City of Ryde

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# SUBMISSION FROM THE CITY OF RYDE

Review of prices for valuation services provided by the office of the Valuer-General to councils

# Executive Summary

- Councils are required to use the valuation services from the Valuer-General's Office (VG) only.
- Local Government plays no part in reviewing or having a say in the allocation of resources, costs or setting priorities of the VG's office.
- It is a monopoly service providing valuation services to Councils.
- While this review by IPART does not cover alternative service provision, Local Government does not have the option of securing valuation services direct from the market, as with any other tender, as required by the Local Government Act, as it is over the threshold for our Council.
- It is noted that Councils will not have the opportunity to review the submission by the Valuer-General prior to their submission, as they may raise issues that we do not agree with, and it is expected that they will be taking a Full Cost Recovery stance, whereas Council does not have that opportunity with Rate Pegging.
- The City of Ryde is conscious of the growing pressures and constraints of its ability to meet the expectations of its community in the provision of essential and basic services. Any increase above the Local Government Cost Index (LGCI) would not be supported, as it will result in a cut to services.
- The key issue, already raised, is that the Valuer-General is a monopoly service and Council would welcome a review in providing Local Government with this option in having this service provided directly by the external market to each Local Government authority. This would ensure full transparency of costs.

## Questions Raised

In respect of the specific questions raised by the Tribunal in respect of this Review, the following is provided:

### 1. Should IPART set one 5-year determination or undertake multiple periodic determinations over the five year period?

Setting a five year determination does not adequately take into account other factors that should be taken into account when setting the price, as these would be unknown at the time of setting the five year determination. There could be significant changes that may produce an undesirable consequence for both Council and the Valuer-General.

Therefore, Council favours multiple periodic determinations, which are linked to a known cost index annually, such an index is the Local Government Cost Index (LGCI), which is determined each December by the Independent Pricing and Regulatory Tribunal (IPART).

### 2. In what circumstances should IPART consider making a new determination?

Council does not see the need for a new determination to be made, as our contention is that the Valuer-General already increases their income through increased valuations, which is organic growth.

Additionally the need for any new determination would be avoided if the pricing was linked to the LGCI, with a productivity factor, which is already determined by IPART for rate pegging. This in turn would also save costs for IPART, by utilising the same work for two purposes.

It should be remembered that the Valuer-General has a monopoly and Councils are not allowed to seek to tender this service.

### 3. Have the land valuation services provided by the Valuer-General changed since the 2009 determination.

Council has not encountered any observable change in land valuation services provided by the Valuer-General.

### 4. Is the quality of land valuation services provided by the Valuer-General meeting customer expectations?

Council has had no concerns with the quality of the land valuation services provided by the Valuer-General.

### 5. What is an appropriate rate of return for the Valuer-General's assets?

Council does not consider that, for the services provided by the Valuer-General to Council, that the Valuer-General should be able to claim a rate of return for their assets, as Councils are not allowed to achieve a rate of return on its assets, as it is rate pegged by the Minister.

The Valuer-General is not a profit making venture and does not need to provide a return on investment to its shareholders, exactly the same as Council does not have that requirement. It should be a level playing field for Councils and Government Agencies.

Therefore the charges for the services by the Valuer-General should reflect the fact that Council is not able to pass on any increase above the Local Government Cost Index (LGCI) plus the productivity factor, which is the amount of rate pegging.

## 6. What is the appropriate equity beta and gearing ratio on which to calculate the Valuer-General's rate of return?

Council does not consider that there is an appropriate equity beta and gearing ratio on which to calculate the Valuer-General's rate of return, as Councils are not allowed this opportunity and therefore have no mechanism with which to pass any increase onto its customers, the rate payers, as Councils are rate pegged on the amount of rates that can be levied, being the LGCI, with a productivity factor imposed.

Councils should be allowed to pass on any increase imposed, then it would be an appropriate time to discuss what would be an appropriate equity beta and gearing ratio for return on assets.

It should be remembered that the Valuer-General has a monopoly and Councils are not allowed to seek to tender this service, and therefore they should not be seeking to incorporate into their pricing, items that they do not actually incur.

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

We would submit that there is no case for changing the methodology for allocating costs to council from the number of valuations supplied.

If anything the costs to Council should be reduced, if the Valuer-General was made to distribute his actual costs based on the total number of valuations undertaken each year, not the total number maintained. Councils only receive new valuations for their whole area every three years, with few in the intervening years, whereas other agencies, such as OSR obtain valuations every year for all properties. This has skewed the cost distribution in favour of other agencies.

However Council points out that the full recovery cost should not be passed onto Councils until such time as Councils are allowed to achieve a return on assets, and not have to be constrained by rate pegging, so that Councils can pass on any increase in costs. The Valuer-General should only be passing on actual costs, not those that are not incurred.

## 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 (e.g. single price)?

The current price structure favours councils with high residential values in comparison to non – residential values. A more appropriate structure would be to have a single price per valuation regardless of whether it was residential or non-residential, but this would prejudice those with a higher proportion of residential compared to the State average, which may not be fair to some Councils who may not have the capacity to absorb any increase.

## 9. What is the impact on customers (i.e. councils) from the proposed change in price structure?

The impact would mean that our Councils costs may go up, as we have approximately 80% of our properties are residential, and we would then be supplementing those Councils with higher business or industrial, which take more time to value.

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

Council is not in favour of moving to a more specific differential pricing model for Councils, as the current structure is fairer to all Councils. A differential pricing may see that Regional Councils would have higher pricing, due to the nature of the land that Valuers need to inspect to determine valuations.

## 11. Should an indexation approach be used to set the maximum prices for the Valuer-General's land valuation services?

Council agrees that an indexation approach should be used to set the pricing for the Valuer-General, and that index should be the Rate Pegging amount (Local Government Cost Index, plus productivity factor), as Councils are not able to pass on any increase above this.

Any increase above Rate Pegging will be a direct cut in the services that Councils can fund.

## 12. How should the price path account for customer impacts?

The price path should take into account the customer (Councils) impacts. The way that it should do this is by setting any pricing increase in line with the Rate Pegging amount, as Councils do not have the ability to pass on any increase above this amount.

# SUMMARY

City of Ryde appreciates the opportunity to respond to the proposals for pricing for the Valuer-General, and has responded to this invitation for submissions and the following key points are made:

- Any proposed increase above the Local Government Cost Index, plus a productivity factor (rate pegging figure), is not sustainable for Councils
- As a monopoly service, it should retain a governance cost as the VG would struggle to exist without the service it provides to Local Government
- City of Ryde acknowledges the consistent service provided by the Valuer-General; however, it would welcome a review in providing Local Government a choice on how it receives Valuation Services.
- That should pricing increases be allowed above rate pegging, then Councils should be given the opportunity to tender for those services.