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Independent Pricing and Regulatory Tribunal
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Sydney2030/Green/Global/Connected

Dear Tribunal Members,

Review of Valuer General's Charges

The City of Sydney welcomes the opportunity to provide comments and feedback on the key issues regarding the Valuer General's Charges to local government to assist the Tribunal in assessing an equitable and transparent pricing mechanism.

The City's submission highlights two main issues:

1. The proposed cost allocation to Councils is too high; and
2. The differential pricing model is unfair and particularly biased against the City of Sydney

1. Cost Allocation to Councils

The total cost allocation to councils is too high.

Mass Valuation Contract Costs
The City disagrees with the continued use of a 25% allocation to councils of the mass valuation contract costs. When correlating costs to the frequency of use, the total cost of the mass valuation contracts should first be annualised because the service providers undertake the same mass valuation process every year. In a three-year cycle, councils and Revenue NSW are equal users of the service in one of the three years only. The cost of the service for the other two years should be fully allocated to Revenue NSW as councils do not require the mass valuations in these years. The allocation to councils of the total mass valuation contract costs should be one sixth, which is 16.7%.

Labour Costs
The City agrees with IPART's proposal to use the cost allocation of the mass valuation contact costs for the basis of allocating other costs, such as labour costs. However, as the City has argued that the more appropriate cost allocation to councils for the mass valuation contract costs should be 16.7%, it is argued that each instance where the 25% is used (derived from the allocation of mass valuation contract costs), should be replaced by 16.7%.

The City accepts that the labour costs for supplementary valuations should be split 50:50 between councils and Revenue NSW.

As outlined above, the labour costs for the balance of the direct valuation staff should be allocated 16.7% to councils. This would reduce the weighted average of labour costs to 24% instead of 31%.

The cost of the 42 FTE in support teams should be allocated at the reduced weighted average of 24%, not 31%.

Other Valuation Contract Costs labour costs
The City accepts that the other valuation contract costs are largely driven by valuation objections. However, the City has some doubt about the accuracy of the Valuer General's assertion that 38% of valuation objections can be "attributed to rating".

The Valuer-General's submission quoted the actual costs of Other Valuation Contract costs in the three years from 1 July 2016 to 30 June 2019 as $6.393M, $4.52M and $4.474M respectively. Valuations issued at base date 1 July 2016 were used by NSW councils for rating purposes. The figures appear to reflect an increased number of objections in 2016/17 which the City believes could be attributed to objections to valuations used for land rates.

Section 35 of the *Valuation of Land Act 1916* limits the time provided to object to a valuation for land rates to not more than 60 days after the date of service of the notice of valuation. While there is the ability for the Valuer General to accept 'out of time' objections, the City believes these should be limited in number and should not materially influence the numbers.

Given the 60-day time limit to object, all of the costs for other valuation contract costs outside the three yearly mass valuation cycle for council rating purposes should be allocated to Revenue NSW. Using the figures quoted by the Valuer General, the average of the 2017/18 and 2018/19 costs is $4.497M. This amount is likely to be reflective of costs attributable to objections for land tax purposes. On this basis, the cost attributable to objections for rating purposes in the 2016/17 year would be $1.896M, being $6.393M less $4.497M. This is 12.3% of the total Other Valuation Contract costs for the 3-year period.

The City submits that the appropriate percentage allocation for the Other Valuation Contract costs is 12.3%, not 38%.

Other Indirect Costs
The City submits that once appropriate adjustments are made to the three items above, the amount allocated to councils for indirect costs as a weighted average of the three costs should be recalculated on the same basis as in IPART's draft report.

Capital Expenditure – Intangibles - Valnet III Costs
A major cost driver for all councils is the proposed investment of $26.2 million into "technology transformation", moving from Valnet II to Valnet III. The City understands that upgrades are required when platforms become outdated and can no longer be supported. However the cost quoted is exorbitant and the Valuer General has failed to provide any documentation, even at a high level, showing specifications for the work so that councils and IPART can gauge the extent, breadth and depth of the improvements to establish the beneficiaries. Since no demands for improvements have come from the local government sector, it can only be assumed that the majority of the expense for the new system can be attributed to improvements for the benefit of the NSW Government. The City respectfully requests IPART to further interrogate this cost to ensure a fair allocation to NSW councils.

2. Differential Pricing Model

The City strongly opposes the differential pricing proposed in the Office of the Valuer General's submission. This approach and methodology, including the proposed classification of Councils based on four geographical areas across the state, does not provide a transparent or equitable outcome for local councils who have no choice in the delivery of the service.

I would like to make a few key points.

- The City of Sydney is the only council to have its own contract area designated by the Valuer General but has the second lowest number of properties in NSW that require valuation
- The proposed valuation price of $12.07 for every City of Sydney property is 106.9% of the proposed price of all metropolitan properties
- The proposed valuation price for all City of Sydney properties is only slightly less than the current non-residential price of $12.91.
- Over 80% of the City of Sydney's rate assessments are residential.
- The City of Sydney has a total of 28,247 properties valued.
- The number of "high risk" properties for all of NSW at 104,222 (VG 2017/18 report on NSW land values)
- The number of "high risk" properties in the City of Sydney is 327.
- The City does not use the annual revision of land values for rating purposes other than for supplementary adjustments.

The Valuer General's revised pricing resulted in a decrease for all other categories except for the City of Sydney.

The total sum proposed for all NSW councils is less than current total paid by local government and as a result will have a slight deflationary impact. The deflationary impact will reduce the Local Government Cost Index, due for review in 2019. This will reduce the rate cap percentage for all councils. This results in the City paying more for the valuation service for rating but will be impacted adversely as we will have less proportionate income to re-coup the extra fees.

The City of Sydney will be paying 75.1% (page 70) or $146,000 per year more without an increase in service or an ability to pass this onto ratepayers. Over the period of this pricing proposal, the total impact will be close to $1 million that the City will have to divert from other essential services.

I note that IPART supports the Valuer General's zonal approach to pricing on the basis that the City of Sydney contains a high number of "high risk" properties that require annual verification. The Valuation Services Rating and Taxing Valuation Procedures Manual is used across the state. The verification procedures of high value and high risk properties contained within it applies to every contract area. The Valuer General's Land Value verification program requires land values and property information to be individually reviewed every year, even though councils, including the City of Sydney, only receive a general valuation every 3 years and the Revenue NSW receives an annual valuation.

There are 104,222 high risk properties across NSW and the Valuer General is to maintain a register for every local government area of high risk properties. The City was provided a listing of its High Value and High Risk properties by Property NSW which shows the City has only 327 properties classified as high value or high risk. The City does not understand why it is the only council that is paying for the high risk valuation activity. The Valuer-General has not been able to adequately explain why the City's valuations should all cost twice as much as those in surrounding metropolitan councils.

Revenue NSW uses the valuation notices for taxation every year and relies more heavily on the accuracy of the value for its gross revenue generation, and has a higher reliance on the annual accuracy of the valuation. The City incorporates the values every third year but is still restrained via the rate capping mechanism on the total rates revenue that can be generated and as a result, we argue has no application or reliance on the enhanced accuracy of the valuation each and every year.

The City proposes that a simpler, one fee per valuation, regardless of geographical location or rating category, would be the most efficient and transparent pricing mechanism for all councils.

Alternatively, IPART could consider a pricing model for a standard and high risk property valuation, based on the Valuer Generals high risk property registers for each council. This would enhance each council's cost reflectivity and the data is readily available to the Valuer General in the form of the high risk register for every council. This would reflect the same pricing model that has effectively been designed for the City as it is the only council with its own contract area based on high risk properties.

An easier option would be for IPART to include the City of Sydney with the other metropolitan councils. This would have minimal impact on average pricing on the basis that other metropolitan councils would also have a share of high risk properties but have been afforded an average price lower based on economies of scale.

Other councils have high risk properties within their LGA but are afforded the dampening price effect when subsumed in a much larger contract based on contracts where the number of properties valued is between 4 to 13 times larger. The economies of scale afforded by the larger contracts lowers the individual property valuation price, and disadvantages contract areas with lower number of properties.

Three charts have been provided to illustrate the economies of scale and pricing correlation and an option to combine the City of Sydney and Sydney Central into one contract and cost group.

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

Should you wish to speak with a Council officer about this submission, please contact Suzi Flynn, Revenue Manager on [redacted]

Yours sincerely

[redacted]

Monica Barone
Chief Executive Officer

Table 4.3 Movement of the Average Prices for the 18 Contract Areas