IPART
New South Wales

Independent Pricing and Regulatory Tribunal

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

Discussion Topics

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Service levels and length of the determination period

Service levels and length of the determination period

- Since the 2009 Determination, there have been several reports and inquiries into the provision of land valuations:
  - DFS Review, 2012
  - LPI Strategic Review 2012-13
  - Joint Standing Committee on the office of the Value General – Inquiry into the land valuation system, 2013 (JSCOVG)
- Some recommendations may impact on the Valuer-General's cost base during the determination period
- The Valuer-General is proposing a 5-year determination period, with an option to make a new determination for any significant changes to its operating model

Questions:

- Have the land valuation services provided changed since the 2009 Determination?
- Is the quality of services meeting customers' expectations?
- Has there been any change to the land valuation process? Does this impact the cost of undertaking valuations?
- Should IPART set one 5-year determination or multiple determinations over the 5-year referral period?
- In what circumstances should IPART consider making a new determination?

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Required revenue forecasts for the 2014 determination period

Revenue requirement

- The Valuer-General forecasts $15.3 million revenue from councils in 2013/14
- The Valuer-General is proposing about 18% real increase in revenue required from 2013/14 to 2014/15. Revenue required is projected to be constant thereafter.
- The Valuer-General attributes the step increase to:
  - Catch-up to full cost recovery (about 50%)
  - Increase in cost of mass valuations
  - Newly allocated costs for spatial services, title searches and plan images
  - Changes in the treatment of return on and of capital

Operating expenditure

- In the 2009 Determination, we accepted the Valuer-General's total operating expenditure of about $34 million ($nominal) for 2007/08, and set that as the base-year expenditure

- Operating expenditure represents about 93% of the Valuer-General's total revenue requirement

- The Valuer-General reports that the operating expenditure over the current determination, in real terms, is in-line with the 2007/08 base-year expenditure

Operating expenditure

- For the 2014 Determination, the Valuer-General is proposing total operating expenditure of about $44 million in 2014/15 ($nominal), and to maintain it constant, in real terms, thereafter.
- This represents about 7% real increase in the Valuer-General's total operating expenditure from 2013/14 to 2014/15
- The Valuer-General states that is due to increases in:
  - Labour costs – increase in number of FTEs
  - Mass valuation contacts costs – increasing insurance costs passed through and changes to contract specifications
  - Costs allocated from LPI to the Valuer-General – new services

Questions:

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

Capital expenditure

- In the 2009 Determination, we accepted the Valuer-General’s capital expenditure of $2.3 million ($nominal) for 2007/08,and set that as the base-year expenditure
- For the 2014 Determination, the Valuer-General is proposing a capital expenditure of $1.9 million in 2014/15 ($nominal), and declines slightly thereafter
- This represents approximately 30% real decrease in capital expenditure between 2013/14 and 2014/15

WACC

- In the 2009 Determination, we set a real pre-tax WACC of 7% for the Valuer-General, based on:
  - Sydney Water's real pre-tax WACC of 7.5% adjusted by 0.5%
- For the 2014 Determination, we will calculate a post-tax WACC from first principles
- The Valuer-General is proposing a real post-tax WACC of 5.8%, based on:
  - 40% gearing
  - 0.8 equity beta

Questions: return on capital

- What is the prudent and efficient level of capital expenditure of providing general valuation services over the determination period?
- What is an appropriate rate of return for the Valuer-General's assets?

Cost allocation to councils

Cost allocation to councils

- In the 2009 Determination, we allocated 40% of the Valuer-General's total revenue requirement to councils:
  - proportion of total valuations received by councils annually (about 25%)
  - 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
- For the 2014 Determination, the Valuer-General is proposing to maintain 40% allocation to councils

OSR funding model

- Funding from OSR is based on a grant Treasury provides to pay for valuation services provided by the Valuer General.
  - reviewed annually and generally escalated by inflation
- Expected revenue for 2013-14 recovers approximately 60% of the Valuer General’s costs for rating and taxing valuation services.
- Our ToR ask that we allocate the costs of the services between the users in accordance with relevant economic and pricing principles

Questions

- Is there a case for changing the methodology for allocating costs to councils?
- If so, on what basis should costs be allocated?
- What are the implications of the cost allocation to councils to OSR and the Valuer-General’s funding arrangement?

Price path and structures

Price path and structures

- In the 2009 Determination, we set prices by:
  - adjusting the 1995 Determination prices by changes in the CPI from 1996/97 to 2007/08, and
  - applying a 1% real efficiency gain each year to the period from 2008/09 to 2013/14
- IPART established close to 2:1 price relativity between residential and non-residential valuations
- The current prices recover about 36.9% of the Valuer-General's required revenue

Price path and structures

- For the 2014 Determination, the Valuer-General is proposing to:
  - maintain residential and non-residential prices
  - maintain 2:1 price relativity between residential and non-residential
  - increase prices by 2.8% per annum, in real terms
- The proposed prices achieve full cost recovery for the Valuer-General's services to councils in 2018/19
  - However, they result in under recovery in the years before 2018/19
- The Valuer-General also recommends that we considers using indexation of prices after 2018/19

Questions

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

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