

Our ref: R90/0400 Out-28829

24 April 2019

Review of prices for land valuation services provided by the Valuer General to councils
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Review Team

Submission in response to Draft Report and Draft Determination

I am writing to provide feedback on IPART's Draft Report and Determination relating to the maximum prices the Valuer General can charge councils for the provision of land valuation services.

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

The feedback provided herein has been developed in consultation with NSW councils and with the NSW Revenue Professionals Inc. We have generally limited our comments to those matters where we do not support IPART's draft decisions.

In determining the Valuer General's Notional Revenue Requirement (NRR), IPART intends to continue to apply the principle of 'competitive neutrality', whereby "...prices reflect the costs a private business would incur in a competitive market for valuation services"¹.

As we argued in our initial submission, it is not appropriate for IPART to adopt National Competition Policy requirements to the pricing of valuation services used by councils for taxation purposes because:

- The valuation system is an integral part of the state taxation system, which is not inherently a commercial service.
- The use of the valuation services provided by the Valuer General to Local Government is legislatively mandated and is not contestable, so the principles of competitive neutrality do not apply.
- The State Government should not "profit" off Local Government from the provision of this basic essential service.

While IPART has acknowledged in its Draft Report that "...the Valuer General does not face competitive neutrality issues now..." it justifies its decision to apply the principles of competitive neutrality on the basis that "...it is possible they may arise in the future"².

¹ IPART *Review of prices for valuation services provided by the Valuer General to councils – Draft Report*, 2019, page 37

² *Ib id.*

LGNSW believes this justification is very weak and is not consistent with IPART's approach elsewhere in the Draft Report³.

IPART has indicated it will not allocate any fixed costs to 'minor users' of the Valuer General's land valuation service, as it does not consider their use to be material enough to justify allocating fixed costs to them. While the relative usage rate for minor users is currently low, it could potentially increase during the six year determination period. LGNSW therefore believes minor users should be charged on an average cost basis, not on a marginal cost basis.

IPART is proposing to remove the current differential pricing structure for residential and non-residential valuations and instead apply a differential pricing model consisting of four geographic regions, based on the suggestion of the Valuer General. This represents quite a radical change in approach, which will impact on the distribution of costs among councils and result in 'winners' and 'losers'. Based on IPART's analysis, in 2019-2020:

- 102 councils will face bill decreases and 26 will face bill increases.
- Of the 26 councils facing a bill increase, 20 are located in the Country zone, five are in the Coastal zone and City of Sydney.
- All councils in the Metro zone will face a bill decrease.

As we indicated in our initial submission, LGNSW is not in a position to comment on the merits of a change in pricing methodology. However, we reiterate the need to accompany any changes with appropriate transitional arrangements.

Thank you for the opportunity to provide this feedback on behalf of NSW councils.

If you require any further information on this issue, please contact Mark Hely, Senior Policy Officer on [REDACTED]

Yours sincerely

[REDACTED]
Tara McCarthy
Chief Executive

³ For example, while IPART has made an allowance in this instance for costs that 'may apply in the future', it has not made an allowance for the reduction in corporate tax rates that are to be phased in during the determination period.