Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Review of Valuer General's Charges to Local Government

Dear Tribunal Members,

The City welcomes the opportunity to provide further comments and feedback regarding the proposed pricing increases for provision of valuation services to NSW councils following the public hearing held on the 4 June 2008.

The City's submission summarises the issues raised in our initial submission of 1 April and in person at the hearing based on the IPART Draft Report issued in May 2008. The City strongly opposes the differential pricing as it appears to be flawed in its methodology, does not fully appreciate the disproportionate greater benefit that the OSR receives from accurate annual revaluations and does not provide a transparent and equitable outcome for all local councils who have no choice in the delivery of the service.

The City is specifically concerned that the Draft Report and Draft Determination propose a significantly higher price for valuations in the City of Sydney, an initial increase of 88% per valuation in the first year, which is significantly higher than the 10% increase that will be borne by all other NSW councils.

This approach denies the City the benefits that arise from the economies of scale that are enjoyed by other councils through a grouping of various contract areas. It also fails to recognise that the City of Sydney represents a hybrid CBD/suburban council just like North Sydney, Parramatta and Wollongong, and that it is extremely inequitable for the City's ratepayers to be treated other than in accordance with all NSW ratepayers.

The City of Sydney encourages the Tribunal to consider this submission and to deliver an equitable and transparent outcome for all councils.

Yours sincerely,

Bill Carter

Finance Manager

The City of Sydney Secondary Submission

The following points re-iterate many of the points raised within the public hearing held on the 4 June 2008, by City of Sydney representatives, and follow the agenda of that workshop.

1. **Quality of Service**

The City of Sydney has for some time been concerned regarding both the quality and timeliness of service provided by the Valuer General. There have been a number of instances over the last few years where the City's business has been impacted by the time taken to provide specific valuation information. Examples include the individual valuation of the properties leased out by Sydney Harbour Foreshore Authority in the Darling Harbour precinct and a proportional use valuation of the Chinese Consulate in Sydney.

There are also delays experienced in relation to customer objections, including 19 nineteen objections that are still awaiting a decision 18 months after the initial issue of valuation.

In the last three years, 50 successful valuation objections with a total rates income impact of over $1M created an opportunity loss of $70K in interest income. While not an enormous sum, the point is that councils have no right to compensation if they suffer financial loss arising from errors by the Valuer Generals Office.

The City would like to see an ongoing improvement, not just in efficiency terms, but also in the quality and timeliness of the Valuer General's service.

2. **Allocation of Costs**

The City has issues in regard to the Valuer General's proposed allocation of costs between the OSR and councils.

The City contends that a 50/50 split of cost allocation between "objections and appeals" and "other valuation contracts" provide a disproportionate weighting of costs towards council. Our experience from contact with our customers is that the basis for objection is invariably linked to the additional Land Tax that arises from an overstated value. While the increased value may also result in their being allocated a slightly higher contribution towards the City's total annual rates levy, assuming that they are not owners that are merely subject to a minimum rates contribution, the heightened sensitivity is generally to the additional land tax imposition.

Council's contention that the objections are based more on the calculation of land tax than on rates is further supported by the Ombudsman Report in 2005 (excerpt on p.72 of that report as below):

"4.7.2 Factors that influence the volume of objections

In a 2004 internal document prepared for the purposes of a funding submission, the Chief Valuer suggested the number of objections received could be influenced by factors such as:

- *Significant increases in land values;*
- *Dissatisfaction with having to pay land tax leading to objections as a protest;*
- *Attempts to reduce tax liability by achieving a reduction in land value through an objection;*
- *Low levels of public confidence in the valuation system resulting from and leading to negative publicity;*
- *Falls in the market level between the time valuations are made at 1 July and when they are published and used early in the following year leading to a misunderstanding that land values should have decreased;*
- *Inconsistency or leniency in application of rules and discretions in accepting objections that do not address the valid grounds for objection or are lodged outside the statutory time limit*
- *Delays in processing objections leading to issues being unresolved when new values are issued causing owners to also object to the new valuation.*

A review of complaints made to the Ombudsman since commencement of this investigation generally supports the Chief Valuer's views. A key issue in 77% of complaints was the significant increase in land values from previous valuation programs. In 28% of complaints a key issue was the amount of land tax and in 32% key issues were the general reduction in the market values in their area and a lack of sales evidence to support the value. Only 12% of complaints raised technical issues related to valuation such as the detrimental impact of particular features of the land, zoning, surrounding developments or grading anomalies in a component."

As the above excerpt makes no specific mention of objections to land values for the purpose of rating, it could be assumed that virtually no-one objects for the purpose of rating and yet Councils share 50% of the costs of objections, an argument that the OVG has not substantiated.

The City contends that the costs of objections should be calculated by deducting the 40% for land tax only and sharing the remainder, making a more equitable allocation of 30% to councils and 70% to OSR.

The City also queries the quantum of costs they are responsible for in relation to the provision of "graphic services: and "postage". These costs are attributed 100% to councils on the basis that the only purpose of the Notice of Valuation is in relation to council rating purposes as valuations for land tax purposes are formally notified via a land tax assessment notice. Council contends that it also provides valuation information within its Annual Rates Notice, so if the requirement for a separate mail out is merely to provide owners with an opportunity to consider and object to their latest valuation notice before issue of the rates notice, then that process is applicable for both land tax and rates.

Furthermore, if the objection process could occur concurrently with the issue of the formal rates notice, then councils could mail out the assessment and associated paperwork concerned with the background and process for appeal along with issue of the rates notice itself. This would be significantly more efficient and cost effective from our viewpoint.

The City also disputes the allocation of the “valuation audit” and “mass valuation contracts” as 30/70 between councils and the OSR. As discussed at the public hearing, the OSR require annual valuations to assess Land Tax liabilities, and the accuracy of these valuations has direct and measurable implications for the extent of this liability and consequently the quantum of land tax revenue achieved by the State Government.

Councils on the other hand utilise a 3 or 4 yearly revaluation cycle to determine the distribution of their fixed entitlement to an annual rate levy, the rates base plus the Minister’s approved rate cap increase. Valuations are considered to be an indicator of each owner’s capacity to pay and contribute towards the base level of income a council requires to provide its regulatory and community services within the local government area. An increase in valuations changes the distribution but does not increase Council’s capacity to generate additional revenue.

On this basis, the City considers a more reasonable cost allocation to be in the vicinity of 20/80, reflecting the fact that OSR utilises the new valuation each and every year while the City utilises it every fourth year to equitably redistribute rates.

While the City accepts the fact that there are some efficiencies in process achieved from undertaking the valuations annually rather than once every four years, it cannot accept that this would be sufficient to increase the value of the exercise to Council from a base cost of 20% to 30% of the annual valuation, and the potential benefit while stated has not been demonstrated at all within the submission.

The City believes that the cost of the valuation audit group and mass valuation contracts would be more equitably allocated as 20% to councils and 80% to OSR.

Leaving aside the suggested efficiencies that may be achieved in “graphic services” and “postage” going forward, the proposed more equitable re-allocation of “objects and appeals”, “valuation audits” and “mass valuation contracts” have substantial implications and would reduce the overall cost to councils by $2.4M or 13.6% in 2013/14.

3. Prices for the City of Sydney

The City of Sydney does not agree with the Valuer General's initial proposal, or IPART's Draft Determination, to apply a differential rate for the City of Sydney.

The City reiterates the issues raised in our previous submission on 1 April and as discussed in the public hearing on 4 June. The points of argument are again set out below.

1. *The price proposed for the City of Sydney is based on the tender for the valuation of properties and implies that there is a clear distinction between the cost of providing valuation services to the City and all other regions. An analysis of the price per valuation does not support this assumption. There are a wide range of average costs per valuation, but the City is not a significantly more expensive case on its own that deserves to be isolated. This position was clearly demonstrated at the public hearing.*

2. *The City of Sydney is the only Council that was contracted as a single entity and therefore it does not enjoy the economies of scale and the benefits of cost averaging that all other regions do. The contracted price per valuation clearly reflects a definite relationship between volume of valuations and average price, however the distorted analysis of the City's stand alone costs have been used to base the City of Sydney pricing disregarding other key data to support a more transparent and equitable pricing mechanism.*

3. *The City of Sydney is the only Council to have a combined price per valuation rather than separate prices for residential and non-residential as all other Councils. This is inequitable as the City's local government area now constitutes 18% business and 82% residential ratepayers. To accept that all valuation assessments may be treated as business may have future cost ramifications for the City in future years, particularly if future boundary transfers are contemplated.*

4. *Other Councils which contain major CBD's are not being charged the same price as the City. In fact the average valuation costs for other CBD councils including North Sydney, Parramatta and Wollongong are all substantially lower than the average for all councils, let alone that of the City, which further erodes any confidence in the outcome of the mass valuation tender process.*

5. *If the City is to remain the only local government area individually contracted and separately priced, then it should be invited to play a part in the development and review of the tender for mass valuations. This would include a review of the weighting of the price component which should be higher than 25% as companies tendering should be accredited and follow established guidelines and procedures determined by the OVG, regardless of the weighting of their plans.*

6. *The City strongly objects to the Draft Determination's proposal to increase its costs by 88% in the first year as this is significantly inconsistent with the increases proposed for other councils (10%), and highly inequitable for the City's ratepayers which are entitled to assume that the State Government is committed to providing value for money services, particularly when they are the legislated sole providers of this service.*

The City requests IPART and the Valuer General to allocate costs between the OSR and councils based on the relative value and benefit of the service. Neither the initial proposal nor the Draft Determination appear to appreciate the difference that accurate annual valuations provide the OSR with for land tax revenue purposes as opposed to councils for the distribution of their annual rates levy.

The City proposes that the valuation fees charged to the City of Sydney be consistent and aligned with all other local councils, and continue to differentiate between business and residence valuations, to reflect the underlying degree of difficulty of service provision to ensure quality and equitable service for all ratepayers in NSW.