to action on the issued valuations because "the valuers want to change the land values again".
4. The quality of the legislative information provided in the supplementary valuations is also inadequate. The City is continually receiving amended valuations, valuations that have been re-ascertained, without any reference to section 14(A)(6) or section 35B of the Valuation of Land Act 1916. Most often, the amended valuations are deemed to be provided under section 14(A)(2) of the Valuation of Land Act 1916, which is attributable to new valuations but not amended valuations.

The Valuer General's submission states (at 3.5): "Valuation Services continues to meet customer expectations and council feedback is broadly in line with these findings." The City questions this statement based on our experiences provided above.

**Is the price cap methodology currently used, the most appropriate form of regulation for setting prices for land valuation services provided by the Valuer General to councils?**

**What alternative form of regulation should be adopted, if any?**

**Should an indexation approach be used to set the maximum annual prices for the Valuer General's land valuation services to councils, once an efficient cost base is established?**

The price cap methodology currently used is appropriate to continue.

**Could the Valuer General use more efficient methods for undertaking mass valuation services?**

**What are the potential cost drivers that the Valuer General could face in the future that would impact operating costs over the 2019 determination period?**

**Is the Valuer General's proposed operating expenditure efficient?**

As mentioned earlier, a potential cost driver could be the introduction of capital improved values. However, it could also be argued that, in metropolitan areas where there is little vacant land and the sales data is predominantly of improved land, providing capital improved valuations would be easier and therefore cheaper to provide. The City believes this is better left to be reassessed at a later time if and when actual data is available.

**Is the Valuer General's actual capital expenditure since 2013-14 prudent?**

**Is the Valuer General's proposed capital expenditure from 2019 onwards prudent and efficient?**

The City does not wish to make a comment on this issue.

**Should we take the variable corporate tax rates into consideration in our review of the Valuer General's tax allowance?**

**Should we use the same business unit level for determining the tax rate as we do for determining the WACC, or are there reasons to move away from applying this approach?**

The City does not wish to make a comment on this issue.

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

**Is the Valuer General's proposed cost allocation to councils reasonable?**

The Valuer General's proposed cost allocation to councils is not reasonable. There are several arguments for changing the current methodology for cost allocation to councils.

It appears inappropriate for the Valuer General to assert that the total costs of providing valuations need only be borne by two groups (local government and Revenue NSW). The Valuer General's submission at 9.3 on page 84 acknowledges that two other groups, namely NSW Roads and Maritime and NSW Crown Lands, receive a similar service to that of local government and Revenue NSW. It states: "*With the exception of NSW Roads and Maritime and NSW Crown Lands, valuation services provided to minor users represent a more basic service than that provided to councils [and] to Revenue NSW.*" Therefore, the City requests a full explanation of the level of services used by NSW Roads and Maritime and NSW Crown Lands to establish the appropriate share of costs.

The City makes the following observations and proposals on the cost allocation methodology.

### **Mass Valuations**

IPART has previously established that, of the annual valuations provided, only 25% were provided for councils. The Valuer General continues to use this ratio but it is unclear the impact of harmonisation is on this ratio. The move to provide 100% of council valuations in the same base year, indicates that the 25% allocation of the mass valuation is not appropriate for every year.

All NSW Councils and Revenue NSW receive mass valuations in every third year, whilst only Revenue NSW receives them in the other two years of the three year cycle. Therefore, the cost of the one year should be split 50:50, and the full costs for the next two years should be fully borne by Revenue NSW. It could be argued that a more appropriate allocation of the costs of a three-year cycle are 50:250, or 16.6% for NSW councils.

Once an appropriate allocation base of the mass valuation costs is established, it is logical to also attribute other operating expenditure items (including labour, rent, other direct costs, DFSI corporate support, PNSW corporate support, ICT operational, spatial services and titling and images) on the same basis. The City asserts that all items suggested by the Valuer General to be allocated to councils at 33% should be changed to 16.6% or less once other NSW Government users of the valuations pay their share.

## Graphic Services

The 100% allocation of graphic services costs to councils is unreasonable. The Valuer General states that the graphic services costs are largely attributed to the cost of materials printed and posted to customers and includes valuation objection packages. The Valuer General's cost estimates in Table 6-1 show that approximately \$200,000 in graphic services expenditure will occur in the years that councils do not receive valuations (i.e. 2020/2021, 2021/2022, 2023/2024 and 2024/2025) and an average of \$530,000 is expected to occur in each of the years that councils do receive valuations (i.e. 2019/2020 and 2022/2023).

This would indicate that only \$330,000 in every third year is attributed to the issuing of local government valuations and the objection kits required for persons objecting to local government valuations. It would also indicate that \$600,000 of the \$930,000 average three yearly expenditure can be attributed to the production of objection kits for persons objecting to land tax valuations. It is noted that the materials provided in the objection kits are extensive and would assumedly far outweigh the cost of the Valuation Notices on a per item basis. The City proposes that a more reasonable percentage allocation of the graphic services costs would be 330/930 or 35%.

Additionally, the City questions why more significant savings are not forecast for graphic services, given the Valuer General's statements that these materials will be shifting to digital rather than print.

## Postage

Similarly, the 100% allocation of postage costs to councils is unreasonable.

The City queries whether the inclusion of the costs of posting land valuation notices and processing objections are justified as a benefit to councils and solely to councils.

The requirement to post individual land value notices is a requirement of the NSW Government under the Valuation of Land Act 1916 (Section 29). It is arguable whether this particular cost should be borne by councils at all as this does not assist councils to levy rates.

A similar argument can be applied for dealing with objections to the valuation notice data itself. Council does not provide the data nor receive a benefit from the objection. Objections to land values stymie the rate collection mechanism, and delay the cash flow derived from those properties in question. Council should not have to pay for the objections process as this is part of the Valuer General's responsibility, and in fact it may be argued that the councils should be compensated for any loss sustained from successful objections.

It is factually incorrect and misleading for the Valuer General to state "Revenue NSW does not require postage" (page 56 at 6.1,8 of the Valuer General's submission).

Firstly, it has been stated by the Valuer General that the postage costs come from posting the materials created by the Graphics team. This includes the Valuation Notices and the Objection kits plus some minor ancillary items.

Part 3 of the Valuation of Land Act 1916 refers to the requirement for notices to be issued to "any lessee or occupier of the land who, under any Act, is liable to pay any rate or tax to a rating or taxing authority" as well as to "any lessee of the land under a written lease for a term exceeding 3 years who, under the lease, is liable to pay the whole or any part of any rate or tax to a rating or taxing authority in respect of the land". Therefore, half of

the postage of the three yearly Valuation Notices should also be allocated to Revenue NSW.

Secondly, either all of the cost of posting the objection kits should be borne by the Valuer General, or the cost should be shared between councils and Revenue NSW and any other agency using the valuations. The forecast for postage costs in the years where the mass valuations are not issued to councils is \$65,000 per annum.

It is difficult to know with certainty what percentage of valuation objections could be attributed to the valuations used by councils or the valuations used by Revenue NSW. The Valuer General in his submission has stated at 6.1.5 on page 54 that "The average number of objections attributed to ratings for councils is approximately 38.0 per cent." However, where there is overlap (ie. An objection to a valuation that is used for both local government rates and Revenue NSW taxes) it would be a fair assumption that the main driver for the objection would be to obtain a reduction in land tax rather than a reduction in rates because land tax is a far greater amount than the local council rate. The Valuer General has not provided evidence as to how these objections have been accounted.

Further, in the years that a mass valuation will be conducted for councils, an average of 2944 rating objections is forecast (refer Figure 5 of page 54 of the Valuer General's submission). It is confusing however to still see a high average of 2242 rating objections being forecast in the years that a mass valuation will not be conducted for councils, since objections are required to be lodged within 60 days of receiving the valuation notice in accordance with section 35 of the Valuation of Land Act 1916. The City would appreciate more detail on how the statistics on Rating Objections versus Land Tax Objections has been determined.

Given that the number of mass valuations issued for councils is only 16%, it would be a reasonable assumption to conclude that around 16% of objections are also due to council rates.

Considering these factors, a more equitable allocation of the postage costs to councils would be either 0% or, if shared with Revenue NSW, around 46%.

#### **Other Contract Costs**

The Valuer General has provided that most of the 'Other Valuation Costs' are incurred as a result of valuation objections. Therefore, it would again seem appropriate to rely on the 16.6% allocation of costs for the Other Valuation Contract costs using the share of usage of valuations by councils compared to Revenue NSW, rather than the 38% proposed by the Valuer General.

#### **Labour, Rent, Direct costs, ICT, and Overheads**

These costs should also be allocated at 16.6% using the share of usage of valuations by councils compared to Revenue NSW.

#### **General**

In addition to the above, it is noted by the Valuer General that much of the operating expenditure has increased as a result of the structural changes of the NSW Government. Increased cost allocation to Valuation Services from other NSW Government departments should not be borne by NSW Councils. This is another form of cost shifting by the NSW Government to local government.



Furthermore, any decisions by the NSW government to improve its service to the community should be made at a cost to themselves and not to local government. IPART should closely examine the costs claimed by the Valuer General to be part of its provision of service to councils.

**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?**

**Are the Valuer General's proposed prices for residential and non-residential valuations reasonable?**

The differential between residential valuation and non-residential valuations appears to have been established as irrelevant by the Valuer General. The City would support a move to one rate for both residential and non-residential property valuations. Please note that local councils continue to receive higher number of valuations than it requires, as many properties are exempt from rates.

Of most importance is the prices proposed. Under either model demonstrated by the Valuer General's submission, the prices forecast are based on historical contract prices rather than the current contract prices. At page 79 at 8.4 of the Valuer-General's submission it states: "At the time of this submission, new contract prices were not publicly available." However, on page 75 of the submission, the Valuer General discusses the proposed efficiencies and economies of scale being achieved through newer and fewer contracts yet does not appear to include those efficiencies into the model.

It is for this reason, as well as those already mentioned including the increased costs due to internal structural changes and the inflated percentage allocated to NSW councils, that the City believes the prices proposed are too high. The prices will need to be re-evaluated once a proper review of costs is completed.

**Should we maintain the current common charge across all councils or move to differential pricing for councils?**

**How should the price path account for impacts on customers (ie, councils)?**

The City proposes it is more appropriate to implement a single common charge across all councils.

The proposal for differential pricing of the four regions, being Country, Coastal, Metro and City of Sydney unfairly subjects councils to the decisions made by Property NSW in determining the contract areas, the tender criteria, the tender weighting and the choice of supplier, over which the councils have no control.

The City strongly opposes this approach and challenges the assumptions the Valuer General has proposed in its methodology and it does not provide a transparent and equitable outcome for all local councils who have no choice in the delivery of the service.

Specifically, the City is concerned that the pricing submission proposes increases of nearly one million dollars over the coming six years for the City of Sydney. A suitable case has not been made to explain why valuations for the City of Sydney should increase on average by \$5 per valuation and be twice the cost of every other metropolitan council.

There is one sentence in the Valuer General's submission (at page 75) that says "*There is a significantly higher proportion of properties in the City of Sydney which are designated as high risk in contract terms, which require individual annual land value verification.*"

In response to that statement the City submits that:

1. There has been no definition or statistics evidencing proportions of "high risk" properties in any local government area;
2. There is no risk for councils or to councils as all income lost due to changes in valuations can be recovered in later years' rating income; and
3. The City of Sydney does not receive annual valuations. Therefore, any costs of annual land value verification that are higher than other metropolitan councils should be fully borne by Revenue NSW.

In addition, the Valuer General's determination of contract areas does not afford the City the benefits of economies of scale enjoyed by other councils and does not recognise that Sydney represents a hybrid CBD/suburban council like other metropolitan councils such as Parramatta and North Sydney. As such, the City should be treated consistently.

The Valuer General submission states on page 75, that the cost differential is based on "higher proportions of residential properties in metropolitan areas leading to price efficiencies in producing large numbers of valuations through the mass valuation methodology." However, the choice to excise the City of Sydney as the only stand-alone council from other metropolitan areas denies it this exact benefit, regardless of the fact that over 80% of the City of Sydney's valuations are residential.

The case made by the Valuer General for having a separate City of Sydney fee appears to be limited to a comment on page 75 that "the City of Sydney comprises the highest valued and most difficult to value properties in the state." The City of Sydney should not be segregated from other councils because its land values are higher.

Further, the City cannot understand any significant and additional difficulty in valuing land in the Sydney CBD and its surrounding suburban areas as compared to valuing land in any other mix of similar CBD and suburban areas, such as Parramatta, Ryde and North Sydney.

The Valuer General has included very little reasoning for the proposed differential pricing model. The City could find only a comment on page 72 of the Valuer General's submission to substantiate it: "The reason for this change is that the main cost categories of mass valuation and objection contractors (41.3 per cent of totals costs) can be attributed to geographical areas."

The Valuer General is utilising a factor which is less than half of the main cost categories that can be associated with a geographical area. Further, the geographical areas have been defined by the Valuer General. It could be disputed that the cost of mass valuations are based heavily on volumes and economies of scale rather than geographical location. Councils are not afforded a geographic cost factor when implementing the annual rate cap as it is applied uniformly across the state. The City requests that more information on this methodology is provided and does not support its application at this time.

The Valuer General has identified (page 71) that both models are revenue neutral to the Valuer General. Thus, there is no substantive reason that the City can see to move to a differential model.

The City proposes that a simpler, one fee per valuation, regardless of geographical location or rating category, would be the most efficient, transparent and fairest pricing

mechanism. This could easily be achieved by establishing the total revenue required and dividing by the total number of valuations.

