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30 December 2018

Review of prices for land valuation services provided by the Valuer General  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
HAYMARKET POST SHOP NSW 1240

Dear Tribunal members,

**Submission to the review of prices for land valuation services provided by the Valuer General**

Thank you for the opportunity to present this submission on behalf of the NSW Revenue Professionals Inc. (NSWRP) in accordance with the terms of reference provided in September 2018.

The NSW Revenue Professionals Inc. is the peak body of NSW Local Government revenue employees and was formed in order to:

- unite in a common organisation, those Local Government employees who are engaged in rating and revenue functions,
- improve and elevate the technical and general knowledge of Local Government employees who are engaged in rating and revenue functions,
- distribute amongst its members, and the regional NSWRP groups, information on all matters affecting or pertaining to the profession of rating and revenue management within Local Government by way of meetings, newsletters, conferences, or any other method available to the Committee,
- promote a professional image of Rating and Revenue practitioners in Local Government New South Wales,
- promote quality services to Local Government in New South Wales through the dissemination of best practice,
- encourage members to keep up to date with finance related activities and legislative changes through continuing professional development,
- identify the skills and knowledge needed by employees and facilitate training and education,
- make the expertise of members available to professional bodies and government departments as required,

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Overall the NSW Valuer-General provides an efficient and timely service to councils and any exceptions are minor in number. The NSWRP has an outstanding rapport with the Valuer-General that is longstanding, fruitful and objective. Our organisation recently celebrated its 21st annual conference, of which the Valuer-General was represented at the first conference and continues to be an integral and important part of our engagement strategy with State Government Agencies.

Land valuations are provided to the land owner and to councils to be used as the basis for calculating land rates. It stands that any costs incurred in meeting the requirements of Section 29 of the *Valuation of Land Act 1916* to notify the land owner and others liable to pay a rate or tax subject to the valuation may need clarification. Some costs are proposed to be directly assigned to councils without any direct legislative support. An example of this is the postage costs for 'Notices of Valuation' which must be given to land owners or other persons 'liable to pay any rate or tax'. Accordingly the intention of the legislation is that the notice serves to give advice in a dual purpose, i) regarding local government rates and, ii) regarding any state taxes.

The Valuer-General's services are provided to a broad range of NSW Government entities and valuations are freely publically available. We submit that if local government charges are more closely aligned with the direct service provision, i.e. the cost in determining and providing valuations to councils and where accessed or available to other agencies the costs be shared fairly.

The service provided by the Valuer-General should not be impacted by local governments contribution towards the overall costs incurred. Improvements to capex, Valnet and customer service outcomes should be met separately by the NSW Government.

We have set out below our responses to each of the issues that the Tribunal has sought comment on. We have also made suggestion that a third pricing model be considered – one fixed price for all NSW councils which is detailed herein.

### **Submission:**

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

There are many factors and cost drivers that may impact the Valuer-General over a six year period. In the spirit of fairness and equity a two three-year determination would give the opportunity to realign any unforeseen shift in service delivery pricing should they arise.

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

We do not believe there have been any fundamental changes to valuation services delivered to NSW councils since the 2014 determination. We are aware of increased public facing communications and an increase in services to the community above the level required in delivering land valuation data to NSW councils. These services may be incurring additional costs that are debatable as part of the service required by councils.



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

Broadly it is our opinion that the Valuer-General continues to provide a timely and quality product to NSW councils. The Valuer-General recently embarked on a number of quality assurance and customer service reviews to identify any deficiencies with a view to rectifying where necessary.

However, a degree of dissatisfaction does exist at several councils including both metropolitan and regional councils, particularly those with mining valuations. The Valuer-General would, through its consultation be aware of these instances from those councils.

The NSWRP continues to engage with the Valuer-General on a regular basis, discussing any known issues at its Executive Committee meetings (held March, May, August and November). It is normal practice for a representative from the Property NSW to attend and provide advice/feedback on matters raised.

**4. 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?**

Costs incurred by the Valuer-General should be reflective in the prices paid by local councils for those valuations, any ancillary or value add-ons for the betterment of the service should be at the cost of the NSW Government. The current building block approach to which an index potentially be applied appears to be the best cost reflective method.

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

The setting of maximum prices each year as made in the 2014 determination is our recommended approach.

**6. 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?**

Yes. We believe that a similar model to the rate cap form the basis for any indexation. It is noted that the Valuer-General has provided significant detail regarding operating costs however these do not appear to be isolated to a level representative to local councils. It is difficult for us to commit to this item without knowing which costs are directly relevant to the sector.

However, the Local Government Cost Index (LGCI) should not be used to set the indexation on the Valuer-General. The LGCI is based on a set of cost drivers incurred by local councils in the delivery of services that are dissimilar to the costs of the Valuer-General.

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

It is our understanding that in the 2014 determination the IPART found the mass valuation services had embedded efficiencies, in particular through the competitive tendering of outsourced contracts.



Further economies of scale due to the alignment in the general valuation cycle for all NSW councils should be realised in the 2019 base date mass valuation process. These savings should be evident in the future costs transferred onto local government.

Concerns have been raised regarding the cumulative overspend of \$1.2million attributed to the undefined 'contract requirement changes' and the allocation of these costs to councils. We are able to understand the growth in valuations having an impact on the number of valuations.

**8. 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?**

We are unaware of any future costs that may arise in a manner to impact operating costs. We have noted the additional customer service engagement through Service NSW and other inputs raised as '5 Standards of service' on pages 41-45 of the Valuer-Generals submission and have also noted the impact of Valnet III will not be known until during the future determination period.

It appears that further development is being explored into customer service outcomes driven by the Joint Standing Committee. These customer service outcomes costs are not fully documented or disclosed. However good the intention to increase community awareness and open channels of communication may be (even if supported by the local government sector), the cost of this State Government initiative should not be recovered from councils.

**9. Is it appropriate to use the same methodology for allocating costs from Property NSW to the Valuer General as we applied in the 2014 price determination?**

We agree with retaining the current methodology, that is, 'to allow a contribution to the efficient fixed costs of Property NSW on the basis of operational FTEs.'

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

We do not believe variable corporate tax rates should be applied to monopoly services such as the Valuer-General.

The Valuer-General does not operate in a competitive market, i.e. councils are not permitted due to legislative constraints to procure land valuation data from any other source. The additional cost head is at odds with competitive neutrality and the National Competition Policy requirements applicable where competing markets exist, which is not the case for monopoly services.

**11. 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?**

We don't have any value to add to this item and respectfully will refer to IPART to determine.



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

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

The Valuer-General's proposed cost allocation to councils is not considered reasonable.

It appears inappropriate for the total cost of providing valuations be allocated to only local councils and Revenue NSW. The Valuer-General's submission (item 9.3 on page 84) recognises NSW Roads and Maritime and NSW Crown Lands also have an undisclosed level of access to these valuation records. These bodies are mentioned under the heading 'minor users', and yet they are excluded by the statement that 'minor users represent a more basic service than that provided to councils [and] to Revenue NSW'. It would be helpful to know the frequency and extent to which these government agencies and other users including the public have access to land valuation data so that we can make an informed response.

NSW Councils and Revenue NSW are provided mass valuations on three year cycle, but only Revenue NSW is provided valuations in the interim two years. Accordingly, the cost of the first year should be split 50:50 and the full costs for the next two years should be fully allocated to Revenue NSW. We submit that the appropriate cost allocation in the three-year cycle is 50:250, or 20% for NSW councils.

It would be appreciated if the item 'Title and Images' could be clarified. In the Valuer-Generals report (page 61) an agreement has been reached with the Office of the Registrar General to obtain these services without charge. Is it correct to assume the 33% cost allocation will be 33% of \$0.00?

There are cost increases in the projected labour forecasts identified in the Valuer-Generals report as, *'to promote the delivery of improved services through the design and implementation of business transformation and operational improvements.'* and *'These increases include the two new director level positions mentioned above; two additional roles for business improvement supporting changes to Valnet II, and other initiatives; and one FTE increase for a customer service officer.'* How have these new roles impacted the costs passed onto local councils and how have they been initiated?

If these have been driven by the Joint Standing Committee by the NSW Government then it seems inappropriate that the burden be shouldered by local councils.

The full cost of graphic services has been allocated to local councils. As there is no legislative requirement for these publications is it possible that they may be withdrawn? If this is an initiative by the NSW Government to better inform the people of NSW (which we support) then this may need to be a cost that is met by the Government.

The *Valuation of Land Act 1916* requires a notice of assessment to be made on land owners liable to pay any rate or tax. This wording lends itself to being an advice to landowners regarding the valuation for use by both councils and state government agencies such as but not limited to Revenue NSW, Fire and Rescue NSW, Roads and Maritime Services, Crown Lands and the Commonwealth Government (Grants Commission). We are unsure why the full postage and



graphic costs are aligned to local government when the notice of assessment has clear linkages to the integrity and quality of valuations used by other government agencies. We submit that this should be funded by the NSW Government in full or more closely representative of the sector benefit.

The proposed cost allocation to councils for labour, rent, direct costs, ICT, overheads and spatial services of 33% on the basis that valuations are supplied once in a three-year cycle is illogical. As noted (item 3.4 on page 26) the Valuer-General conducted about 2.4million valuations available to local councils, Revenue NSW and a raft of other government agencies.

However the cyclical basis method ratio (50:250) as outlined above would result in the percentage share decreasing from 33% to around 20%.

### **13. 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?**

The current price structure should be replaced.

If for no other reason than to consider the following example relating to non-rateable land that is currently charged as 'non-residential':

*Take a parcel of rateable land privately owned and used for residential accommodation, for rating purposes meeting the requirements of Section 516 of the Local Government Act 1993. Valuer-General fee for this valuation in 2018-19 is \$5.87.*

*Land is sold to a religious institution as the place of residence for their local minister. The property is exempt from land rates and no longer meets the criteria defined by Section 516 (i.e. no longer a rateable parcel of land). The Valuer-General fee for this valuation changes to \$12.91.*

We have taken the opportunity to propose a different pricing model that is administratively simple to calculate and simple in its design. Based on the following information from the Valuer-Generals table 8-3 (page 78) for 2019-20.

- Total council valuation revenue identified: \$17,880,000
- Total number of valuations provided: 2,570,000

By simply dividing the total revenue by the number of valuations a fixed fee across all NSW councils of \$6.95 irrespective of use would be the fee in 2019-20.

We have also made an effort to determine a fixed fee represented by the Valuer-General's 'fixed' costs that would be paid by all councils. To make up the remainder a fixed price per valuation would be payable based on 'variable' costs. We have had some difficulties in establishing accurate costings from the information supplied and may need some additional consultation.

The Valuer-General has been helpful in assisting us with our enquiries.

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

It is our opinion that all NSW councils should be charged a common charge.

As stated above, a simple and transparent method of dividing the revenue requirement by the number of valuations would result in a fee that is not affected by any government decisions on local government boundaries or changing circumstances. While the government continues to decree one provider of valuations for all NSW councils, there should be the same one fee for all.

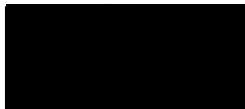
**15. How should the price path account for impacts on customers (i.e., councils)?**

A common charge will assist councils to budget more appropriately the impact of any growth in their respective area, which is not the case under the current system or either of the two proposals by the Valuer-General. Each council is aware of the ratepayer base growth in their local government area and together with regular updates (supplementary lists) from the Valuer-General budgeting for fees payable to the Valuer-General will be clearer with the simple flat fee per valuation.

Though the same could apply to a differential pricing structure, this is not recommended by NSWRP as identified in item 13 above.

I trust this information is of some assistance to the Tribunal in making its determination. If you have any enquiries or require clarification please do not hesitate to contact me directly.

Yours sincerely



Andrew Butcher  
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NSW Revenue Professionals