



**THE HILLS**  
Sydney's Garden Shire

**THE HILLS SHIRE COUNCIL**  
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20 December 2018

Independent Pricing & Regulatory Tribunal  
PO Box K35  
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NSW 2000

Dear Sir/Madam

## **REVIEW OF PRICES FOR LAND VALUATION SERVICES PROVIDED BY THE VALUER GENERAL TO COUNCILS**

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Thank you for the opportunity to lodge a submission on IPART's review of prices for land valuation services provided by the Valuer-General to Councils. Comments by The Hills Shire Council are itemised below and based on the questions raised in the Issues Paper plus one additional issue that we have raised

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

Currently land valuations are carried out every 3 years using a mass valuation process with a common valuation cycle for all councils. To set one 6-year determination, which will cover two full valuation cycles is probably the best option for all NSW councils rather than determining two 3-year prices. This decision is based on two assumptions. Firstly, that the Valuer Generals cost remain relatively stable and secondly, that to increase the frequency of determinations would increase the cost to councils. This increased cost would be felt more by those councils experiencing rapid growth.

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

Considering the disruption to land valuation services that the 2016 council amalgamations caused, together with providing a common valuation cycle from 1.7.17 for all NSW Councils in order to facilitate the now defunct FESL (Fire & Emergency Services Levy) Legislation; the quality of service is good and supplementary valuations are being received in a timely manner usually within 6 to 8 weeks of the date of the deposited plan.

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

The quality of service generally meets our expectations. General Valuations are timely as are receipt of new valuations following a subdivision or objection. Data for reconciliation of all valuations can be slow, but information requests for specific properties is prompt. Information provided to stakeholders such as valuation letters and newsletters is also good and timely.

In the 2016 council amalgamations, over ten thousand Hills Shire Council properties were transferred to The City of Parramatta. These properties are still held as Hills Shire Council properties in the Property NSW database, but are somehow flagged as being City of Parramatta. This treatment of the properties in the database consistently causes land value reconciliation problems as values are added to and deducted from The Hill Shire Council total land values with no audit trail. We would have expected Property NSW to have completed a full transfer of these properties to City of Parramatta by now 2 ½ years after the date of proclamation.

### **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?**

Council agrees that 'the price cap' is the most appropriate form of setting prices for land valuation service to councils, assuming that the Valuer General's costs remain relatively stable as to aid the accuracy of the estimating the VG's total efficient costs for each of the 6-years of the determination period. However, it is difficult for councils to know how the Valuer General becomes more efficient with the service it provides and how those efficiencies are built into the 6-year determination of costs?

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

Council has no alternative suggestion.

### **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?**

An Indexation approach could be useful to ensure that the price cap methodology does not increase above the level of the rate peg.

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

The Valuer General uses competitive tendering to outsource its contact costs for mass valuation services. Having cost tested against the market in this way promotes cost efficiency. The smaller the size of the contract areas increases number of contract areas and the number of valuers with the necessary resources to participate in the tendering process. However, larger the contract areas will have fewer larger valuers tender who will have better economies of scale.

Tenders should be assessed with an overall objective to ensure value for money is achieved. Value for money is not solely represented by the lowest price, but the combination (50%) of service delivery and (50%) of raw price assessment. These factors together ensure that the greatest overall value is achieved for any particular project or good

**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?**

- Changes to Rating legislation could increase costs e.g. moving from unimproved to improved valuations
- Increase in digital services or digital profiles of properties/property owners could lead to decreased costs. We would like to know how we will be made aware of such efficiencies and would like to see reduced costs reflected in the annual charge.

**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?**

The current 2014 determination allows a contribution to the efficient fixed costs of Property NSW on the basis of operational FTE's. When the 2014 determination was made Valuation Services was part of Land Property Information (LPI) and now it is part of Property NSW. This change should have some impact on overhead allocations. We would like to see services such as special, titling and graphic allocated on an actual cost basis, whilst corporate overheads are calculated could be allocated via job costing in relation to hours worked. The staff in Government departments providing services to numerous customers should be allocating their time accordingly.

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

A tax allowance is included by IPAR in order to meet their principle that "a regulated entity's revenue should be as close as possible to that of a well-managed privately owned business operating in a competitive market".

Most Government organisations do not pay tax, and the Valuer General does not pay tax or tax equivalents. In addition the valuation services provided are monopoly services that is not in competitive market. To include an allowance for corporate tax appears to be a way of padding out the costs to be allocated to councils.

In summary corporate tax rates should not be taken into consideration in the review of the Valuer General's tax allowance.

**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?**

As stated in question 10 we do not think the corporate tax rate should be included in the calculations but then to apply it to the whole of the Valuer General's business including the monopoly services to councils simply compounds the error.

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

Council have no comment.

**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 of residential and non-residential prices for all councils is considered to be fair and practical. Currently the charge is higher for non-residential properties and this is considered equitable because there are higher costs involved in valuing non-residential properties due to their complex nature. It is also more cost effective for council's with a high residential component, such as The Hills.

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

Having different prices for different areas could be very beneficial to rural councils who do not have the same level of volatility in their valuation or the same amount of development as the metropolitan councils. The actual cost per valuation of rural properties maybe high due to a number of reason such as land size, distance from nearest centre of population or geographical complexities. A differential pricing system is likely to have higher administrative costs and result in some councils subsidising other councils fees.

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

Depending on the pricing structure put in place any significant increases should be "stepped", or capped in relation to CPI.

**OTHER COMMENTS – REVALUATION OF ASSETS AT FAIR VALUE**

Australian Accounting standard (AASB) 116 provides that revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period (para 31). Where such indication exists, then the assets (and class) must be revalued. If an item of property, plant and equipment is revalued then the entire class of property, plant and equipment to which the asset belongs must be revalued (AASB 116, para 36).

In addition Code of Accounting Practice and Financial Reporting (Update 26) General Purpose Financial Statements states that "Infrastructure, property, plant and equipment are held at fair value. Independent valuations are performed at least every five years; however the carrying

amount of assets is assessed at each reporting date to confirm that it is not materially different from current fair value”.

In NSW Councils perform comprehensive revaluations generally every 5 years however there is no industry based approach to undertake desktop reviews each year in between the comprehensive revaluations. It should be noted that in Victoria, the Valuer General publishes indices relevant to land and buildings for financial reporting purposes following recommendations from the Victorian Auditor General (Public Asset Valuation Report April 2013). Council believes that the NSW Valuer General should publish these indices related to land and buildings so that this can be used consistently across the local government sector and would be cost beneficial.

Yours faithfully

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**AneeshZahra**  
**MANAGER FINANCE & IPR**