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20 April 2019

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 draft report, 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 draft report issued in April 2019.

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,

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.

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.

Opportunities may exist for the Valuer-General to broaden its revenue base with 'minor users' of the services available. Reliance seems to be on the provision of valuation data to Revenue NSW and local councils rather than a broadening of this charges base available to other users.

There is a lack of evidence as to the number of valuations accessed or provided to minor users. We note that 8800 valuations are accessed by Crown Lands and Roads and Maritime Services (page 41 IPART draft report) however there is no data regarding access by other minor users. Included in the Valuer-General's report (30 November 2019) minor users included private brokers, general public, other government agencies such as NSW Fire and Rescue and the Local Government Grants Commission.

The extent to which these minor users access land valuation data or how they are billed has not been expanded on and we believe it to be a revenue stream worth exploring to defray more of the costs allocated to councils. We also note that the forecasted revenue stream from minor users remains unchanged from $46,000 per annum (IPART draft report – table 4.7) indicating a lack of appetite towards this item.

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 matters discussed in the draft report.

Draft report submission:

1. Adopt a single 6-year determination period from 1 July 2019 to 30 June 2025

We had originally made representation for a two three-year determination to provide an opportunity to realign any unforeseen shift in service delivery pricing should they arise. However concede that each model has imperfections and rely on IPART having greater access to quality data to decide on the suitable determination.

2. Set the Valuer-General's notional revenue requirement for land valuation services provided for rating and taxing purposes for the 2019 determination period at $337.3 million as shown in Table 4.1.

We agree with this methodology with exception to the tax allowance of $1.9million. It is noted the IPART (page 37 Draft Report) concedes that *'though the Valuer General does not face competitive neutrality issues now, it is possible they may arise in the future.*', surely this can and should be addressed only once competition is a tangible factor.

It is still unclear to us why a government to government monopoly service should include competitive neutrality costings that are not real costs, and further on the basis they may exist.

3. Set the efficient level of the Valuer-General's operating expenditure for the 2019 determination period at $313.0 million as outlined in Table 4.4.

We made comment in our submission to the Issues Paper (pages 5 and 6) regarding operating costs and those that we do not believe should be shared with the sector. Included in the operating costs are customer service initiatives driven by the joint standing committee, postage and graphic design works that help with valuation quality across all users however fully allocated to local government.

4. Accept the Valuer General's actual capital expenditure of $3.5 million over the 2014 determination period as prudent, as shown in Table 4.9

5. Set the efficient level of the Valuer General's capital expenditure for the 2019 determination period at $27.4 million, as shown in Table 4.10

6. Reduce the RAB by $3.4 million, the value of total asset disposals over the 2014 determination period as set out in Table 4.13, with forecast asset disposals for the 2019 determination period of zero.

7. Adopt a real post-tax WACC of 3.5% for the purposes of calculating the allowance for a return on assets, which included: 35

- *A gearing ratio of 45% and an equity beta of 0.45 35*
- *Market observations (cost of debt and market risk premium), based on the February 2019 bi-annual market update 35*
- *A current cost of debt based on six-year transition to a trailing average*

8. Apply a regulatory true-up in the following determination period to account for annual changes in the cost of debt.

9. Set an allowance for a return on assets for the 2019 determination period at $1.6 million as shown in Table 4.1

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

11. Set an allowance for a return of assets for the 2019 determination period at $11.3 million as shown in Table 4.1.

Items 4 – 11 are not areas where we have expertise and would respectfully rely on the IPART determination.

12. Set a tax allowance for the 2019 determination period at $1.9 million as shown in Table 4.1.

We do not agree with this determination on the basis that the Valuer-General is mandated by legislation to supply valuation land data and does not operate in a competitive market. We respect the IPART's comments made (page 37 IPART draft report) regarding competitive neutrality reasons that would occur in a competitive market.

A competitive market does not currently exist for this government to government monopoly service and should not form part of the operating costs of the Valuer-General.

Removing the tax allowance would not impact the cost to the Valuer-General in providing this service to local councils as no taxes are being paid.

13. Set an allowance for a return on working capital for the 2019 determination period at $9.8 million as shown in Table 4.1.

This is not an area where we have expertise and would respectfully rely on the IPART determination.

14. Reduce the Valuer General's notional revenue for revenue from minor users for the 2019 determination period at $0.3 million as shown in Table 4.1.

We agree that any income received from minor users should be allocated towards reducing the Notional Revenue Requirement (NRR) included in this determination.

Based on the information supplied in the IPART paper (page 41 IPART draft report) the level of use by minor users as stated is not likely to have an impact on the overall supply. We would like it to be noted for future determinations that this area be scrutinised further and also include public access as a service provided to the community that may be separated from the costs of determining land values for rating and taxing purposes.

The potential may exist for the Valuer-General to charge minor users for services that are currently charged. This would reduce the overall Valuer-General costs shared between Revenue NSW and local government.

15. Not allocate any fixed costs to minor users of the Valuer General's land valuation services.

Based on the information provided it is clear that 'minor' users have little impact on the fixed costs due to the scale of services being provided.

16. Allocate 30.1% of the Valuer General's notional revenue requirement to councils.

We do not agree with the approach adopted by the IPART in allocating costs to councils *'based on the relative quantity (or use) of a given activity or service.'* (page 42 IPART draft report).

In regards to mass valuation contract costs the 25% allocation to councils is considered too high. We proposed 20% and the City of Sydney proposed 16.7% (page 6 City of Sydney issues paper submission) based on a three-year cycle; councils and Revenue NSW are equal users of the service in only one of the three years.

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.'* We are concerned that these costs are being driven by influences or requirements outside of local government needs and believe they should be funded by those drivers thereby having an impact on the cost share.

The information on how much of this time will result in a cost saving benefit equitable to efficiency savings is not evident in the data provided.

We do not believe the local government sector should be burdened with the allocated operating costs generated by customer service initiatives driven by the joint standing committee, postage and graphic design works. These initiatives help to support quality valuation services and data across all users however some are fully allocated to local government.

We would also seek removal of the $1.9million tax allowance included in the indirect cost allocation.

17. Adopt the Valuer General's proposed zonal pricing structure, with a price per property applied to councils within four geographical zones (Country, Coastal, Metro and City of Sydney).

Reforms of this nature are always difficult as change will bring 'winners' and 'losers' as with any changes to broad based pricing. The Valuer-General provided detailed evidence used to align contract costs with the reformed pricing model.

We proposed a 'postage stamp' approach by simply dividing the NRR by the total number of land valuations determined each year and would prefer for this balanced approach to be considered.

18. Set prices for the 2019 determination period as shown in Table 6.1.

We note that two alternative pricing structures had been considered (page 53 IPART draft report);

- Two zones – one for the City of Sydney and the other for the rest of the state.
- 18 zones based on the 18 mass valuation contract areas used for the Valuer General's valuation procurement process.

The proposed 'postage stamp' approach had not been considered. A further model to include the City of Sydney into the 'central' contract group may help to defray the scale of the fee increase being assigned to the City of Sydney.

19. Adopt the Valuer General's forecast number of valuations shown in Table 6.3 as the basis for setting prices, based on a per annum growth of 0.7% in the number of properties.

We agree with the Valuer-General's forecasting and methodology, we also agree with the comment made by the Valuer-General *'that the property market is difficult to predict as property growth rates can be affected by market fluctuations and sector volatility.'* (page 49 IPART draft report).

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

Yours sincerely

[redacted]

Andrew Butcher
President
NSW Revenue Professionals