

Our reference: 4488239
Contact: Andrew Moore
Telephone: 4732 7802

18 February 2014

Dr Peter J Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
QVB Post Office NSW 1230

Dear Mr Boxall

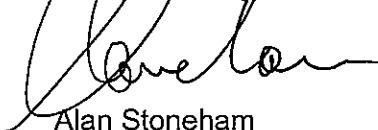
Review of prices for land valuation services provided by the Valuer-General to councils

I appreciate the opportunity to make a submission to the Review and in particular respond to the submission made by the Valuer-General.

Responses for most of the issues have been provided in the document attached. In summary, it is believed that full cost recovery should not be approved. Additionally, the 40% apportionment of costs to Councils should be reviewed in light of the reciprocal arrangements existing between Councils and the Valuer-General's Office around the supply of owners' names and postal addresses. Finally, a more conservative annual increase in line with the local government rate peg should be considered. No comment is provided for two of the items as there was insufficient information available to us to enable an informed comment.

I trust this submission provides the Tribunal with some assistance. If any further explanation is required on any of the issues, you can contact Andrew Moore, Financial Services Manager,

Yours sincerely,



Alan Stoneham
General Manager

RESPONSES BY PENRITH CITY COUNCIL

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

One determination for the 5-year period is preferable for councils. We have operated under the previous determination by IPART of prices for land valuation services and have benefitted from the security of being able to calculate the prices for future years. It assisted greatly when creating the annual budget and also when compiling the Long Term Financial Plan. Certainty of costs improves Councils' ability to accurately determine its financial capacity and sustainability in the long term.

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

Every five years should be sufficient. However, if significant changes occur regarding the provision of valuation services then the Valuer-General should have the ability to apply to IPART for a further review and determination within the 5-year timeframe. IPART should be able to decide whether there is sufficient evidence to warrant another review.

3. Have the land valuation services provided by the Valuer-General changed since the 2009 Determination?

No. Overall services have not changed significantly.

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

The assistance provided by staff continues to be of a reasonable standard. However, valuation reductions on objection still occur right through the three year valuation cycle, and sometimes into the next, causing significant cash flow issues for councils.

The Penrith Local Government Area last received new valuations as at 1 July 2012. These valuations have been used for rating purposes from 1 July 2013. In the six months from July – December 2013 we have received reduced valuations on objection that have reduced revenue by more than \$260,000. Many of the objections received were also reducing the 2009 base date valuations. In some cases, by the time the reduced valuation was determined the property had either been sold or subdivided which is very problematic for councils.

A further review of the adequacy of the tendering process and/or the current process of peer reviewing new valuations might reduce the number of errors.

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

No comment is provided and it is considered that insufficient information is available to make an informed comment.

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

No comment is provided and it is considered that insufficient information is available to make an informed comment.

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

The current 40% cost allocation to councils is too high. Councils do not use any of the graphics services. The current methodology does not account for the use of valuations by other state government bodies aside from the Office of State Revenue. Also, a full cost recovery model should not be adopted. Part of the service is provided to the community by advising land owners of their land valuation. An appropriate portion of costs should be borne by the Valuer-General's Office.

It would be fair to factor in a further reduction in the cost allocation to councils to recognise the council contribution of providing regular updates of names and addresses to the Lands Department so that the Valuer-General's office has current data for the service of their valuation notices.

Lastly, it is unusual to charge a customer for the cost of fixing errors in the original service. Therefore, costs of handling successful valuation objections should not be part of the cost allocation to councils. Similarly, valuations amended under section 14A(6) of the Valuation of Land Act 1916 are changes to valuations that are made to correct errors by the Valuer-General's office. However, these corrections are a direct cost to councils, in reduced rates, a reduced rating base for future years, and the time taken by council staff to amend rate notices. There is no mechanism for councils to recover any lost income as a result of these valuation corrections.

A review of the number of valuations corrected under s14A(6) should be undertaken to ascertain the full impact on councils, and an appropriate cost reduction factored into the methodology.

8. Should the current price structure for residential and non-residential prices be retained, or is there a more appropriate pricing structure for land valuation services (eg, a single price)?

The current price structure should be retained as non-residential valuations are typically more involved and more difficult to determine than residential valuations.

9. What is the impact on customers (ie, councils) from the proposed change in price structures?

One price for all valuations would increase costs for areas with a higher than average ratio of residential valuation and lower costs for areas with a higher than average ratio of non-residential valuations.

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

No. An average cost of residential and non-residential valuations charged to all NSW councils is the most equitable pricing method. Charging higher rates to councils based on their capacity to pay moves away from a fee for service.

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

The indexation approach used by IPART to determine the annual rate peg should apply to land valuation services.

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

Council understands that the submission by the Valuer-General has suggested a standard increase each year (of 5.3% each year to both the residential and non-residential valuation charges) rather than an initial larger increase to reach full cost recovery. However, as previously stated, the charge should not equate to full costs recovery and the annual increase should not exceed the rate peg. This would be in keeping with the *Intergovernmental Agreement to Guide NSW State-Local Government Relations on Strategic Partnerships* that states on cost-shifting: "any consequential financial impact is to be considered within the context of the capacity of local government". The price path should account for customer impacts by remaining at a reasonable level each year.