

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

Public Hearing

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What has IPART been asked to do?

- ▼ In accordance with our Terms of Reference (ToR), our review involves:
 - ▼ establishing (not setting) the services provided by the Valuer-General to its customers
 - ▼ establishing the efficient costs of providing those services
 - ▼ allocating the costs to the various user groups (in particular, councils)
 - ▼ setting maximum prices for the valuation services provided to councils

Monopoly services

- ▼ Our role is to determine prices charged for a specific portion of the services performed by the Valuer-General:
 - ▼ **land valuations to councils for rating purposes**
- ▼ The Valuer-General's other land valuation functions are outside the scope of this review
- ▼ However, in determining the Valuer-General's prices for services to councils, we will assess the Valuer-General's total required revenue for providing land valuation services for both *rating* and *taxing* purposes

Questions: Service levels

- ▼ Have the land valuation services provided by the Valuer-General changed since the 2009 Determination?
- ▼ Is the quality of services provided meeting customers' expectations?

Key developments since the 2009 determination

- ▼ The Parliamentary Committee on the Office of the Valuer-General completed its inquiry into the land valuation system in January 2013
- ▼ The Committee's main recommendations included a new governance framework, a rules-based approach to valuations, improving valuation integrity, and a fair and engaging process
- ▼ Any major governance and/or procedural recommendations, if supported and implemented during the determination period, could impact costs for land valuations

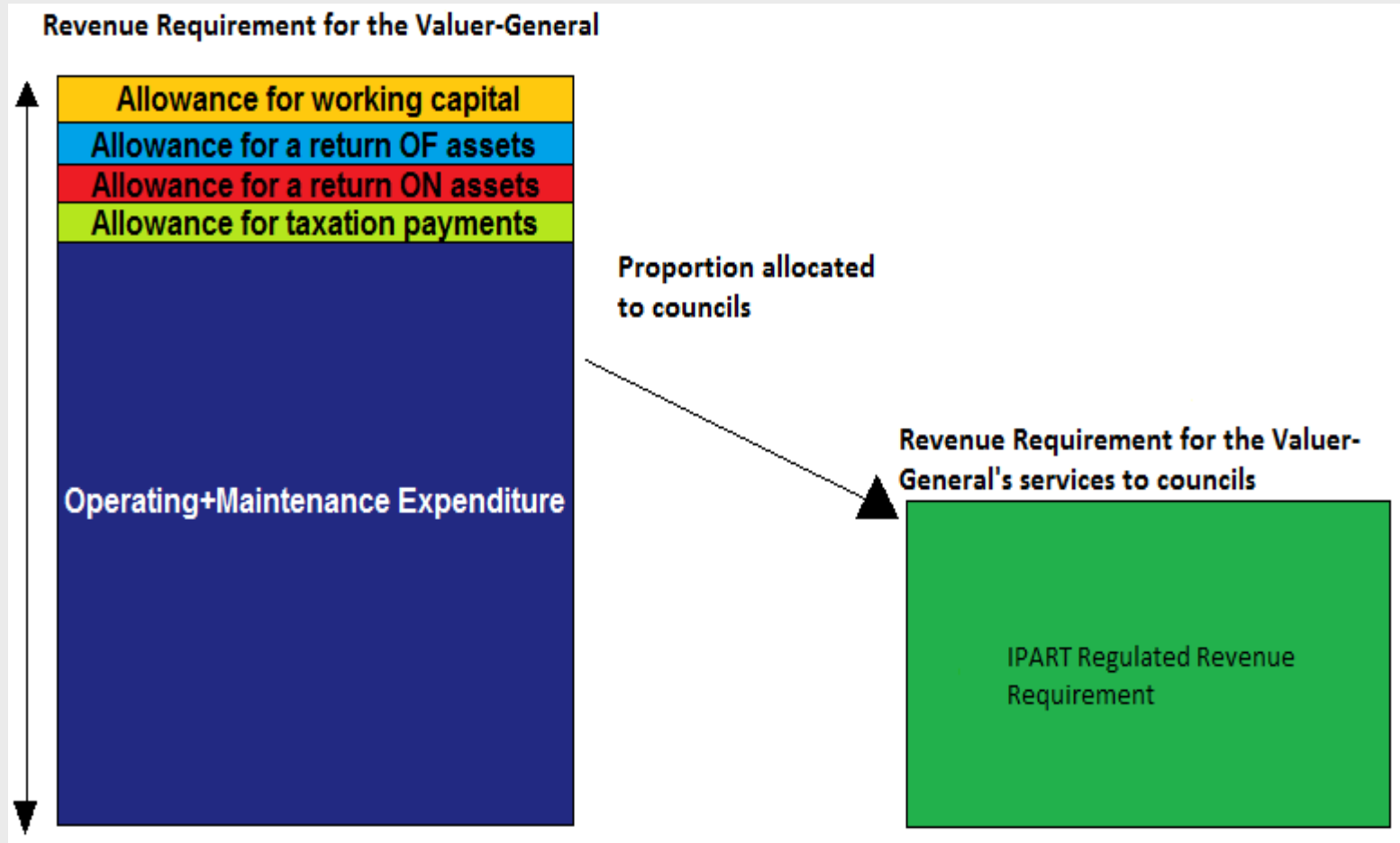
Questions: Land valuation process

- ▼ Has there been any change to the land valuation process? Does this impact the cost of undertaking valuations (ie, contract costs)?
- ▼ Should we set one 5-year determination or multiple determinations over the 5-year determination period?
- ▼ In what circumstances should IPART consider making a new determination?

Revenue requirement

- ▼ We determine a revenue requirement for the Valuer-General's valuation services for ratings and taxation purposes
- ▼ This reflects our assessment of the Valuer-General's building block costs
- ▼ We then allocate a proportion to councils

Building block approach



Operating cost building block

- ▼ In the 2009 review, operating expenditure represented about 93% of the Valuer-General's revenue requirement
- ▼ The components of operating expenditure are:
 - ▼ direct costs of Valuer-General's office
 - ▼ direct costs of LPI providing general valuation services (VSLPI)
 - ▼ allocated joint costs from LPI

Questions: Operating expenditure

- ▼ What is the efficient operating expenditure over the referral period?
- ▼ What are the main drivers or determinants of the Valuer-General's efficient costs of providing valuation services to councils?
- ▼ What is the scope for the Valuer-General to achieve efficiency gains over the referral period?
- ▼ Does the tendering process for general valuations lead to efficient costs?
- ▼ How should costs be allocated from LPI to the Valuer-General?

Other components of the building block

- ▼ In the 2009 Determination, operating expenditure represented about 93 % of the revenue requirement
- ▼ The remaining 7% is made up of allowances for:
 - ▼ Return on assets = $(RAB \times WACC)$
 - ▼ Depreciation
 - ▼ Tax allowance
 - ▼ Working capital

Return on assets

- ▼ Return on assets is calculated by applying the WACC to the RAB
- ▼ Only prudent and efficient capital expenditure is included in the RAB
- ▼ In the 2009 Determination, the allowed capital expenditure was \$2.3m per annum (\$2007/08)
- ▼ Since 2009, IPART changed its methodology for calculating the WACC:
 - ▼ We now apply a real post-tax WACC
 - ▼ We determine the WACC, by taking the mid-point of 2 WACC estimates, which are derived from current market data and long term averages

Questions: Return on assets

- ▼ What is the prudent and efficient level of capital expenditure of providing general valuation services over the determination period (ie, next 5 years)?
- ▼ What is an appropriate rate of return for the Valuer-General's assets?

Revenue requirement allocated to councils

- ▼ The final step in determining the required revenue is to allocate costs to councils
- ▼ In the 2009, we allocated 40% of the total revenue requirement to councils
- ▼ The 40% allocation was based on:
 - ▼ proportion of total valuations received by councils annually
 - ▼ adjustments for economies of scale in valuations for OSR
 - ▼ cost of printing, graphic and postage allocated fully to councils
 - ▼ 50% of costs of processing objections

Questions: Allocation to councils

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

Pricing Framework

Our ToR require us to:

- ▼ develop an efficient, effective and transparent pricing framework
- ▼ ensure full recovery of the Valuer-General's efficient costs of providing services over the relevant determination period
- ▼ ensure that prices efficiently allocate the costs of the services between councils in accordance with relevant economic and pricing principles

Current Prices

- ▼ In the 2009 Determination, prices to councils were set to recover 36.9% of the Valuer-General's total revenue requirement
 - ▼ 40% of the Valuer-General's costs were allocated to councils
- ▼ 2:1 relativity was set between residential and non-residential prices to acknowledge higher costs involved in non-residential valuations
- ▼ No differential prices for councils

Questions: Price path and structures

- ▼ How should the price path account for customer impacts?
- ▼ Should the current price structure of residential and non-residential prices be retained?
- ▼ Is there new evidence that would warrant differential pricing for councils?
- ▼ Going forward, should an indexation approach be used to set prices?



Independent Pricing and Regulatory Tribunal

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