



City of Ryde

SUBMISSION  
FROM THE CITY  
OF RYDE –

REVIEW OF  
PRICES FOR  
VALUATION  
SERVICES  
PROVIDED BY  
THE OFFICE OF  
THE VALUER  
GENERAL FOR  
LOCAL COUNCILS

**31 MARCH 2008**



## **Executive Summary**

- Councils are required to use the valuation services from the Valuer General's Office (VG).
- 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.
- Following a review of the Valuer General's submission a number of questions are raised for examination by the Tribunal in its review. These are detailed later in this submission but cover the following areas;
- How the Valuation Services Land and Property Information (VSLPI) is structured or actions it has been required to take, as required by the State Government as a result of various enquiries is and should not be a matter for the Tribunal's consideration. It also should not be a reason to increase charges.
- The allocation of costs to the (VSLPI) from the Department of Lands, Land and Property Information (LPI) to Local Government needs further examination. The issue is how can the VSLPI justify, with the exception of a minor expenditure, its sole purpose is to both Local Government and the Office of State Revenue (OSR). Also, as detailed in their submission, a number of actions/recommendations taken as a result of various enquiries have related to assessment of Land Values for Land Tax purposes. The current proportion of the VSLPI's efforts on the OSR and Councils is 70%/30% respectively and it is argued that this proportion for the OSR is higher.
- The other key point is that the operations of VSLPI must play a role for Government and therefore, should not be seeking the full cost recovery of their operations. A proportion should be determined to be met from the State Government.
- The proposal seeks an average increase to Local Government of over 10% for all Councils except City of Sydney (30.9%). This level of increase is well beyond Local Government's ability to pay having regard to Local Government's main source of revenue, (rate income) was capped by the Minister at 3.4% for the 2007/2008 year.
- No detail is provided in respect of benchmarking details that have been stated for comparative purposes in their submission.
- 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 CPI would not be supported.

- However, the other key issues as 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.
- From the Valuer General's submission although a 1% productivity allowance has been provided, the significant increase in labour numbers that has occurred from 2006/7 (104FTE) to 2008/09 (124 FTE) is significant. This has resulted in a 36% increase in VSLPI wages to \$8.3m in 2008/9.

When this investment is coupled with the VG's investment in Information Technology, the question of efficiency gains and reductions in operating costs are raised. However, as detailed in the VG's submission further increases in costs is projected and the 1% allowance is not seen to be either adequate or have any real basis.

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

### **Service Level**

#### **1. Stakeholders views as to the level of Improvement in quality of the services received from the Valuer General since 2005**

The services provided from the Valuer General has been consistent and has met Council's requirements. At times delays have been experienced.

#### **2. The efficiency of expenditure incurred in the pressure of valuation services to local government.**

- As stated earlier, the VSLPI's projected costs in 2008/9 are 54% higher than the expected revenues in 2008/9 if there is no increase in fees. This requires further examination, however, it demonstrates that VSLPI has been acknowledging a cost of governance in providing services to all levels of government. It is suggested that VSLPI continue with providing a level of governance cost.
- Seriously question the basis for full cost recovery (mainly between the OSR and Councils) and various other services that are provided to other State Government agencies with only a nominal charge.
- As this is a monopoly service, the direct customer's ability to pay needs to be considered. Projected increases of between 7% - 10%



are not sustainable for the City of Ryde and Local Government generally especially when Local Government's main income source is capped, being 3.4% for the 2007/08 year.

- As stated in the VG's submission, they have determined a 60%/40% split between the OSR and Councils. No documentation or assessment is provided. From their submission the current split is approximately 70%/30% which is seen to be more accurate given that the bulk of objections and initiatives taken by the VG would be related to Land Tax. The VG has shown a 50%/50% split in objections received, however, no actual figures are provided.
- The increases in labour costs and FTE number from 2006/7 to 2008/9 is questioned especially when consideration is given for the VG's investment on information systems. The efficiency gains from such investment is not reflected in the overall operating costs (FTE proposed to increase from \$6.1m in 2006/7 to \$8.3m in 2008/9 a 36% increase)
- The contestability of mass valuation contracts and other valuation contracts are noted. If the costs from contesting these services are accepted, the proportion of costs allocated to Local Government is the issue. The VG needs to explain and confirm that these services do not have any other use apart from both the Local Government and the OSR. Once confirmed, more information on the split between Local Government and the OSR is required.

Therefore, the above points raise a number of issues to be addressed by IPART on this question.

### **3. Whether detailed investigation is warranted given that mass valuation and other valuation contracts re competitively tendered.**

As mentioned above, further detailed examination of labour costs, cost/benefit analysis of investment in information systems and a review of a sample of contested services would be appropriate.

The other key point on this matter is then how the proportion of costs are distributed between the customer base including what proportion of costs should be retained, representing the costs in providing general governance services to the State Government and its agencies.





### **2.2.2 Asset Base**

- 4. Whether the depreciated historic cost is an appropriate methodology for determining the regulatory asset base for valuation services.**
- 5. Whether the Valuer General's allocation (8.5) based on occupancy rates and FTE is appropriate for apportioning the regulatory asset base to Valuation services.**

Minimal detail is provided on how the VG allocates its asset base. It appears subjective but without more information, difficult to comment further. The depreciated historic cost seems an appropriate approach in determining the asset base.

### **2.2.2 Depreciation – return on assets**

- 6. The asset lives proposed**

The asset lives seems reasonable with the exception of Intangibles. Given the nature of the asset being in developed software/databases the useful life of this asset would be more in the vicinity of 20 years rather than 4 years. This period would be a more realistic period to base an annual return on capital especially noting that it is still being developed and the cost of developed software as at 2006/07 is \$16.36m. With an asset life of 4 years, the current depreciation rate is 25% which is significantly excessive.

### **2.2.3 Rate of Return**

- 7. Stakeholders views on the appropriate rate of return to use for the Valuer General's services.**

As outlined in the VG's submission and as a monopoly service, the two primary customers are the OSR and Local Government, the question of why would it be necessary to assess the market risk as medium is not clear. It is proposed that no additional risk premium be imposed above the commonwealth bond rate due to the industry and current customer base of the VG.



## **2.2.4 Prudence of Future Capital Expenditure**

### **8. The prudence and efficiency of the capital expenditure proposed by the Valuer General**

This is a critical issue. As stated in their submission, Intangible Assets are valued at \$16.360 million, together with a proposed useful life of 4 years and therefore having a depreciation rate of 25%. These costs are therefore significant and impact on the costs to be recouped from Council's.

As stated, the useful life of such intangible assets should be a greater period i.e. 20 years especially given that it is being developed in house that will also protect the intellectual property of this development.

Given this level of investment and the proposed increase to staff costs, it is difficult to correlate where the productivity and efficiency gains are being achieved to maintain costs.

Therefore, if labour costs continue to rise this level of expenditure on capital should be reviewed as it is not resulting in material benefits to the organisation and ultimately to the paying users of this service.

#### **Other Users**

### **9. Stakeholder's comments on the allocation of costs to different users.**

- Why are state government and other agencies identified separately in paying nominal amounts and not subject to the total matrix of the calculation? They should be retained in the total pool. There is no information provided to understand if the nominal amounts are reasonable.
- As stated previously, the proportion of users from Local Government to others is not believed to be as high as described by the VG.

#### **Allocation of Costs**

### **10. Whether the Valuer General's costs should be allocated on a marginal or average cost basis between users.**

### **11. Whether LPI's costs should be allocated on a marginal or average cost basis to the Valuer General.**

- As mentioned above, all users should be maintained into the total matrix of costs and contribute on an average cost basis.
- Previously in this submission, the issue of costs of governance has





been raised to be retained by the Valuer General and also by the LPI, as both would be and are required to exist to support the operations of government. This would be a cost not recovered from users.

- It is for this reason that the costs from LPI imposed on the Valuer General should be on a marginal basis as this reflects the fact that the LPI would still exist in providing essential services to government and its agencies. This pricing model would be far more equitable and sustainable for all users to accept.

## **Differential Prices**

### **12. Whether differential prices should be applied to the City of Sydney.**

- The first point to reinforce is that the pool of efficient costs should reflect costs of governance in servicing the Government as the Valuer General would exist irrespective of its services to Local Government.
- Based on this approach it is believed reasonable for the differential to apply to Sydney City Council, due to the complexity of valuations. What the differential rate should be is difficult to calculate on the information provided.
- However, the projected increases for both Sydney and generally to all Local Government is not seen to be reasonable, flawed on how efficient costs have been calculated that are believed to be overstated for the reasons detailed earlier in this submission.

For Local Government to receive a 10% increase and Sydney in excess of 30% is not acceptable. A further review of all costs including, the model of allocation of costs and pricing should be undertaken. This process should have involved a level of consultation with Local Government rather than relying on this submission.

## **Price Path**

### **13. The price adjustment mechanism to be employed**

### **14. The level of efficiency savings to be achieved over the price path**

- The frustration for Local Government is that the users of the VG's service by State Government or other agencies are not proposed to have their prices determined under the same methodology as for Local Government.
- As detailed in this submission, a cost of governance needs to be retained by the VG and excluded from the pricing calculations.
- City of Ryde is seeking a capping of the price adjustment that correlates to the CPI. This can be achieved by a further review of the efficient costs, including labour, the allocation of assets, the useful life of assets and the proportion to be recovered from Local Government.



Any increase in charges should consider the transition period for introduction.

- As indicated in the section on prudence of Capital Expenditure, and the increases to the base operating costs in labour etc, on-going development of information, a 1% reduction offered is not seen to be reasonable. Given the compounding factors that are considered in the pricing model, the 1% efficiency saving becomes quite insignificant.

## **SUMMARY**

City of Ryde has responded to this invitation for submissions and makes the final key points;

- proposed increase is not sustainable
- the model of calculating the efficiency costs has a number of deficiencies which have been addressed in the submission.
- As a monopoly service, it should retain a governance cost as the VG would 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.