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31 October 2024

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

Dear Tribunal members,

Submission to the information paper, review of prices for the Valuer General's land valuation services to councils

Thank you for the opportunity to present this response on behalf of the NSW Revenue Professionals Inc. (NSWRP) in accordance with the call for submissions provided on 8 October 2024. The NSWRP is the peak body of NSW Local Government revenue employees and was formed in order to:

- unite in a common organisation, those Local Government employees who are engaged in rating and revenue functions,
- improve and elevate the technical and general knowledge of Local Government employees who are engaged in rating and revenue functions,
- distribute amongst its members, and the regional NSWRP groups, information on all matters affecting or pertaining to the profession of rating and revenue management within Local Government by way of meetings, newsletters, conferences, or any other method available to the Committee,
- promote a professional image of Rating and Revenue practitioners in Local Government New South Wales,
- promote quality services to Local Government in New South Wales through the dissemination of best practice,
- encourage members to keep up to date with finance related activities and legislative changes through continuing professional development,
- identify the skills and knowledge needed by employees and facilitate training and education,
- make the expertise of members available to professional bodies and government departments as required,

Summary of submission

The NSWRP has an outstanding rapport with the Valuer-General that is longstanding, fruitful and objective, our submission identifies areas where we believe the passing on of costs to our communities can be mitigated and better targeted.

1. **Pricing is too high - savings are not being passed on.** The Valuer-General reported its operating expenses were over \$33 million (16%) lower in the first 4 years of the pricing determination period of 1 July 2019 to 30 June 2025 than was predicted by IPART when it set the pricing for local government. However, no relief from fees has been afforded to local governments.

Further, the transition from contract valuations to an in-house valuation services model has been touted as a win through significant cost savings, however these do not appear to be going to reach ratepayers under the proposal of increases between 21-38% in the first year (followed by CPI). The proposed pricing needs to be scrutinised as it should reflect both savings already achieved and anticipated savings.

2. **Local governments penalised for NSW government failures.** The NSW government decisions to firstly align the general valuation cycle for all NSW councils and subsequently to misalign them, reverting back to the 1/3 each year, have increased the frequency of general valuations for a large number of local government areas. Increased frequency of general valuations means increased mass valuation costs. It is unreasonable to ask local governments to pay for additional costs incurred due to decisions made entirely to suit NSW government. In addition, we would like to understand why the Valuer-General proposes a model of valuing to continue in accordance with past practices that do not leverage from currently available (let alone future) technologies.

In these times where the use of artificial intelligence (AI) is becoming widely and commonly used, we expected that within the next 6-years the use of AI would be an efficiency factor built into price reductions and consequent savings to our communities. IPART should ensure local governments are not penalised for NSW government policy changes or failure to capitalise on available technologies.

3. **Unequitable distribution of costs.** The allocation of costs continues to be in favour of state government agencies and this matter needs to be addressed for the pricing to more reflective of actual use.

Land valuations are provided to the landowner and to councils to be used as the basis for calculating land rates. It stands that any costs incurred in meeting the requirements of Section 29 of the *Valuation of Land Act 1916* to notify the landowner and others liable to pay a rate or tax subject to the valuation may need clarification. Some costs are proposed to be directly assigned to councils without any direct legislative support. An example of this is the postage costs for 'Notices of Valuation' which must be given to landowners or other persons *'liable to pay any rate or tax'*. Accordingly, the intention of the legislation is that the notice serves to give advice in a dual purpose, i) regarding local government rates and, ii) regarding any state taxes.

4. **'Minor users' needs review.** Opportunities may exist for the Valuer-General to broaden its revenue base to include 'minor users' of the services available. No evidence has been supplied to support that all other users are insignificant.

Reliance seems to be on the provision of valuation data to Revenue NSW and local councils rather than allocating charges to other users. In addition, valuation data is freely and publicly available to anyone, including big data and for individual properties. It seems unfair that the state government is providing this information globally that is paid for locally.

5. **Valuation basis remains unsatisfactory.** It is also considered important for the NSW Government to give some serious consideration to a think tank on the use of Capital Improved Values (CIV) as the basis for land-based taxes in NSW. CIV provides a more equitable basis than the current valuation methodology and aligns with the taxation principle of capacity/ability to pay considerably better than the current methodology.

We have set out below our responses to each of the matters discussed in the information paper.

Submission

Efficient costs

1. Do you consider the Valuer General's pricing proposal represents good value? Why/why not?

No. There remain several unanswered questions regarding the uplift in the pricing proposal. We have concerns about the lack of any evidence to substantiate the increased costs, the figures quoted do not appear to be independently quantified or supported by any external audit process. The Valuer General's pricing proposal seems to hinge on additional costs mainly associated staff increases due to the transition from contract work to internal staffing but shows little evidence of any contract savings.

There does not appear to be any efficiency savings included in the Valuer-Generals proposal, the proposal is prepared on continuity of current business practices. It is expected that efficiencies in technology for example would lead to reductions in pricing over the next 6-years.

The Valuer-General has been quoted as saving \$16 million over the next 7-years by halving the number of annual valuations performed by contractors and boosting in-house capabilities. In an article published in the Australian Financial Review on 3 September 2024 the journalist has quoted a Value NSW spokesman as saying, "*Value NSW is expanding its in-house valuations to improve service delivery and reduce costs to government and taxpayers,*" "*The changes will enable cost savings of up to \$16 million over the forward years to 2031, and aligns with a NSW government direction to reduce reliance on contractors while building public sector capacity and capabilities.*". These savings should be directly reflected in the prices set and passed onto ratepayers rather than being absorbed by the state.

Furthermore, in every Annual Report published by the Valuer General for the current pricing period to date, being the 2019/20, 2020/21, 2021/22 and 2022/23 Annual Reports, the Valuer General has reported significant variance in operational expenditure compared to the IPART determination. These reported variances are shown in the table below.

<i>Operating Expenditure</i>	<i>2019/20</i>	<i>2020/21</i>	<i>2021/22</i>	<i>2022/23</i>	<i>4 year total</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(\$'000)</i>
<i>IPART Pricing determination</i>	\$54,905	\$50,009	\$51,000	\$54,900	\$210,814
<i>VG Actual</i>	\$48,438	\$37,999	\$45,107	\$45,920	\$177,464
<i>Variance</i>	-\$6,467	-\$12,010	-\$5,893	-\$8,980	-\$33,350
<i>Variance as %</i>	-12%	-24%	-12%	-16%	-16%

Source: 2019-20, 2020-21, 2021-22 and 2022-23 Operating costs – Valuer-Generals Annual reports

It is difficult to see how these savings already realised by the Valuer-General have transferred to proposed price reductions for local government.

We recommend IPART conducts appropriate analysis in this regard and adequately incorporates savings, both realised and forecast, into its next pricing determination.

2. Has there been any material change to the land valuation process that has impacted the cost of undertaking valuations (e.g. contract costs)?

Other than the significant savings anticipated by conducting valuations in-house mentioned above, we are not aware of any material change in the land valuation process that would result in the significant increase in the valuation costs proposed by the Valuer-General. As previously stated, we expect that all available technologies, including AI, should be utilised to generate savings. We argue that IPART should calculate a reduction to the local government fees based on available efficiencies, regardless of whether NSW government chooses to implement them, so local governments and their communities are not penalised for the failure of NSW government to leverage these technologies.

We note, however, that a material change in the frequency of mass valuations has occurred. The 2017 NSW government decision to align the general valuation cycle for all NSW councils to accommodate its plan for Fire and Emergency Services levies, reduced the time between mass valuations for a large number of NSW councils, needlessly increasing mass valuation costs.

This year, in 2024, the NSW government has decided to revert back to only valuing 1/3 of local government areas each year, following its failed Fire and Emergency Services Levy. This decision has yet again increased the frequency of general valuations for many local government areas. Increased frequency of general valuations means increased mass valuation costs. It is unreasonable to ask local governments to pay for additional costs incurred because of arbitrary decisions made entirely to suit NSW government and that are of no benefit to local councils or their communities.

We ask that IPART investigate the increase in mass valuations undertaken since 2017 and also proposed to be undertaken and the additional costs removed from the local government fees.

3. How might the Valuer General's costs of providing land valuation services change over the next 6 years, considering the impact of digital technology, AI and innovation?

Savings of \$16 million over the next 7-years have already been forecast. It is further expected that integrating AI to increase efficiency would reduce costs and an increase uptime concurrently. Cost savings in reduced downtime and predictive process automation enable humans more time to focus on the how and why leading to increased efficiency. The use of Augmented and Assisted Intelligence has a place in quality control processes and outputs, we see these two forms of AI having a significant future in the mass valuation landscape.

Cost allocation between users

4. How should the Valuer General's costs be allocated between users of valuation services?

We do not believe the cost allocation is fairly allocated between councils, the NSW Government and other beneficiaries such as the general public. We agree that providing information and access to land valuation data is important and a healthy outcome, however we do not believe that ratepayers are aware that they are burdened with the costs in providing this information so broadly.

It is important to reflect on councils receiving new valuations for only one year of a three-year cycle and Revenue NSW receive new valuations annually. If the costs for one of three years is split 50:50 between the 2 parties, and the costs for 2 years of the 3-year cycle is borne by the NSW government, this appropriate proportional split is 16.7% to councils and 83.3% to NSW government as calculated in the table below.

	Year 1	Year 2	Year 3	Total
Council %	50			50
NSW Government %	50	100	100	250
Total %	100	100	100	300

There are eight operating cost categories identified that we believe should be split 16.7% to councils and 83.3% to the state, unless an appropriate percentage is also allocated to other users. Each year valuations are made they are made available publicly.

There are eight operating cost categories identified, and we believe six should be split 20% to councils and 80% to the state and other users. The remaining two, postage and graphic design works need further discussion and information to allow better decisions to be made, we would like to see more information on where the money is spent and on what to be able to make an informed decision. It is important to reflect on councils receiving new valuations for only one year of a 3-year cycle and Revenue NSW receive new valuations annually. Each year valuations are made they are also made available to the public.

Labour (30.1%) Mass Valuation (25%) Other Valuation (30.4%) ICT (34.7%) Other direct (31.8%) Corporate support (29.8%)	We propose reducing these to 16.7% aligning with the valuation delivery.
Postage and graphic (100%)	We do not believe the local government sector should be burdened with the full costs in postage and graphic design works. These initiatives help to support quality valuation services and data across all users.

We have noted in the Valuer-General's submission item 10.2¹ that minor users have been considered immaterial, however this service to the community other agencies such as the Commonwealth Grants Commission, NSW Fire Brigade, other NSW government agencies and the public should be costed to the state. It would be appreciated if the level of access could be substantiated for visibility into the materiality.

The previous price setting IPART draft report identified an undertaking to reduce *'the Valuer General's annual notional revenue requirement over the 2019 determination period by the average revenue received from all minor users over the 2014 determination period. This ensures that the (marginal) costs associated with delivering services to minor users are not recovered from Revenue NSW or councils.'*² Further, land valuation data made available to the public on government websites should not be a burden on ratepayers, rather costs associated with this service should be isolated and funded by the respective state agencies.

The extent to which these minor users (including the general public) access land valuation data or how they are billed has not been expanded on and we believe it to be a revenue stream worth exploring to defray more of the costs allocated to councils.

The Valuer-General's submission³ is seeking to allocate costs for objections *'based on the 3-year historical average of general objections..'*⁴ at 50.2% to councils and 49.8% to Revenue NSW. However, the latest publicly available data for the years 2020-21, 2021-22 and 2022-23 indicate a different result.

¹ Review of prices for land valuation services provided by the Valuer General to councils page 59

² IPART Review of prices for land valuation services provided by the Valuer General to councils – April 2019 page 41

³ Review of prices for land valuation services provided by the Valuer General to councils page 45

⁴ Review of prices for land valuation services provided by the Valuer General to councils – table 7-3 page 45

In this table we can see that the maximum percentage of objections in land valuations attributable to council rates is 47.9% and the 3-year average is just 35%.

Item	2020-21 count	2020-21 %	2021-22 count	2021-22 %	2022-23 count	2022-23 %	Average
Council rates	2,330	43%	345	14.9%	5,083	47.9%	35%
Land Tax	3,093	57%	1,981	85.1%	5,561	52.1%	65%
Total	5,423	100%	2,326	100%	10,644	100%	100%

Source: Valuer-Generals Annual Report 2020-21 table 4 page 29. Valuer-Generals Annual Report 2022-23 table 3 page 22.

We would be interested to learn more about the difference in the proposed allocation of costs and recommend that consideration be given to reflect the above table and reduce the allocated costs to councils from 50.2% to 35% based on the information provided.

Pricing framework

5. What is the impact on councils of the Valuer General's proposed price increases?

The impact on councils will be subject to whether the increased costs are recognised separately in the future rate peg determination as a direct cost to ratepayers or as part of the Base Cost Change (BCC). If the former then councils will directly pass on the additional costs to ratepayers and therefore have little impact on councils' ability to fund works, services, activities and facilities. If the cost remains included as a component of the BCC within the rate peg, the impact will be less predictable or identifiable as other costs in the BCC may distort the pass on effect.

6. Should the current four pricing zones be retained or is there a more appropriate pricing model for land valuation services such as a single price?

For the previous price setting period (1 July 2012 to 30 June 2025) the decision to adopt the Valuer-General's proposed zonal pricing structure, with a price per property within four geographical zones (Country, Coastal, Metro and City of Sydney) was logical. Particularly as this had been based on all areas being contracted out providing clear visibility on the cost of the valuations for the different council cohort groups. It was difficult to argue that a cohort group shouldn't contribute what it costs, or that other cohort groups should cross subsidise.

Under the emerging hybrid service delivery approach, eight areas are identified as having been, or will be brought inhouse. The Valuer-General's document claims this will *'Mitigate overall market capture and increasing contract prices and enhance flexibility in cost management.'* and *'Better enable service delivery, as overall market capacity constraints have caused delays for individuals interacting with Value NSW.'*⁵ This indicates the areas being brought in-house should be less costly over time. It is clearly at the VG's discretion which areas benefit from these lower costs, and those that remain contracted presumably at a higher cost. The document also gives no indication that the actual cost for those areas brought in-house can or will be tracked or isolated.

⁵ 4.3 Review of prices for land valuation services provided by the Valuer General to councils – page 20

Accordingly, we propose a pricing model that differentiates between contract valuations and in-house valuations enabling full disclosure of the savings and full visibility of the price changes being passed through to councils.

7. If a price increase is necessary, should it be implemented in the first year, or gradually over a few years?

The proposed increases ranging from \$9.44 and \$18.09 per valuation annually and representing increases of between 21% and 38% in the first year, with subsequent years being subject to CPI is not considered the best pricing solution, we would support a gradual approach. If the gradual approach could align with the transition from contract valuations to in-house valuations as discussed in item six (above).

Further, the Valuer-General's Financial Report for 2022-23⁶ indicates that the total revenue exceeds expenses by \$24.99million in 2021-22 and by \$21.29million in 2022-23. We have not been able to obtain a full set of financial statements and presume that the difference relates to capital and only an operating statement has been made available.

Government regulation

8. What potential impacts does the bringing in-house of mass valuations by the Valuer General have on the long-term viability of the valuation market participants and the level of competition in the valuation market?

We have concerns with fully outsourcing the mass valuation contracts due to potential impacts on the quality and consistency of land valuation data. Competitive tendering creates competition between contractors, which is a healthy outcome from the process, plus competitors are naturally impacted through accountability in the quality of their services.

Land valuation is a specialist skill and retention of staff with those skills would be considered an essential objective for the Valuer-General. It is useful to have some insight retained and an ongoing investment in improved technology and work practices.

We have referred to savings identified by Value NSW of \$16 million over the next 7-years through halving the number of annual valuations performed by contractors and boosting in-house capabilities. These savings should lead to cost savings for our communities, however reduced quality controls may also result in cost increases in objections under the current proposal.

It is difficult to conclude what the impacts of transitioning away from contract valuers will have based on the information available.

⁶ Appendix 6 - Annual report on operations, achievements and performance with financial statements – page 45

Service quality

9. Is the quality of service provided by the Valuer General meeting expectations?

The level of service provided by the Valuer-General has generally been timely and accurate. We have some concerns with the proposed own source valuation standards and with the cost of objections split 50/50 with Revenue NSW. Costs incurred in quality assurance and improvements in land valuations should not be simply passed down the line.

We continue to collaborate with the Valuer-General on improvements in communications with landowners, particularly regarding the impacts changes in land valuations have on land rates. Issues raised are dealt with in a timely manner and it appears that changes are implemented to prevent the repeat of issues identified.

10. If you have been involved with the Valuer General's land valuation dispute process, what has been your experience?

The NSWRP has not been involved in any land valuation disputes managed by the Valuer-General.

General

11. Are there any other matters you would like us to consider as part of our review of the Valuer General's monopoly services?

We would be interested in opening the dialogue on the following, initially to determine if they would represent better cost benefits and align with the objectives for local government in NSW.

- The opportunity for councils to engage the services of independent valuers to provide land valuation data.
- Valuation objections to be subsidised or fully funded by the NSW Government as a quality assurance accountability measure.
- Investigate the potential for CIV to better align equity in the rating/taxation model through a formal cost/benefit analysis and public consultation process.
- Allowing councils to choose between CIV and the current land value (unimproved), should the option be feasibly viable.
- Consideration of future impacts from the Emergency Services Funding (ESF) reforms that may lead to impacts on councils in the event that the NSW Government's model leads to councils collecting a levy. Conversely, the use of land values by Revenue NSW in the calculation of a new levy for the ESF, if this direction is chosen.

Thank you for the opportunity to comment on the information paper, if you have any questions regarding our submission, please do not hesitate to contact me directly.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AB', with a stylized flourish extending to the left.

Andrew Butcher
President
NSW Revenue Professionals