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

Submission to IPART by the Valuer General

30 November 2018

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ABS	Australian Bureau of Statistics
Capex	Capital expenditure
CPI	Consumer Price Index
Determination period	The last 5 years i.e. 2014-15 to 2018-19
DFSI	NSW Department of Finance, Services and Innovation
FESL	Fire and Emergency Services Levy
FTE	Full Time Equivalent
IPART	Independent Pricing and Regulatory Tribunal
IPART Act	Independent Pricing and Regulatory Tribunal Act 1992
IPTI	International Property Tax Institute
JSCOVG	Joint Standing Committee on the Office of the Valuer General
PAG	Property Advisory Group
PNSW	Property NSW
LPI	Land and Property Information
LVAG	Land Value Advisory Group
NPV	Net Present Value
NSW	New South Wales
ORG	Office of the Registrar General
Opex	Operating expenditure
Referral period	The next 6 years i.e. 2019-20 to 2024-25
RAB	Regulatory Asset Base
SLA	Service Level Agreement
VALNET	The valuations ICT system holding the Register of Land Values
VL Act	Valuation of Land Act, 1916
WACC	Weighted Average Cost of Capital

1 Executive summary and overview

1.1 The context of the review of prices to councils

The *Valuation of Land Act 1916* (the VL Act) establishes the Valuer General as the independent statutory authority responsible for the overall management of the valuation system. The Valuer General regulates the system by setting standards and policies as well as independently overseeing the quality of its outcomes.

The Valuer General:

- is responsible for ensuring the delivery of procedurally fair, accessible, accountable, transparent and independent valuation services
- provides governance to ensure valuations are accurate, consistent, delivered in a timely manner and provide value for money
- requires all services to be delivered in a manner that is responsive to landholders and meets the needs of all stakeholders
- develops policies and standards for the valuation system to ensure valuations meet the needs of stakeholders.

The Valuer General has delegated operational responsibilities under the VL Act to Valuation Services which is a part of Property NSW (PNSW), Department of Finance, Services and Innovation (DFSI).

Valuation Services provides technical and operational support to the Valuer General in producing and recording land values across NSW. Valuation Services plays the key role in ensuring that current, complete and accurate land value data is available to the Valuer General.

The Valuer General provides a basis for the imposition of taxes related to unimproved land value.

The land valuation system supports:

- the NSW Government via Revenue NSW raising approximately $3.17 billion per annum in land tax[1]
- councils raising approximately $4.36 billion per annum in rates[2].

[1] 2016-17 NSW Treasury Budget Papers

[2] 2016 -17 ABS Government Finance Statistics, released 26 April 2018

Councils use land values as one factor in determining how much they charge ratepayers. The Valuer General provides individual councils with new land values to reflect changes in property prices generally every three years. The Valuer General charges councils for the service it provides and these charges comprise a principal source of its revenue. IPART sets the prices councils pay for using the Valuer General's services.

This submission:

- Describes Valuation Services and the services provided to councils (in section 3). It also briefly describes enhancements to the services over the life of the current determination and planned service enhancements as well as possible changes in service levels following the implementation of Service NSW's digital offering.
- Describes how the actual costs compare to the target (or efficient) costs as determined by IPART for the current determination period 2014-15 to 2018-19 – in section 4.
- Outlines the derivation of the forecast costs of providing those services to councils (for the base year 2018-19 and the 6-year referral period 2019-20 to 2024-25, following the building block approach – in section 6 (including the cost of capital and the treatment of tax).
- Discusses the efficiency of costs in section 6.1.2.
- Identifies the total revenue requirement based on these costs and the prices the Valuer General is proposing to charge councils to recover those efficient costs under a new differential pricing model in section 8.

IPART last set the prices in 2014 for land valuation services provided by the Valuer General to councils. For the referral period, the Valuer General recommends the following approach:

- Move to a six-year determination period.
- Move to a differential pricing model from the current uniform pricing model (i.e. councils will be charged a price based on their regional category and there will be no price difference between residential and non-residential for each council).
- Maintaining the price cap methodology for setting prices.
- To allocate 32.5 per cent of the Valuer General's notional revenue requirement to councils.

While there have been no fundamental changes to the valuation system since the previous determination, there has been an ongoing process of service improvement over the last 5 years.

There are some changes to costs compared to the assumptions which informed the determination set by IPART in 2014, resulting from:

- Actual mass valuation contract prices having increased over the past two years.
- A change in the way that common costs of Valuation Services are attributed to PNSW (and thereby the Valuer General) following the consolidation of corporate services since the incorporation of PNSW into the Department of Finance, Services and Innovation (DFSI).
- Better information on the use of services from Spatial Services and NSW Land and Registry Services in terms of title searches, spatial information and imagery. Costs for the supply of these services have been attributed to the Valuer General.
- The permanent harmonisation of the valuations notification cycle resulting in costs related to objections, postage and graphic services being brought forward within a three-year cycle.

Further, the Joint Standing Committee of the Office of the Valuer General (JSCOVG) has made recommendations to improve the quality of the valuation process.[3] The government has already agreed to implement several of these recommendations (from the Eleventh General Meeting), while recommendations from the Twelfth General Meeting require consultation with stakeholders and consideration by government. It is expected that some of the recent and remaining recommendations will be implemented during the referral period. The Valuer General believes at this stage that it is unnecessary to reopen this price determination for this quality change, rather, it is proposed to absorb any cost increases arising from these recommendations, which are expected to be relatively minor. The Valuer General recommends maintaining a determination period of six years with the option to submit a supplementary review of prices at any point in the determination period if there are significant cost changes. For example, if the cost implications of implementing the JSCOVG recommendations or system upgrades are more significant than expected then the Valuer General further suggests that the determination should be revisited.

1.2 Forecasts of the efficient costs for providing rating valuation services to councils

The Valuer General proposes that prices increase by two per cent in 2019/20 (in real terms) to cover forecast increases in opex and capex costs.

[3] Joint Standing Committee on the Office of the Valuer-General, Eleventh and Twelfth General Meeting with the Valuer General 2/56, 3/56)

Costs are also expected to increase by CPI per annum.

The JSCOVG found in 2013 that "the valuation system is currently extremely cost effective"[4] and that "land values over time highly correlate to the market."[5] The valuation system is largely unchanged. This is supported by the fact that:

- most costs continue to be market tested
- high-level benchmarking of labour costs suggests that these costs continue to be efficient
- corporate costs, including ICT costs are low in comparison to benchmarked costs[6]
- the Valuer General is considered a 'low-cost' service provider on the basis of a benchmarking study undertaken by the International Property Tax Institute (IPTI)[7].

1.3 The prices proposed for councils

To transition to full cost recovery the Valuer General is proposing to increase total prices by two per cent (in real terms) in 2019-20 and to recover 32.5 per cent of efficient costs. Encompassed in the two per cent, is the expected increase in forecast mass valuation and objection contract costs to recalibrate for the underspend in the current determination period reflecting the recent history in variations (e.g. supplementary notices growth, standardised rezoning etc).

In summary, the proposed prices:

- ensure full recovery of the Valuer General's efficient economic costs of service provision to councils in the referral period
- efficiently and equitably allocate the costs of valuation services between the users of those services in accordance with principles of cost reflectivity
- can be easily modified for future changes in the Valuer General's cost base.

The Valuer General proposes a new methodology for pricing based on a single price for four geographical areas in NSW. This is considered to be more reflective of the cost of delivering

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[4] Joint Standing Committee on the Office of the Valuer-General, Parliament NSW 2013 Report on the Inquiry into the Land Valuation System and Eighth General Meeting with the Valuer General, 2/55, Page ix

[5] Joint Standing Committee on the Office of the Valuer-General, Parliament NSW 2013 Report on the Inquiry into the Land Valuation System and Eighth General Meeting with the Valuer General, 2/55, Page 25.

[6] Sustainable Productivity – Benchmarking of commonwealth and state government corporate services 2014, PwC

[7] IPTI, Benchmarking 2015 Summary Report, 2015

valuation services. The Valuer General supports the price cap methodology which is a fixed price each year escalated by an IPART determined inflation rate.

2 Introduction

2.1 Overview

The *Valuation of Land Act 1916* (VL Act) establishes the Valuer General as the independent statutory authority responsible for the overall valuation system. The Valuer General regulates the system by setting standards and policies as well as independently overseeing the quality of its outcomes.

The Valuer General delegates operational responsibilities under the Act to PNSW, Department of Finance, Services and Innovation (DFSI). Valuation Services is part of PNSW and provides technical, operational and customer service support to the Valuer General in producing and recording land values across NSW.

Under the *Local Government Act 1993 (NSW)* councils use land value data to determine the council rates that ratepayers pay. Individual councils update the rates they charge ratepayers to reflect changes in land values generally every three years.

The Valuer General charges councils for the service it provides and these charges comprise a principal source of its revenue. The Independent Pricing and Regulatory Tribunal (IPART) sets the prices councils pay for the Valuer General's services.

2.2 The context for the price review

In July 2014, IPART released its determination of maximum prices for the Monopoly Services provided by the Valuer General. These maximum prices apply until 30 June 2019. IPART has been requested by the Premier, under sections 12(1) and (3) of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act), to undertake a new determination or determinations of the maximum price for Monopoly Services provided by the Valuer General to apply from 1 July 2019.[8]

2.3 Approach to this submission

This price service proposal:

- Describes the business the Valuer General engages in and the services the Valuer General provides to councils. It also briefly describes possible changes in service levels

[8] IPART, Review of prices for land valuation services provided by the Valuer General to councils Other Industries — Issues Paper, October 2018

following implementation of recommendations from the Joint Standing Committee on the Office of the Valuer General.

- Outlines the derivation of the efficient costs of providing those services to councils (for the base year 2018-2019 and six years of the referral period 2019-20 to 2024-25), following a building block approach.[9]
- Identifies the prices the Valuer General is proposing to charge councils to recover those efficient costs under the new differential pricing model.

For the referral period, the Valuer General recommends maintaining many of the existing structures with some notable changes:

- Move from a five-year to a six-year determination, to capture two complete valuation cycles.
- Move to the differential pricing model from a uniform pricing model. This will result in one price for each of four geographic areas and charging the same price for residential and non-residential properties (see section 8).
- Maintaining the price cap methodology for setting prices.

While there have been on-going improvements in the operation of the valuation system (increases in accuracy and consistency through service quality enhancements), there have been no fundamental changes in the valuation process and approach in the last five years.

There are some changes in the proposed prices compared to the prices currently in place as set by IPART in 2014 resulting from:

- Actual mass valuation contract prices increasing in recent years due to variation in contract requirements.
- Changes in the way costs are allocated to the Valuer General following the separation from LPI and integration into PNSW, still within the Department of Financial Services and Innovation (DFSI).

Further, the JSCOVG has made a number of recommendations to improve the quality of the valuation system. The government has already agreed to implement all recommendations (from the Eleventh General Meeting), while recommendations from the Twelfth General Meeting require consultation with stakeholders and consideration by government. It is expected that the recent and remaining recommendations will be implemented during the referral period. The Valuer General believes at this stage that it is unnecessary to reopen this price determination

[9] The components of the building block approach are outlined in more detail in section 6.1.

for this quality change, rather, it is proposed to absorb any cost increases arising from these recommendations, which are expected to be relatively minor.

The submission uses estimates and assumptions to present the costs of providing valuation services to councils. Every effort has been made to present information in a clear, concise, consistent and accurate manner.

In developing this submission, Valuation Services sought assistance from an independent firm, PricewaterhouseCoopers (PwC). PwC were engaged to review the IPART Cost Building Block Model template in conjunction with the Submission. The objective for the pricing model review was to ensure the calculations in the model are in all material respects, internally consistent and arithmetically correct, and that the model's underlying assumptions and the application of these are reasonable. Further, that the model's assumptions and output are accurately presented in the Valuer General's submission to IPART.

2.3.1 The terms of reference

The Terms of Reference[10] require IPART to make:

> *…a new determination of the maximum pricing for the rating valuation services provided by the Valuer General to apply from 1 July 2019.*
>
> *In so doing IPART is requested to:*

1. *identify the Valuer General's full efficient economic costs of providing the monopoly services over the determination period or periods;*
2. *develop an efficient, effective and transparent pricing framework for the Valuer General's monopoly services;*
3. *consider the Valuer General's efficient costs of providing the monopoly services over the relevant determination period or periods*
4. *consider the efficient allocation of the costs of the monopoly services between the users of those services in accordance with relevant economic and pricing principles;*
5. *consider the scope for the Valuer General to achieve efficiency savings in providing the monopoly services; and*
6. *specify the duration of the relevant determination period or periods.*

In addition, IPART may take into account any other matters it considers relevant.

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[10] IPART, Review of prices for land valuation services provided by the Valuer General to councils Other Industries — Issues Paper, October 2018

IPART has been asked to consult with key stakeholders, including government agencies responsible for the management of the land valuation and rating systems. IPART is to submit its final report and determination to the Premier and will submit any subsequent reports and determinations to the Premier on such other date or dates as agreed.

It is intended that the determination, or in the event of a periodic determination of pricing, its first determination, will commence on 1 July 2019.

3 Understanding the Valuer General's business

The Valuer General oversees the valuation system which provides land values for rating and taxing; and determinations of compensation when land is compulsorily acquired by government.

The Valuer General sets the objectives and standards for the valuation system which is operated by PNSW. Valuation Services takes responsibility for all operations including the provision and quality assurance of land values; management of the objection process; maintenance of the Register of Land Values; customer service; contract and financial management.

This section describes the services that Valuation Services provides to councils for rating purposes including the role of the Valuer General, how the services are obtained, how service standards are detailed and how the operation of the valuation system is governed.

3.1 The IPART Act 1992

Pursuant to an Order dated 11 August 1993 made under section 4 of the IPART Act, the valuation services provided to councils are declared government monopoly services:

> *"Furnishing valuation lists and supplementary lists under Part 5 of the Valuation of Land Act 1916 by the Valuer General to a council of an area under the Local Government Act 1993."*

Under the IPART Act (section 14A) IPART must in making a price determination have regard to the following:

(1) A determination of the Tribunal of the methodology for fixing the price for a government monopoly service may be made in any manner the Tribunal considers appropriate, including, for example, by reference to maximum revenue, or a maximum rate of increase or minimum rate of decrease in maximum revenue, for a number of categories of the service concerned.

(2) In making such a determination, the Tribunal may have regard to such matters as it considers appropriate, including, for example, the following:

(a) the government agency's economic cost of production,

(b) past, current or future expenditures in relation to the government monopoly service,

(c) charges for other monopoly services provided by the government agency,

(d) economic parameters, such as:

(i) discount rates, or

(ii) movements in a general price index (such as the Consumer Price Index), whether past or forecast,

(e) a rate of return on the assets of the government agency,

(f) a valuation of the assets of the government agency,

(g) the need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the Environment Administration Act 1991) by appropriate pricing policies that take account of all the feasible options available to protect the environment,

(h) the need to promote competition in the supply of the service concerned,

(i) considerations of demand management (including levels of demand) and least cost planning.

(3) In any report of such a determination, the Tribunal must indicate what regard it has had to the matters set out in subsection (2) in reaching that determination.

3.2 The Valuer General

The Valuer General is an independent officer appointed by the Governor of NSW to oversee the valuation system which provides land values for rating and taxing; and determinations of compensation when land is compulsorily acquired by government.

The independence of the Valuer General ensures a clear separation between the impartial land valuation process and how state and local government use the valuations for levying rates and taxes, or for determining compensation following the compulsory acquisition of land.

The Valuer General’s responsibilities include:

- Setting standards and policies for the valuation system through the publication of the Valuer General’s policies. The policies assist landholders to better understand the valuation process and provide clear guidance to valuers on valuation methodology.
- Monitoring the quality of land values and services provided to stakeholder and the community by Valuation Services.
- Monitoring the management of contract valuers by Valuation Services.
- Providing professional leadership and stewardship to the valuation industry.

The Office of the Valuer General (OVG) provides day-to-day support to the Valuer General including setting objectives, standards and policies for the operation of the valuation system, monitoring the performance of Valuation Services, providing support for the Valuer General in addressing ministerial and parliamentary enquiries, developing information, responding to public enquiries and investigating complaints.

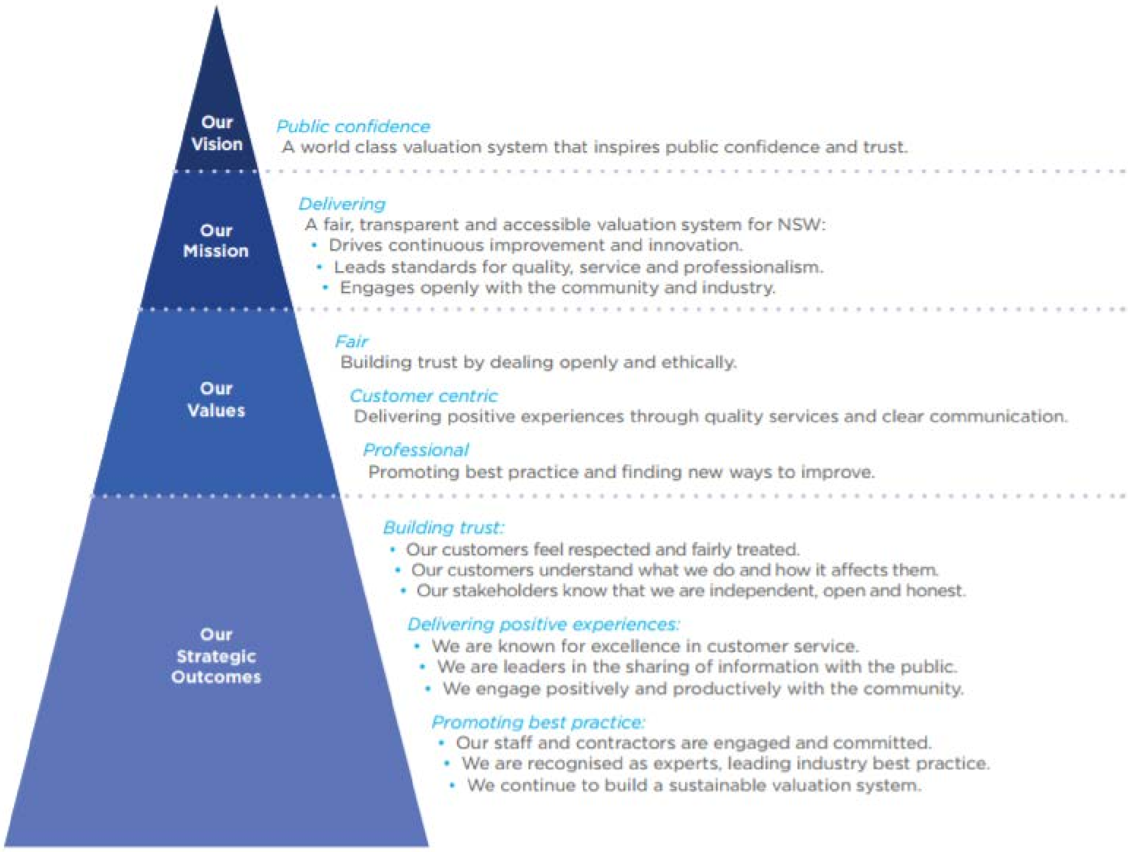
The specific functions of the Valuer General outlined in the VL Act include:

- maintaining the Register of Land Values
- making valuations of land under the VL Act
- dealing with objections and appeals against valuations made under the VL Act
- entering into, managing and monitoring valuation service contracts.

Section 8(5) of the VL Act authorises the Valuer General to delegate any functions outlined in the Act, with the exception of the power of delegation.

The Valuer General's strategic plan sets the direction for a fair, transparent and accessible valuation system:

Figure 1: Valuer General's strategic plan

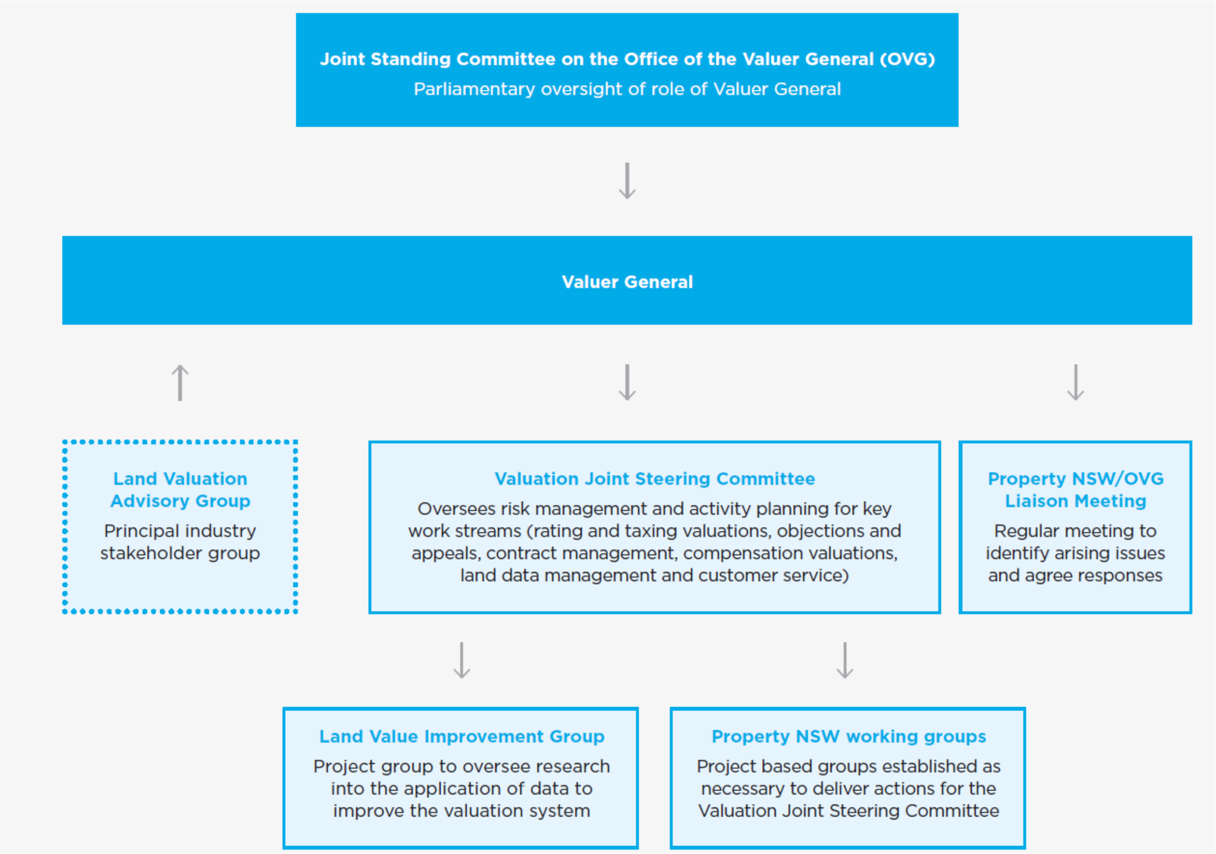


The Valuer General also determines compensation under the Land Acquisition (Just Terms Compensation) Act 1991.

3.3 Governance of the valuation system

This section describes the governance of the NSW valuation system, shown in Figure 2 below.

Figure 2: Governance of the NSW valuation system



A short summary of each of the groups in *Figure 2* and their functions is provided below:

3.3.1 Joint Standing Committee on the Office of the Valuer General

The JSCOVG was established in 2004 to monitor and oversee the functions of the Valuer General, and reports to the NSW Parliament.

In 2018 a final report was provided to the Committee highlighting improvements the Office has made in response to the Committee's recommendations from the 2013 Inquiry into the Land Valuation System.

The Committee tabled its report on the Twelfth General Meeting with the Valuer General on 21 September 2018.

3.3.2 Land Value Advisory Group

The Land Valuation Advisory Group comprises representatives from valuation industry groups and stakeholders. It was formed in 2000, following the 1999 Walton Report[11].

The primary focus of the group is to monitor and improve the ongoing quality of land values and provide advice to the Valuer General on the application of mass land appraisal techniques.

3.3.3 Valuation Joint Steering Committee

The Valuation Joint Steering Committee comprises the Valuer General; Executive Director of Valuation Services; and representatives from the Office of the Valuer General and Property NSW.

The CEO of the Property NSW, which includes Valuation Services and is part of the DFSI, is an invitee to meetings. The Valuation Joint Steering Committee coordinates senior management planning and oversight of the valuation system, including customer service, land values, compulsory acquisition, objection and appeals, data operations and contract management.

The Land Value Improvement Group and various Property NSW working groups support the function of the Valuation Joint Steering Committee.

3.4 The role of Valuation Services under Property NSW

The Valuer General formally delegates operational functions under Section 8(5), *Valuation of Land Act 1916,* to officers within Valuation Services. Delegates must comply with all Valuer General policies and exercise the functions in a manner consistent with the aims and objectives of the Valuer General.

Valuation Services provides a range of services to the Valuer General which include:

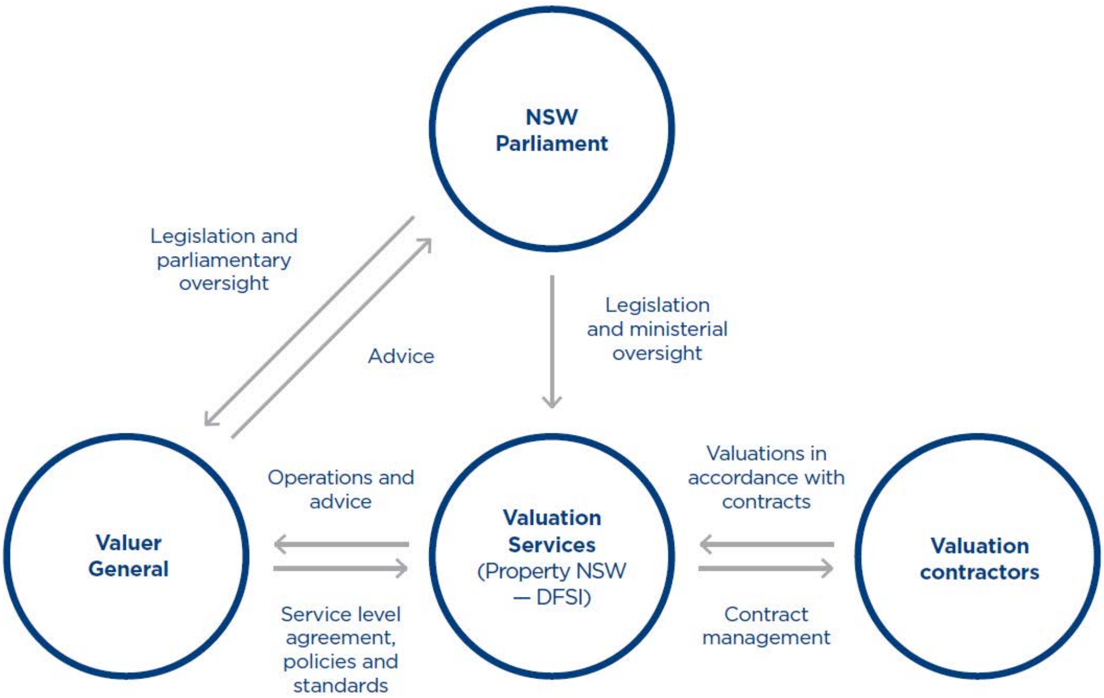
- issuing land values to councils, Revenue NSW and landholders
- undertaking determinations of compensation in accordance with the *Land Acquisition (Just Terms Compensation) Act 1991*, and the Valuer General's policies and operational procedures
- maintaining the Register of Land Values
- ensuring fair and transparent resolution of objections or requests for review

[11] Inquiry into the Land Valuations System in NSW, Walton Inquiry, 1999

- managing valuation contracts, the valuation procurement process and the performance of contractors, including compliance with legislation, policies and operational procedures
- customer service and positive engagement with the community, stakeholders, courts and the NSW Parliament
- provision of property information and data to valuation contractors, government and the community
- technical advice and support to the Valuer General's office
- quality assurance of all services
- financial and budget management.

Valuation Services outsources most of the land valuation services to external valuation firms through an open tender process. Contract valuers determine land values for defined geographic regions across NSW. A panel of contract valuers is also available to review objections to land values, prepare valuation reports for the determination of compensation when land is compulsorily acquired, and provide advisory services for quality assurance and property assets valuations. Valuation Services also provides valuations for compulsory acquisitions (under the *Just Terms Compensation Act 1991*) and private valuations. The costs associated with compulsory acquisitions are ring-fenced and are not included in this submission.

Figure 3: Structure of the Valuation System



3.4.1 *Implications for the Valuer General*

Valuation Services operates as a self-funded business unit of PNSW. The key implications of its status are as follows:

- PNSW expects its business units (including Valuation Services) to achieve, or work toward achieving, the same outcomes that are required of the business as a whole. In particular, it expects Valuation Services to achieve full recovery of its economic costs so that it does not have to be subsidised by other parts of PNSW's businesses.
- The Valuer General understands that this objective is consistent both with IPART's Terms of Reference for the Review of Prices for Land Valuation Services provided by the Valuer General to councils and its obligations under the IPART Act in relation to price reviews.
- Valuation Services has an incentive to ensure that the costs allocated to it (and thereby to the Valuer General) by PNSWs reflect a robust assessment of efficient costs and fair and reasonable cost allocation procedure.

Details of allocation of costs to the Valuer General from other business units are contained in section 4.3.

3.5 Valuer General's service levels

The Valuer General formally delegates operational functions under section 8(5), *Valuation of Land Act 1916* to representatives within Valuation Services. Services provided include valuation contract management, financial and budget management, audit of valuations, processing objections, provision of data, and customer service. These services are delegated through the Service Level Agreement between the Valuer General and PNSW, part of the Department of Finance, Service and Innovation.

The 2018 annual statistical review for quality assurance found that Valuation Services has a robust quality assurance program[12]. Furthermore, the valuation system remains largely unchanged in terms of methodology and framework since the last determination period. The JSCOVG had previously assessed the system as extremely cost effective[13]. Valuation Services continues to meet customer expectations and council feedback is broadly in line with these findings.

[12] Annual Statistical Review FY2018

[13] Joint Standing Committee on the Office of the Valuer-General, Parliament NSW 2013 Report on the Inquiry into the Land Valuation System and Eighth General Meeting with the Valuer General, 2/55, Page ix

4 Financial Performance over the current determination period (2014-2015 to 2018-2019)

This section analyses and reviews the financial performance of Valuation Services over the period of the current determination.

Since the last determination, key changes (see Figure 4) that have impacted the operating model of Valuation Services are:

- **Separation of Valuation Services from LPI** - On 1 July 2016, LPI was separated into 5 units: Titling and Registry Services (now referred to as NSW Land Registry Services), Spatial Services, Office of the Registrar General (ORG), Valuation Services and Office of the Valuer General (OVG). Valuation Services was transferred to PNSW within the DFSI. This new organisational structure resulted in a change to the total cost base and composition of the indirect costs in the 2016-17 year. These fluctuations make it difficult to make year to year comparisons of indirect costs.
- **Harmonisation of the valuations notification cycle** – Consequential amendments to the Valuation Land Act as a result of the Fire and Emergency Services Act were maintained despite the postponed introduction of the Fire and Emergency Services Levy Act 2017 (FESL). As a result, the FESL legislation led to a harmonisation of the valuations notifications cycle. The timing changed from a three-year cycle with approximately one-third (1/3) of notifications every year to triennial cycle (once every three years).
- **Outsourcing of transactional services to GovConnect** for Payroll, ICT, and Finance – As part of the DFSI operating model, transactional services for payroll, ICT network and support, and accounting transactions (including accounts payable, accounts receivable, projects, reconciliations and banking) have been outsourced to Unisys and Infosys (GovConnect) for the whole DFSI cluster.
- **Real property assets were vested to the Portfolio Management Group within PNSW**. In 2016-17, the two commercial buildings previously held by LPI were vested across to PNSW, leading to rental charges being incurred by Valuation Services at an arm's length commercial basis from that date.

Figure 4: Timeline of significant events affecting historical opex and capex

As a result of the above factors, there have been increased operating costs over the determination period. There were implementation costs incurred in bringing forward bulk-customer mail outs due to the harmonisation of the valuations notifications cycle, transitioning ICT platforms to GovConnect and separating Valuation Services from LPI. None of these costs have been passed on to local government prices but absorbed through additional state government funding in the current determination period.

Note that all revenue and costs in this section relate to ratings and land valuations within Valuation Services, and directly relate to councils.

Note that figures in tables may not sum to the total due to rounding.

4.1 Historical revenue: current determination period (2014-15 to 2018-19)

This section compares actual revenue of the Valuer General over the 2014-15 to 2018-19 determination period against the target revenue determined by IPART in the 2014 determination, and explains the basis of the variations that have occurred. Revenue in nominal terms can be found in the appendix within section 11.1.

4.1.1 Revenue in real terms: using base year as 2013-14

Target revenue was based on projected quantities as determined by the Valuer General and as agreed upon by IPART in 2014. In 2014, prices were set so that target revenue would be required to match the efficient building block costs of the determination period between 2014-15 to 2018-19 using real terms.

Total actual revenue (in real terms) has essentially been in line with target revenue across the current determination period. The cumulative actual revenue has been $0.4 million (0.6 per cent) below target revenue across the whole determination period.

All figures presented below are in 2013-14 real terms and have been deflated by CPI as determined by IPART.

Table 4-1 Actual vs target revenue in real terms (base year: 2013-14) over 2014-15 to 2018-19

Revenue $ '000 (base year: 2013-14)		2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target Revenue	Residential	11,627	11,739	11,857	11,974	12,097	59,295
	Non-residential	3,677	3,712	3,759	3,794	3,829	18,770
	Total	15,304	15,451	15,616	15,768	15,926	78,065
Actual Revenue	Residential	11,613	11,753	11,842	11,915	11,991	59,114
	Non-residential	3,656	3,577	3,644	3,780	3,861	18,518
	Total	15,269	15,330	15,485	15,695	15,852	77,632
Variance	Residential	14	-14	15	59	106	181
	Non-residential	20	135	115	14	-32	252
	Total	34	121	130	73	74	433
	%	0.2%	0.8%	0.8%	0.5%	0.5%	0.6%

4.2 Annual valuation numbers

Total valuation quantities were broadly in line with target quantities. The cumulative actual valuation quantities are 38,000 (0.3 per cent) under target during the determination period largely due to lower than expected non-residential quantities in 2015-16 to 2016-17. Annual valuation quantities were stable throughout the determination period. The split between residential and non-residential quantities were provided by councils (Table 4-2). Figures in the table are as at 1 July of each financial year. For the 2018-19, the breakup of residential and non-residential properties have been projected for the year.

Table 4-2 Actual vs target valuation quantities over 2014-15 to 2018-19

Valuation Quantity ('000) base year: 2013-14		2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	Residential	2,177	2,198	2,220	2,242	2,245	11,082
	Non-residential	313	316	320	323	329	1,601
	Total	2,490	2,514	2,540	2,565	2,574	12,683
Actual	Residential	2,174	2,201	2,217	2,231	2,245	11,068
	Non-residential	311	305	310	322	329	1,577
	Total	2,486	2,505	2,527	2,553	2,574	12,645
Var.	Residential	3	-3	3	11	0	14
	Non-residential	2	11	10	1	0	24
	Total	4	9	13	12	0	38
Var. %	Residential	0.1%	-0.1%	0.1%	0.5%	0.0%	0.1%
	Non-residential	0.5%	3.6%	3.1%	0.4%	0.0%	1.5%
	Total	0.2%	0.4%	0.5%	0.5%	0.0%	0.3%

4.3 Historical opex: current determination period (2014-15 to 2018-19)

4.3.1 Opex in real terms: using base year as 2013-14

Opex costs have significantly increased in real terms over the current determination period by a total of $10.2 million (4.7 per cent).

Opex exceeds target opex each year of the determination period except in 2014-15. There are a number of reasons for the substantial increase in actual opex compared to target opex namely increases in mass valuation contract costs and objections costs above the forecasted amounts.

The harmonisation of the valuation cycle for ratings brought forward some work previously distributed over a three-year period to a single year. This new model resulted in the transfer of the majority of workload and costs for the issue of valuations for rating to year one (2016-17) of the three-year cycle, bringing future expenditure forward. The principal effects were:

- issuing of approximately 2.5 million Notice of Valuations over one year rather than over three years
- additional contact centre volumes and activity
- additional objections

- additional printing and mailing costs.

It should be noted that as the Valuer General values all land every year there was no increased workload in the making of the valuations.

From 2016-17 onwards, the separation of Valuation Services from LPI and integration into PNSW caused year-to-year fluctuations in corporate support costs and an overspend of rent costs ($2.0 million). However, the fluctuations broadly offset each other over the current determination period.

Table 4-3 below compares the actual operating expenditure over 2014-15 to 2018-19[14] by key cost components against target opex as per the 2014 determination[15].

Note that 2018-19 actual figures were based on figures for the first four months of 2018-19, projected to the full year. All opex figures are in 2013-14 base dollars.

[14] The 2018-19 figures are the budgeted amounts

[15] Price review of rating valuation services provided by the Valuer General to local government, Final Determination 2014, IPART

Table 4-3 Actual vs target opex in real terms (base year 2013-14) over 2014-15 to 2018-19

	Opex $ '000 base year: 2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Target Cumulative	Actual Cumulative	Cumulative Variance	Variance %
Target	Labour	12,965	12,965	12,965	12,965	12,965	64,824	67,738	-2,914	-4.5%
	Mass Valuation	18,110	18,110	18,110	18,110	18,110	90,551	91,723	-1,172	-1.3%
	Other Valuation Contracts	3,085	3,085	3,085	3,085	3,085	15,426	22,166	-6,739	-43.7%
	Rent	595	595	595	595	595	2,976	4,979	-2,003	-67.3%
	Other Direct	1,461	1,461	1,461	1,461	1,461	7,303	5,948	1,355	18.5%
	VS Postage	400	400	400	400	400	2,000	3,390	-1,390	-69.5%
	Graphic Services	1,465	1,465	1,465	1,465	1,465	7,324	3,958	3,366	46.0%
	Net LPI Corporate Support	1,765	1,765	1,765	1,765	1,765	8,826	6,081	2,745	31.1%
	DFS Corporate Support	391	391	391	391	391	1,954	4,487	-2,532	-129.6%
	PNSW Corporate Support	0	0	0	0	0	0	3,585	-3,585	-
	ICT Operational	1,589	1,589	1,589	1,589	1,589	7,945	7,874	71	0.9%
	Spatial services	690	690	690	690	690	3,451	2,322	1,129	32.7%
	Titles and Images	646	646	646	646	646	3,228	1,734	1,494	46.3%
Target	Total OPEX	43,162	43,162	43,162	43,162	43,162	215,808	225,983	-	-
Actual	Total OPEX	42,891	45,749	45,587	46,111	45,645	225,983	-	-	-
Variance	Total OPEX	271	-2,588	-2,426	-2,949	-2,484	-10,175	-	-10,175	-
Var %	Total OPEX	0.6%	-6.0%	-5.6%	-6.8%	-5.8%	-4.7%	-		-4.7%

The below sections 0 through to 4.3.12 will explore variances for each opex line item in more detail.

4.3.2 Labour costs over 2014-15 to 2018-19

There was an overspend ($2.9 million) of labour costs over the determination period compared to the Valuer General's forecast in the 2014 price review, despite tracking below target for the first three years.

Labour costs have increased markedly between 2017-18 through to 2018-19 for the following reasons:

- NSW Treasury changed its methodology of calculating long-service leave, resulting in a significant one-off charge of circa $2 million in 2017-18.
- LPI separation and integration into PNSW resulted in lifting the pre-existing hiring freeze in place during the last review.
- Introduction of two new director level positions to promote the delivery of improved services.

Table 4-4 Actual vs target labour costs in real terms (base year: 2013-14) over 2014-15 to2018-19

Labour $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	12,965	12,965	12,965	12,965	12,965	64,824
Actual	12,097	12,139	12,545	15,312	15,645	67,738
Variance	868	826	419	-2,347	-2,680	-2,914
Var %	6.7%	6.4%	3.2%	-18.1%	-20.7%	-4.5%

4.3.3 Mass valuation contract costs over 2014-15 to 2018-19

Mass valuations continue to be outsourced through a competitive tendering process meaning the cost has been market tested and is efficient. Over the current determination period, contract tenders have gone to market upon expiry on two separate occasions:

- 24 per cent of properties (620,198 properties) were tendered on 3 November 2014.
- 21 per cent of properties (549,464 properties) were tendered on 21 September 2015.

While there have been ongoing improvements to the operations of the valuations, there have been no fundamental changes to the methodology for valuations.

As shown in Table 4-5 below, the actual cost of mass valuation contracts ($1.2 million overspend) are above the figures forecast by the Valuer General's submission to the 2014 IPART price review. Year on year fluctuations of mass valuation contract costs are expected and observed every year, due to:

- different levels of competition in the tendering process across different regions
- contract variations from contract to contract over time (e.g. due to quality and customer improvement initiatives, council amalgamations, standardised rezoning etc).

Every year since 2014-15, there were service quality improvements to ensure greater accuracy and reliability[16]. Not all contractors can absorb the higher procedural requirements and often, it is reasonable for them to charge a higher price, which is negotiated. The cumulative overspend of $1.2 million can also be attributed to contract requirement changes and increases to the number of properties in contracts which contain Priority Growth Areas.

Table 4-5 Actual vs target mass valuation contract costs in real terms (base year: 2013-14) over 2014-15 to 2018-19

Mass val. contract $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	18,110	18,110	18,110	18,110	18,110	90,551
Actual	18,300	18,388	18,416	18,251	18,368	91,723
Variance	-189	-278	-306	-141	-258	-1,172
Var %	-1.0%	-1.5%	-1.7%	-0.8%	-1.4%	-1.3%

4.3.4 Other valuation contract costs over 2014-15 to 2018-19

Other valuation contract costs are primarily associated with engaging contract valuers through a competitive tender process to review objections made to land values. Landholders may object against land values delivered to them through a notice of valuation or land tax assessment.

These costs have fluctuated over the current determination period and have remained above ($6.7 million overspend) the amounts forecast in the Valuer General's submission to the 2014 IPART price review. The overspend was a result of an underestimation of the target cost for other valuation contract costs.

Additionally, the permanent harmonisation of the notifications cycle brought forward cost of objections to 2016-17, thus increasing the actual costs for 2016-17 above target costs.

Although objection volumes are a key driver of other valuation contract costs, there are other factors which also had an impact on costs over the current determination period, namely:

- property market conditions
- location of properties being reviewed

[16] Note that there were no fundamental changes to the framework or methodology of valuations

- complexity of properties being reviewed
- improvements to customer service processes for objections
- further outsourcing to contractors for quality assurance of land values due to quality assurance requirements for mass valuations
- growth in supplementary notices.

Note that 2018-19 figures are based on projected figures based on the first four months of the financial year.

Table 4-6 Actual vs target other valuation contract costs in real terms (base year 2013-14) over 2014-15 to 2018-19

Other val. contract $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	3,085	3,085	3,085	3,085	3,085	15,426
Actual	2,650	4,129	6,393	4,520	4,474	22,166
Variance	435	-1,044	-3,307	-1,434	-1,388	-6,739
Var %	14.1%	-33.8%	-107.2%	-46.5%	-45.0%	-43.7%

4.3.5 Rent costs over 2014-15 to 2018-19

Rent costs are accommodation costs for Valuation and Land Data staff in regional and Sydney locations. Table 4-7 below illustrates that rent expenditure over the current determination was above amounts forecast by the Valuer General in the 2014 IPART price review submission ($2.0 million overspend).

In 2014-15 and 2015-16 rent was charged under the same apportionment methodology as the previous determination.

However, from 1 July 2016 as a result of the separation from LPI, and vesting of two real property assets to PNSW (Portfolio Management Group), rent has been charged at an arm's length commercial basis. The new methodology has resulted in a marked increase in rent costs for Sydney and Bathurst offices.

In 2017-18, Sydney based staff moved out of the Registrar General's building, to co-locate with other PNSW businesses still within the Sydney CBD. No significant changes have been made to regional locations.

Table 4-7 Actual vs target rent costs in real terms (base year: 2013-14) over 2014-15 to 2018-19

Rent $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	595	595	595	595	595	2,976
Actual	744	735	1,197	1,155	1,149	4,979
Variance	-148	-139	-602	-560	-553	-2,003
Var %	-24.9%	-23.4%	-101.1%	-94.1%	-93.0%	-67.3%

4.3.6 Other direct costs over 2014-15 to 2018-19

Other direct costs involve ad-hoc costs throughout each year including travel for staff to regional areas, amenities, staff related expenditure and ad-hoc consultancy costs. In the current determination period there was a $1.4 million underspend. In 2016-17 costs are higher because additional consultants were hired to manage the one-off business improvement project related to separating Valuation Services from LPI. Other direct costs are typically a small proportion of total opex and fluctuate from year to year due to its one-off nature.

Table 4-8 Actual vs target other direct costs in real terms (base year: 2013-14) over 2014-15 to 2018-19

Other direct $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	1,461	1,461	1,461	1,461	1,461	7,303
Actual	1,060	1,199	1,523	1,007	1,159	5,948
Variance	400	262	-62	454	301	1,355
Var %	27.4%	17.9%	-4.3%	31.1%	20.6%	18.5%

4.3.7 Postage costs over 2014-15 to 2018-19

Table 4-9 below shows that postage expenses have fluctuated significantly over the determination period, and were higher than forecast in the Valuer General's 2014 IPART price review submission ($1.4 million overspend). Postage costs are driven by the volumes of publications printed and issued to landholders (e.g. the notices of valuation), which typically fluctuates on a year to year basis.

The main driver of the increase in postage costs is due to the methodology of allocating costs from Spatial Services to Valuation Services.

In 2016-17, the harmonisation of the valuation cycle for ratings brought forward some work previously distributed over a three-year period to a single year. This new model resulted in the transfer of the majority of workload and costs for the issue of valuations for rating to year one (2016-17) of the three-year cycle, bringing future expenditure forward. Consequently, it is expected there will be a similar spike in costs in 2019-20.

Table 4-9 Actual vs target postage costs in real terms (base year: 2013-14) over 2014-15 to 2018-19

Postage $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	400	400	400	400	400	2,000
Actual	447	619	2,210	60	55	3,390
Variance	-47	-219	-1,810	340	345	-1,390
Var %	-11.7%	-54.8%	-452.6%	85.1%	86.3%	-69.5%

4.3.8 Graphic services costs over 2014-15 to 2018-19

Table 4-10 shows that graphic services have fluctuated greatly over the determination period, and were lower than forecast in the Valuer General's 2014 IPART price review submission ($3.4 million underspend). Graphic services are delivered externally by Spatial Services and provide graphic design, desktop publishing, printing, binding, digital imaging and mail processing and dispatch services. Graphic services also produce and mail notices of valuation, as well as objection correspondence and a range of valuation information.

Graphic services were captured as apportioned allocated costs in 2014-15 and 2015-16 as the service was provided under LPI. There may have been elements of postage captured within graphic services charges.

However, since 2016-17, the cost of graphic services has been charged directly and apportioned by volume of services. During the transition from LPI into PNSW, graphic services were undercharged due to the difficulty of calculating the methodology for their exact cost. Coinciding with the next cycle of mail-outs, it is expected there will be an increase in costs in 2019-20.

Table 4-10 Actual vs target graphic services costs in real terms (base year: 2013-14) over 2014-15 to 2018-19

Graphic Services $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	1,465	1,465	1,465	1,465	1,465	7,324
Actual	1,410	1,314	864	187	183	3,958
Variance	55	151	601	1,278	1,278	3,366
Var %	3.7%	10.3%	41.0%	87.2%	87.2%	46.0%

4.3.9 Corporate support costs over 2014-15 to 2018-19

Table 4-11 below shows corporate support charges were higher than the target charges ($3.4 million overspend). The current determination period represents a transition of Valuation Services from having corporate support services within LPI to PNSW within the DFSI cluster.

LPI corporate support charges were incurred in 2014-15 and 2015-16 and captured as apportioned allocated costs. There was an overspend of LPI corporate charges to reflect the increasing support costs required for Valuation Services.

2016-17 was a transitional period where skeleton corporate services were being delivered by DFSI and hence LPI corporate support charges were no longer incurred. Services provided by the DFSI continued and were apportioned directly to Valuation Services. DFSI apportionment of corporate costs increased because of the separation and sale of LPI businesses. Hence it is reasonable for corporate costs to exceed the determination amount during this period. This resulted in total corporate support charges decreasing in 2016-17.

From 2017-18, corporate support services transitioned to PNSW and new teams within the DFSI. These costs reflect similar support services to the 2014-15 structure but with a different delivering model and methodology for cost apportionment.

Table 4-11 Actual vs target corporate support costs in real terms (base year: 2013-14) over 2014-15 to 2018-19

Corporate support $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
LPI	1,765	1,765	1,765	1,765	1,765	8,826
DFS	391	391	391	391	391	1,954
Target Corporate Support	2,156	2,156	2,156	2,156	2,156	10,781
LPI	2,601	3,480	0	0	0	6,081
DFS	0	0	1,223	2,391	873	4,487
PNSW	0	0	0	2,074	1,511	3,585
Actual Corporate Support	2,601	3,480	1,223	4,465	2,384	14,153
Variance	-445	-1,324	933	-2,309	-228	-3,372
Var %	-20.6%	-61.4%	43.3%	-107.1%	-10.6%	-31.3%

4.3.10 ICT costs over 2014-15 to 2018-19

Table 4-12 below shows that ICT costs are broadly in line with forecasts in the Valuer General's 2014 IPART price review submission ($0.1 million underspend). However, year to year fluctuations in costs offset each other and can be explained by the separation of Valuation Services from LPI.

LPI ICT costs were delivered by Spatial ICT Services in 2014-15 and 2015-16 and apportioned as allocated costs. There was an overspend of ICT costs in preparation for separation.

2016-17 was a transitional period where only necessary ICT services were being delivered. This resulted in total ICT costs decreasing in 2016-17.

From 2017-18, ICT services transitioned to PNSW and the DFSI outsource provider. There are still some services being retained by Spatial ICT Services. The current ICT model is a combination of Spatial ICT Services and GovConnect. These costs reflect similar support services but with a different delivering model and methodology for cost apportionment.

Table 4-12 Actual vs target ICT costs in real terms (base year: 2013-14) over 2014-15 to 2018-19

ICT $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	1,589	1,589	1,589	1,589	1,589	7,945
Actual	2,178	2,304	741	1,155	1,497	7,874
Variance	-589	-715	848	434	92	71
Var %	-37.0%	-45.0%	53.4%	27.3%	5.8%	0.9%

4.3.11 Spatial services costs over 2014-15 to 2018-19

Valuation Services and its contract valuers are heavy users of spatial data in the valuation process. Spatial data is used for:

- identifying land parcels to be valued
- understanding land forms and the built environment
- graphically representing value movements
- relating market evidence to valuations.

Table 4-13 below shows that spatial services costs have fluctuated significantly over the determination period and are lower than forecast in the Valuer General's 2014 IPART price review submission ($1.1 million underspend).

In 2014-15 and 2015-16, Valuation Services were allocated costs for spatial services through an allocation of indirect internal charges.

From 2016-17, Spatial Services continued providing services to Valuation Services, but were no longer charging for access to this service. The projection included in 2018-19 is unlikely to be realised.

Table 4-13 Actual vs target spatial services costs in real terms (base year: 2013-14) over 2014-15 to 2018-19

Spatial services $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	690	690	690	690	690	3,451
Actual	787	802	0	0	732	2,322
Variance	-97	-112	690	690	-42	1,129
Var %	-14.0%	-16.2%	100.0%	100.0%	-6.1%	32.7%

4.3.12 Titling and images costs over 2014-15 to 2018-19

NSW Land Registry Services is the external provider of land titling and images. The NSW Land Registry Services is the business name of the Australian Registry Investments, a private operator of land and titling and registry operations in New South Wales. NSW land titling information and registered survey plans are made available electronically on behalf of the Registrar General via NSW Land Registry Services as well as through a range of information brokers.

Table 4-14 below shows that titling services costs have fluctuated significantly over the determination period and are lower than forecast in the Valuer General's 2014 IPART price review submission ($1.5 million underspend).

Prior to 2016-17, Valuation Services and land titling operations were both functions of LPI and hence land titling services were accounted for as an apportionment of allocated costs.

In 2016-17, the Australian Registry Investments took over the operations of LPI under a 35-year concession with the NSW Government.

From 2017-18 onwards, the Office of Registrar General (ORG) has a memorandum of understanding with the Valuer General which specifies that it will not charge for the services provided to Valuation Services by the NSW Land Registry Services. This free service is expected to continue into the future and accounts for the $1.5 million underspend in the current determination period.

Table 4-14 Actual vs target titling and images costs in real terms (base year: 2013-14) over 2014-15 to 2018-19

Titling and images $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target	646	646	646	646	646	3,228
Actual	618	640	475	0	0	1,734
Variance	28	5	170	646	646	1,494
Var %	4.3%	0.8%	26.4%	100.0%	100.0%	46.3%

4.3.13 Cost increases and savings

As stated above, overall there was a significant increase in opex costs due to the one-off implementation costs of FESL, the separation of Valuation Services from LPI into PNSW and a transition from Spatial Services to GovConnect.

The implications of the organisational restructures resulted in an ongoing increase in cost of ICT, corporate and rent due to allocated costs now being charged to external agencies at market competitive rates. The increase in cost of service represents the true cost of service and is directly correlated to the volume of service.

As the NSW Land Registry Services does not charge for the titling services provided to Valuation Services, this represents a minor cost saving to Valuation Services. In the referral period, it is expected the NSW Land Registry Services will continue to provide the service free of charge.

4.3.14 Implementation of determination period from 2014-15 to 2018-19

Section 18(5) under the IPART Act 1992 requires Valuation Services to implement price determinations. Accordingly, the maximum price for valuation services as determined by IPART's final review in 2014 was applied between the determination period of 2014-15 to 2018-19.

The Valuer General will continue to adhere to IPART's price determination and appropriate methodology in accordance with the IPART Act 1992. Should the Valuer General have any objections to IPART's determination, the Office of the Valuer General will outline its recommendations in writing as per the process outlined in section 18(5), IPART Act 1992.

The cost overspend has been a result of increases in mass valuation contract costs and objections costs above the forecasted amounts as a result of variations (e.g. supplementary notices growth, council amalgamations, standardised rezoning etc). However, no pricing changes have been sought to recover these. The recommendations for the referral period incorporates the new operating model that has been impacted by these decisions.

4.4 Historical Capital Expenditure: current determination period (2014-15 to 2018-19)

Actual capital expenditure (capex) during the current determination period was less than forecast with an underspend ($5.2 million) due to lower than expected expenditure on intangibles and plant and equipment.

Table 4-15 Actual vs target capex in real terms (base year: 2013-14) over 2014-15 to 2018-19

Historical capex $ '000 (base year: 2013-14)	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Land and buildings	74	72	90	72	72	380
Plant & equipment	969	981	960	1,213	1,252	5,375
Intangibles	837	603	565	500	488	2993
Total target capex	**1,880**	**1,656**	**1,615**	**1,785**	**1,812**	**8,748**
Land and buildings	0	8	0	0	0	8
Plant & equipment	64	24	11	0	0	99
Intangibles	313	155	340	880	1,780	3,468
Total actual capex	**376**	**188**	**351**	**880**	**1,780**	**3,575**
Variance	1,504	1,468	1,264	905	32	5,173
Var%	80.0%	88.7%	78.3%	50.7%	1.8%	59.1%

The main driver for capital underspending is the underspend in plant and equipment. During the separation of LPI, any capital expenditure on IT infrastructure and peripherals were put on hold.

In Table 4-16, the opening value of the regulatory asset base (RAB) for Valuation Services as at 1 July 2014 ($8.9 million) has been established using the roll-forward methodology.

Table 4-16 illustrates the RAB variance in 2014-15 ($2.8 million underspend) is flowing through from the year before the current determination period. Hence the 2013-14 have been included.

In 2015-16, two office buildings and land were vested in PNSW. These were the Registrar General's building in Queen's Square in Sydney and a general office building at 346 Panorama Rd in Bathurst. This consequently reduced the closing figures for actual RAB compared to target RAB ($5.3 million underspend over the determination period). The reason for the vesting was to comply with Property Asset Utilisation Taskforce II (PAUT II) principles.

Table 4-16 Actual vs target RAB in real terms (base year: 2013-14) over 2014-15 to 2018-19

RAB $ '000 (base year: 2013-14)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
				(current determination)		
Opening target RAB	8,941	9,325	8,615	7,866	7,376	7,336
Capex	2,599	1,880	1,657	1,615	1,786	1,811
Disposals	0	0	0	0	0	0
Depreciation	2,533	2,590	2,407	2,105	1,825	1,488
Index	317	0	0	0	0	0
Closing target RAB	**9,325**	**8,615**	**7,866**	**7,376**	**7,336**	**7,659**
Opening actual RAB	8,941	7,336	5,803	1,295	836	1,200
Capex	382	376	188	351	880	1,780
Disposals	0	0	3,293	0	0	0
Depreciation	2,271	1,909	1,402	810	516	652
Index	283	0	0	0	0	0
Closing actual RAB	**7,336**	**5,803**	**1,295**	**836**	**1,200**	**2,328**
Variance	1,989	2,813	6,571	6,540	6,136	5,331
Var %	21%	33%	84%	89%	84%	70%

4.4.1 Land and building over 2014-15 to 2018-19

The Registrar General's building and Bathurst building and land were vested from LPI and transferred to PNSW in 2015-16, resulting in a lower RAB. This had minimal impact on return on RAB throughout the determination period on land and buildings.

Table 4-17 Actual vs target land and buildings in real terms (base year: 2013-14) over 2014-15 to 2018-19

Land and Buildings $ '000 (base year: 2013-14)	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target Land and buildings	74	72	90	72	72	380
Actual Land and buildings	0	8	0	0	0	8
Variance	74	64	90	72	72	372
Var %	100.0%	88.0%	100.0%	100.0%	100.0%	98.0%

4.4.2 Plant and equipment over 2014-15 to 2018-19

Plant and equipment is primarily concerned with IT infrastructure and peripheral upgrades. Over the determination period there was a $5.3 million underspend.

Table 4-18 Actual vs target plant and equipment in real terms (base year: 2013-14) over 2014-15 to 2018-19

Plant and equipment $ '000 (base year: 2013-14)	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target Plant and equipment	969	981	960	1,213	1,252	5,375
Actual Plant and equipment	64	24	11	0	0	99
Variance	905	957	949	1,213	1,252	5,276
Var %	93.4%	97.5%	98.9%	100.0%	100.0%	98.2%

4.4.3 Intangibles over 2014-15 to 2018-19

The main driver for intangible capex is enhancement of the valuations system, Valnet II. During the determination period, such enhancements include:

- **Spatial information exchange enhancement** – This is a registry of spatial data that is undergoing continuous improvement to better interact with Valnet II.
- **E-Learning for valuer accreditation** - Valuation Services provides independent external valuations of each local government area, as well as valuations of all NSW properties. To maintain quality-controlled services, the agency, Australian Property Institute (API) provides contractor training and accreditation.

Table 4-19 Actual vs target intangibles in real terms (base year: 2013-14) over 2014-15 to 2018-19

Intangibles $ '000 (base year: 2013-14)	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Target intangibles	837	603	565	500	488	2,993
Actual intangibles	313	155	340	880	1,780	3,468
Variance	524	448	225	-380	-1,292	-475
Var %	62.6%	74.3%	39.8%	-75.9%	-264.8%	-15.9%

The 2018-19 actual intangibles are based on expected expenditure on digital portal access channels, Valnet II enhancements and SNSW digital Notices of Valuations. The benefits of each of these are detailed below:

- Digital portal access channels
  - provides customers with a single view of government
  - facilitates customer transactions with government
- Valnet enhancements
  - effectively manage increased workloads
  - increase accuracy of data

    - increase reporting capabilities
    - have the ability to extract additional data for analysis

- SNSW digital Notice of Valuations
    - facilitates access for NSW landholders
    - delivers savings to government by digitising Notices of Valuation from 1 January 2020.

5 Standards of service

5.1 Service levels and enhancements in the current determination period

In the current determination period, a number of important systems, processes and customer quality enhancements have been implemented within Valuation Services. The FY2018 annual statistical review[17], for land values at 1 July 2017, for quality assurance was completed based on a framework designed by Adjunct Professor John MacFarlane. He found that Valuation Services has a robust quality assurance program which is driving an improvement in the overall quality of land valuations in NSW[18]. Improvements include:

Address for services on notice: Customers now have the ability to update their mailing address online to receive Notices of Valuation. This resulted in improved customer experience.

Objection reporting: Valuation Services improved the reporting capabilities for objections and decreased the time taken to quality assure objections by creating three new Objection Audits. This provides greater flexibility allowing all quality assurance of objections to occur in the internal system.

Feedback assist: Valuation Services has a new online feedback functionality which enables the capture of customer (including council) feedback. This improves customers' ability to submit feedback and improves capability for customer interaction. Customer will be able to provide feedback without the need to interact directly with Valuation Services resulting in minor operational cost savings.

Audit and issue validation workflow: Valuation Services has implemented a system to centrally track and manage performance of contractors with Valnet. This will result in improved contractor performance and reporting of audit issues.

Conference guidelines review: Conferences are available to any customer should they request it. Conferences can relate to objections, complaints or requests for information. The new guidelines reflect the preferred approaches to conferencing. This improves capability for customer interaction.

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[17] Annual Statistical Review FY2018

[18] Review of Valuation Services Exception Reports 2017-18, Prof John MacFarlane, Valuation Round for the Office of the NSW Valuer General, April 2018

Post call customer satisfaction survey: The customer service team has implemented a post call customer satisfaction survey with the customer service operator. This is used to gauge the likelihood of the customer commending the service they have received.

Open data feed for land values: The Valuation Portal provides an open data feed to act as a one-stop-shop for bulk valuation data. This improves access to data by customers and stakeholders. It also reduces the need for manual data entry.

Automated Notice of Valuation cleansing: The Notice of Valuation file generation process now creates a separate file which automatically extracts this data, for each local government area. The file generation process also automatically transfers the Notice of Valuation file from network drives to nominated local directories.

5.2 Service levels and enhancements for the referral period

There will be ongoing quality improvements to the operations of the valuations as part of business as usual operations. Costs associated with these improvements will be absorbed by Valuation Services. It is anticipated that there will be no fundamental changes to the scope, framework and methodology for conducting valuations in the referral period. Improvements to the standards of service include the completion and full implementation of the JSCOVG recommendations as outlined below.

Anticipated improvements to be implement during the referral period relating to the consistency, accuracy and reliability of valuations, are outlined below:

Future anticipated improvements in the referral period relating to the consistency, accuracy and reliability of valuations are outlined below:

- Inclusion of information on added value of improvement evidence in the contractors' market analysis file uploads to demonstrate an evidence based approach has been adopted.
- Inclusion of benchmarking codes in contractors values file uploads to allow comparison of benchmark values and value movements across a within a local government area and across similar local government areas to review consistency in value levels.
- Inclusion of Australian Valuation Property Classification codes on land values to review consistency in value levels of properties with similar use.

At the 11th JSCOVG meeting, a number of recommendations were made and subsequently supported by government. Recommendations from the 12th JSCOVG meeting are currently being considered by government. There will be improvements to service quality enhancements in the future determination period as the government implements the recommendations of the

JSCOVG. Some of the recent and remaining JSCOVG recommendations are in early stages of consultation with implementation likely to occur in the referral period.

These recommendations will be absorbed as part of business-as-usual costs. Encouraging more council participation

One of the recommendations is for the Valuer General to encourage more council participation in public information sessions. This recommendation has been endorsed by government and the matter will be raised by Valuation Services at future NSW Revenue Professional Executive Committee meetings.

Council participation in public information sessions will also be raised by Land Data Team Leaders upon their attendance at regional Rating Professional meetings that are held periodically throughout the upcoming year and prior to the delivery of the next general valuation in January 2019.

Contact will be made by Valuation Services with each council each year to encourage greater participation in formal public information sessions.

Valuation Services will provide:

- councils with reports advising land value movements each year
- councils will be offered the option to meet with Valuation Services to identify issues each year
- councils the opportunity to meet at the beginning of each General Valuation year to share information about the valuation process, planning and delivery of land values.

These actions are aimed at enhancing the services that are provided to councils and the public by being able to deliver, demonstrate and explain land value methodology and land value movements in a mutually agreed format. The impact will support an open and transparent relationship with stakeholders and the public.

5.2.1 Enhance customer service and improve capture of data by working with Service NSW

Another recommendation the Valuer General will adopt, is to enhance customer service by working with Service NSW. PNSW has partnered with Service NSW to undertake a Customer Insight Discovery Session to develop customer service initiatives. These initiatives will provide a user-friendly website that makes it easy to find and understand valuation and objection processes. A digital portal will provide customers, including councils, with access to land value, sales data and Valuer General publications on the Service NSW portal (see section 6.2.2). It will also allow Property NSW to utilise the MyService Account platform.

The integration with Service NSWs MyService account platform will provide the following customer service initiatives:

- deliver digital Notices of Valuation to customers
- personalise property information publications related to the customers property portfolio
- send notifications to customers regarding the issue of notices of valuation or updates to lodged objections or queries
- book/amend meetings or conferences
- personalise surveys related to the customers property portfolio
- improve capture of data from customers to optimise service delivery.

5.2.2 Optimise service delivery

The Valuer General will also aim to optimise service delivery. PNSW is exploring opportunities to utilise Service NSW Contact Centres' staff to provide level one and level two telephone call support related to Land Valuation Services such as the online objection lodgement, online objection Status and booking Conferences.

Salesforce is the customer relationship management system and will be better integrated into future and existing systems used by Service NSW. This will facilitate methods to optimise service delivery to customers and between agencies.

5.2.3 Conduct whole-of-government collaborative research

The Valuer General and Valuation Services have been working with the Co-operative Research Centre for Spatial Information (CRCSI) in collaboration with the University of NSW. The Valuer General will conduct research into the potential application of rapid spatial analytics and visualisation technology for valuation and property analysis processes.

This project offers the potential to develop new approaches for making and testing the quality of valuations. Support has been in the form of the provision of data and contributions to collaborative design workshops. Phase one has been completed and Phase two will be conducted over the referral period.

The key benefits of the project will be to:

- develop tools to rapidly quantify the value impact of different rezoning and land use planning scenarios in Western Sydney
- automate the analysis of property sales data to streamline the land valuation process

- design and evaluate a community facing interface for communication of valuation information to the public.

6 Forecast

The total revenue requirement for the Valuer General has been determined as the sum of the following cost building blocks:

- operating expenditure (opex)
- return on capital
- return of capital (depreciation)
- cost of tax
- working capital allowance.

Table 6-1 shows forecast opex over the referral period. All forecasts are provided in real terms using 2018-19 as the base year.

It is important to note, that the prices determined in IPART's 2014 final determination were set to recover 34.0 per cent of the Valuer General's required revenue by 2018-19. Table 6-2 shows efficient costs attributed to councils using a percentage allocation by each opex line item.

The remainder of this section explains the derivation and the components, of the opex forecasts. Generally, the methods for forecasting operating cost components are the same as proposed in 2014.

Table 6-1 Forecast opex over referral period 2019-20 to 2024-25

Opex $ '000	**Forecast opex each year**						**Cumulative**	**% of total opex**	**% allocation to councils**
(base year: 2018-19)	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**			
Labour	17,337	17,537	17,137	16,287	16,487	16,087	100,873	31.9%	36.5%
Mass Valuation	20,523	20,973	21,531	22,163	22,727	21,181	129,099	40.8%	25.0%
Other Valuation Contracts	6,492	5,203	5,005	6,630	5,313	5,111	33,754	10.7%	38.0%
Rent	1,277	1,298	1,319	1,341	1,365	1,390	7,990	2.5%	33.0%
Other Direct	1,454	1,369	1,368	1,454	1,369	1,368	8,381	2.7%	33.0%
Postage	1,857	64	65	1,238	66	66	3,356	1.1%	100.0%
Graphic Services	610	194	196	464	199	200	1,863	0.6%	100.0%
DFSI Corporate Support	956	956	956	956	956	956	5,735	1.8%	33.0%
PNSW Corporate Support	1,655	1,655	1,655	1,655	1,655	1,655	9,932	3.1%	33.0%
ICT Operational	1,545	1,717	1,889	1,710	1,710	1,710	10,281	3.3%	33.0%
Spatial Services	802	802	802	802	802	802	4,813	1.5%	33.0%
Titling and Images	-	-	-	-	-	-	0	0.0%	33.0%
Total Forecast Opex	54,509	51,769	51,923	54,701	52,649	50,527	316,077	100%	32.5%
Depreciation (regulatory)	971	1,684	2,598	2,821	2,689	2,739	13,502	-	32.5%
Return on RAB	226	563	1,009	1,156	1,056	944	4,955	-	32.5%
Return on working capital	103	74	88	132	130	125	652	-	32.5%
Tax allowance	23	40	66	83	91	105	408	-	32.5%
Total Revenue Requirement	55,832	54,130	55,684	58,893	56,614	54,441	335,594	-	32.5%

6.1 Building block inputs for forecast opex

Most of the forecasting methodologies proposed by the Valuer General in the 2014 IPART price review are still considered to be appropriate and have therefore been applied over the submission for the referral period using 2018-19 as a base year.

Increases in forecast opex costs are largely driven by increases in mass valuation and objection contract costs. This is an adjustment to the forecasted amounts to recalibrate to the underspend in the current determination period reflecting the recent history in variations (e.g. supplementary notices growth, council amalgamations, standardised rezoning etc). Furthermore, in the referral period, the contract profile will be different (amalgamation of contract areas with varying specifications) from the previous determination period and it is proposed to implement a new valuations ICT system (Valnet III). This may impact future costs, although the extent of this impact will only been known later in the referral period.

All opex cost items are forecast to increase in line with CPI of 2.5 per cent [19] from 2019-20 onwards.

The sections below provide a breakdown of each opex line item forecasted across the referral period from 2019-20 to 2024-25 using $2018-19 (real terms).[20]

6.1.1 Allocation of costs to councils

Analysis of each opex line item has led to a percentage cost allocation for each category. This ensures a comprehensive analysis that is fair and reasonable. The methodology for the final price is built upon this basis. This methodology is a form of ring-fencing to ensure that councils pay no more than the efficient costs of supplying the regulated services. The rationale for each percentage cost allocation is explained in detail in sections 6.1.1 to 6.1.13.

For the referral period, an average allocation cost to councils of 32.5 per cent has been proposed in comparison to the 34.0 per cent in the current determination period. For the breakdown of opex percentage allocation to councils, there is no significant deviation from the referral period compared to the current determination. The majority of opex allocations in Table 6-2 are based on a 33.0 per cent share of frequency of valuations to councils. This is based on

[19] CPI is consistent with NSW Treasury forecasts and crown awards rates, Public Sector 2017, NSW Treasury. Crown award rates are specifically applicable to Valuation Services staff.

[20] Note: cumulative figures in tables may not sum exactly due to rounding

the number of valuations by councils as a portion of valuations conducted by the Valuer-General over the three-year cycle. Mass valuations (rating and taxing) contract costs are allocated a percentage (25 per cent) based on the share of usage of valuations by councils (number of valuations issued to councils) compared to Revenue NSW. This methodology is consistent with the previous IPART determination[21].

Allocating mass valuation costs on a share usage basis effectively means that councils and Revenue NSW pay the same unit cost per valuation received.

The 2014 determination proposed a 34.0 per cent allocation to councils. The only proposed changes from the 2014 determination relate to labour cost and other valuation contracts costs. This will be discussed in the relevant sections.

Table 6-2 Percentage allocation of forecast costs to councils

Operating costs	Current determination period %	Referral period %
Labour costs	33.0%	36.5%
Mass valuation contract costs	25.0%	25.0%
Other valuation contracts costs	50.0%	38.0%
Postage	100.0%	100.0%
Rent	33.0%	33.0%
Other direct costs	33.0%	33.0%
PNSW corporate costs	33.0%	33.0%
DFSI corporate costs	33.0%	33.0%
ICT operation costs	33.0%	33.0%
Graphic services	100.0%	100.0%
Spatial service	33.0%	33.0%
Title and Images	33.0%	33.0%
Total	**34.0%**	**32.5%**

[21] IPART Review of prices for land valuation services provided by the Valuer-General to councils, 2014

6.1.2 Efficiency of opex

The valuation system remains largely unchanged. The operating expenditure is cost efficient and valuations correlate closely with the market. The 2018 annual statistical review for quality assurance found that Valuation Services has a robust quality assurance program which is driving an improvement in the overall quality of land valuations in NSW[22.] The review was based on a range of statistical measures designed by Adjunct Professor John MacFarlane who reviewed the findings and commented;

> *I believe the state-wide analysis indicates the continuing high quality of the NSW statutory valuation system and its land value outcomes.*
>
> *I believe the statutory land values produced in NSW meet and exceed international standards and there are very few jurisdictions which produce statutory valuation outcomes of a comparable high quality".*

Professor John MacFarlane April 2018

Importantly the efficiency of the Valuer General has not been at the expense of delivering a quality service, as quality levels have remained high over the last determination period. The Valuer General is considered a 'low-cost' service provider compared to a benchmarking study undertaken by the International Property Tax Institute (IPTI, 2015)[23].

The 2015 IPTI benchmarking report, found that almost 48 per cent per cent of valuation agencies outsource all or part of their valuation work to the market. In comparison, to prepare mass valuations, Valuation Services outsources 100 per cent of its valuation contract costs to external agencies. This results in substantially lower overall costs by leveraging of an efficient external market.

The 2015 IPTI benchmarking report provides an analysis of the total annual operating cost of the responding jurisdictions' valuation system divided by the annual revenue it generates for rating and taxing authorities. For half of the agencies assessed, their costs were between one per cent and five per cent of their revenue. The average cost was 1.06 per cent of revenue generated. In comparison, Valuation Services opex as a percentage of revenue is 0.61 per cent in 2018-19, placing Valuation Services in the top 40 per cent of agencies[24].

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[22] Annual Statistical Review FY2018

[23] IPTI Benchmarking report, 2015

[24] IPTI Benchmarking report, 2015

The 2015 IPTI benchmarking report provides an analysis of the cost information provided by valuation agencies which showed that the average overall operating cost for assessing jurisdictions, expressed per property, was $28 (AUD). Valuation Services has an average operating cost per property of $17.74 (AUD) which in comparison shows Valuation Services is cost-efficient. Although, operating costs will vary across different jurisdictions due to the type of valuation methodology used.

Efficiency savings are already embedded in the Valuer General's proposal hence a productivity factor was not applied to the Valuer General's operating costs[25]. For example, mass valuation contract costs are competitively tendered, labour costs are market tested and other costs were comparable or below benchmarks. The Valuer General expects this to continue in the referral period.

Apart from valuation contract costs, postage and graphic services costs (an increase in 0.7 per cent in line with projected property growth has been forecast), all other opex categories do not include a percentage growth in line with property volumes.

6.1.3 Labour forecasts for 2019-20 to 2024-25

Labour costs have historically comprised a significant proportion of Valuation Services opex costs. For the referral period, labour costs are expected to account for approximately 31.9 per cent ($100.9 million cumulative) of total opex.

After the separation from LPI, the Valuation Services unit was redesigned. The service delivery model, technology platforms and organisational structure were updated to operate optimally within the new environment. To support these improvements, two new director level positions were added to the organisation structure; Director Contract Management and Director Customer Experience. The new directors leverage existing teams to promote the delivery of improved services through the design and implementation of business transformation and operational improvements. An administrative position was transferred from Valuation Services to the OVG during the current determination period.

Over the six-year referral period, it is forecast that 130 FTEs will be required to deliver the services. This represents an increase of five FTEs from 125 in the current determination. These increases include the two new director level positions mentioned above; two additional roles for business improvement supporting changes to Valnet II, and other initiatives; and one FTE increase for a customer service officer. The two FTE increases in customer service (including

[25] IPART, review of prices for land valuation services provided by the Valuer General to councils, Final Report 2014, pg 38.

the director position) costs are justifiable as previously customer service was delivered through an external contract which was cancelled in the current determination period.

From 2022-23 onwards there will be a reduction in FTE by seven staff.

The wage forecasts are calculated by multiplying the number of FTE's expected by the agreed salaries and on-costs. The average FTE salary in the referral period for Valuation Services is circa $94,059 which is on par with the benchmarked average NSW Government salaries in property and real estate of circa $94,047[26]. This is reasonable, given that Valuation Services is operating as a small unit with staff at maximum capacity. The separation of Valuation Services from LPI has also led to re-establishing senior roles which were once managed by LPI.

Superannuation expenses have been calculated at 9.5 per cent. On-costs as a portion of total labour costs are consistent with 2014-15 to 2018-19 amounts. Labour costs are forecast to increase by CPI over the referral period, consistent with 2018-19 CPI figures in the 2014 IPART submission review. Contractor phasing has been incorporated into the labour forecasts to account for year on year fluctuations on objections.

The allocation to councils is 36.5 per cent of total labour costs over the referral period. This is based upon a revised 50 per cent allocation (33.0 per cent in the 2014 determination) of the Land Data team to councils driven by functional analysis of the team. The main driver is supplementary valuations and these are equally attributable to both councils and Revenue NSW. For all other teams servicing councils a 33.0 per cent allocation was applied based upon the frequency of valuations. This follows the methodology of the 2014 price determination review.

Both the public and private sectors employ valuers and workers are free to move between the markets. Therefore, wages for valuers are governed by the labour market.

Table 6-3: Forecast labour costs in real terms (base year: 2018-19) over 2019-20 to 2024-25

Labour $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	36.5% allocation
Labour	17,337	17,537	17,137	16,287	16,487	16,087	100,873	36,838

As a result of the proposed implementation of Valnet III, it is expected there will be a saving of approximately seven FTE roles, mainly in data entry roles and some ICT roles, from 2022-23 onwards.

[26] ABS Average Weekly Earnings, NSW Public Sector May 2018

6.1.4 Mass valuation contracts forecasts for 2019-20 to 2024-25

Mass valuations will continue to be outsourced through a competitive tendering process meaning contract costs will be market tested over the referral period. This ensures a high level of cost efficiency.

There are 18 contract areas for 128 LGAs in the referral period compared to 41 contract areas in 152 LGAs in the current determination period. An allowance for contract variations across all contracts has been factored in at two per cent per annum throughout the referral period for quality enhancements and variations (e.g. supplementary notices growth, standardised rezoning etc). These quality enhancements cannot always be absorbed by contractors and hence it is reasonable for negotiated price adjustments to occur to reflect this.

For 8 contract areas specific to fringe and metro areas, an additional scope of service variation allowance has been built into the contracts for a total of 5% across the referral period. The Sydney Metro and Metro Fringe contract areas are the most affected by Priority Growth Areas and property development resulting in more properties. With a longer initial term (5 years) in the contracts, it is likely that variations will arise due to the increase in the number of properties within a contract area.

For the referral period, mass valuation contract costs are expected to account for approximately 40.8 per cent ($129.1 million cumulative), a significant share of the total opex. Mass valuation contract costs are expected to grow in line with CPI.

An allocation of 25 per cent is being applied to councils based on share usage of mass valuations (based on percentage of valuations issued to councils). Allocating mass valuation costs on a share usage basis effectively means that councils and Revenue NSW pay the same unit cost per valuation received.

Mass valuation (rating and taxing) contract costs are correlated with the number of properties on the Register of Land Values. The Valuer General is also projecting the number of properties on the Register of Land Values to increase by 0.7 per cent per annum.

Table 6-4: Forecast mass valuation contract costs in real terms (base year: 2018-19) over 2019-20 to 2024-25

Mass valuation contract $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	25.0% allocation
Mass val. contracts	20,523	20,973	21,531	22,163	22,727	21,181	129,099	32,275

As a result of the proposed implementation for Valnet III, it is estimated $2 million (circa 10 per cent) savings in mass valuation contracts due to the elimination of integration of data services required by contractors commencing year 2024-25. Variations built into tender contracts will be negotiated or re-tendered if necessary.

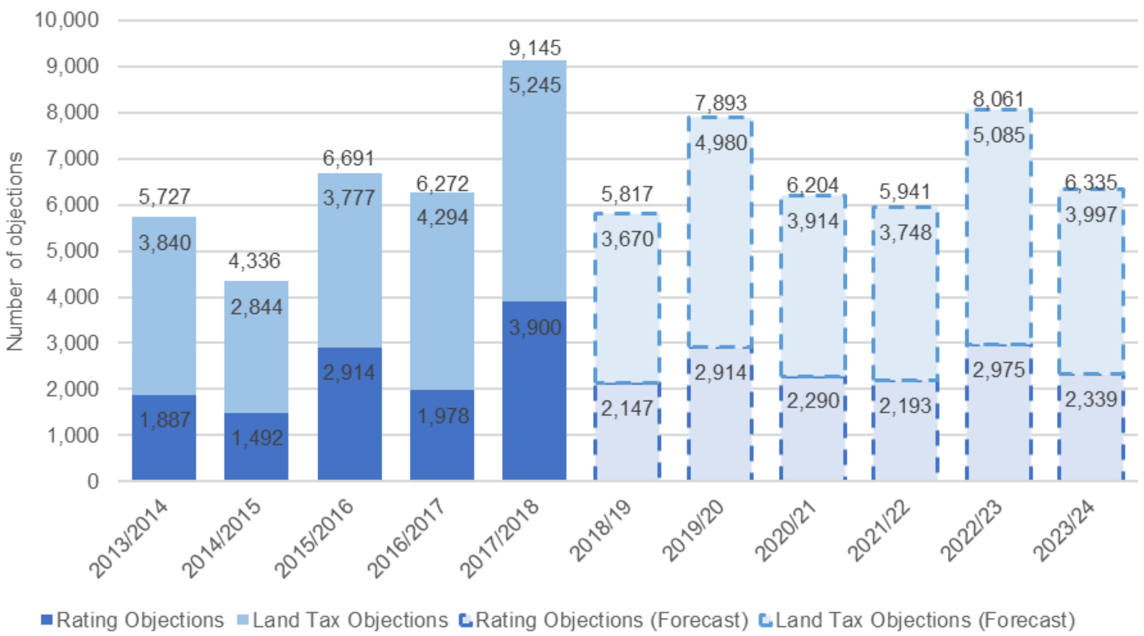
6.1.5 Other valuation contract forecasts for 2019-20 to 2024-25

There are two main components of other valuation contract costs; objections and quality assurance audit costs.

The number of objections to land values are the main cost drivers for other valuation contract costs. A comprehensive forecast model for both rating and land tax objections was developed on a 10-year historical volume trend analysis and consideration of the property cycle. The average number of objections attributed to ratings for councils is approximately 38.0 per cent. This is substantially lower than the 50 per cent allocation to councils in the 2014 determination.

The Valuer General proposes that the cost of other valuation contracts increase slightly in real terms (2018-19 dollars) in line with objection volume trends. For the referral period, other valuation contract costs are expected to account for approximately 10.7 per cent ($33.8 million cumulative) of the total opex.

Figure 5: Objection volumes - actuals over 5-year period and forecast over 6-year period



In the referral period, other valuation contract forecasts are based on average of 10-year historical volumes of objections. The 10-year average has been used to capture fluctuations in the property cycle which is difficult to accurately forecast for the referral period. Ten years of land tax and rating objections were analysed and used to forecast future objection volumes. A 5-year objection trend by LGA was used to allocate total objection costs in the referral period. Land tax and rating objections are mostly discrete and usually easily distinguishable. Only rating objections were attributed to councils when forecasting other valuation costs.

The forecast also factored in cyclical fluctuations reflecting the Notifications of Valuation delivery cycle (refer to Section 4.3.1 for more detail on the notification cycle). A 0.7 per cent per annum growth in objections has been built in to align with the property growth forecast for the referral period.

Table 6-5: Forecast other valuation contract costs in real terms (base year: 2018-19) over 2019-20 to 2024-25

Other val. $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	38.0% allocation
Other val.	6,492	5,203	5,005	6,630	5,313	5,111	33,754	12,822

There has been a significant change in the allocation of costs to councils from the current determination. In analysing the objection history, it has been determined that over the past 10 years, 38 per cent objections relate to ratings objections. Therefore, allocation in the referral period has been adjusted accordingly from 50 per cent.

6.1.6 Rent forecasts for 2019-20 to 2024-25

Rent costs are associated with government and market rents paid to accommodate valuation and land data staff in CBD and regional locations. There are 13 sites in total with 11 regional locations. Sydney and metro sites comprises approximately 40 per cent of rental costs.

Rental forecasts have been determined based on existing leasing arrangements, factoring contracted escalations in market rent review periods and lease expiries. It is assumed there will be no changes to these arrangements over the referral period. Rent forecasts are driven by market conditions, net lettable area and FTE levels which are expected to remain constant over the referral period. Each lease agreement may have an additional percentage escalation built into the contract to reflect the individual property. A 33.0 per cent allocation was applied based upon the frequency of valuations.

Table 6-6: Forecast rent costs in real terms (base year: 2018-19) over 2019-20 to 2024-25

Rent $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	33.0% allocation
Rent	1,277	1,298	1,319	1,341	1,365	1,390	7,990	2,637

6.1.7 Other direct forecasts for 2019-20 to 2024-25

Other direct costs involve ad-hoc costs throughout each year including travel for staff to regional areas, stationery, staff related expenditure and ad-hoc consultancy costs. Other direct costs are forecast to comprise a small proportion of total opex. Other direct costs are highest in the first year of the triennial notifications cycle. A 33.0 per cent allocation was applied based upon the frequency of valuations.

Table 6-7: Forecast other direct costs in real terms (base year: 2018-19) over 2019-20 to 2024-25

Other direct $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	33.0% allocation
Other direct	1,454	1,369	1,368	1,454	1,369	1,368	8,381	2,766

6.1.8 Postage forecasts for 2019-20 to 2024-25

Postage is correlated with the number of notices of valuations. Notice of valuation volumes have been forecast to increase by 0.7 per cent for each year of the referral period in line with the expected growth in the number of valuations to be carried out. This is consistent with the approach taken in the Valuer General's submission to the 2014 IPART price review.

Valuation Services has provided indicative volumes for all correspondences including notices of valuations, supplementary notices, objection letters and fact sheets for the referral period. Postage costs have been forecast based on estimated volumes of correspondence provided by Spatial Services. These quotes have been market tested with a further two per cent – five per cent bulk discount applied over the referral period.

Triennial phasing of notifications cycle will result in a spike in postage costs every three years in the referral period. A 100 per cent allocation is applied based on the direct cost to councils. Revenue NSW does not require postage.

Table 6-8: Forecast postage costs in real terms (base year: 2018-19) over 2019-20 to 2024-25

Postage $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	100.0% allocation
Postage	1,857	64	65	1,238	66	66	3,356	3,356

As a result of the proposed integration to the Service NSW platform and digitisation of customer interactions, benefits and savings are expected to commence in year one of the referral period with estimated 20 per cent penetration initially and 50 per cent penetration in year 4 to coincide with the next valuation and notification cycle.

6.1.9 Graphic services forecasts for 2019-20 to 2024-25

Graphic services costs are expected to be lower in the referral period than the current determination. The reduction in costs is because graphic services is now provided by an external agency at market rates. Previously, when Valuation Services was part of LPI, graphic services were allocated as an apportionment of FTE through a job costing system.

Similar to postage forecasts, Spatial Services have provided a quote on estimated volumes of notices of valuations, supplementary notices, objection letters and fact sheets. Hence, these costs have been market tested.

The projected 0.7 per cent per annum increase in the number of valuations being carried out, will not marginally increase current printing volumes. There will be an expected spike in costs due to the triennial notification cycle. A 100 per cent allocation is applied based on the direct cost to councils.

Table 6-9: Forecast graphic services costs in real terms (base year: 2018-19) over 2019-20 to 2024-25

Graphic services $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	100.0% allocation
Graphic services	610	194	196	464	199	200	1,863	1,863

As a result of the proposed integration to the Service NSW platform and digitisation of customer interactions, benefits and savings are expected to commence in year one of the referral period with estimated 20 per cent penetration initially and 50 per cent penetration in year four to coincide with the next valuation and notification cycle.

6.1.10 ICT forecasts for 2019-20 to 2024-25

In the referral period, it is expected the full cost of ICT services will be accurately captured and attributed to volume of services. This is in comparison to the 2014 IPART submission where the calculation of ICT services was based on FTE apportionment. Hence, there will be an expected increase in ICT service costs for the referral period compared to the current determination period. Forecasts ICT costs are expected to remain steady through each year of the referral period as the organisation will be fully integrated into PNSW. A 33.0 per cent allocation was applied based upon the frequency of valuations.

Total corporate support costs, including ICT service costs for the forecast period represent 8.2 per cent of total opex which is at the lower end of the benchmarking study where corporate services represents between 7-14 per cent of total departmental operating expense[27].

Table 6-10: Forecast ICT costs in real terms (base year: 2018-19) over 2019-20 to 2024-25

ICT $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	33.0% allocation
ICT	1,545	1,717	1,889	1,710	1,710	1,710	10,281	3,393

6.1.11 Corporate support forecasts for 2019-20 to 2024-25

Forecasts for the referral period are higher than corporate support costs in the current determination period.

The Valuer General's share of administrative overheads (comprising PNSW Corporate and DFSI Corporate expenses) will be based on PNSW and DFSI Cost allocation models which are made up of a combination of FTE, expense, and time-based drivers. Corporate support charges are constantly changing in order to meet the needs of government agencies.

Corporate support costs include the following functions ($15.7 million):

- **Workplace services** – provides common administrative functions such as reception, mail and courier, stationary etc
- **Procurement services**– provides supplier and contract management
- **People and culture services** – provides HR, payroll, employee relations and safety support

[27] Sustainable Productivity – Benchmarking of commonwealth and state government corporate services 2014, PwC

- **Office of the Secretary services** – provides cluster-wide planning, ministerial and cabinet support and assurance and governance support
- **Office of the Deputy Secretary government corporate services** - provides audit, risk and corporate operating model management support
- **Legal services** – provides legal advice to business units
- **Finance services** - provides financial advice to business units, manages budgeting and reporting
- **Corporate affairs services** – provides brand management, advertising and marketing and digital media support
- **Audit services** - acts as the interface between the business, Audit and Risk Committee and the NSW Audit Office on issues of fraud, corruption prevention and investigation.

Forecast corporate costs are expected to remain steady through each year of the referral period as the organisation will be fully integrated into PNSW. A 33.0 per cent allocation was applied based upon the frequency of valuations.

Corporate costs are in line with benchmarking studies in 2014[28] and other government agencies in terms of operations, delivery model, staffing and costs. Total corporate support costs, including ICT service costs for the forecast period represent 8.2 per cent of total opex which is at the lower end of the benchmarking study with corporate services representing between 7-14 per cent of total departmental operating expenses.

Table 6-11: Forecast corporate costs in real terms (base year: 2018-19) over 2019-20 to 2024-25

Corporate support $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	33.0% allocation
DFSI	956	956	956	956	956	956	5735	1,892
PNSW	1,655	1,655	1,655	1,655	1,655	1,655	9,932	3,278
Corporate support	2,611	2,611	2,611	2,611	2,611	2,611	15,667	5,170

6.1.12 Spatial services forecasts for 2019-20 to 2024-25

Spatial data also underpins Valmap; one of Valuation Services's primary valuation tools. This custom application enables the overlaying of valuation, sales and other property data essential

[28] Sustainable Productivity – Benchmarking of commonwealth and state government corporate services 2014, PwC

for valuations over cadastral and topographical maps as well as aerial and satellite imagery. This tool is used by both Valuation Services staff and valuation contractors and improves the efficiency of the valuation process by supporting desktop analysis as well as efficient verification and validation in the field.

The valuation system is a heavy user of spatial data therefore it's reasonable to include spatial data supply costs as part of Valuation Services's cost base. Post separation from LPI, Spatial is no longer charging for access to these services but these services continue to be a real cost to NSW Government.

The forecast reflects no change in the real cost that was applied in the current determination. 33.0 per cent allocation was applied based upon the frequency of valuations.

Table 6-12: Spatial services costs allocated to councils (2014-15 to 2018-19)

Spatial services $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative	33.0% allocation
Spatial services	802	802	802	802	802	802	4,813	1,588

6.1.13 Titling and Images forecasts for 2019-20 to 2024-25

There will be no titling and images costs in the referral period. In 2016-17, the Australian Registry Investments took over the operations of LPI under a 35-year concession with the NSW Government.

From 2017-18 onwards, the NSW Land Registry Services did not charge for the services provided to Valuation Services as negotiated by the Office of Registrar General (ORG). This free service is expected to continue into the referral period, and hence titling and images costs are not passed onto the customer.

6.2 Forecast capital expenditure and RAB

6.2.1 Proposed RAB roll forward 2019-20 to 2024-25

The proposed RAB roll forward for the next referral period is based on:

- an opening asset value of $2.4 million as at 1 July 2019
- forecast capital expenditure (in $2018-19) as set out in the table below.

Table 6-13: Proposed RAB to 30 June 2025

RAB $ '000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Opening target RAB	2,449	5,653	15,274	22,614	20,978	18,714
Capex	4,200	11,348	10,002	1,256	493	538
Disposals	0	0	0	0	0	0
Depreciation[29]	995	1,726	2,663	2,892	2,757	2,808
Index	0	0	0	0	0	0
Closing target RAB	**5,653**	**15,274**	**22,614**	**20,978**	**18,714**	**16,444**

6.2.1.1 Asset disposals

Over the referral period it is expected there will be no asset disposals.

[29]Depreciation in the RAB roll forward is calculated as at year end.

6.2.2 Forecast capex

Forecast capital expenditure for Valuation Services is based on budgets for capital approved and unapproved by NSW Treasury. Existing budgets for maintenance of the existing valuations ICT system are approved.

The forecast capex over the referral period reflects two significant new business transformation upgrades that are in the process for submission for approval.

The first is the digitisation of land valuation notification delivery consistent with the government's mandate to transition to digitised service offerings with Service NSW.

The second is the implementation of Valnet III, the replacement of the current combination of database applications and solutions, (including Valnet II Oracle database and servers, Valmap, Objection workflows, a customer portal, and range of specialist applications) designed to deliver business processes for land valuations.

The table below provides a breakdown of the forecast capex (in $2018-19 dollars) based on the following:

- land and buildings – occupancy rates of the relevant land and buildings by valuation staff
- plant and equipment – includes laptop and printer upgrades
- intangibles – includes database and system upgrades.

Table 6-14: Forecast capital expenditure

Forecast Capex $'000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Land and buildings	0	0	0	0	0	0
Plant & equipment	67	45	269	90	45	90
Intangibles	4,132	11,303	9,733	1,166	449	449
Total capex	**4,200**	**11,348**	**10,002**	**1,256**	**493**	**538**

Intangibles include a combination of database applications and solutions in producing and recording land values across NSW and plays a key role in ensuring that current, complete and accurate land value data is available to the Valuer General.

Valnet III Implementation

Valnet II is an out of date system, built in 2000 (18 years old) which has seen additional functions, modules and enhancements added over the years to meet changing business demands and needs. However, a new system would greatly enhance capabilities for Valuation Services. Implementation of the system is pending approval from NSW Treasury.

The current architecture has created the following business issues:

- Aging systems which inhibit adaptation of the systems to provide what is required by current and emerging business requirements.

  This inhibits the ability to respond to regulatory changes in a timely and agile fashion to support current and future customer and key stakeholder demands and restricts the ability to support innovation.

- Lack of flexibility to provide enhanced customer experience and better mitigate risks.

  These risks reflect a lack of integrated textual and spatial capabilities to offer richer visual analytic information to customers. It also highlights the difficulty of managing the customer lifecycle from a case management perspective.

- Manual data and processes which results in high effort and costs.
- Importantly, there is no enterprise integration solution capability to support effective and seamless integration to external data sets. This represents a key limitation in view of the increasing demands for greater integration to external data sets. The latter being driven by demands for increased access and provision of richer and wider range of property information to customers, and the aspiration for future state business model to accommodate the provision of automated valuation modelling and a possible move to improved ratings and taxing valuations approach.

To address these issues, a business technology transformation is proposed over the next five years with an estimated cost of $26.2 million. Implementation will commence from 2020-21 through to 2024-25.

A new system would deliver the following benefits:

- reduced risks from manual data integrations and multiple access points
- enhanced analytics to identify opportunities
- enhanced customer-facing digital interface
- improved case management
- simplified reporting processes
- reduced risks of errors and inconsistencies.

Benefits and savings of business transformation will be realised from year four of the referral period and be progressively realised over the following years as process efficiencies are delivered within the business and mass valuation contracts are revisited.

The funding for the capital initiative is subject to approval by NSW Treasury.

Service NSW Digitised Offering

Also included in the capex forecast is an investment in the Service NSW platform to digitise and improve customer interactions. This is consistent with government strategy of digitising services offerings. It is expected to cost circa $2.4 million and the offering is to be fully implemented by November 2019 to coincide with the new notifications cycle. The digital solution will provide:

- Land valuation notice delivery and management delivering printing and postage cost savings for customers preferring paperless options.
- Land valuation information search tools including geospatial.
- Enhancements to the portal for landholders to lodge their objections online. This will include better workflows, visibility and tracking of objections. Therefore, allowing better management of objections.

The Service NSW digital platform is expected to be implemented by November 2019, to coincide with the beginning of the triennial phasing cycle. This will deliver the following benefits:

- better tracking of customer valuation process
- enhanced feedback from customers
- better capture of data.

Benefits and savings are expected to commence in year one of the referral period with estimated 20 per cent penetration initially and 50 per cent penetration in year four to coincide with the next valuation and notification cycle.

6.2.3 Return of capital - depreciation

In calculating allowed depreciation, the remaining asset lives has been rolled forward for the previous opening asset base as determined by IPART. This is calculated as straight-line depreciation and based on useful life.

Table 6-15: Forecast return of capital – depreciation

Depreciation $'000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Forecast return of capital – before allocation to councils	971	1,684	2,598	2,821	2,689	2,739

6.2.3.1 Proposed asset lives

Expected asset lives in the referral period are:

- plant and equipment – five years
- intangibles – 10 years.

The diversion from the current determination useful life of four years on Intangibles is due to assessment of the useful life of a valuation system (Valnet). The current system was initially implemented in 2000 and is now 18 years old. Enhancements have been made over the years to extend the life of the system and to meet changing business demands and needs. The current version is no longer supported by the vendor, and presents increased operational, technology and security risks to the organisation. It is expected the replacement system will have a useful life of approximately 10 years.

The current determination concluded that the intangible assets are consistent with the category of 'in-house software' as per ATO definitions. On 7 December 2015, the government announced a $1.1 billion National Innovation and Science Agenda (NISA) which allows businesses to self-assess the effective life for an intangible asset.

6.3 Other cost building blocks

6.3.1 Forecast return on capital

The return on capital is determined using the RAB roll-forward methodology reflected in the IPART Cost Building Block Model template and based on the proposed post-tax real WACC of 5.1 per cent. The results are shown in the table below. Forecast return on capital is calculated by multiplying the rate of return by the value of RAB in each year of the referral period.

Table 6-16: Forecast return on capital (base year: 2018-19)

Return on Capital $'000 (base year: 2018-19)	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Opening value of RAB	2,449	5,653	15,274	22,614	20,978	18,714
Forecast capex	4,200	11,348	10,002	1,256	493	538
Disposals	-	-	-	-	-	-
Depreciation	995	1,726	2,663	2,892	2,757	2,808
Indexation	-	-	-	-	-	-
Closing RAB	5,653	15,274	22,614	20,978	18,714	16,444
Return on Capital RAB Calculation						
WACC	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Value of fixed RAB on which year-end return given	4,549	11,327	20,276	23,242	21,224	18,983
allocation to councils	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%
Return on fixed RAB	74	183	328	376	343	307

6.3.1.1 Cost of capital (WACC)

The Valuer General understands that this definition of WACC is consistent with the revenue requirement model applied by IPART, utilising the updated method for calculating WACC[30].

A post-tax real WACC of 5.1 per cent was adopted using the latest market parameters. It should be noted that there is no comparable business unit level for determining the WACC.

[30] IPART, *Review of our WACC method, Final Report – Research,* February 2018

Table 6-17 Cost of Capital (WACC)

Parameters	Point estimate
Nominal risk-free rate	4.5%
Inflation[31]	2.9%
Debt margin	2.8%
Market risk premium	7.0%
Debt funding	60%
Equity funding	40%
Total funding (debt + equity)	100%
Gamma	0.25
Corporate tax rate	30%
Effective tax rate for equity	30%
Effective tax rate for debt	30%
Equity beta	0.7
Cost of equity (nominal post-tax)	9.4%
Cost of equity (real post-tax)	6.3%
Cost of debt (nominal pre-tax)	7.3%
Cost of debt (real pre-tax)	4.3%
Cost of debt (nominal post-tax)	5.1%
Cost of debt (real post-tax)	2.2%
Nominal Vanilla (Post-tax nominal) WACC point estimate	8.1%
Post-tax real WACC point estimate	**5.1%**

6.3.2 Cost of tax allowance

In setting prices, Valuation Services aims to replicate competitive markets as closely as possible. This includes setting prices to allow the monopoly services to recover their tax allowance. In calculating a regulated business's costs for the purposes of setting prices, an amount is allowed to reflect the tax paid by the business. This will allow efficient and optimal allocation of resources. The cost of tax allowance has been estimated using the methodology reflected in the IPART Cost Building Block Model template. As Valuation Services is essentially a unit within PNSW and does not pay tax or tax equivalents, our calculations are based on this option in the IPART Cost Building Block Model template. The cumulative tax allowance for the referral period is $132,000.

To calculate tax allowances in the referral period, a 30 per cent statutory corporate tax rate is applied to the Valuer General's taxable income. This corporate tax rate is considered appropriate, despite the Commonwealth enacted legislation for the implementation of different rates for businesses of different sizes. Taxable income is derived by deducting the Valuer

[31] Inflation assumption for the calculation of WACC does not result in a significant change

General's operating costs allowance, tax depreciation and interest expense from the total notional revenue requirement.

Table 6-18: Estimated cost of tax allowance (base year: 2018-19)

Tax allowance $'000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	cumulative
Tax allowance in required revenue	23	40	66	83	91	105	408
Allocation to councils	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%
Tax allowance	7	13	21	27	30	34	132

6.3.3 Working Capital Allowance

An allowance for working capital represents the holding cost of net current assets. For the referral period it amounts to $212,000. Working Capital is separated from RAB as working capital is no longer depreciated. Return on capital is calculated separately as a component of notional revenue.

6.4 Revenue requirement calculation

The Valuer General notes that for the purpose of calculating the revenue requirement, IPART's Cost Building Block Model template applies a methodology which assumes that all costs are incurred including:

- opex
- return on assets (RAB)
- depreciation
- tax allowance
- working capital.

Table 6-19 Revenue requirement (base year: 2018-19)

Revenue Requirement $'000 (base year: 2018-19)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	cumulative
Operating expenditure	17,712	16,822	16,872	17,775	17,108	16,418	102,707
Depreciation (regulatory)	316	547	844	917	874	890	4,387
Return on RAB	74	183	328	376	343	307	1,610
Return on working capital	33	24	29	43	42	41	212
Tax allowance	7	13	21	27	30	34	132
Revenue requirement	18,142	17,589	18,094	19,137	18,397	17,690	109,049

These cost components represent the Valuer General's total efficient costs over the referral period for the provision of valuations for councils. The total notional revenue requirement is $109.0 million.

6.5 Key risks in forecasting assumptions

There are a number of risks that the Valuer General faces over the referral period which may result in the actual cost of service provision being significantly different from the estimates. Should costs significantly vary from the final determination, the Valuer General may submit a revised submission at any point during the determination period.

These risks include:

- Implementation of Valnet and other business system upgrades – there is a risk actual costs may not fully reflect forecast costs due to forecasts being based on early project scoping.
- Current tender for a number of mass valuation contracts have not been finalised at the time of this submission which may have a significant variance to forecasts.
- Significant changes in the property market – experience indicates that volatility in the real estate market can lead to significant increases in objection volumes.
- Externally mandated increases in quality – for example, a decision by the government to implement a range of recommendations by the JSCOVG or policy changes could significantly change the cost base for Valuation Services.
- Inflation risk – Over the referral period prices may increase at rates higher or lower than forecast.
- Number of properties being substantially different to projections – historical experience indicates changes in policy such as planning regulations or immigration can be significantly impact demand, supply and therefore number of properties.

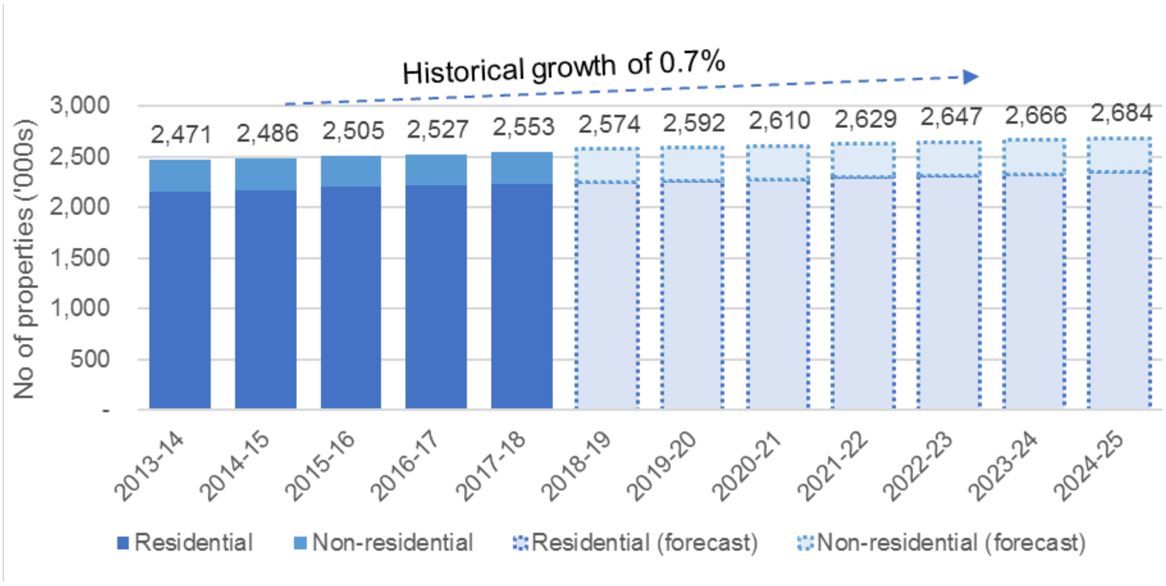
7 Forecast valuation numbers

Forecast valuation numbers are based on 10-year historical projections. An overall compound growth rate of 0.70 per cent is applied. This is derived from a compounded growth rate of 0.74 per cent each year for residential and 0.48 per cent for non-residential property valuations in the referral period. While the compound growth rate is expected to factor in market fluctuations and sector volatility, it should be noted that the future of the property market is difficult to predict.

Table 7-1 Forecast valuation numbers

Valuation Quantity ('000) base year: 2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative
Residential	2,262	2,278	2,295	2,312	2,329	2,346	13,822
Non-residential	330	332	333	335	337	338	2006
Total	2,592	2,610	2,629	2,647	2,666	2,684	15,828

Figure 6: Historical growth in valuation numbers



8 Setting prices and their impacts

As part of the issues raised by IPART, the Valuer General has been asked to consider whether the pricing for charging councils should continue to be uniform for each residential and non-residential valuation or if there is an alternative. This section outlines the prices that the Valuer General is proposing to charge councils based on two models:

a) Uniform Pricing Model

- Prices are uniform across geographic areas in NSW.
- There are two prices; one price for residential property valuations and one price for non-residential property.
- This is the status quo method for charging councils.

b) Differential Pricing Model

- It is proposed that there is one price for each of four geographic areas in NSW.
- In the same geographic area, there is one price per property valuation regardless of whether the property is residential or non-residential.

The following section will consider the merits of the two models, noting that:

- both models are revenue neutral to the Valuer General
- the Valuer General recommends the differential pricing model as prices charged to councils better reflect the costs of service.

The Valuer General proposes to:

- Ensure full recovery of the Valuer General's full efficient economic costs of service provision to councils for the whole referral period.
- Initially increase prices by two per cent in real terms.
- Hold prices constant in real terms over the course of the referral period.
- Index prices each year by CPI.
- Apply one price for each of the four geographic areas, reflecting the relative cost of delivering services.

The increase reflects the under recovery of mass valuation and objection contract costs from the previous determination and additional capital expenditure offset by savings.

The differential pricing model represents a change in the way the Valuer General seeks to recover efficient costs of delivering Valuation Services from a uniform price (based on residential and non-residential property types) to an area based price.

The reason for this change is that the main cost categories of mass valuation and objection contractors (41.3 per cent of totals costs) can be attributed to geographical areas. This more clearly reflects the cost of delivering the service which has been market tested through a robust procurement process.

8.1 Uniform pricing model vs differential pricing model

The current methodology (uniform pricing model) determines pricing by property type; one price for residential properties and one price for non-residential properties.

However, geographic areas rather than property type are more representative of the way contract costs for valuations are determined.

Both the uniform pricing model and the differential pricing model are revenue neutral for the Valuer General. The Valuer General recommends the differential pricing model as it:

- results in fair and efficient cost allocation between councils
- is based on a more comprehensive analysis of cost drivers
- has the ability to more accurately segment the market to better reflect the cost of servicing for each regional area
- minimises cross-subsidisation of rural areas and City of Sydney Council by metropolitan areas.

Both models contain some assumptions and risks outlined in the below sections.

8.1.1 Uniform pricing model

The current methodology (uniform pricing model) determines pricing by property type; one price for residential properties and one price for non-residential properties.

The benefits of the uniform pricing model are:

- the status quo model is familiar to councils
- it is not impacted by changes in boundaries, amalgamations, or geographical factors
- it is transparent and simple to calculate.

The detriments of the uniform pricing model are:

- The model uses a historic cost ratio (2.2 times between residential and non-residential properties) which does not correlate with any cost drivers.
- Councils in metropolitan areas effectively cross-subsidise other councils.
- There is a requirement for councils to provide information for residential and non-residential numbers to Valuation Services for invoicing purposes.

The following table outlines the proposed prices for residential properties and non-residential properties that the Valuer General would charge, per property, over the referral period if the uniform pricing model is adopted.

Table 8-1: Uniform prices in $2018-19 real terms

Prices in real terms of $2018-19	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Residential	$5.87	$5.99	$5.99	$5.99	$5.99	$5.99	$5.99
Non-residential	$12.91	$13.17	$13.17	$13.17	$13.17	$13.17	$13.17
Residential % change	-	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-residential % change	-	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%

8.1.2 Differential pricing model

The benefits of the differential pricing model are:

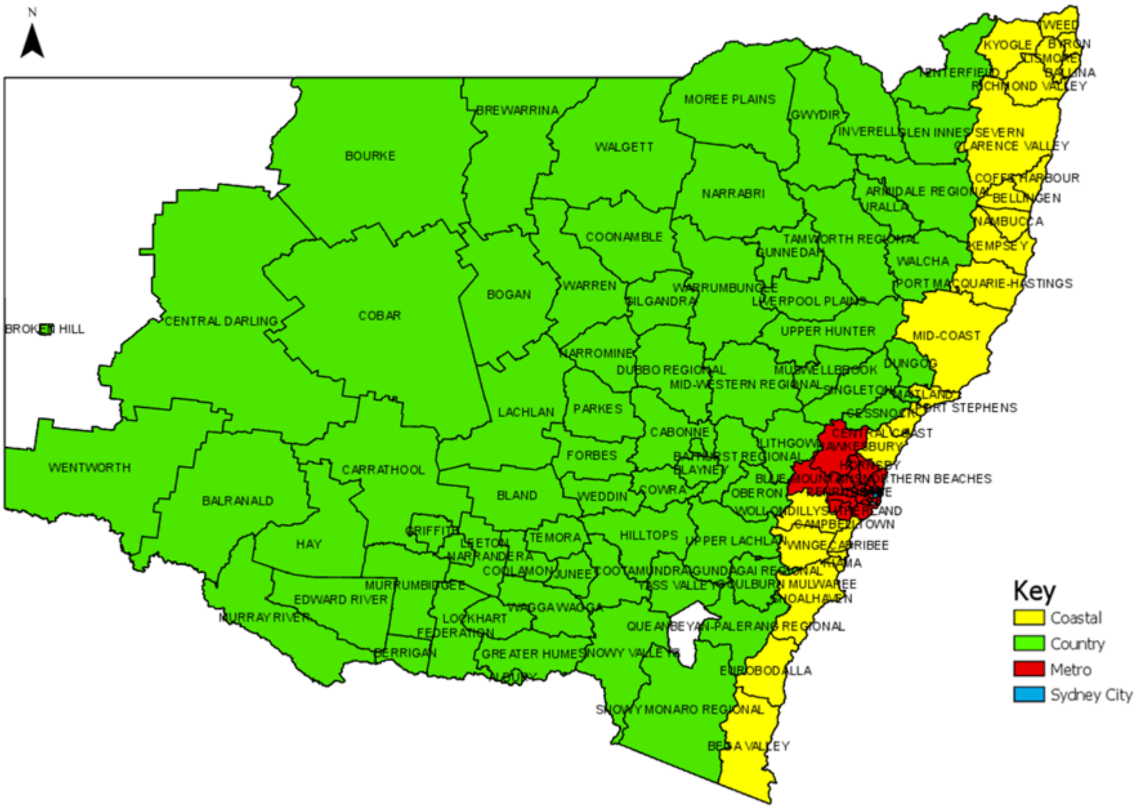
- prices are based upon the cost of delivering the service for each similar geographic area
- minimises cross-subsidisation between councils (minimises subsidisation of rural areas and the City of Sydney, by metropolitan areas)
- administratively it is simpler for councils as they would be required to provide total properties data only for invoicing purposes.

The detriments of the differential pricing model are:

- that having only grouped the pricing into four similar geographic regions, there is still a small degree of cross subsidisation, for example, with the Country category, LGAs with major regional towns subsidise other smaller and sparser regional LGAs.

Pricing areas have been categorised into four sub-regions: Country, Coastal, Metro and Sydney City (see Figure 7).

Figure 7: LGA categorisation in NSW



The price model has been based on;

- the cost of servicing the contract area which is market tested for all locations
- the cost of servicing objections across all locations
- fixed costs incurred in administering the valuation system.

A breakdown of the LGAs and number of properties in each LGA can be found in section 11.4.

A breakdown of the cost components used to arrive at the final prices is detailed below.

8.1.2.1 Mass valuation contract costs

The overall cost per valuation is lower in metropolitan areas than in regional areas. Of the current 41 contract areas in NSW the price/valuation ranges from \$3.02 to \$12.08 (average \$6.32) in metropolitan areas compared to \$8.69 to \$19.00 (average \$14.42) in regional areas. All contract costs are based on historical contract costs.

The cost differential is based on:

- higher proportions of residential properties in metropolitan areas leading to price efficiencies in producing large numbers of valuations through the mass valuation methodology
- higher market competition for provision of valuation services in metropolitan areas leading to reduced tender prices
- greater difficulty in the provision of services in regional areas based on travel times to more remote councils.

The City of Sydney local government area is considered an exception. This is understandable given the City of Sydney comprises the highest valued and most difficult to value properties in the state. There is a significantly higher proportion of properties in the City of Sydney which are designated as high risk in contract terms, which require individual annual land value verification.

The 41 contract areas will be amalgamated into 18 areas in the referral period. The reduced number of contracts was considered beneficial based on:

- Continued improvement in valuation quality and consistency between local government areas with fewer potential variations in valuation processes as a result of a single contractor determining valuations across a larger area. Over time, this may also to lead to fewer objections.
- Reduced contract cost through;
    - economies of scale
    - increased competition for fewer contract areas.
    - improved efficiencies through reducing the number of different valuation systems and staff overheads required across fewer contract areas.
- Increased efficiencies in quality assurance and contract management processes.

Valuation Services has based the differential pricing model on existing prices on the assumption that the price for the current 41 contract areas has been redistributed to the corresponding new 18 areas. The total cost of the existing contracts within the new areas was determined and an average price/property for each area calculated.

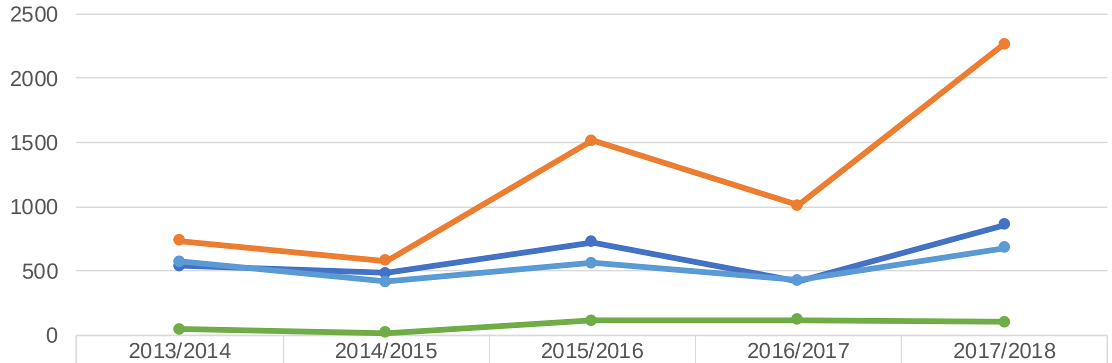
8.1.2.2 Cost of objections

The costs of objections per contract area vary based on the number of objections and type of properties objected to.

Valuation Services forecasted the total cost of objections for all local government areas. Each LGA was apportioned a cost for objections based on its historical weighted average.

The cost includes contractor costs to inspect and report on each objection, internal administration costs in contractor procurement, customer service and determination of objection decisions. The cost was determined by totalling the cost of objections and then splitting this cost on a weighted basis to each contract area. This analysis considered the weighting of the number of objections in each area compared to the total number of objections received across the state within the last five years (see Figure 8). The last five years was selected instead of ten years to better represent the trend in each contract area.

Figure 8: Number of objections completed by geographic area



	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Coastal	541	483	724	423	859
Country	570	415	563	426	678
Metro	733	578	1514	1011	2,264
Sydney City	43	16	113	118	99

Coastal Country Metro Sydney City

8.1.2.3 Fixed costs

Valuation Services's fixed costs for administering the valuation system include, labour, postage, rent, IT system operations and a range of other costs including graphic services, Spatial Services, title registry costs etc. The total fixed costs have been apportioned equally on a cost per property basis (based on the number of properties in each contract area).

8.2 Proposed prices, impacts and outcomes

The following table summarises the total price per key geographic areas under the recommended differential pricing approach:

- City of Sydney LGA at $12.71 per property valuation
- Metropolitan LGAs at $6.06 per property valuation
- Country LGAs at $8.24 per property valuation
- Coastal LGAs at $6.92 per property valuation.

This methodology is based on the differential pricing model (see section 8.1).

Table 8-2: Differential prices in $2018-19 real terms

Prices in real terms of $2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Country	$8.24	$8.24	$8.24	$8.24	$8.24	$8.24
Coastal	$6.92	$6.92	$6.92	$6.92	$6.92	$6.92
Metro	$6.06	$6.06	$6.06	$6.06	$6.06	$6.06
City of Sydney	$12.71	$12.71	$12.71	$12.71	$12.71	$12.71

The initial increase in real prices by two per cent in 2018-19 is a small increment. It is proposed this can be absorbed by councils, given the ratio of uniform blended price to average rates (see section 9.1). The impact of differential prices is expected to continue to represent less than one per cent of average rates revenue for a cross-section of councils as outlined in Table 9-1. Hence, no transitional arrangements or rebates are required to be in place to assist council transition to new prices.

The cost of implementing the new differential pricing model will be absorbed as part of normal operating costs by Valuation Services. This does not disadvantage the Valuer General or the users of the valuations, with prices set so the target revenue is equal to the notional revenue requirements over the determination period in NPV terms.

A further analysis has been under taken on the impact of price changes from uniform pricing to differential pricing by LGAs.

Key outcomes are:

- decreases in costs for LGAs within metropolitan areas
- increases in costs for Sydney City Council
- mixed results for LGAs within Country and Coastal areas, but generally increases
    - o coastal LGAs with significant built up areas such as Central Coast, Lake Macquarie, Wollongong and Newcastle will subsidise less built up coastal areas

- country LGAs with significant built up areas such as Maitland, Cessnock, Albury, Wagga Wagga, Queanbeyan-Palerang and Orange will subsidise less built up country areas.

Across the four segmented areas, the following table summarises the price impact of the recommended differential pricing vs the uniform pricing approaches across the six years of the referral period.

Table 8-3 Uniform pricing vs differential pricing by region

Pricing	Region	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total Revenue
Uniform								
Resi $5.99	Country	$4,568,920	$4,600,030	$4,631,356	$4,662,902	$4,694,667	$4,726,654	$27,884,528
Non-Resi $13.17	Coastal	$5,449,153	$5,485,771	$5,522,642	$5,559,768	$5,597,150	$5,634,790	$33,249,273
	Metro	$7,660,194	$7,711,526	$7,763,211	$7,815,253	$7,867,653	$7,920,415	$46,738,251
	Sydney City	$206,885	$208,286	$209,697	$211,117	$212,548	$213,988	$1,262,521
Total Fee Charges		$17,885,152	$18,005,612	$18,126,906	$18,249,039	$18,372,017	$18,495,847	$109,134,573
Differential								
$8.24	Country	$4,815,854	$4,849,730	$4,883,848	$4,918,209	$4,952,816	$4,987,669	$29,408,127
$6.92	Coastal	$5,599,198	$5,638,584	$5,678,251	$5,718,202	$5,758,437	$5,798,960	$34,191,633
$6.06	Metro	$7,098,555	$7,148,488	$7,198,777	$7,249,426	$7,300,436	$7,351,810	$43,347,493
$12.71	Sydney City	$359,121	$361,647	$364,191	$366,753	$369,334	$371,933	$2,192,980
Total Fee Charges		$17,872,729	$17,998,449	$18,125,068	$18,252,590	$18,381,023	$18,510,373	$109,140,232
Increase	Country	$246,935	$249,701	$252,492	$255,307	$258,149	$261,015	$1,523,599
Increase	Coastal	$150,045	$152,813	$155,609	$158,434	$161,288	$164,170	$942,360
Savings	Metro	-$561,638	-$563,037	-$564,434	-$565,827	-$567,217	-$568,604	-$3,390,758
Increase	Sydney City	$152,236	$153,361	$154,494	$155,636	$156,786	$157,945	$930,458
Variance		-$12,423	-$7,163	-$1,838	$3,551	$9,006	$14,527	$5,659

A breakdown of the comparison between uniform and differential pricing by LGA's can be found in section 11.5.

8.3 Proposed price cap

The Valuer-General supports the price cap methodology which is a fixed price each year escalated by an IPART determined inflation rate. A price cap is appropriate given the fairly unresponsive nature of supply and demand[32] and, as it is administratively simpler. Therefore, there seems no reason to introduce the complexities of an error correction mechanism for a revenue cap.

[32] The majority of labour, mass and other valuation contract costs are closely linked to inflation. These costs are forecast to be relatively steady throughout the referral period other than as outlined in this submission.

A consequence of the price cap is that the Valuer General bears the risk of costs increases that are independent of the quantity of properties in each LGA.

Under the differential pricing model, this will mean constant prices for each geographic category, escalated by the CPI mechanism.

Given operating expenditure accounts for more than 94 per cent of total efficient costs, and the majority of these costs (labour, mass valuation contracts, and other valuation contracts) are closely linked to inflation, there would be no significant benefit of introducing indexation to build the cost base.

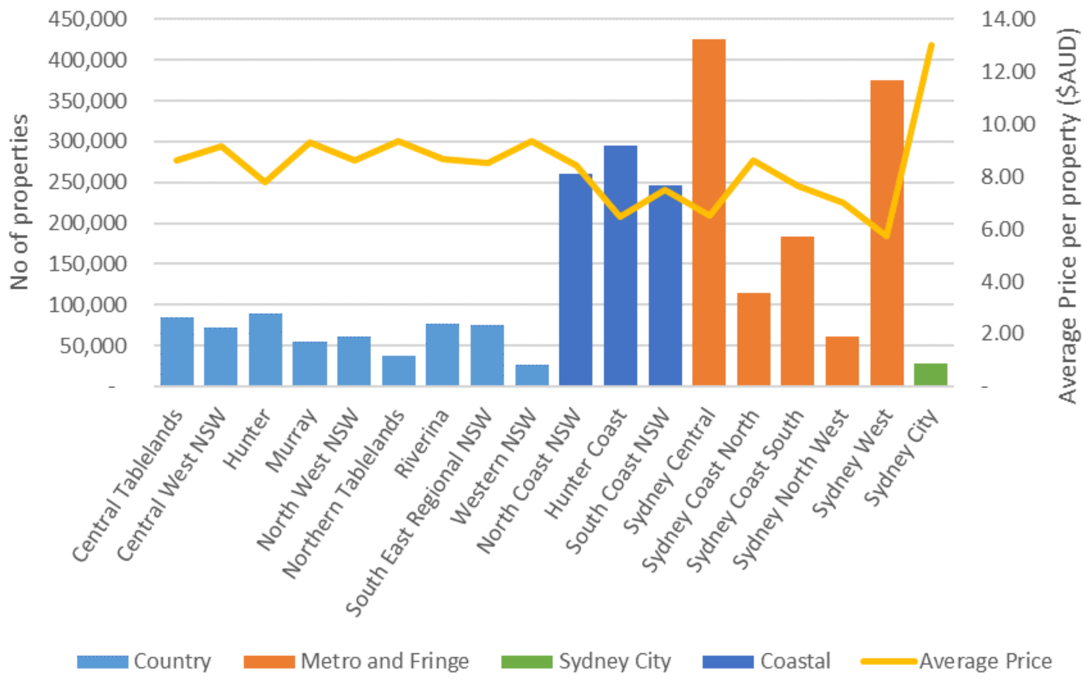
8.4 Price segmentation by 18 contract areas

The differential pricing model segments NSW into four regions. The alternative could be a level of price segmentation broken down further to 18 prices based on contract area (see appendix, section 11.6). IPART may consider this alternative differential pricing model which has a higher degree of price segmentation. This would lead to better representation of the true cost of undertaking valuations in these contract areas as it factors in the number of properties, complexity, property mix, distance to property and level of serviceability by the valuation industry. For example, rural councils in the Country region typically have a low number of properties in their LGAs, require greater distances to travel to each property and have lower levels of tender competition which drive up contract prices. Alternatively, some major regional centres, such as Orange, Maitland, and Cessnock will be impacted by being captured in contract areas with large rural holdings. Contractors do not differentiate costs of delivering valuations within the contract area, resulting in some major regional centres subsidising remote areas.

At the time of this submission, new contract prices were not publicly available.

Figure 9 shows the differential prices for each of the 18 contract areas for the 2019-20 year (in 2018-19 real terms) and the number of properties in each area.

Figure 9: Differential pricing by contract areas



9 Additional considerations

9.1 Council affordability

This section outlines the Valuer General's considerations for council affordability. In recommending prices, Valuation Services aims to replicate competitive markets by giving consideration to recovering efficient costs and the optimal allocation of resources.

The Valuer General's residential and non-residential charges are a small percentage of council rates charged for all types of property.

Below are key facts regarding council rates for each of the residential, business, farmland, and mining sectors. The below highlights that, across all segments of the market, prices charged are a small proportion of council rates charged.

Residential rates

- For all classifications of Councils, the Valuer General's residential charge for land values was 0.67 per cent of the Councils' average residential rate of $889.55 per annum.
- For the Council (Brewarrina) with the lowest average residential rate, the Valuer General's charge per property ($5.99) is 5.75 per cent of Council's residential rate.
- There are 20 Councils whereby the Valuer General's residential charge is greater than one per cent of Councils' average residential rate.
- For rural and large rural Councils, the Valuer General's residential charges were 1.1 per cent of the Councils' average residential rate.
- For Councils classified as Regional Town/City, the Valuer General's residential charge were 0.5 per cent of the Councils' average residential rate.
- For Metropolitan Councils, the Valuer General's residential charges are 0.5 per cent of the Councils' average residential rate.

Non-residential rates – farmland

- The Valuer General's non-residential charge of $13.17 was on average 0.6 per cent of Councils' rate for farmland.
- The highest non-residential rate in terms of percentage of Council's farmland rates was 1.3 per cent for Tenterfield.

Non-residential rates - business

- The Valuer General's non-residential charge of $13.17 was on average 0.4 per cent of Councils' rate for business.
- The highest non-residential business rate in terms of percentage of a Council's rate was 5.27 per cent for Brewarrina Shire Council.

Using differential pricing rates – Residential, commercial & farmland combined

- The Valuer General's differential pricing rate for each of the four areas was on average 0.6 per cent of Councils' combined rates for residential, business, and farmland.
- Areas that are most impacted by the introduction of differential pricing, such as Albury, Maitland, Cessnock, and Sydney, the Valuer General's rates are 0.52 per cent, 0.52 per cent, 0.64 per cent, and 0.56 per cent respectively of the Councils' average combined rates.

In Sydney CBD, Metropolitan, Coastal and Country areas, proposed rates under both uniform pricing and differential pricing are a small proportion of council costs and rates that Councils charge.

Table 9-1 below analyses average council rates for the residential, rural and commercial sectors for 2016-17[33]. A sample of councils representing coastal, metropolitan, Sydney City and country have been used to demonstrate all councils' ability to absorb the proposed price change.

[33] *Source : https://www.olg.nsw.gov.au/public/my-local-council/yourcouncil-website Time Series Data 2016/17*

Table 9-1 Sample of councils and their rates across various regions

						Uniform Pricing Assessment						Differential Pricing	
Council	Classification	Total of no. of properties	Average Residential Rate 2016/17	% Valuation Services Charge ($5.99 per property)	Average Farmland Rate	% Valuation Services Charge ($13.17 per property)	Average Business Assessment	% Valuation Services Charge ($13.17 per property)	Average Residential, Business and Farmland Rates	Uniform Blended Price*	% Valuation Services Charge	Differential Price	% Valuation Services Charge
			($)		($)		($)		($)	($)		($)	
Albury	Country	22,817	1,242.82	0.48%	3,094.97	0.43%	5,827.61	0.23%	1,584.43	6.56	0.41%	8.24	0.52%
Bourke	Country	2,083	349.95	1.71%	2,325.27	0.57%	481.82	2.73%	883.77	8.78	0.99%	8.24	0.93%
Brewarrina	Country	1,193	104.17	5.75%	2,694.61	0.49%	250.00	5.27%	1,005.15	8.91	0.89%	8.24	0.82%
Camden	Metropolitan	34,781	1,244.94	0.48%	294.29	4.48%	40,398.99	0.03%	1,434.01	6.41	0.45%	6.06	0.42%
Cessnock	Country	25,371	1,090.05	0.55%	2,708.78	0.49%	3,056.03	0.43%	1,280.20	6.74	0.53%	8.24	0.64%
Hunters Hill	Metropolitan	3,765	1,743.19	0.34%	-	-	1,117.39	1.18%	1,714.43	6.32	0.37%	6.06	0.35%
Lake Macquarie	Coastal	81,552	1,257.14	0.48%	2,000.00	0.66%	4,543.45	0.29%	1,406.19	6.32	0.45%	6.92	0.49%
Maitland	Country	32,740	1,224.39	0.49%	3,056.44	0.43%	6,551.58	0.20%	1,573.40	6.56	0.42%	8.24	0.52%
Mid-Western Reg	Country	14,168	832.48	0.72%	2,389.53	0.55%	1,812.86	0.73%	1,101.09	7.37	0.67%	8.24	0.75%
Muswellbrook	Country	7,696	734.81	0.82%	2,627.05	0.50%	1,878.69	0.70%	947.20	7.02	0.74%	8.24	0.87%
Newcastle	Coastal	58,654	1,219.01	0.49%	2,111.11	0.62%	10,119.89	0.13%	1,811.84	6.47	0.36%	6.92	0.38%
Orange	Country	18,042	1,278.40	0.47%	1,770.67	0.74%	5,767.03	0.23%	1,604.02	6.64	0.41%	8.24	0.51%
Penrith	Metropolitan	65,965	1198.11	0.50%	3,398.60	0.39%	7,450.26	0.18%	1,447.61	6.30	0.44%	6.06	0.42%
Sutherland	Metropolitan	61,750	1169.43	0.51%	-	-	3,618.89	0.36%	1,298.80	6.37	0.49%	6.06	0.47%
Sydney	Sydney CBD	28,247	633.79	0.95%	-	-	10,833.55	0.12%	2,252.51	7.13	0.32%	12.71	0.56%
Wollongong	Coastal	69,545	1,367.53	0.44%	2,611.57	0.50%	11,724.25	0.11%	1,884.60	6.36	0.34%	6.92	0.37%

* Uniform Blended Rate is a calculation of the residential rate ($5.99) multiplied by residential properties and the non-residential rate ($13.17) multiplied by non-residential properties divided by total properties for the LGA.

9.2 Ring-fencing

Valuation Services also provides valuations for compulsory acquisitions (under the *Just Terms Compensation Act 1991*) and private valuations.

Valuation Services has a separate Just Terms and Private Valuation team; hence these direct costs have a separate cost centre. Indirect costs of the Just Terms and Private Valuations team are apportioned out on an FTE basis. These costs are ring-fenced and are not included in the calculation of prices charged to councils.

9.3 Minor users of valuations

There are a number of minor users of valuations including:

- private brokers and the general public
- other government agencies such as NSW Fire and Rescue, NSW Roads and Maritime, NSW Crown Lands and Local Government Grants Commission.

With the exception of NSW Roads and Maritime and NSW Crown Lands, valuation services provided to minor users represent a more basic service than that provided to councils to Revenue NSW.

Therefore, minor users of valuations should not be allocated a proportion of costs for valuation services because the amount of valuations is immaterial, and the use of services is not for a commercial purpose.

10 Quality assurance requirements

The Valuer General has provided this submission in accordance with the IPART Act 1992 and IPART terms of reference (refer to section 2.3.1).

In developing this submission, Valuation Services sought assistance from an independent firm, PricewaterhouseCoopers (PwC). They have been engaged to review the IPART Cost Building Block Model template in conjunction with the Submission. Our objectives for the pricing model were that the calculations in the model are in all material respects internally consistent and arithmetically correct, and that the model's underlying assumptions and the application of these are reasonable, and the model’s assumptions and output are accurately and holistically applied within the model, and the Valuer General’s submission to IPART.

Valuer General's declaration

In accordance with the Guidelines for Pricing Submissions, December 2017 (the Guidelines), of the Independent Pricing and Regulatory Tribunal of New South Wales, I declare that:

a) The information provided in our pricing submission submitted on 30 November 2018 is the best available information of the financial and operational affairs of Valuation Services and has been checked in accordance with the Guidelines; and

b) There are no circumstances of which I am aware that would render the information provided to be misleading or inaccurate.

Certified by the Valuer General:

Mr Michael Parker

A/Valuer General

Office of the Valuer General

30 November 2018

11 Appendix

11.1 Revenue in nominal terms 2014-15 to 2018-19

According to the 2014 IPART determination, following a review of prices for land valuation services provided by the Valuer General, councils were required to pay $5.50 per residential valuation and $12.09 per non-residential valuation in 2014-15. The prices were set to increase by inflation (CPI) each year thereafter until the end of the determination period on 30 June 2019. The accumulated CPI index, as advised by IPART to determine 2018-19 prices is 6.8 per cent over the previous four years. As a result, the prices for 2018-19 to councils are $5.87 per Residential valuation and $12.91 per Non-residential valuation.

Table 11-1 Actual vs target revenue and pricing in nominal terms

All in nominal $ per valuation		**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Actual Pricing	Residential	5.50	5.57	5.65	5.76	5.87
	Non-residential	12.09	12.25	12.42	12.67	12.91
All in nominal $ '000		**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Actual Revenue	Residential	11,959	12,257	12,527	12,872	13,179
	Non-residential	3,763	3,730	3,853	4,081	4,244
	Total	15,722	15,987	16,380	16,953	17,423

11.2 Opex in nominal terms

In order to obtain real term opex figures in Table 4-3, the IPART compounded interest methodology was used. In the 2014 IPART determination, IPART prescribed each financial year with a CPI (e.g. 1.5 per cent in 2013-14 and 1.0 per cent in 2014-15[34]) as shown in Table 11-3. The compound of each year's CPI in the current determination period was applied to the nominal figures in Table 11-2 to derive the real term figures in the table above. The consequence of this methodology is that real term figures for opex may be underestimated as actual CPI in many opex line items were above the prescribed IPART CPI. This may partly account for the variance between real term opex and target opex. A further consequence of the compounding methodology is that recent years (e.g. 2017-18 or 2018-19) are more likely to observe higher variances if IPART CPI diverges from actual CPI every year.

[34] IPART letter to VG, ref 18/207, 7 Sept 2018, pg 8

Table 11-2 Nominal actual opex over 2014-15 to 2018-19

All in nominal $'000		2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Actual	Total Salaries	12,278	12,444	13,105	16,363	17,137	71,328
	Mass Valuation	18,574	18,851	19,238	19,504	20,120	96,286
	Other Valuation Contracts	2,690	4,233	6,678	4,830	4,900	23,331
	Rent	755	753	1,250	1,235	1,258	5,251
	Other Direct	1,076	1,229	1,591	1,076	1,270	6,242
	Postage	453	635	2,309	64	60	3,521
	Graphic Services	1,431	1,347	903	200	200	4,081
	LPI Corporate Support	2,640	3,568	0	0	0	6208
	DFS Corporate Support	0	0	1,278	2,555	956	4,789
	PAG Corporate Support	0	0	0	2,216	1,655	3,871
	ICT Operational	2,210	2,362	774	1,234	1,639	8,219
	Spatial Services	799	822	0	0	802	2,423
	Titles and Images	627	657	496	0	0	1,780
Actual	Total OPEX	43,534	46,900	47,622	49,276	49,998	237,331

Table 11-3 CPI Index as determined IPART Submission in 2014 to determine target costs

To convert:	Use:
$2012-13 into $2013-14	3.0% (Jun Qtr 2014/Jun Qtr 2013, All Groups CPI Australia)
$2013-14 into $2014-15	1.5% (Jun Qtr 2015/Jun Qtr 2014, All Groups CPI Australia)
$2014-15 into $2015-16	1.0% (Jun Qtr 2016/Jun Qtr 2015, All Groups CPI Australia)
$2015-16 into $2016-17	1.9% (Jun Qtr 2017/Jun Qtr 2016, All Groups CPI Australia)
$2016-17 into $2017-18	2.3% (Bloomberg Mean Consensus Inflation forecast, as at 6.12.17)
$2017-18 into $2018-19	2.5% (Mid-point of the RBA inflation target range, given the Bloomberg Mean Consensus Inflation forecast is not available for this future period, as at 6.12.17)

11.3 Nominal capex

Table 11-4 shows historical capex for the current determination period in nominal terms. Expenditure on intangibles increase towards the end of the period due to business system upgrades.

Table 11-4: Nominal capex for period 2014-15 to 2018-19

Nominal capex $ '000	2014-15	2015-16	2016-17	2017-18	2018-19	Cumulative
Land		0	0	0	0	0
Buildings		9	0	0	0	9
Plant and Equipment	65	25	11	0	0	101
Intangible	317	159	356	940	1,950	3,722
Total	382	192	367	940	1950	3,831

11.4 Number of properties in each LGA

Table 11-5 below shows the LGA's and number of properties in each contract area for 2017-18. This is the basis for the forecast projections.

Table 11-5 Number of LGAs and properties in each contract area

Contract Area (18)	LGA (128)	No. of Property
Central Tablelands	Bathurst Regional	18,755
Central Tablelands	Blayney	4,065
Central Tablelands	Cabonne	7,380
Central Tablelands	Cowra	7,461
Central Tablelands	Lithgow	11,857
Central Tablelands	Mid-Western Regional	14,049
Central Tablelands	Oberon	3,781
Central Tablelands	Orange	17,890
Central Tablelands Total		**85,238**
Central West NSW	Coonamble	2,740
Central West NSW	Dubbo Regional	22,969
Central West NSW	Forbes	5,419
Central West NSW	Gilgandra	2,581
Central West NSW	Hilltops	11,482
Central West NSW	Lachlan	4,415
Central West NSW	Narromine	3,529
Central West NSW	Parkes	8,206
Central West NSW	Warren	2,059
Central West NSW	Warrumbungle	6,362
Central West NSW	Weddin	2,826
Central West NSW Total		**72,588**
Hunter	Cessnock	25,157
Hunter	Dungog	5,172
Hunter	Maitland	32,464
Hunter	Muswellbrook	7,631
Hunter	Singleton	10,687
Hunter	Upper Hunter	7,837
Hunter Total		**88,948**
Murray	Albury	22,625
Murray	Berrigan	5,068
Murray	Edward River	5,280
Murray	Federation	7,719
Murray	Greater Hume	6,872
Murray	Murray River	7,872

Murray Total		**55,436**
North Coast NSW	Ballina	15,354
North Coast NSW	Bellingen	6,178
North Coast NSW	Byron	13,598
North Coast NSW	Clarence Valley	25,856
North Coast NSW	Coffs Harbour	27,870
North Coast NSW	Kempsey	14,399
North Coast NSW	Kyogle	5,355
North Coast NSW	Lismore	18,184
North Coast NSW	Mid-Coast	51,160
North Coast NSW	Nambucca	9,386
North Coast NSW	Port Macquarie-Hastings	31,951
North Coast NSW	Richmond Valley	10,306
North Coast NSW	Tweed	30,995
North Coast NSW Total		**260,592**
North West NSW	Gunnedah	6,391
North West NSW	Gwydir	3,266
North West NSW	Liverpool Plains	4,500
North West NSW	Moree Plains	6,847
North West NSW	Narrabri	7,090
North West NSW	Tamworth Regional	27,674
North West NSW	Walgett	5,206
North West NSW Total		**60,974**
Northern Tablelands	Armidale Regional	13,253
Northern Tablelands	Glen Innes Severn	5,331
Northern Tablelands	Inverell	8,154
Northern Tablelands	Tenterfield	5,146
Northern Tablelands	Uralla	3,099
Northern Tablelands	Walcha	1,897
Northern Tablelands Total		**36,880**
Riverina	Bland	4,311
Riverina	Carrathool	2,121
Riverina	Coolamon	3,008
Riverina	Cootamundra-Gundagai Regional	6,674
Riverina	Griffith	10,772
Riverina	Hay	1,883
Riverina	Junee	3,055
Riverina	Leeton	5,210
Riverina	Lockhart	2,638
Riverina	Murrumbidgee	2,670
Riverina	Narrandera	3,729

Riverina	Temora	3,932
Riverina	Wagga Wagga	27,386
Riverina Total		**77,389**
South East Regional NSW	Goulburn Mulwaree	15,355
South East Regional NSW	Queanbeyan-Palerang Regional	22,337
South East Regional NSW	Snowy Monaro Regional	13,867
South East Regional NSW	Snowy Valleys	9,197
South East Regional NSW	Upper Lachlan	6,547
South East Regional NSW	Yass Valley	7,635
South East Regional NSW Total		**74,938**
Western NSW	Balranald	1,786
Western NSW	Bogan	2,114
Western NSW	Bourke	2,065
Western NSW	Brewarrina	1,183
Western NSW	Broken Hill	10,545
Western NSW	Central Darling	1,903
Western NSW	Cobar	3,224
Western NSW	Wentworth	4,229
Western NSW Total		**27,049**
Hunter Coast	Central Coast	125,499
Hunter Coast	Lake Macquarie	80,864
Hunter Coast	Newcastle	58,159
Hunter Coast	Port Stephens	30,224
Hunter Coast Total		**294,746**
South Coast NSW	Bega Valley	18,803
South Coast NSW	Eurobodalla	24,356
South Coast NSW	Kiama	9,800
South Coast NSW	Shellharbour	25,232
South Coast NSW	Shoalhaven	58,238
South Coast NSW	Wingecarribee	23,118
South Coast NSW	Wollondilly	18,232
South Coast NSW	Wollongong	68,959
South Coast NSW Total		**246,738**
Sydney Central	Burwood	7,764
Sydney Central	Canada Bay	18,179
Sydney Central	Canterbury-Bankstown	88,010
Sydney Central	City of Parramatta (Cumberland)	192,841
Sydney Central	Inner West	51,548
Sydney Central	Ku-ring-gai	33,637
Sydney Central	Ryde	26,174
Sydney Central	Strathfield	7,420

Sydney Central Total		**425,573**
Sydney City	City of Sydney	28,009
Sydney City Total		**28,009**
Sydney Coast North	Hunters Hill	3,733
Sydney Coast North	Lane Cove	7,870
Sydney Coast North	Mosman	6,915
Sydney Coast North	North Sydney	10,431
Sydney Coast North	Northern Beaches	68,410
Sydney Coast North	Willoughby	17,379
Sydney Coast North Total		**114,738**
Sydney Coast South	Bayside	32,910
Sydney Coast South	Georges River	35,804
Sydney Coast South	Randwick	26,522
Sydney Coast South	Sutherland	61,229
Sydney Coast South	Waverley	13,212
Sydney Coast South	Woollahra	13,452
Sydney Coast South Total		**183,129**
Sydney North West	Blue Mountains	37,034
Sydney North West	Hawkesbury	24,554
Sydney North West Total		**61,588**
Sydney West	Blacktown	109,692
Sydney West	Camden	34,488
Sydney West	Campbelltown	53,644
Sydney West	Fairfield	53,303
Sydney West	Liverpool	59,009
Sydney West	Penrith	65,409
Sydney West Total		**375,545**
Total number of properties		**2,570,098**

11.5 Comparison between alternative pricing by LGA

Table 11-6 Current pricing structure vs differential pricing by LGA (Country Region)

Region (1)	Contract Area (9)	LGA (71)	No of Property at 2019/20	Uniform Pricing (6 yrs)	Differential Pricing	Differential Revenue (6 yrs)	Variance
Country	Central Tablelands	Bathurst Regional	18,915	$842,189	$8.24	$951,866	$109,678
		Blayney	4,100	$204,905	$8.24	$206,310	$1,405
		Cabonne	7,443	$393,183	$8.24	$374,555	-$18,628
		Cowra	7,524	$375,538	$8.24	$378,666	$3,128
		Lithgow	11,958	$536,695	$8.24	$601,774	$65,079
		Mid-Western Regional	14,168	$651,702	$8.24	$713,024	$61,322
		Oberon	3,813	$207,694	$8.24	$191,896	-$15,798

		Orange	18,042	$752,694	$8.24	$907,965	$155,271
Country	Central West NSW	Coonamble	2,763	$157,482	$8.24	$139,062	-$18,419
		Dubbo Regional	23,164	$1,033,134	$8.24	$1,165,738	$132,604
		Forbes	5,465	$291,913	$8.24	$275,029	-$16,884
		Gilgandra	2,603	$149,538	$8.24	$130,993	-$18,546
		Hilltops	11,580	$533,443	$8.24	$582,742	$49,299
		Lachlan	4,453	$255,938	$8.24	$224,073	-$31,865
		Narromine	3,559	$186,546	$8.24	$179,106	-$7,440
		Parkes	8,276	$404,602	$8.24	$416,476	$11,875
		Warren	2,077	$119,517	$8.24	$104,500	-$15,017
		Warrumbungle	6,416	$343,766	$8.24	$322,888	-$20,877
		Weddin	2,850	$162,806	$8.24	$143,427	-$19,378
Country	Hunter	Cessnock	25,371	$1,027,198	$8.24	$1,276,785	$249,587
		Dungog	5,216	$246,913	$8.24	$262,493	$15,580
		Maitland	32,740	$1,311,634	$8.24	$1,647,635	$336,001
		Muswellbrook	7,696	$348,299	$8.24	$387,294	$38,994
		Singleton	10,778	$465,499	$8.24	$542,394	$76,895
		Upper Hunter	7,904	$400,766	$8.24	$397,749	-$3,017
Country	Murray	Albury	22,817	$958,954	$8.24	$1,148,279	$189,325
		Berrigan	5,111	$245,035	$8.24	$257,215	$12,180
		Edward River	5,325	$266,640	$8.24	$267,974	$1,334
		Federation	7,785	$357,174	$8.24	$391,760	$34,586
		Greater Hume	6,930	$392,657	$8.24	$348,772	-$43,884
		Murray River	7,939	$424,829	$8.24	$399,525	-$25,304
Country	North West NSW	Gunnedah	6,445	$316,419	$8.24	$324,360	$7,941
		Gwydir	3,294	$187,783	$8.24	$165,758	-$22,025
		Liverpool Plains	4,538	$234,159	$8.24	$228,387	-$5,772
		Moree Plains	6,905	$344,924	$8.24	$347,504	$2,580
		Narrabri	7,150	$369,132	$8.24	$359,836	-$9,295
		Tamworth Regional	27,909	$1,239,102	$8.24	$1,404,529	$165,427
		Walgett	5,250	$257,741	$8.24	$264,218	$6,477
Country	Northern Tablelands	Armidale Regional	13,366	$591,258	$8.24	$672,625	$81,367
		Glen Innes Severn	5,376	$268,591	$8.24	$270,562	$1,972
		Inverell	8,223	$392,448	$8.24	$413,837	$21,390
		Tenterfield	5,190	$273,923	$8.24	$261,173	-$12,750
		Uralla	3,125	$150,518	$8.24	$157,283	$6,764
		Walcha	1,913	$112,846	$8.24	$96,278	-$16,569
Country	Riverina	Bland	4,348	$251,920	$8.24	$218,795	-$33,125
		Carrathool	2,139	$135,648	$8.24	$107,646	-$28,001
		Coolamon	3,034	$164,677	$8.24	$152,664	-$12,013
		Cootamundra-Gundagai Regional	6,731	$334,730	$8.24	$338,723	$3,993
		Griffith	10,864	$497,497	$8.24	$546,708	$49,211
		Hay	1,899	$94,276	$8.24	$95,567	$1,291
		Junee	3,081	$155,378	$8.24	$155,049	-$329
		Leeton	5,254	$245,223	$8.24	$264,421	$19,198
		Lockhart	2,660	$167,003	$8.24	$133,886	-$33,117
		Murrumbidgee	2,693	$160,858	$8.24	$135,510	-$25,348
		Narrandera	3,761	$196,120	$8.24	$189,257	-$6,863
		Temora	3,965	$210,574	$8.24	$199,559	-$11,015
		Wagga Wagga	27,619	$1,206,295	$8.24	$1,389,913	$183,617
Country	South East Regional NSW	Goulburn Mulwaree	15,486	$694,463	$8.24	$779,307	$84,844
		Queanbeyan-Palerang Regional	22,527	$954,061	$8.24	$1,133,662	$179,601
		Snowy Monaro Regional	13,985	$824,718	$8.24	$703,787	-$120,930
		Snowy Valleys	9,275	$682,321	$8.24	$466,772	-$215,549
		Upper Lachlan	6,603	$394,128	$8.24	$332,278	-$61,850
		Yass Valley	7,700	$375,557	$8.24	$387,497	$11,940

Country	Western NSW	Balranald	1,801	$104,291	$8.24	$90,644	-$13,647
		Bogan	2,132	$123,219	$8.24	$107,291	-$15,928
		Bourke	2,083	$116,570	$8.24	$104,804	-$11,766
		Brewarrina	1,193	$70,199	$8.24	$60,040	-$10,159
		Broken Hill	10,635	$435,524	$8.24	$535,187	$99,663
		Central Darling	1,919	$105,083	$8.24	$96,582	-$8,501
		Cobar	3,251	$170,777	$8.24	$163,627	-$7,150
		Wentworth	4,265	$225,695	$8.24	$214,633	-$11,062
Total			584,368	$27,884,528		$29,408,127	$1,523,599

Table 11-7 Current pricing structure vs differential pricing by LGA (Coastal)

Region (1)	Contract Area (3)	LGA (25)	No of Property at 2019/20	Uniform Pricing (6 yrs)	Differential Pricing	Differential Revenue (6 yrs)	Variance
Coastal	North Coast NSW	Ballina	15,485	$666,780	$6.92	$654,524	-$12,256
		Bellingen	6,231	$273,507	$6.92	$263,361	-$10,146
		Byron	13,714	$584,007	$6.92	$579,668	-$4,338
		Clarence Valley	26,076	$1,155,938	$6.92	$1,102,213	-$53,725
		Coffs Harbour	28,107	$1,141,511	$6.92	$1,188,068	$46,557
		Kempsey	14,521	$644,901	$6.92	$613,814	-$31,087
		Kyogle	5,401	$304,827	$6.92	$228,278	-$76,550
		Lismore	18,339	$848,371	$6.92	$775,164	-$73,207
		Mid-Coast	51,595	$2,198,222	$6.92	$2,180,895	-$17,327
		Nambucca	9,466	$407,849	$6.92	$400,115	-$7,734
		Port Macquarie-Hastings	32,223	$1,352,306	$6.92	$1,362,037	$9,731
		Richmond Valley	10,394	$486,954	$6.92	$439,334	-$47,621
		Tweed	31,259	$1,312,063	$6.92	$1,321,283	$9,220
Coastal	Hunter Coast	Central Coast	126,566	$4,972,737	$6.92	$5,349,887	$377,150
		Lake Macquarie	81,552	$3,241,861	$6.92	$3,447,145	$205,284
		Newcastle	58,654	$2,341,567	$6.92	$2,479,255	$137,688
		Port Stephens	30,481	$1,247,136	$6.92	$1,288,416	$41,281
Coastal	South Coast NSW	Bega Valley	18,963	$777,054	$6.92	$801,552	$24,498
		Eurobodalla	24,563	$1,016,379	$6.92	$1,038,270	$21,891
		Kiama	9,883	$410,875	$6.92	$417,763	$6,889
		Shellharbour	25,447	$1,002,601	$6.92	$1,075,613	$73,012
		Shoalhaven	58,733	$2,321,040	$6.92	$2,482,623	$161,583
		Wingecarribee	23,315	$994,517	$6.92	$985,495	-$9,021
		Wollondilly	18,387	$747,697	$6.92	$777,210	$29,514
		Wollongong	69,545	$2,798,572	$6.92	$2,939,648	$141,076
Total			808,897	$33,249,273		$34,191,633	$942,360

Table 11-8 Current pricing structure vs differential pricing by LGA (Metro)

Region (1)	Contract Area (5)	LGA (31)	No of Property at 2019-20	Uniform Pricing (6 yrs)	Differential Pricing	Differential Revenue (6 yrs)	Variance
Metro	Sydney Central	Burwood	7,830	$319,041	$6.06	$289,986	-$29,055
		Canada Bay	18,334	$732,831	$6.06	$678,987	-$53,844
		Canterbury-Bankstown	88,759	$3,534,824	$6.06	$3,287,180	-$247,643
		City of Parramatta (Cumberland)*	194,481	$7,688,436	$6.06	$7,202,627	-$485,809
		Cumberland*	0	$0	$6.06	$0	$0
		Inner West	51,986	$2,171,672	$6.06	$1,925,322	-$246,350
		Ku-ring-gai	33,923	$1,309,364	$6.06	$1,256,345	-$53,019
		Ryde	26,397	$1,049,423	$6.06	$977,601	-$71,822
		Strathfield	7,483	$306,085	$6.06	$277,138	-$28,947

	Sydney Coast North	Hunters Hill	3,765	$151,006	$6.06	$139,428	-$11,578
		Lane Cove	7,937	$315,329	$6.06	$293,945	-$21,384
		Mosman	6,974	$279,359	$6.06	$258,276	-$21,083
		North Sydney	10,520	$469,578	$6.06	$389,599	-$79,979
		Northern Beaches	68,992	$2,705,538	$6.06	$2,555,119	-$150,420
		Willoughby	17,527	$713,889	$6.06	$649,107	-$64,782
	Sydney Coast South	Bayside	33,190	$1,354,890	$6.06	$1,229,191	-$125,698
		Georges River	36,109	$1,417,171	$6.06	$1,337,282	-$79,889
		Randwick	26,748	$1,052,492	$6.06	$990,599	-$61,893
		Sutherland	61,750	$2,428,466	$6.06	$2,286,908	-$141,558
		Waverley	13,324	$522,875	$6.06	$493,469	-$29,405
		Woollahra	13,566	$540,062	$6.06	$502,433	-$37,629
	Sydney North West	Blue Mountains	37,349	$1,506,476	$6.06	$1,383,223	-$123,253
		Hawkesbury	24,763	$1,003,228	$6.06	$917,094	-$86,134
		Hornsby*	0	$0	$6.06	$0	$0
		The Hills Shire*	0	$0	$6.06	$0	$0
	Sydney West	Blacktown	110,625	$4,343,602	$6.06	$4,097,005	-$246,597
		Camden	34,781	$1,437,053	$6.06	$1,288,130	-$148,923
		Campbelltown	54,100	$2,189,400	$6.06	$2,003,608	-$185,792
		Fairfield	53,756	$2,190,287	$6.06	$1,990,871	-$199,416
		Liverpool	59,511	$2,406,881	$6.06	$2,203,991	-$202,890
		Penrith	65,965	$2,598,997	$6.06	$2,443,031	-$155,965
Total			1,170,443	$46,738,251	-	$43,347,493	-$3,390,758

* all combined together under City of Parramatta (Cumberland)

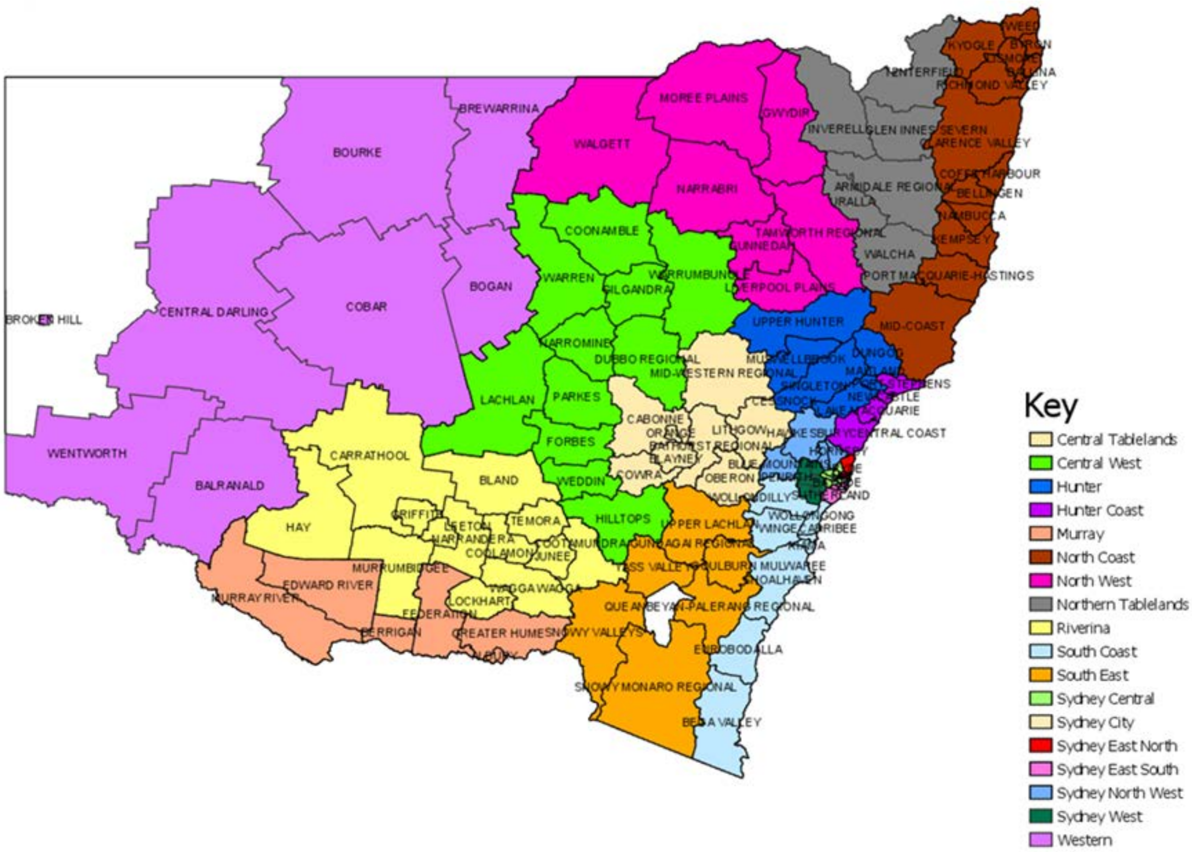
Table 11-9 Current Pricing Structure vs Differential Pricing by LGA (City of Sydney)

Region (1)	Contract Area (1)	LGA (1)	No of Property at 2019-20	Uniform Pricing (6 yrs)	Differential Pricing	Differential Revenue (6 yrs)	Variance
Sydney City	Sydney City	City of Sydney	28,247	$1,262,521	$12.71	$2,192,980	$930,458

11.6 Map of 18 contract areas

Figure 10 below shows the 18 contract areas used in mass valuation contracts. These 18 contract areas form the geographical basis for the differential pricing model.

Figure 10: 18 Contract areas



11.7 IPART questions

IPART questions are answered below. Note that there are no outstanding issues from the previous determination.

IPART Question	Answer
Should IPART set one 6-year determination or two 3-year determinations over the referral period?	One 6-year determination period should be set as costs are not expected to fluctuate much year to year. The costs of preparing a proposal is not insignificant for the Valuer General and a six-year cycle is preferred over a three-year cycle to provide reliable pricing information for budgeting purposes. However, should unexpected significant costs arise the Valuer General would seek to submit a supplementary price review to IPART during the determination period.
Have the land valuation services provided by the Valuer General changed since the determination?	Land valuation services have not fundamentally changed since the determination in terms of scope, methodology and framework. However, there have been service improvements.
Is the quality of land valuations services meeting customer expectations?	Service improvements for customers can also be found at section 5. Customers are welcome to submit feedback at any point in time to the Valuer General's Office, including during formal consultation. Customer feedback indicates there have been no substantial issues identified with valuation services and the number of objections submitted is below 1 per cent. The Valuer General's survey to councils in May 2018 found the majority of councils are satisfied with: • the information the Valuer General provides to ratepayers about the land valuation system • the service provided to them by Valuation Services in land value presentations and the delivery of valuation data • the support provided by Valuation Services.
Is the price cap methodology currently used the most appropriate form of setting prices for land valuation services?	Yes, the price cap methodology is appropriate given administrative simplicity, no adverse consequences and limited supply-demand fluctuations expected in the referral period (see section 8.3).
What alternative form of regulation should be adopted, if any?	None suggested.
Should an indexation approach be used to set the maximum annual prices for land valuation services, once an efficient cost base is established?	An indexation approach to the cost base is not necessary because the majority of Valuation Services costs have inflation built-in. The preference is to maintain the price cap approach used to set prices in 2014.

Could the Valuer General use more efficient methods for undertaking mass valuations?	It is believed that the process of undertaking mass valuations is the most efficient method. Contracts are tendered on a regular basis to ensure efficient costs (see section 4.3.3). The number of contract areas were increased in the current period to facilitate the ability of smaller contractors to participate. However, continued consolidations of contractors in the market and experience of Valuation Services over this period suggests there are efficiencies in larger contract areas, which will be implemented for the referral period. Research is being undertaken into the use of an automated valuation models which may improve efficiency.
What are the potential cost drivers the Valuer General could face in the future that could affect operating costs?	The implementation of business system transformations such as Valnet and a digitised Service NSW offering may impact staffing and other overhead costs. Increased regulatory or policy requirements may also increase operating costs.
Is it appropriate to use the same methodology for allocating costs from PNSW to the Valuer General as was applied in the 2014 determination?	The separation of Valuation Services from LPI and into PNSW, means a restructure of how allocated costs are apportioned. The methodology for apportionment for each opex line item is outlined in section 4.3.
Should we take the variable corporate tax rates into consideration in our review of the Valuer General's tax allowance?	In setting prices, the Valuer General aims to replicate competitive markets as closely as possible. This includes setting prices to allow the monopoly services to recover their tax allowance. In calculating a regulated business's costs for the purposes of setting prices, an amount is allowed to reflect the standard business tax rate (30 per cent). This will allow the most efficient and optimal allocation of resources.
Should we use the same business unit level for determining the tax rate as we do for determining the WACC?	The same business unit level for determining the WACC should be used for determining the tax rate. There is no appropriate further segregation for determining the tax rate.
Is there a case for changing the methodology for allocating costs to councils?	The methodology remains largely the same. Allocating costs to councils by each opex line item provides a comprehensive bottom-up analysis. Allocation of costs to councils are outlined in section 6.1.1. It is recommended that a differential pricing approach be adopted to more closely align the pricing with the costs of providing the service.
Should the current price structure of residential and non-residential prices be retained or is there a more appropriate price structure?	The Valuer General is proposing to move to differential pricing model based on geographic area from uniform pricing model. Hence there will be no difference in the price charged for residential or non-residential properties (see section 8.1).

Should we maintain the current common charge across all councils?	See above and see section 8.
How should the price path account for impacts on customers?	The proposed revenue requirement is a two per cent increase on the previous determination. The differential pricing model provides an equitable basis for allocation of costs to councils.