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

Submission to IPART by the Valuer General

7 February 2014

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Glossary

ABS	Australian Bureau of Statistics
CAPEX	Capital expenditure
COD	Coefficient of Dispersion
CPI	Consumer Price Index
CSV	Compensation and Special Valuations
Determination period	The last five years i.e. 2008-09 to 2013-14
DFS	NSW Department of Finance and Services
DITM	Department of Information Technology and Management
FTE	Full Time Equivalent
GBE	Government Business Enterprise
HR	Human Resources
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
KPI	Key Performance Indicator
LPI	Land and Property Information
LPMA	NSW Land and Property Management Authority
LVAG	Land Value Advisory Group
MVP	Mean Value Price
NPV	Net Present Value
NSW	New South Wales
OPEX	Operating expenditure
OSR	Office of State Revenue
PRD	Price Related Differential
Referral period	The next five years i.e. 2014-15 to 2018-19
SLA	Service Level Agreement
VALNET	The database system holding the Register of Land Values
VL Act	Valuation of Land Act, 1916
VSLPI	Valuations Services Land and Property Information
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 and for ensuring the integrity of land valuations. 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 delegates operational responsibilities under the VL Act to Land and Property Information (LPI), Department of Finance and Services (DFS).

Valuation Services Land and Property Information (VSLPI) is part of LPI and provides technical and operational support to the Valuer General in producing and recording land values across NSW. VSLPI 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. Such taxes are widely considered to be amongst the most efficient taxes. For example, the KPMG Econtech report prepared for the Henry Tax Review estimated that unlike conveyance duties, land tax and municipal rates have zero net impact on GDP.[1]

The land valuation system supports:

- The NSW Government via the Office of State Revenue raising approximately $2,613 million per annum in land tax[2]
- Local councils raising approximately $4,800 million per annum in rates[3]

Local councils use land values to allocate council rates to ratepayers. The Valuer General provides individual councils new land values to reflect changes in property prices every three to four 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 the Valuer General's business and the services provided to councils (in Sections 3 and 4). It also briefly describes enhancements to the services over the life of the current determination and planned service enhancements as well as possible

[1] KPMG Econtech (March 2010), *CGE Analysis of the Current Australian Tax System – Final Report*, page 134
[2] 2013-14 forward estimate from the NSW Treasury's Half Yearly Budget Review
[3] Independent Local Government Review Panel (April 2013), *NSW Local Government Rating and Charging Systems and Practices*

changes in service levels following implementation of several recommendations from the Joint Standing Committee on the Office of the Valuer General(JSCOVG)

- Describes how the actual costs compared to the efficient costs determined by IPART in the current determination period 2008-09 to 2013-14 – in section 5
- Outlines the derivation of the efficient costs of providing those services to councils (for the base year 2013-14 and five years of the referral period 2014-15 to 2018-19, following the building block approach – in section 6 (including the cost of capital and the treatment of tax)
- Discusses the efficiency of the costs in section 7
- Identifies the total revenue requirement based on these efficient costs and the prices the Valuer General is proposing to charge councils to recover those efficient costs in section 8

IPART last set the prices in 2008 for land valuation services provided by the Valuer General to councils, which involved a significant change in the price level and structure. For the referral period the Valuer General recommends maintaining many of the existing structures:

- A five year determination
- The current price structure and relativities between residential and non-residential prices
- Charging all councils the same prices
- Broadly comparable efficient costs of production

However, it should be noted that although it was agreed during the 2008 pricing review that local government should meet 40% of the Valuer General's efficient costs. IPART's 2008 determination established prices which recovered only 36.9% of the efficient costs of providing services to councils by 2013-14.[4]

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 five years.

There are some changes to costs compared to the revenues currently in place set by IPART in 2008 resulting from:

- The way in which the cost building blocks underpinning the revenue requirement are now defined compared with the 2008 determination[5]
- Increases in the actual mass valuation contract prices that have been observed in recent years
- A change in the way that common costs of LPI are attributed to VSLPI (and thereby the Valuer General) following consolidation of corporate services since the incorporation of LPI into the Department of Financial Services (DFS)
- Better information on the use of services from LPI in terms of title searches, spatial information and imagery. Costs for the supply of these services have been attributed to the Valuer General to better reflect actual services used and associated costs

[4] IPART *Price Review of rating valuation services provided by the Valuer General to local government : Final Determination and Final* Report, July 2008, Table 6.1 Effective allocation of Valuer General costs to local councils ($2007-08), page 24

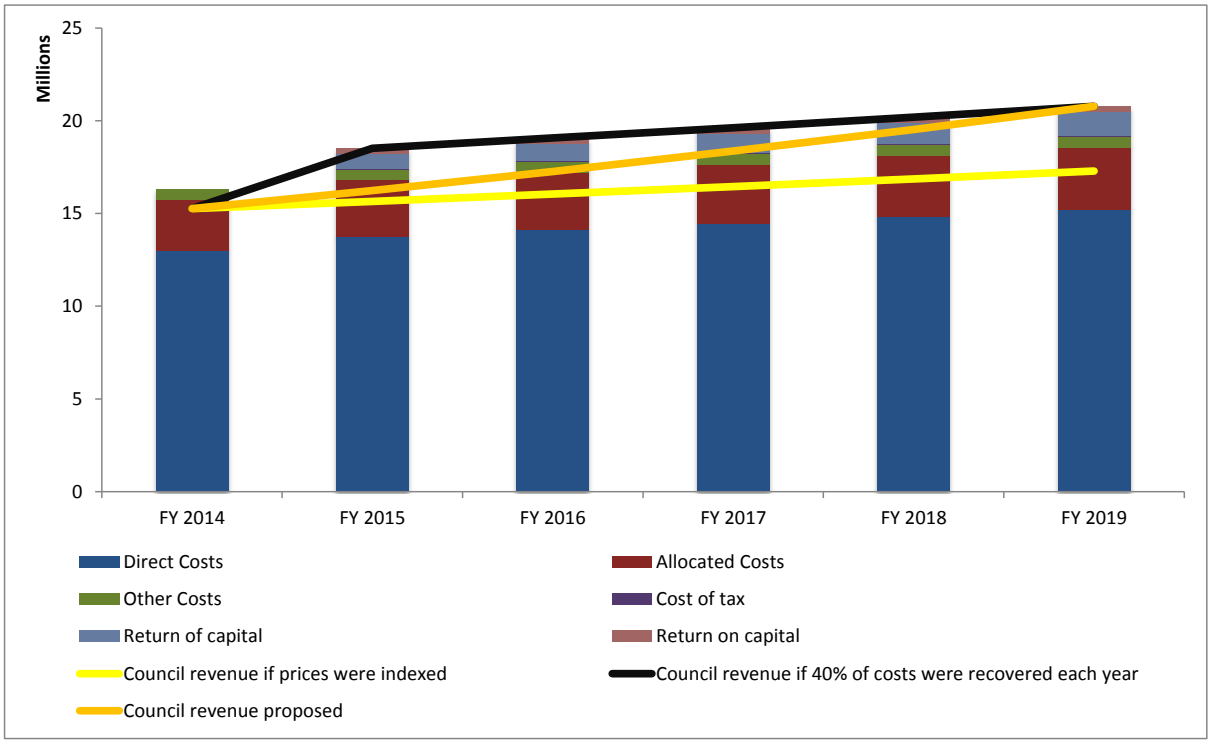
[5] The treatment of depreciation has also been changed in a way consistent with the approach IPART used to create the prices in 2008.

Further, the JSCOVG has made recommendations to improve the quality of the valuation process.[6] The Government has already agreed to implement several of these recommendations, while others require further consultation with stakeholders. It is expected that some of the remaining recommendations will be adopted during the referral period. The Valuer General suggests that it is probably 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, in lieu of an efficiency dividend (or x factor, i.e. that the x factor be zero). If the cost implications 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

Figure 1 summarises the forecasts of efficient costs to provide rating valuation services to councils. The graph shows that revenues need to increase to cover efficient costs. The Valuer General proposes that prices increase to cover these costs.

Figure 1: Total nominal cost of providing valuation services to councils



Costs in 2014-15 are forecast to be 21% higher than expected revenues in 2013-14. Costs are expected to increase by approximately CPI (2.5%) per annum after the initial adjustment. This is partially offset by a 1% per annum growth in volumes.

The JSCOVG found that "the valuation system is currently extremely cost effective"[7] and that "land values over time highly correlate to the market."[8] This is supported by:

[6] 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
[7] 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
[8] 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.

- Approximately 90% of costs in 2014-15 were either market tested or broadly in line, if not below, comparable benchmarks. These costs were accepted by IPART as efficient in 2008
- Almost half of these costs (42%) are still market tested
- The graphic, IT, finance and HR services were benchmarked in 2008 and found to be efficient. Over the current determination period the Valuer General has reduced costs in all these areas, and is proposing lower real costs in the referral period. This suggests that the cost of these services continue to be efficient[9]
- High-level benchmarking of labour costs (approximately 29%) suggests that these costs continue to be efficient
- 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)[10]

1.3 The prices proposed for councils

To transition to full cost recovery the Valuer General is proposing to increase prices by approximately 5.3% per annum over the referral period, in order to recover 40% of efficient costs by 2018-19.

As a result before 2018-19, the prices will recover less than 40% of the Valuer General's costs. The Valuer General has proposed this price path to minimise the impact on local councils.

The Valuer General proposes an overall price cap of $P_t = P_{t-1}(1+CPI+K-X)$, where:

- CPI is the NSW Treasury forecast of 2.5%
- K reflects the adjustment of 2.8% per annum above inflation (or 5.3% in nominal terms). This allows a smooth increase in prices over the referral period to allow for full cost recovery by the last year. The increase in the revenue requirement from the final year of the current pricing period (2018-19) can be explained by the following:
    - There is a continuing trend towards 40% of the Valuer General costs being covered by councils (as IPART accepted the allocation of 40% as 'robust and reasonable'). However in 2013-14, only 36.9% of the efficient costs have been covered by councils. As a result, recovering 40% of the efficient cost by 2018-19, explains approximately 50% of the real increase required between 2014-15 and 2018-19
    - During the current determination period, subdivision activity was diminished by the impact of the global financial crisis and a lack of residential development land available for release. As a result, the Register of Land Values only grew by an average of 0.55% per annum, compared to an expected 1% per annum. As such, the revenue requirement needs to spread over fewer properties in the Register of Land Values than expected in 2014-15. This explains approximately 10%-15% of the real increase required between 2014-15 and 2018-19.
    - The last two years of the current determination period both experienced an increase in mass valuation contract costs beyond the projected 2.5% annual increase. This increase is a result of increasing stakeholder expectations and increasing professional indemnity insurance costs. The cost of mass valuation contracts has increased by 5% more than expected for 2013-14 in the previous pricing determination. This explains approximately 10%-15% of the real increase required between 2014-15 and 2018-19

[9] LPI has accordingly not undertaken further benchmarking as it is costly and is not considered to be necessary
[10] IPTI, Benchmarking 2007 Summary Report, 2007

- The introduction of allocated costs to the Valuer General for spatial services, title searches and plan images explains approximately 10%-15% of the real increase required between 2013-14 and 2018-19
- The changes in the treatment of the return on and of capital explains approximately 10%-15% of the real increase required between 2013-14 and 2018-19

- X is a 0% efficiency dividend to allow VSLPI to accommodate the likely increase in costs associated with adoption of the recommendations of the JSCOVG, in addition to greater efficiencies through:
  - Increasing the number of electronic Notices of Valuation issued to landholders, reducing postage and printing expenses
  - Streamlining the objection review process to keep other valuation contract costs constant in real terms
  - Identifying opportunities to further consolidate office space requirements, reducing rental costs
  - Further integration of Valnet and the Digital Plan Processing System (DPPS), which should improve the efficiency and accuracy in the creation of new property records within Valnet by automatically populating a range of plan data from the DPPS and Comprehensive Property Addressing System (CPAS) databases when they are fully operational. These are currently entered manually by VSLPI staff to create and update property records

There are also some additional efficiency gains embedded in the growth in quantity of 1% per annum. Table 1-1 shows the proposed prices for councils.

Table 1-1: Nominal prices proposed for the forecast period

	Current Prices	**Proposed prices in dollars of the day, ($ per property)**				
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Residential	$5.37	$5.65	$5.95	$6.27	$6.60	$6.95
Non-residential	$11.81	$12.44	$13.10	$13.79	$14.52	$15.29
Residential (% change)		5.3%	5.3%	5.3%	5.3%	5.3%
Non-residential (% change)		5.3%	5.3%	5.3%	5.3%	5.3%
Total revenue	**$15.3m**	**$16.2m**	**$17.3m**	**$18.4m**	**$19.5m**	**$20.8m**

As the relative difference between residential and non-residential prices has not changed, the average council will have a fee increase of 2.8% in real terms each year.

Table 1-2 below shows the proposed real price increases between 2014-15 and 2018-19 after allowing for inflation at 2.5% per annum.

Table 1-2: Real price changes for 2014-15 to 2018-19

	Proposed real price increases($ per property)				
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Residential (% change)	2.8%	2.8%	2.8%	2.8%	2.8%
Non-residential (% change)	2.8%	2.8%	2.8%	2.8%	2.8%

The percentage change in council expenditure on valuations is larger than the real increases in prices due to the expected increases in quantity of valuations of 1% per annum.

In summary, the proposed prices:

- Ensure full recovery of the Valuer General's full efficient economic costs of service provision to councils, by 2018-19, but manage the transition to full cost recovery
- Are efficient, effective and transparent
- 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

As the costs and complexity differences between the residential and non-residential valuations have not changed significantly since 2008, the Valuer General recommends IPART formally consider using indexation of prices for future price periods after 2018-19. By this time the step increase will have been absorbed and the 40% distribution will have been realised. It will then be appropriate to index purely on CPI.

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 Land and Property Information (LPI), Department of Finance and Services (DFS). Valuation Services (VSLPI) is part of LPI and provides technical and operational support to the Valuer General in producing and recording land values across NSW.

Under the *Local Government Act 1993 (NSW)* local councils use land value data to allocate council rates to ratepayers. Individual councils update the rates they charge ratepayers to reflect changes in land values generally every three to four 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 2008, IPART released its determination of maximum prices for the Monopoly Services provided by the Valuer General. These maximum prices apply until 30 June 2014. 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 2014.[11]

2.2.1 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,*

[11] IPART, Review of prices for land valuation services provided by the Valuer General to councils Other Industries — Issues Paper, January 2014

(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.

2.2.2 The terms of reference

The Terms of Reference[12] 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 2014.

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. *Ensure full recovery of the Valuer General's efficient costs of providing the Monopoly Services over the relevant determination period or periods;*
4. *Ensure that prices efficiently allocate the costs of the Monopoly Services between the users of those services in accordance with relevant economic and pricing principles; and*
5. *Consider the scope for the Valuer General to achieve efficiency savings in providing the Monopoly Services;*
6. *Consider any relevant NSW Government policies; and*
7. *Specify the duration of the relevant determination period or periods.*

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

IPART has been asked to consult with key stakeholders, including government agencies responsible for management of the land valuation and rating systems. IPART is to submit its final report and determination to the Premier by 31 May 2014 and is to submit any subsequent reports and determinations to the Premier on such other date or dates as agreed.

[12] IPART, Review of prices for land valuation services provided by the Valuer General to councils Other Industries — Issues Paper, Appendix A, January 2014,

It is intended that the determination, or in the event of a periodic determination of pricing, its first determination, will commence on 1 July 2014.

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 following implementation of several 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 2013-2014 and five years of the referral period 2014-15 to 2018-19, following the building block approach[13]
- Identifies the prices the Valuer General is proposing to charge councils to recover those efficient costs

IPART last set the prices in 2008, which involved a significant change in the price level and structure. For the referral period the Valuer General recommends maintaining many of the existing structures:

- A five year determination
- The current price structure and relativities between residential and non-residential prices
- Broadly comparable efficient costs of production

While there have been on-going improvements in the operation of the valuation system there have been no fundamental changes in the valuation processes and approach in the last five years.

There are some changes in the proposed prices compared to the prices currently in place set by IPART in 2008 resulting from:

- Changes in the way in which IPART treats the cost of capital[14]
- Changes in the actual mass valuation contract prices that have been observed in recent years
- A change in the way that corporate costs of LPI are allocated to the Valuer General following consolidation of corporate services since the incorporation of LPI into the Department of Financial Services (DFS). Overall there has been a reduction in administrative costs with economies of scale in consolidating administrative tasks.
- Better information on the use of title searching, spatial information and imagery services from LPI. While these services were not included in the Valuer General's cost base in 2008, it has become clear that this is a cross-subsidisation of the valuation system as it is a substantial user of these services.

Further, the JSCOVG has made a number of recommendations to improve the quality of the valuation system. The Government has already agreed to implement several of these recommendations, while others require further consultation with stakeholders. It is expected that some of the remaining recommendations will be adopted during the referral period. The Valuer General suggests that it is probably unnecessary to reopen this price determination for this quality change, rather, it is proposed to absorb any cost increases arising from these

[13] The components of the building block approach are outlined in more detail in Chapter 0 Building block forecasts.
[14] Depreciation has been treated consistent with the approach IPART used in the 2008 price review.

recommendations, which are expected to be relatively minor, in lieu of an efficiency dividend (or x factor, i.e. that the x factor be zero). However, if the ultimate decision of Government has substantial impact on the cost of the services it is proposed that that would form a trigger for a further review of the prices.

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, the Valuer General sought assistance from EY to help present the forecast assumptions and the pricing proposal. EY have not independently verified information received from the Valuer General.

3 Understanding the Valuer General's business

This section describes the Valuer General's business in providing valuations to local 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 Valuer General

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 is responsible for the administration of the VL Act which includes management of the valuation system and ensuring the integrity of the land values made.

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.

In practical terms 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 stakeholders' needs are met

The Valuer General's vision is for valuation services to be customer focussed and outcome driven, with four key elements:

- Accountability – having robust policies and practices
- Accuracy – ensuring valuations are consistent with each other and the market
- Independence – clear separation of accountabilities both internally and externally
- Transparency – through clear, complete and open communication; clear roles, responsibilities and accountability

The Valuer General aims to achieve:

- Accurate and consistent land values
- A valuation system that actively engages with stakeholders

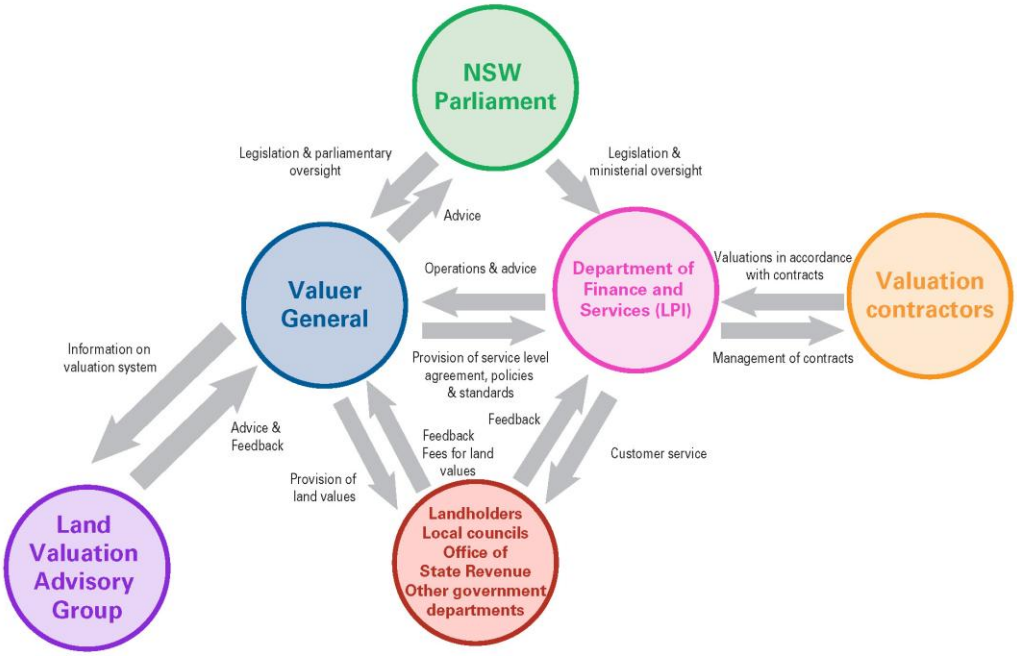
- A procedurally fair and transparent valuation system where individuals have the opportunity to put their case forward and can readily access the information and services they require
- Relationships based on fairness and equity
- Open and transparent communication with stakeholders
- A stakeholder focussed, high quality, cost effective valuation service measured through recognised quality standards and international benchmarks
- Continuous improvement of the valuation system by working closely with stakeholders and the JSCOVG
- Professional leadership and stewardship to the valuation industry

The Office of the Valuer General (OVG) has six staff. This price proposal includes an allocation of the costs of operating the OVG since these costs are necessary to providing services to councils.

3.2 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



The position of Valuer General was established by the VL Act to ensure independence from government and to create a single point for rating and taxing authorities to obtain valuations. The independence and governance provided by the Valuer General is fundamental to the provision of a fair and equitable valuation system.

The JSCOVG monitors and reviews the exercise of the Valuer General's functions with respect to land valuations. In particular, the Committee can monitor valuation methodologies, the arrangements under which valuation contracts are negotiated and entered into, and the standard of valuation services provided under such contracts. The Committee does not, however, have the ability to review individual valuations or objections to individual valuations. The processing of these issues remains the responsibility of the statutory officer, the Valuer General.[15]

The Valuer General reports administratively to the Minister for Finance and Services and the Director General, DFS.

The Land Valuation Advisory Group (LVAG) monitors the quality of land valuations and provides a channel for communications between the Valuer General and stakeholders. It was established as a result of the recommendations of the Walton Report[16] and includes senior representatives of the property industry and stakeholders comprising of the Real Estate Institute of NSW, Australian Property Institute, Local Government NSW, Property Council of Australia and the Office of State Revenue. The Chief Valuer from the OVG and senior VSLPI staff are invited observers to the group.

The principle objectives of the LVAG are to:

- Monitor and review the ongoing quality of land values
- Ensure the dissemination of information by members to their respective industry bodies
- Recommend areas for further research into improving the NSW valuation system
- Oversee recommendations of the Land Value Improvement Group
- Advise on projects brought to members' attention by the Valuer General
- Sponsor and oversee projects to improve the quality of the NSW valuation system

The Valuer General delegates a range of functions for the operation of the valuation system to LPI in accordance with the VL Act. The Valuer General oversees LPI's operation of the valuation system by engaging with stakeholders, undertaking independent analysis of valuation quality and reviewing procedures and practises to ensure compliance with the Valuer General's requirements. The Valuer General and the General Manager, LPI meet on a regular basis to discuss service performance and the Service Level Agreement (SLA) details a formal performance reporting regime.

This clear separation of accountabilities between the operational functions carried out by LPI and the regulatory functions carried out by the Valuer General provides an additional level of independence and integrity for all stakeholders.

There will likely be a significant change to the governance of the valuation system if the Government adopts the recommendation of the JSCOVG to establish a Valuation Commission to undertake the current functions of the Valuer General and VSLPI.[17] The Government has acknowledged this recommendation but believes further work, including stakeholder consultation, is required before determining its final position on this recommendation. Consequently, it is not possible to quantify the impacts of such a decision at this stage, however, it may be necessary to review this price determination if the proposal proceeds.

[15] http://www.parliament.nsw.gov.au/valuergeneral?open&refnavid=x, Accessed 2 February 2014
[16] Walton, J "Report of Inquiry into Operation of the Valuation of Land Act", October 1999
[17] 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, Recommendation 1.

3.3 The role of Land and Property Information

LPI manages the valuation system on behalf of the Valuer General. This is authorised by formal delegation in accordance with the VL Act.

The services and performance standards that LPI is required to deliver on behalf of the Valuer General are detailed in a SLA with the General Manager, LPI. The SLA is reviewed and updated by the Valuer General and LPI annually to ensure services meet changing stakeholder needs while providing for regular reporting against key performance indicators and continuous improvement of the valuation system.

The SLA defines the separation of responsibilities and accountabilities between the Valuer General and LPI and establishes clear performance goals within the valuation system. The Valuer General regulates LPI's implementation of these functions to ensure compliance with the requirements of the VL Act as well as standards and policies set by the Valuer General.

The majority of services under the SLA are provided by the Valuation Services business unit of LPI (VSLPI) with support from a range of other LPI business units.

3.3.1 LPI's financial structure

LPI manages land and property information services across government, including land titling, surveying mapping and spatial information and land valuation.

LPI is a non-budget dependent agency and operates under a similar framework to a government business enterprise (GBE).[18] When LPI was established, the government announced it wanted LPI to be a 'one-stop shop':

> *"to improve the quality and speed of land and property transactions, maximise cost benefits through online service delivery and, as time goes by, adapt new information technology to meet future client needs."*[19]

LPI's structure as a non-budget dependent agency provides, among other things, a clear business and commercial focus to improve service quality and efficiency. It also enables effective performance monitoring including the tax equivalent regime, dividend payment and guarantee fees.

While not formally a GBE, LPI operates under the Commercial Policy Framework which requires government businesses to:

- Have commercially appropriate capital structures
- Pay dividends and make capital repayments
- Pay tax equivalents and fees for government guaranteed debt, to ensure competitive neutrality with private sector businesses
- Be compensated explicitly for the costs associated with providing any non-commercial activities (social programs) on behalf of the government
- Undertake financial appraisals of proposed projects to ensure the value of expected net cash flows exceed the weighted average cost of capital

[18] A government business enterprise is a generic term which includes public trading enterprises, public financial enterprises, state owned corporations, and general government non-budget dependent businesses. LPI is a general government non-budget dependent business engaged in trading activities which may include social services, the provision of which could be undertaken by such units on the basis of an arm's length contract with government.
[19] Yeadon, Kim, Press Release, 28 June 2000.

- Use value-based measures of financial performance to determine if a business is adding or diminishing shareholder value[20]

NSW Treasury is responsible for the commercial policy framework and over the past 20 years has published a range of policy and guideline documents.[21]

3.3.2 Implications for the Valuer General

VSLPI operates as a business unit of LPI and is subject to the constraints imposed by being part of a self-funding division. The key implications of its status are as follows:

- LPI expects its business units (including VSLPI) to achieve, or work toward achieving, the same outcomes that are required of the business as a whole. In particular, it expects VSLPI to achieve full recovery of its economic costs so that it does not have to be subsidised by other parts of LPI'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
- VSLPI has an incentive to ensure that the costs allocated to it (and thereby to the Valuer General) by LPI 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 LPI business units are contained in section 6.3 Allocated costs.

3.4 Impacts on the cost base of the Valuer General

3.4.1 Changes in organisational structure

At the time of the 2008 IPART price review of rating valuation services, LPI was a division within the Department of Lands. LPI operated within this structure until the commencement date of IPART's determination on 1 July 2009, when the Land and Property Management Authority (LPMA) was established, replacing the Department of Lands.[22] The LPMA aggregated the divisions comprising the Department of Lands, including LPI, with various other land management and administration groups, such as the State Property Authority. LPI continued to operate within the GBE framework under this new structure.

In April 2011 the LPMA was abolished, and LPI was transferred into the newly established Department of Finance and Services (DFS).[23] DFS is a "cluster" agency made up of seven key "service" oriented divisions and various related entities. As a division of DFS, LPI continues to operate as a non-budget dependent business, but is not specifically a GBE.

LPI's move into the DFS structure resulted in a change to the composition of its administrative and other corporate overhead expenses. The amount allocated to LPI (and therefore the Valuer General and VSLPI) for these items was originally based on it being part of the Department of Lands' and the LPMA's structures. These changes complicate comparison of

[20] NSW Treasury, Treasury Focus: Corporate Newsletter of the NSW Treasury Office of Financial Management, Issue Sixteen, December 2001, page 7.
[21] http://www.treasury.nsw.gov.au/comframe/com_fr_inx.htm
[22] Public Sector Employment and Management (Departmental Amalgamations) Order 2009 (2009 No 352); notified on NSW Legislation website, 27 July 2009.
[23] Public Sector Employment and Management (Departments) Order 2011 (2011 No 184) cls.30 (2); notified on NSW Legislation website, 3 April 2011.

the actual expenses with the forecast amounts for these items over the current determination period. This is explained further in sections 5.2 Allocated Costs and 6.3.1 LPI Corporate Costs, DFS Corporate Costs.

There will be significant changes to organisation structures if the Government adopts the recommendation of the JSCOVG to establish a Valuation Commission to undertake the current functions of the Valuer General and VSLPI.[24] The Government has acknowledged this recommendation but believes further work, including stakeholder consultation, is required before determining its final position on this recommendation. Consequently, it is not possible to quantify the impacts of such a decision at this stage, however, it may be necessary to review this price determination if the proposal proceeds.

3.4.2 Service reviews

There have been a number of reports and inquiries into the provision of land valuations in New South Wales since the last IPART price review. This section describes those reports and identifies the implications for the review of prices for valuation services.

3.4.2.1 DFS review

In 2012 DFS engaged the Allen Consulting Group to undertake a review of the performance of VSLPI. The review identified some lack of clarity in the definition of responsibilities and accountabilities in the valuation system and flaws in the framework for risk management. The report made six recommendations for enhancements to the SLA between the Valuer General and LPI to clarify accountabilities and for improvements to the risk management framework.

Key enhancements implemented in response to this review are:

- Clarification of accountabilities
- Additional performance indicators incorporated in the SLA
- An enhanced risk assessment and management assurance framework for the valuation system.

These enhancements represent refinements to existing processes and have been implemented. Consequently they are already included in the current cost base and so have no additional impact on future pricing.

3.4.2.2 LPI Strategic Review 2012-13

In 2012-13, a strategic review of LPI was carried out to consider the viability of expanding LPI's services through investment from the private sector. The review considered a model where the regulatory functions of LPI and, the position of the Valuer General, would remain within government, and the operational functions in the titling, valuation, surveying, and mapping areas to be provided by a private operator under a contractual and regulatory framework.

The NSW Government deferred the consideration of the review's outcomes for a minimum of two years, to allow for a key initiative, the National Electronic Conveyancing System, to be implemented. It is worth noting that the Government's consideration of the outcomes of the strategic review may occur during the referral period. It is possible that this may have a significant impact on the operating model for the valuation system and therefore the cost base

[24] 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, Recommendation 1.

of the Valuer General. In that event, the Valuer General proposes that IPART consider making a new determination with respect to the prices of valuation services.

3.4.2.3 Joint Standing Committee on the Office of the Valuer General – Inquiry into the Land Valuation System, 2013

In January 2013, the JSCOVG commenced an inquiry into the NSW valuation system. The Committee tabled its report in May 2013, making 29 recommendations.[25] The Committee considered that the NSW valuation system is broadly efficient, but raised concerns about the independence, transparency and fairness of various aspects of the system. It made a number of recommendations to improve the governance around the valuation system, and the transparency and flexibility of the objection review process. Recommendations were also made to review aspects of the VL Act relating to the valuation methodology and approach applying to certain property types, such as mines.

The NSW Government was broadly supportive of the Committee's findings and recommendations, but indicated that further consultation and work would need to be undertaken to properly assess the impacts of various recommendations such as those proposing changes to the objection review process and existing governance arrangements.[26] It is therefore difficult to estimate the impact of these changes on the Valuer General's cost base.

In the interim, the Valuer General has commenced work on a range of initiatives consistent with the JSCOVG recommendations that can be implemented administratively. The Valuer General proposes that minor increases to costs as a result of implementing the Committee's recommendations be absorbed within the prices proposed for the referral period through a combination of efficiency improvements and the reallocation of existing resources in lieu of an efficiency dividend. However, if once the Government's final position on the JSCOVG recommendations is decided, there is a significant impact on the cost base the Valuer General proposes that IPART consider making a new price determination.

3.4.3 Changes in Service Volume

The growth in the number of properties on the Register of Land Values is a significant driver of service volumes. The increase in property numbers drives the supplementary valuations for that year. An increase in the number of properties on the Register of Land Values also has the potential to increase the volume of objections.

As with the previous review the number of properties on the Register of Land Values has been estimated to grow by 1% per annum for the referral period 2014-15 to 2018-19. For the purposes of the price impact modelling, the number of properties is assumed to increase by 1% uniformly for every council and across all property zones.

While the Register of Land Values only grew by an average of 0.55% per annum during the period of the current determination, subdivision activity during that period was diminished by the impact of the global financial crisis and a widely reported lack of residential development land available for release in Sydney's growth areas. As the property industry is showing signs of recovery in NSW,[27] it is expected that the market will return to more typical levels of

[25] Joint Standing Committee on the Office of the Valuer General, Parliament NSW, *Report on the inquiry into the land valuation system and eight general meeting with the Valuer General*, Report 2/55, May 2013
[26] NSW Government, *Response to the Joint Standing Committee on the Office of the Valuer General's inquiry into the land valuation system,* November 2013
[27] http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0006/27834/2013-14_Half-Yearly_Budget_Review_FINAL.pdf, pg 29-30

subdivision and property growth during the referral period. Consequently the estimate of 1% per annum growth in the number of properties on the Register of Land Values is considered to be reasonable for the period from 2014-15 to 2018-19.

Table 3-1: Projected growth in the numbers of valuations on the Register of Land Values

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Residential Valuations (000s)	2,137	2,160	2,177	2,198	2,220	2,242	2,265
Non-Residential valuations (000s)	319	310	313	316	320	323	326
Total (000s)	2,456	2,471	2,495	2,520	2,545	2,571	2,597

Objection volumes broadly follow the numbers of valuations issued so it is reasonable to expect that a 1% per annum growth in the Register of Land Values will be generally reflected by a similar percentage increase in objections. However, the Valuer General expects an extra 1,000 objections in 2013-14 as a result of changes being introduced to the acceptance criteria of objections. These changes have been introduced in response to the JSCOVG's concerns regarding the accessibility of the objection review process for landholders.[28] The Valuer General is not forecasting this to increase the cost of objection contracts in 2013-14 as it is expected that the bulk of these additional objections will be less complex than more typical objections. It is proposed that this additional volume will be managed through process improvements to increase efficiency and the reallocation of existing resources.

3.4.4 Changes in the means of service delivery

From 1 March 2007 staff of the former Property Valuation Services, a business unit of the Department of Commerce, were integrated into VSLPI. This was part of the on-going reduction of government provision of valuation services as part of the commercialisation of the industry.

On integration, these staff were established in a separate cost centre within VSLPI given the work carried out by staff in this cost centre was unrelated to valuations for rating and taxing purposes and, at that stage, LPI systems did not fully support the clear identification of work time for different functions. In the 2008 price review, this cost centre was excluded from the cost base attributed to local councils.

In 2011-12 the separate cost centre was deleted, as greater efficiency was achieved by integrating all LPI's valuation staff into a single group. This initiative was supported by the implementation of an enhanced time billing system integrated with LPI's financial and time sheet systems, improving the recording of the amount of time spent on specific functions. This allows for a more accurate distribution of relevant costs to local councils. Figures for 2012-13 indicate that approximately 92% of staff time within VSLPI is related to rating and taxing work. This split has been used for the forecasts over 2014-15 to 2018-19.

The current functional split within VSLPI is:

- Valuation Operations – manages valuation and contract aspects of rating and taxing valuation services, undertakes some objection reporting and also provides a limited commercial valuation service on a fee for service basis. The group is decentralised into three regions: metropolitan, north western, and south western

[28] Although the NSW Government is still considering some of the JSCOVG's recommendations, the Valuer General has implemented administrative reforms consistent with the spirit of this recommendation

- Contracts and Business Management – provides procurement and contract administration, communications support, policy and procedure development, training, and business administrative services
- Valuation Customer and Information Services - manages the objection process and customer service through the centralised Valuation Customer Services unit with contract valuers providing the majority of objection reporting services. The Valuation Information Services unit maintains the Register of Land Values to ensure it is current, complete and accurate. This team is decentralised and also provides over the counter services to landholders in regional areas. The data held in the Register of Land Values is analysed and quality assured by the Data Analysis and Integration team

There may be significant changes to the means of service delivery if the Government adopts the recommendation of the JSCOVG to establish a Valuation Commission to undertake the current functions of the Valuer General and VSLPI.[29] The Government has acknowledged this recommendation but believes further work, including stakeholder consultation, is required before determining its final position on this recommendation. Consequently, it is not possible to quantify the impacts of such a decision at this stage, however, it may be necessary to review this price determination if the proposal proceeds.

[29] 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, Recommendation 1.

4 The Valuer General's service quality

This section analyses and reviews the service performance of the Valuer General and VSLPI over the period of the current determination and points to service improvements planned for the referral period.

Despite identifying a number of areas for improvement in the system the JSCOVG nevertheless found that "the valuation system is currently extremely cost effective"[30] and that "land values over time highly correlate to the market."[31]

The cost effectiveness of the valuation system has not been at the expense of service to stakeholders. Land values are delivered on time to stakeholders, allowing for the scheduled delivery of land tax and rates notices, and supporting services are in place to address enquiries and the effective review of valuations. Landholder and stakeholder surveys concerning the OVG and VSLPI's service show high levels of satisfaction.

Key elements of the Valuer General's service quality are:

- Greater than average quality control processes based on international benchmarking
- High level of compliance with internationally accepted statistical measures of valuation quality
- Low levels of change to the total value of the Register of Land Values due to error correction in comparison to other jurisdictions
- High levels of satisfaction recorded in customer satisfaction surveys
- An on-going program of service quality improvement initiatives

These elements are discussed in more detail in the following section.

4.1 Valuation quality assurance

The International Property Tax Institute (IPTI) undertook a benchmarking survey of international valuation providers in 2010.[32] The purpose of the survey was to study property assessment and taxation practices found in various jurisdictions around the world. The outcome of this study was to derive assessment "benchmarks" that would allow participating agencies to compare the performance of their assessment and taxation system against other jurisdictions. A total of 18 organisations worldwide were involved in the survey although the number of responses to each question varies.

VSLPI undertakes quality control processes for 15% of its valuations compared to an average of approximately 11% of valuations by other global providers reported by IPTI.[33]

4.1.1 Statistical accuracy indicators

The NSW valuation system is monitored through a range of statistical measure of valuation quality that are recognised and applied by major mass valuation jurisdictions throughout the world. These measures were implemented in 2003 and were supported by the NSW Ombudsman in the report *Improving the Quality of Land Valuations issued by the Valuer*

[30] 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
[31] 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.
[32] International Property Tax Institute, Benchmarking 2010 Report, 8 December 2010
[33] International Property Tax Institute, Benchmarking 2010 Report, 8 December 2010, p. 19

General.[34] The measures are described in Table 4-1 below. The University of Western Sydney independently determines these measures on an annual basis and reports performance to the Valuer General.

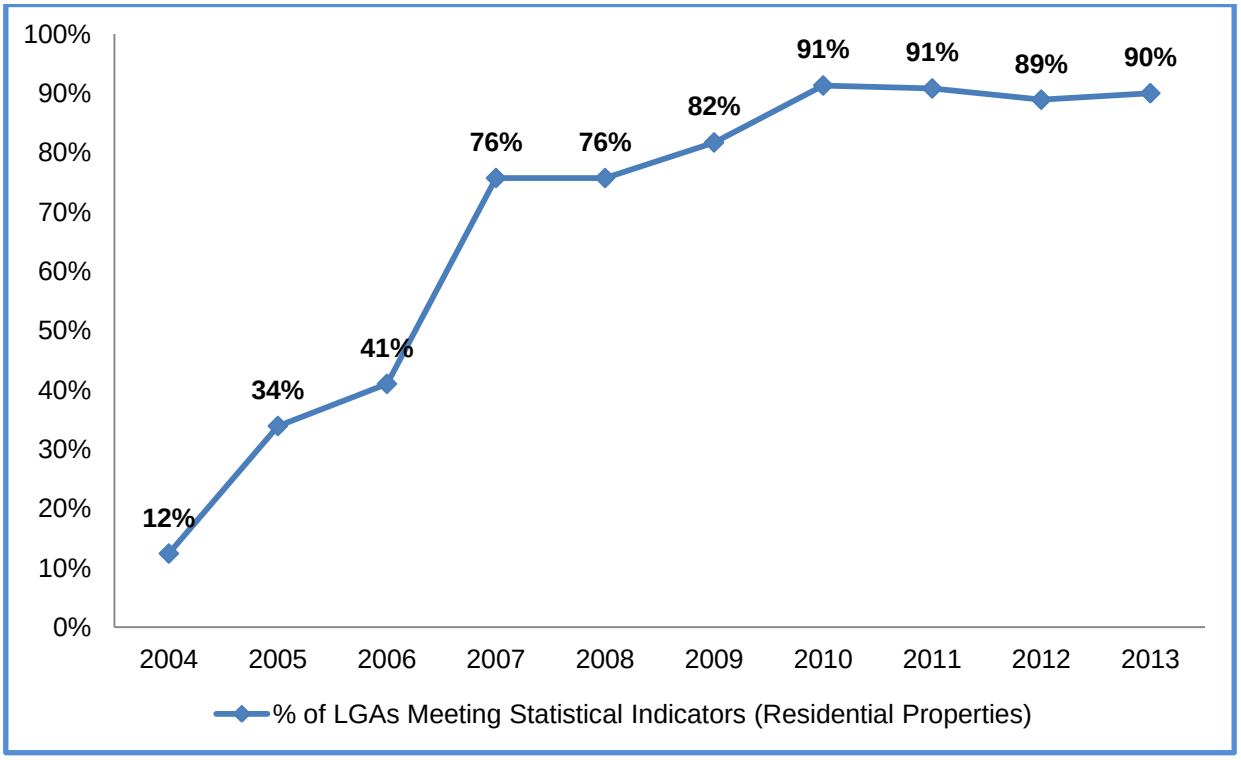
Table 4-1 Statistical measures of valuation quality

Statistical Standard	Purpose	Target
Coefficient of Dispersion (COD)	The COD is used to measure the uniformity of land values relative to prices. Therefore if value levels are inconsistent the variation between those values and the sales evidence used will be outside the required parameter.	<10% (Residential zones) <15% (Business, Industrial and Rural zones)
Mean Value Price ratio (MVP)	The MVP is the relationship between the land values and the analysed sales. It gives an overall figure showing how close the land values are to the sales used.	90% - 100%
Price Related Differential (PRD)	The PRD measures the vertical equity of valuations, i.e. the extent to which high and low valued properties are assessed uniformly relative to sales data	0.98 – 1.03

Figure 3 below shows the proportion of LGAs meeting the targets for all three measures for residential properties. The graph shows that the statistical accuracy of residential valuations (which account for approximately 90% of valuations) has been increasing since 2004 including during the period of the current determination. This indicates that the efficiency of the NSW valuation system has not been at the expense of ensuring quality.

[34] October 2005

Figure 3 Percentage of LGAs meeting statistical accuracy indicators for residential properties 2004-2013



4.1.2 Other indicators of valuation quality

Changes made to the land values contained in the Register of Land Values provide a good indication of the overall stability of land values in NSW. Such changes would generally occur as a result of objections or appeals, or through the reascertainment process. Reascertainment is the process whereby land values are amended due to an error but no objection has been received. This could be due to a number of factors, such as:

- Information not previously available at the time of making the initial valuation
- Identification of errors through VSLPI's quality assurance process
- Wider application of outcomes from the objections and appeals process

Once a land value used for rating purposes has been reascertained, a new Notice of Valuation is issued to the landholder, and the same right to object applies.

Stability of the land values in the Register of Land Values can be observed in terms of the total volume of land value changes as a result of objections, appeals and reascertainments, as well as the extent of the changes in the land values.

The overall change to the Register of Land Values equates to an average of approximately 0.12% per annum over the period between 2001 and 2011, indicating that amendments as a result of objections, appeals and reascertainments have had a minimal impact on the overall value of the Register of Land Values. More recently, the average annual change in value of the Register of Land Values for the valuing years from 2009 to 2011 was 0.093%.

These overall changes to the Register of Land Values compared favourably to other jurisdictions. The Canadian province of British Columbia, which has a target change of no more than 0.37% to its valuation roll[35] as a key performance indicator (KPI), had a change in

35 Valuation Roll is the equivalent of the NSW Register of Land Values

2011 of 0.36%.[36] Ontario reported 0.27% change to its valuation roll in the same period.[37] The Valuer Generals of South Australia and Western Australia have also provided informal advice on this measure indicating that in both jurisdictions, variations to the registers are between 0.05% and 0.1% of the total value.

While direct comparisons are difficult due to variations in local circumstances and a lack of standardised reporting, the comparisons suggest that the level of error correction required on the Register of Land Values is at the lower end of the scale.

4.2 Service quality

The KPIs outlined in the Service Level Agreement (SLA) between the Valuer General and LPI for 2013-2014 include specific measures of VSLPI performance used to measure and report on levels of achievement. They cover the full range of LPI services and include specific targets on customer response times, target delivery times and data quality issues.

With a focus on efficiency while ensuring quality and accuracy of information and services, the Valuer General regularly takes part in international benchmarking studies to compare and measure NSW valuation practices and performance with other agencies worldwide. In 2010 the Valuer General participated in a study conducted by IPTI that surveyed operation and valuation practices of assessing agencies worldwide. Based on the results of the study the NSW Valuer General would be considered to be a cost effective valuation provider. The Valuer General will again participate in the 2014 benchmarking study.

Over the past five years the Valuer General, in conjunction with VSLPI, has made significant enhancements to the NSW valuation system including:

- Improved information being made available to landholders following receipt of new valuations and also when they receive the decision as a result of lodging an objection
- Improved accuracy, consistency and transparency of valuations. This has provided councils, the OSR and landholders with a more equitable rating and taxing base

4.2.1 Stakeholder satisfaction indicators

The Valuer General has undertaken an on-going program of measuring the satisfaction of a range of stakeholders. This program will continue over the coming price control period with the Valuer General reporting on stakeholder satisfaction and engagement in the Valuer General's Annual Report, as recommended by the JSCOVG.[38]

4.2.1.1 Customer Service

A customer satisfaction survey was developed by VSLPI under the requirement of the 2007-08 Service Level Agreement between the Valuer General and LPI. This survey was first conducted in 2008 and again in 2010 to measure the level of landholders' satisfaction with the valuation call centre and follow up contact from VSLPI.

36 BC Assessment, *2011 Annual Service Plan Report,*p13 http://www.bcassessment.ca/forms/Publications/2011%20Annual%20Report.pdf accessed 12 March 2013

37 Municipal Property Assessment Corporation *Annual Report* 2011, p16 http://www.mpac.on.ca/pdf/2011_Annual_Report.pdf accessed 12 March 2013.

38 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, Recommendation 26.

The initial survey found over two-thirds of survey participants rated the quality of their overall experience as high and no area of service was rated as low. Results in 2010 showed that overall customer satisfaction had improved despite the strong existing benchmarks.

A follow up survey to track progress against the previous surveys is being undertaken in 2014.

4.2.1.2 Objection Handling

In 2011 the Valuer General commissioned an independent survey to benchmark customer satisfaction with the handling of objections. The survey investigated landholder perceptions of independence, transparency, objectivity, accessibility and professionalism. The majority of survey participants were happy with the objection process and service provided throughout the process. The survey results led to improvements in the online objection facility and the valuation sales report.

4.2.1.3 Local Government

The Valuer General surveyed councils for feedback about the Valuer General's newsletter in 2010, 2012 and 2013. The 2013 survey also addressed communications and service provided to council by both the OVG and VSLPI. The survey showed that:

- 88% of survey participants rated the Valuer General's newsletter as either helpful or extremely helpful in assisting ratepayers understand land values for rating
- 95.7% of survey participants rated the Valuer General's newsletter as either helpful or extremely helpful for landholders in accessing additional information about land values and the valuation system
- 92.2% of survey participants rated the communications and service and the provision of support and information about land values provided by VSLPI as good or very good
- 98.1% of survey participants rated the communications and service provided by the OVG on answering queries from council as good or very good

Councils, as well as MPs and MLCs will be surveyed in 2014 on information resources that provide information on the land valuation and objection.

4.2.2 Service quality enhancements during the current determination period

This section describes specific enhancements to the valuation system to improve service quality which have been implemented over the past five years.

4.2.2.1 Electronic delivery of Notices of Valuation (E-Notices)

Landholders with more than 10 properties are now able to access an electronic portal to view E-Notices for their properties instead of receiving separate Notices of Valuations in hardcopy. Landholders currently registered can more readily access and utilise valuation data. This also resulted in a cost saving for the production and postage of approximately 33,000 hard copy Notices of Valuation in 2012, the first year of implementation. In 2013, eight additional large landholders were registered. Approximately 27,000 Notices of Valuation were delivered electronically in 2013. It is expected that more large landholders will be registered in the coming years to realise further benefits and savings.

4.2.2.2 Management assurance framework

During 2013 the Valuer General and VSLPI implemented the first stage of an enhanced Management Assurance Framework to strengthen the management of risk within the valuation system. VSLPI and the OVG developed new standardised risk registers for all business areas and established a Management Assurance Committee to oversee the new processes. Stage two, which involves a review of audit and quality assurance outcomes within VSLPI commenced in late 2013.

4.2.2.3 Land value verification program

The land value verification program was implemented on 1 May 2006 to enhance the quality of land values by requiring contract valuers to individually review land values and attribute data for all properties in NSW over the five year period. The project provided enhanced valuation outcomes and improvement to the valuation basis as indicated through reduced objection numbers and the overall improvement in the quality of land values as shown through statistical analysis. The implementation of the program was completed in April 2011.

In 2012 the verification program was enhanced by scheduling verification actions based on the comparative valuation risk of individual properties. The new process considers the complexity and nature of each property on the basis of high, moderate and low risk. High risk properties require annual verification, moderate risk properties are to be verified every three years and low risk properties every six years. This provides for more frequent review of individual land values and components for the more complex and contentious valuations. The new verification requirements have been progressively implemented in contracts commencing from 1 March 2012 and will be included in all contracts from March 2014.

4.2.2.4 Complex land value improvement program

A program commenced in November 2011 to improve the quality and consistency of land values for complex properties. The program comprises detailed investigation and quality assurance of valuations for property classes that, due to their complexity or lack of market evidence, require more detailed consideration and review. The objective of the program is to improve the quality of the valuations by increasing contract valuer knowledge and understanding by improving guidelines and data to support these valuations. The program is scheduled for an initial period of three years to allow for review and subsequent forward planning.

Complex property types that have been reviewed over the past two years include:

- Shopping centres
- Contaminated land
- Domestic waterfront land subject to Crown lease or licence
- Land subject to coastal erosion
- Land affected by heritage restrictions
- Land valued under section 6A(2) of the VL Act where the existing use of land is above its current permitted planning use, resulting in a higher land value

4.2.2.5 Improvements to communications

The Valuer General's communication strategy is to ensure communication is open, informative and transparent, encouraging feedback and discussion. This strategy has resulted in the

provision of more information to stakeholders on the valuation process and more detailed information on the property market. All publications are reviewed annually and stakeholder feedback is actively sought as part of the review process.

Communications improvements implemented during the current determination period include:

- Improved information for strata landholders in 2009 including a new fact sheet and enhancements to the *Your land value review guide*
- Enhanced information on supplementary valuations comprising:
  - More specific information about why supplementary Notices of Valuation are being issued to landholders has been provided since 2010
  - Explanatory notes printed on the Notice of Valuation
  - A factsheet on common reasons for the issue of supplementary valuations included with all supplementary Notices of Valuation
  - Individual covering letters accompany supplementary Notices of Valuation for reascertained land values used for rating
- An additional Valuer General's Newsletter for landholders who receive new land values for rating purposes. The newsletter is issued when Rates Notices are issued by councils and focuses on land values and council rates and changes in the property market since the last valuation for rating. The first edition of this newsletter was produced in July 2011
- A new Valuer General website (www.valuergeneral.nsw.gov.au) independent of the LPI website was implemented in December 2013. The new site is designed to be more user-focussed and reiterates the independence of the Valuer General

4.2.2.6 Research and innovation

Over the current determination period the Valuer General has engaged Associate Professor John MacFarlane, from the University of Western Sydney (UWS), to undertake independent research and analysis of valuation processes and outcomes and to advise on potential improvements to the quality of land values for rating and taxing purposes in NSW. The Land Value Improvement Group, comprising the OVG, VSLPI and Associate Professor MacFarlane, meets monthly to steer the direction of research and innovation in the land valuation system. The risk based land value verification program and the complex land value improvement program have both been developed based on this research.

4.2.3 Planned service quality enhancements during the referral period

A range of further service quality enhancements are planned for the referral period, including a number of initiatives to address concerns raised by the JSCOVG.

4.2.3.1 Public guidelines

Commencing in 2014 the Valuer General will publish public guidelines to assist landholders to better understand land valuation processes and to provide clearer guidance to valuers on a range of valuation policies, standards and practises. The publication of guidelines addresses concerns raised by the JSCOVG that valuation methodologies are not transparent.[39] The guidelines will cover the valuation of land in NSW for rating and taxing purposes and the land acquisition compensation determination process. It is intended that the guidelines will clearly

[39] 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, Recommendation 2.

state the methodologies for valuing land and the circumstances in which those methodologies are applied.

4.2.3.2 Dispute resolution

To address concerns raised by the JSCOVG that the objection process lacked procedural fairness and engagement with landholders, the Valuer General intends to build a stronger dispute resolution capability into the valuation system in 2014. The improved process is expected to support the streamlined resolution of valuation disputes and will supplement objection processes.

Design of the new process has commenced in line with recommendations made by the JSCOVG[40] and implementation is planned for the first half of 2014 with the publication of procedural guidelines to allow landholders to understand the dispute resolution system. Staff and contract valuer training in dispute resolution is planned for the middle of 2014. The dispute resolution process will be designed to enable evaluation of the process.

4.2.3.3 Improving access to key data

To address the JSCOVG's recommendation that more data be captured and analysed in order to continuously improve the valuation system, in 2015, VSLPI, on behalf of the Valuer General, will electronically capture and centrally store more information concerning reviews of land valuations. Currently data is held in documents and is not easily searchable or reportable. This improved data access will support improved analysis of the effectiveness of the valuation system and the identification of the major areas where the system is performing well and where it needs improvement.

4.2.3.4 Electronic delivery of Notice of Valuations (E-Notices) extension

The design of the E-Notices process planned for future extension of the E-Notices facility to smaller landholders in the future. There is potential to realise further service benefits in the delivery of Notices of Valuation electronically to all landholders who select to receive communications, including Notices of Valuation electronically. While there is a significant body of work to be completed before implementation of this stage it is expected to be realised during the referral period.

4.2.3.5 Land Valuation Advisory Group

The LVAG forward plan includes:

- Overseeing the development and monitoring of additional quality assurance and customer satisfaction benchmarks
- Overseeing the development of enhancements to valuation audit tools
- Considering possible enhancements to the valuation system that will improve productivity and cost efficiencies, as well as providing an improvement in valuation outcomes
- Advising on improving information and customer service provided to landholders
- Overseeing an annual project that utilises parallel valuations to examine the accuracy and consistency of land values

[40] 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, Recommendations 14 & 15.

4.2.3.6 The Valuer General's Annual Report

To demonstrate independence from the NSW Government and improve transparency and accountability, the JSCOVG recommended that the Valuer General issue an Annual Report, separate to the DFS Annual Report. From 2014, the Valuer General will publish its own Annual Report and it will include details on:

- Stakeholder satisfaction and engagement
- The consistency and accuracy of land valuations across NSW
- Outcomes of land valuation objections, particularly outcomes that result in changes to land value
- Activity based costing to improve transparency on the management of valuation system resources

4.2.3.7 Improved information regarding rural land values

Following feedback from landholders, it is planned to produce a new factsheet in 2014 on the valuation of rural land. In addition, a new rural sales report is currently being trialled in the Walcha and Mid-Western Regional Local Government Areas (LGAs) to address criticism that sales reports provided for properties over 100 hectares provided limited sales information from too wide an area and that reported sales were considered not typical of the area. The reports feature a narrative and commentary on how sales apply to land values in the area. It is expected that following this trial the rural sales report will be extended to more LGAs in 2015.

4.2.3.8 Integration of Valnet and the Digital Plan Processing System (DPPS)

To ensure the accuracy and currency of the Register of Land Values property information is integrated from a range of property databases, imagery repositories and hard copy documents. Currently, data from survey plans are reviewed and entered manually by VSLPI staff to create and update property records. VSLPI has developed an automated workflow process to reduce the time required to deliver supplementary valuations to clients following the creation of new lots. This process will improve the efficiency and accuracy in the creation of new property records within Valnet by automatically populating a range of plan data such as dimensions, area and property addresses from the Digital Plan Processing System (DPPS) and Comprehensive Property Addressing System (CPAS) databases when they are fully operational.

The availability of plan data is reliant on industry take-up of new plan supply processes currently being tested by LPI and a number of survey firms. Integrity checks are in place to check that all required data is present before completion of the workflow. The first stage of the system for integration has been built ready for the receipt of data as the other systems become available over the coming year.

The Valuer General's financial performance over the 2009-10 to 2013-14 determination period

This section compares actual operating and capital expenditure of the Valuer General over 2009-10 to 2013-14 determination period against the efficient cost determined by IPART in the 2008 determination, and explains the basis of the variations that have occurred.

Table 0-1: The Valuer General's financial performance over 2009-10 to 2013-14 regulatory period for rating and taxing valuation services

	2009-10 $'000	2010-11 $'000	2011-12 $'000	2012-13 $'000	2013-14 $'000	Cumulative $'000
Labour	11.88	12.89	11.78	11.40	12.13	
Mass Valuation	15.13	15.40	15.84	16.93	17.68	
Other Valuation Contracts	2.86	1.92	1.89	2.86	3.05	
VS Postage	0.37	0.37	0.45	0.39	0.40	
Rent	0.65	0.66	0.59	0.60	0.60	
Others Direct	1.88	1.60	1.58	1.38	1.54	
Total Direct	**32.78**	**32.84**	**32.12**	**33.57**	**35.40**	
LPI Corporate Support	1.60	1.13	1.62	1.30	1.53	
DFS Corporate Support	0.00	0.00	0.36	0.36	0.36	
ICT Operational	1.27	1.29	1.20	1.34	1.42	
GS Printing	1.47	1.38	1.42	1.43	1.46	
Total Allocated	**4.34**	**3.80**	**4.60**	**4.42**	**4.77**	
Total Valuer General Rating and Taxing Valuation OPEX	**37.12**	**36.64**	**36.72**	**37.99**	**40.17**	**188.65**
Total IPART Determined Valuer General Efficient OPEX	**35.71**	**36.92**	**37.36**	**38.26**	**39.22**	**187.46**
Variance Percentage	-4%	1%	2%	1%	-2%	-1%
Variance ($)	-1.42	0.28	0.64	0.27	-0.96	-1.18

Table 0-1 above compares the total operating expenditure over 2009-10 to 2013-14[41] by key cost components against what IPART determined to be the Valuer General's efficient OPEX for 2007-08 in its previous determination. The 2007-08 costs have been escalated by actual inflation to estimate the amount for each year of the current determination[42] (actual rates are consistent with those used in section 0 The efficiency of the Valuer General's OPEX).

The Valuer General exceeded IPART's allowed operating expenditure by approximately 4% in 2009-10, but this stabilised to being within 1-2% in the latter years of the current determination period. Based on this estimation, the cumulative total of the Valuer General's actual operating expenditure over these years is $188.6 million, compared to IPART's estimated efficient OPEX of $187.5 million. This represents a 1% variation, indicating that over the life of the current determination, the Valuer General's operating expenditure has remained broadly in line with IPART's determined efficient costs.

5.1 Direct Costs – 2009-10 to 2013-14

Overall direct costs have not increased in real terms over the current determination period. While some costs have increased above projections, other costs have been contained below amounts forecast in the Valuer General's submission to the 2008 IPART price review, offsetting these rises.

5.1.1 Labour costs over 2009-10 to 2013-14

Actual OVG and VSLPI labour costs over the current determination period were lower than originally forecast in the Valuer General's submission to the 2008 IPART price review. This is accounted for by a substantial decrease in full time equivalent staff numbers over the period largely due to a staff freeze while LPI was undergoing a strategic review and not filling positions as staff have retired. In part, this has been used as a strategy to offset other costs including mass valuation contracts that have risen above the 2008 forecasts. However, now that the LPI strategic review has been largely completed VLSPI expects to fill some of these positions and return EFT staffing to 125 in 2014-15.

It is also important to note that the labour costs shown in Table 0-1 above include those relating to the staff in the OVG, and the former Contracts and Business Administration unit of VSLPI. Costs associated with these two areas were treated as "internal" overheads in the Valuer General's submission to the 2008 IPART price review, with their costs shown in the "general allocated" cost component. Re-categorising these costs as "direct costs" does not have an impact on total costs.

5.1.2 Mass Valuation Contract Costs over 2009-10 to 2013-14

As shown in Table 0-2 below, the Valuer General's cumulative costs relating to mass valuation contracts have remained below the figures forecast by the Valuer General in the submission to the 2008 IPART price review.

[41] The 2013-14 figures are the budgeted amounts
[42] Price review of rating valuation services provided by the Valuer General to local government, Final Determination 2008, IPART, pg 19

Table 0-2: Forecast vs actual costs of mass valuation contracts (2009-10 to 2013-14)

	2009-10 $'000	2010-11 $'000	2011-12 $'000	2012-13 $'000	2013-14[43] $'000	Cumulative totals $'000
Mass Valuation Actual Expenditure	15,128	15,402	15,844	16,931	17,679	80,984
Mass Valuation 2008 Price Review Valuer General Forecast Expenditure	15,500	15,888	16,285	16,692	17,109	81,474
Variance (%)	-2.40%	-3.06%	-2.71%	1.43%	3.33%	-0.61%

The increase over 2012-13 and 2013-14 can be attributed to three key factors, explained below.

5.1.2.1 Higher insurance costs being passed through to The Valuer General

Mass valuation contracts require contract valuers to have appropriate professional indemnity insurance. Recent years have seen significant rises in the cost of this insurance across the industry.

In an effort to reduce the impact of insurance cost rises the Australian Property Institute (API) has a limited liability scheme in place which its members can participate in. Notwithstanding this the costs associated with holding professional indemnity insurance have been rising in recent years, which has ultimately been passed onto the Valuer General in the form of fee increases. The Valuer General is collaborating with industry to identify ways to lower risk and reduce insurance premiums.

5.1.2.2 Enhanced value verification requirements

To meet stakeholder expectations regarding the quality of valuation outcomes the Valuer General requires an on-going process of verification of property details and land values. Implementation of this requirement as described in section 4.2.2.3 Land value verification program has resulted in land values for high risk property types requiring more individual review and verification. This has led to increases in contract costs in a number of contract areas.

5.1.2.3 Greater cost pressures in non-metropolitan areas

There is naturally a higher cost per valuation in non-metropolitan areas due to greater travel time and valuation complexity. Typically, non-metropolitan areas have a higher proportion of mining and other non-residential property types which require greater analysis and are less suited to mass valuation techniques. Additional land value verification requirements described above also have a greater impact in non-metropolitan areas. These impacts are potentially magnified by a general lower level of competition for valuation services in non-metropolitan areas.

To minimise this cost impact on the Valuer General LPI actively pursues initiatives to maximise the cost effectiveness of the contracting process as described in section 7.2.2 Mass valuation contracts.

[43] 2013-14 is the budget amount

5.1.3 Other Valuation Contract Costs

Other valuation contract costs are primarily associated with engaging contract valuers through a competitive tender process to review objections made to land values. Despite these costs fluctuating over the current determination period, they have remained below the amounts forecast in the Valuer General's submission to the 2008 IPART price review.

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:

- Location of properties being reviewed
- Complexity of properties being reviewed
- Professional indemnity insurance costs of contract valuers carrying out objection reviews

As discussed in section 3.4.3 Changes in Service Volume the Valuer General expects an extra 1000 objections in 2013-14 as a result of changes being introduced to the acceptance criteria of objections. However, the Valuer General is not forecasting this to increase the cost of objection contracts in 2013-14 as it is expected that the bulk of these additional objections will be less complex than more typical objections and so it is proposed that this additional volume will be managed through process improvements to increase efficiency and utilising internal resources.

Other valuation contract costs also include amounts for audit reviews commissioned by the Office of the Valuer General. These costs are associated with engaging contract valuers to review outcomes of rating and taxing valuations, objection reviews, and outcomes relating to compulsory acquisitions. The Valuer General has estimated that 92% of these expenses relate to auditing rating and taxing valuation outcomes, with local councils being apportioned 50% of these costs. The amount budgeted for 2013-14 is $46,000.

5.1.4 Rent, Postage and Other Direct Costs

Table 0-3 below illustrates that rent expenditure over the current determination was below amounts forecast by the Valuer General in submission to the 2008 IPART price review. Postage expenses, however, were above forecast amounts. Postage costs are driven by the volumes of publications printed and issued to landholders (primarily the Notices of Valuation), which fluctuated on a year to year basis, but generally moved in line with costs. Savings of approximately $50,000 were realised in 2012-13 as a result of the Valuer General issuing Notices of Valuation to large landholders electronically.[44] This initiative will continue to be rolled out to more landholders over the referral period, and has been explained in more detail in sections 4.2.2.1. Electronic delivery of Notices of Valuation (E-Notices) and 4.2.3.4 Electronic delivery of Notice of Valuations (E-Notices) extension.

Table 0-3: Rent and postage expenses compared to forecast (2009-10 to 2013-14)

	2009-10 $'000	2010-11 $'000	2011-12 $'000	2012-13 $'000	2013-14 $'000	Cumulative totals $'000
Rent Expenditure	711,158	712,251	642,354	657,010	646,995	3,369,767
Rent 2008 Price Review Valuer General Forecast Expenditure	805,819	825,964	846,614	867,779	889,474	4,235,650
Postage Expenditure	374,236	369,781	446,228	388,941	400,000	1,979,185

[44] Large landholders are defined as those with 10 or more properties.

Postage 2008 Price Review Valuer General Forecast Expenditure	315,265	326,378	337,883	349,793	362,123	1,691,442

Other direct costs (which include items such as a motor vehicle leasing, contractors and travel expenses) remained below the Valuer General's forecasts in submission to the 2008 IPART price review for the duration of the current determination.

5.2 Allocated Costs

Allocated costs are comprised of:

- LPI corporate costs (including HR, Finance, and ICT Administration)
- Department of Finance and Services corporate services (including Procurement, Corporate Finance, Audit and Risk, and Ministerial and Executive Services)
- ICT Operational expenditure (development and maintenance of specialised systems)
- Graphic Services

5.2.1 LPI Corporate, DFS Corporate, and ICT Operational Costs

The financial years 2010-11 through to 2012-13 represented a transition period for OVG and LPI as they moved from the LPMA organisational structure into the newly formed DFS. This transition period caused fluctuations in corporate overhead expenses over these years. A number of LPI corporate services staff left in 2012-13 but were not replaced as a short term measure to meet LPI's required savings targets in light of falling revenues as a result of a dampened property market. LPI forecasts these costs to return to more normal levels in 2013-14.

Over the period up to 2013 DFS was in the process of refining its organisational structure, and had not settled on an appropriate allocation mechanism for costs associated with corporate ICT, HR, Executive, Legal, and Audit related services it provided to its divisions such as LPI. As such LPI was not specifically charged for DFS corporate services until 2013-14, when a charge of $2.77 million was applied[45] based on LPI's share of total DFS FTEs and usage estimates. This in turn has been distributed to OVG and VSLPI based on proportionate FTEs. The portion of this cost allocated to local councils in 2013-14 is approximately $144,000.

To provide a more realistic basis for comparing costs, a notional amount has been added for 2011-12 and 2012-13 by deflating the 2013-14 actual cost by CPI (2.5%) for each year back to 2011-12. These are costs that would have been realistically charged to LPI had DFS finalised its operational structure sooner.

ICT Operational costs were grouped within LPI's overall administration costs in the Valuer General's submission to the 2008 IPART price review. These expenses were in relation to "IT Development" (and were referred to as such), but have been renamed to "ICT Operational" costs and displayed as a separate cost component, given these are incurred for the development and maintenance of specialised systems.

Overall, LPI Corporate, DFS Corporate and ICT Operational costs have increased by 4.9% in real terms over the life of the current determination, and are within forecasts proposed by the Valuer General in the 2008 IPART price review.

[45] This figure includes savings targets met by DFS

5.2.2 Graphic Services

Graphic Services is a business unit that provides LPI's in-house capability in graphic design and desktop publishing, printing, conservation and binding, digital imaging and mail processing and dispatch services. Graphic Services produces and mails Notices of Valuation, as well as objection correspondence and a range of valuation information.

Costs for these services have remained stable over the determination period, and are less than was forecast in the Valuer General's 2008 IPART price review submission. They have been sourced from a job costing system utilised by the Graphic Services unit since 1 July 2010 which provides a more accurate reflection of costs associated with printing Notices of Valuation in comparison to the previous forecast method. The 2008 forecast was based on an estimation of 40% of a specific cost centre within the division.

5.3 Performance against Capital Expenditure (CAPEX) 2007-08 to 2012-13

Over 2007-08 to 2012-13 LPI's total capital expenditure (CAPEX) and the component allocated to the Valuer General is broadly in line with forecasts. However, there has been more volatility both in total CAPEX and Valuer General CAPEX than previously anticipated.

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Cumulative Actual CAPEX (2009-10 to 2012-13)	Cumulative Valuer General Forecast CAPEX for 2008 IPART review
Land and Buildings	108	33	48	42	45	32	306	310
Plant and Equipment	1,390	922	1,058	1,127	1,142	1,161	6,800	5,066
Intangibles	914	1,315	964	782	1,573	1,429	6,976	8,729
Total	**2,412**	**2,270**	**2,070**	**1,950**	**2,759**	**2,621**	**14,082**	**14,105**

The two years where total LPI CAPEX was more than $500,000 different from the $19 to $20 million per annum forecast were:

- 2008-09 where total CAPEX was reduced to $16.5 million in response to the global financial crisis
- 2011-12 where CAPEX was $20.5 million compared to a forecast $19.5 million

Over the five years to 2012-13, CAPEX allocated to the Valuer General has been approximately $14m which is consistent with the 2008 forecasts. However there has been some volatility in individual years due to volatility in total CAPEX (as mentioned above) and individual projects. Overall Plant and Equipment (including electronic equipment) has been higher than forecast and intangibles has been lower. This is mainly due classification issues regarding information projects that include electronic equipment (plant and equipment) and software and data (intangible assets).

The Valuer General expects valuation related CAPEX in 2013-14 to be $2.6 million, similar to the 2012-13 result. It represents 12.4% of LPI's total CAPEX of $21.0 million, which is similar to the 12.2% proportion of 2007-08.

Building block forecasts

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

Table 0-1 below provides a summary of the Valuer General's forecasts of the efficient costs associated with providing rating and taxing valuation services to councils. For comparison purposes, the cost information in the table below has been displayed using the similar components contained in the Valuer General's submission to the 2008 IPART price review, with some minor variations in the composition of allocated costs.

Table 0-1: Nominal forecast OPEX associated with providing rating valuation services to councils 2014-15 to 2018-19

	Forecast	Forecast	Forecast	Forecast	Forecast
	FY 2015 $'000	**FY 2016 $'000**	**FY 2017 $'000**	**FY 2018 $'000**	**FY 2019 $'000**
Direct Costs					
Labour costs	5,316	5,448	5,585	5,724	5,867
Mass Valuation Contract	5,569	5,708	5,851	5,997	6,147
Other Valuation Contract	1,581	1,621	1,661	1,703	1,745
Postage	410	420	431	442	453
Rent	244	250	256	263	269
Other Direct	652	668	685	702	720
Total Direct Costs (excl. Depreciation)	**13,772**	**14,116**	**14,469**	**14,831**	**15,201**
Allocated Costs					
Graphic Services	1,501	1,539	1,577	1,617	1,657
LPI Corporate	724	742	760	779	799
DFS Corporate	160	164	168	173	177
ICT Operational	651	668	684	702	719
Total Allocated Costs	**3,037**	**3,113**	**3,191**	**3,270**	**3,352**
Others					
Spatial	283	290	297	305	312
Titles and Images	265	271	278	285	292
Total Others	**548**	**561**	**575**	**590**	**604**
Total Operating Expenditure (OPEX)	**17,356**	**17,790**	**18,234**	**18,691**	**19,157**
Return of capital	816	926	1,035	1,151	1,278
Return on capital	300	301	294	282	266
Cost of tax	45	51	57	63	69
Total costs	**18,517**	**19,068**	**19,620**	**20,187**	**20,770**
% increase		3.0%	2.9%	2.9%	2.9%

The Valuer General considers that the allocation of 40% of efficient costs to councils remains appropriate for the referral period. It is important to note, however, that although IPART accepted this allocation in its 2008 price review, the prices determined in IPART's final determination were set to recover only 36.9% of the Valuer General's required revenue by 2013-14. As such, full recovery of council's portion of efficient costs has not yet been achieved. Table 6-1 above shows efficient costs attributed to councils using the 40% allocation.

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 2008:

- Section 6.1provides an overview of forecast operating expenditure (OPEX)
- Section 6.2considers the main direct costs (labour, mass valuation contracts, other valuation contract costs, postage, and rent)
- Section 6.3 describes the allocated costs
- Section 6.4deals with forecasting return of and on capital
- Section 6.5 deals with the return on and of capital for revenue requirement calculation
- Section 6.6 outlines the key risks to the accuracy of the forecasts over the forecasting period

6.1 Forecast Operating Expenditure (OPEX)

Most of the forecasting methodologies proposed by the Valuer General in the 2008 IPART price review are still considered to be appropriate and have therefore been applied over most of the referral period using 2013-14 as a base year. As such, the Valuer General has again not forecast operating expenditure to increase in real terms over 2015-16 to 2018-19. A step increase in costs is, however, projected to occur in the first year of the referral period. This is largely driven by increasing labour and mass valuation contract costs, explained in further detail below, and an adjustment to the costs allocated from LPI. The remaining cost items, namely rent, other valuation contract costs, "other" direct costs (such as motor vehicles), and postage are forecast to increase in line with CPI of 2.5% from 2014-15 onwards.

6.2 Direct costs

6.2.1 Labour costs (including on-costs)

In 2014-15, the $5.3 milion of labour costs are forecast to account for 30.6% of the total OPEX attributable to providing services to councils. This proportion remains fixed across the forecast period, and is broadly consistent with the proportions over 2009-10 to 2013-14.

Total employment in the cost centres responsible for delivering general valuations and objections is forecast to reach 125 FTEs in 2014-15. Of this, 92% or 115 FTE are forecast to be engaged on activities relating to rating and taxing valuations. This compares to 124 FTE forecast at the time of the last review. This level of employment is estimated to remain constant over the five years of the referral period.

The additional five FTE on 2013-14 figures is due to a rebuilding of valuer numbers following a significant number of retirements over the period from 2011. This recruitment action had been delayed due to a range of reviews of the role and operation of LPI over that time. The costs of these staff are partially offset by an ongoing process of streamlining management structures to free-up resources for operational roles. This offers benefits to the valuation system by:

- Improving valuation succession planning
- Enabling VSLPI to better oversee the work of valuation contractors
- Encourage competition for valuation services by enabling VSLPI to act as a "last resort" valuation provider to address market failures

As a result, after an expected initial nominal increase in labour costs of 9.6% in 2014-15, labour costs are forecast to increase by CPI, consistent with NSW Treasury expectations. Despite this, the 2014-15 amount is much smaller than the 2013-14 figure forecast by the Valuer General in the submission to the 2008 IPART price review if it were to be escalated by CPI of 2.5% (approximately $17m).

The wage forecasts are calculated by multiplying the number of FTE's expected by the agreed salaries and on-costs. Superannuation expenses have been normalised at 11% On-costs as a portion of total labour costs are consistent with 2009-10 to 2013-14 amounts.

Table 0-2: OVG and VSLPI FTEs and wages (2014-15 to 2018-19)

	2014-15	2015-16	2016-17	2017-18	2018-19
FTE[46]	125	125	125	125	125
Salaries and Wages ($'000)	11,441	11,727	12,020	12,321	12,629
On-costs ($'000)	3,004	3,079	3,156	3,234	3,315
Total Labour costs ($'000)	14,444	14,806	15,176	15,555	15,944
% increase		2.50%	2.50%	2.50%	2.50%

6.2.2 Mass valuation contracts

Mass valuations continue to be outsourced through a competitive tendering process which means the cost is market tested. Mass valuation contract costs continue to make up a significant share of the total costs for councils.

The Valuer General expects changes to contract specifications outlined in section 7.2.2 Mass valuation contracts to be phased into all mass valuation contracts by the end of 2014-15. On this basis, the Valuer General expects contract costs to increase by 5% in 2014-15, to then stabilise to a rate of growth in line with CPI of 2.5% for the remainder of the referral period.

The Valuer General is also projecting the number of properties on the Register of Land Values to increase by 1% per annum.

Table 0-3: Mass valuation contract costs (2014-15 to 2018-19) in $m

	2014-15 ($m)	2015-16 ($m)	2016-17 ($m)	2017-18 ($m)	2018-19 ($m)
Total costs	18.6	19.0	19.5	20.0	20.5
Allocation to councils	5.6	5.7	5.9	6.0	6.1
% increase		2.5%	2.5%	2.5%	2.5%

[46] Includes FTE from the Office of the Valuer General

6.2.3 Other Valuation Contract Costs

The Valuer General proposes that the cost of other valuation contracts remain constant in real terms (2013-14 dollars). This is despite volumes of objections being outsourced expected to increase by 1% per annum,[47] costs of which the Valuer General proposes to absorb through efficiency improvements and the reallocation of existing resources. Additional annual volumes of 1000 as outlined in section 3.4.3 Changes in Service Volume will also be processed on this basis. These additional objections are not expected to be complex allowing for streamlined processing.

Table 0-4: Other valuation contract costs (2014-15 to 2018-19) in $m

	2014-15	2015-16	2016-17	2017-18	2018-19
Total costs	4.2	4.3	4.4	4.5	4.7
Allocation to councils	1.6	1.6	1.7	1.7	1.7
% increase		2.5%	2.5%	2.5%	2.5%

6.2.4 Postage

Notice of Valuation volumes have been forecast to increase by 1% 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 2008 IPART price review. The expected 2013-14 figure is derived using the forecast methodology proposed by the Valuer General for postage in the submission to the 2008 IPART review (CPI of 2.5% and an additional 1% to account for increases in the number of Notices of Valuation being issued) applied to the 2012-13 actual expenses.

As there is potential for a greater number of Notices of Valuation to be issued electronically, the Valuer General proposes to absorb additional postage expenses associated with the projected increase in volumes of 1% within the CPI escalation rate of 2.5%. Therefore, the Valuer General is forecasting no increase in postage expenses in real terms from 2014-15 onwards.

Table 0-5: Postage costs (2014-15 to 2018-19)

	2014-15	2015-16	2016-17	2017-18	2018-19
Total costs ($)	410,000	420,250	430,756	441,525	452,563
% increase		2.5%	2.5%	2.5%	2.5%

6.2.5 Rent

Rent costs are associated with government and market rents paid to accommodate valuation and land data staff in regional locations. The 2013-14 rent figure has been calculated based on actual expenses for the first half FY which is approximately 50% of $647,000. As the Valuer General is projecting FTE levels to remain constant over the referral period, rental costs are forecast to increase by CPI of 2.5%. The Valuer General will, however, continue to identify further opportunities to further consolidate and streamline office space requirements.

[47] In line with projected increases in the number of valuations being carried out.

Table 0-6: Rent costs (2014-15 to 2018-19)

	2014-15	2015-16	2016-17	2017-18	2018-19
Total costs ($,000)	663	680	697	714	732
Allocation to councils ($,000)	244	250	256	263	269
% increase		2.5%	2.5%	2.5%	2.5%

6.3 Allocated costs

Allocated costs are all forecast to increase by CPI from 2015-16 onwards, and include:

- LPI administrative overheads (including HR, Finance, and ICT Administration)
- Department of Finance and Services corporate services (including Procurement, Corporate Finance, Audit and Risk, and Ministerial and Executive Services)
- ICT Operational expenditure (specifically supporting ICT infrastructure relating to VSLPI's operations)
- Spatial services
- Transactions for title and image searches
- Graphic Services

6.3.1 LPI Corporate Costs, DFS Corporate Costs and ICT Operational

The Valuer General's share of administrative overheads (comprising LPI Corporate and DFS Corporate expenses) have again been determined on an FTE basis (VSLPI and OVG FTE as a portion of total LPI FTE). This is the same approach used by the Valuer General in the 2008 IPART price review. The Valuer General has allocated 92% of these expenses to the provision of rating and taxing valuation services.

LPI's total corporate costs and DFS corporate costs are projected to increase by CPI between 2013-14 and 2014-15. Despite this, the Valuer General forecasts a step increase of 18% in LPI Corporate Costs and 11.5% in DFS Corporate Costs over these years. This is primarily due to:

- VSLPI and OVG portion of LPI's FTE number is increasing between 2013-14 and 2014-15, thereby absorbing a greater share of LPI and DFS corporate costs
- Non-operational revenue off-setting LPI corporate costs is expected to be lower in 2014-15, having a flow-on effect on the Valuer General's overall share of costs

These also explain the increase in ICT Operational expenses.

However, even with these increases, the Valuer General's total administrative overheads and ICT operational expenses are still below the 2008-09 figure of $4,500,981 forecast by the Valuer General in the submission to the 2008 IPART price review. Furthermore, these costs represent 8% of the Valuer General's total costs.

From 2014-15 onwards, LPI Corporate and DFS Corporate costs are forecast to increase in line with CPI of 2.5%.

Table 0-7: Breakdown of corporate costs allocated to the Valuer General

LPI Corporate Costs	2014-15 ($'000)	2015-16 ($'000)	2016-17 ($'000)	2017-18 ($'000)	2018-19 ($'000)
HR	1,686	1,728	1,771	1,815	1,861
ICT Admin	5,774	5,918	6,066	6,218	6,373
Finance	1,905	1,952	2,001	2,051	2,102
Building Maintenance QS	3,825	3,920	4,018	4,119	4,222
Building Maintenance BX	1,911	1,958	2,007	2,057	2,109
General Admin	2,234	2,290	2,347	2,405	2,466
Total	**17,333**	**17,767**	**18,211**	**18,666**	**19,133**
Valuer General amount @15.30%[48]	2,652	2,718	2,786	2,856	2,927
Revenue offset @ 15.30%	(685)	(702)	(720)	(738)	(756)
Total Valuer General amount @ 15.30%	1,967	2,016	2,066	2,118	2,171
Rating and Taxing Valuation Total @ 92%	**1,809**	**1,855**	**1,901**	**1,948**	**1,997**
DFS Corporate Costs					
HR	842	863	884	906	929
ICT Administration	320	328	336	344	353
Enterprise Project Management	144	148	151	155	159
Procurement	72	74	75	77	79
Corporate Finance	401	411	421	432	443
Ministerial Services and Corporate Affairs	419	430	440	451	463
Others (Audit, Risk, Deputy Director General)	649	665	682	699	716
Total	**2,846**	**2,917**	**2,990**	**3,065**	**3,142**
VSLPI amount @ 15.30%	435	446	458	469	481
Rating and Taxing Valuation Total @ 92%[49]	**401**	**411**	**421**	**431**	**442**

[48] The FTE percentage (15.30%) is based on the OVG and VSLPI FTE as a proportion of LPI's total operational FTE. Non-operational FTE are not included.
[49] The rating and taxing valuation percentage (92%) is based on the proportional time spent by OVG and VSLPI staff on rating and taxing valuations.

6.3.2 Spatial Services

LPI uses ground surveys, aerial photographs and satellite imagery to gather and maintain a comprehensive range of digital and hardcopy mapping and spatial information products and services. These include:

- Cadastral mapping and the Digital Cadastral Database (DCDB), which show the legal boundaries of land parcels in NSW, including housing lots, roads, rivers, forests, national parks, reserves and administrative boundaries such as local government, mine subsidence, electoral and suburb. The DCDB is systematically maintained as subdivisions and boundary changes occur
- Topographic maps and the Digital Topographic Database (DTDB), which depict the natural and built landscape of NSW. The DTDB contains spatial and attribute data defining features such as transportation, hydrology, land form, vegetation, buildings, dams and bridges and is maintained using the most current aerial and satellite imagery, remote elevation sensors combined with field data capture and verification
- The Geocoded Urban and Rural Address System (GURAS), which contains street address information geo-coded to property as defined by the Valnet property valuation system. GURAS is systematically maintained through updated DCDB and property descriptions and address updates from the Valnet system
- Aerial and satellite imagery, which is captured in digital form to support its electronic delivery and integration with other spatial information systems. Historical imagery is also being digitised by scanning the original films and is made available through LPI's on-line delivery systems as a key component of the NSW Spatial Data Infrastructure

VSLPI 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

Spatial data also underpins Valmap; one of VSLPI's primary valuation tools. This custom application enables the overlaying of valuation, sales and other property data essential for valuations over cadastral and topographical maps as well as aerial and satellite imagery. This tool is used by both VSLPI 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.

As the valuation system is a major user of spatial data it is considered that spatial data supply costs form a reasonable part of the Valuer General's cost base. The allocation of costs to the Valuer General has been based on the following principles:

- Where the spatial data is primarily created for another purpose and the valuation system is a secondary user, the data is costed at the marginal cost of supply to VSLPI (i.e. the extra costs incurred from providing data to VSLPI)
- Where VSLPI and valuation contractors are major users of the data the data is costed based on a share of usage
- Where there is reciprocal exchange of data between LPI's spatial and valuation systems those exchanges are offset

Cadastral mapping is primarily undertaken to support the land titling system and topographic mapping forms part of the fundamental spatial data infrastructure of the state. Consequently these data sets are allocated at the marginal cost of supply.

Valuers are primary users of imagery products. The annual imagery capture program is developed having regard to the rating valuation program, to ensure that to the extent possible, imagery is updated to coincide with a new valuation for council rating purposes. As such, costs have been allocated based on a share of the usage.

Addressing data is exchanged between GURAS and Valnet. New addresses are first captured in Valnet and fed to GURAS. The staff who maintain GURAS investigate addressing errors and anomalies and, where necessary directly update data within Valnet. These reciprocal exchanges of effort are offset and consequently there is no allocation of GURAS costs to the Valuer General.

The approaches outlined above comply with LPI's pricing policy and are also considered to be consistent with sound economic principles and the Government's open data policy.

As a result, in 2014-15, it is expected that $282,956 in spatial costs will be allocated to councils, and that this cost will increase by 2.5% per annum over the coming referral period.

These costs were not included in the Valuer General's 2008 submission to IPART as LPI had less information on the usage of these services by VLPSI. In effect, LPI has subsidised these services over the determination period.

Table 0-8: Spatial services costs allocated to local councils (2014-15 to 2018-19)

	2014-15	2015-16	2016-17	2017-18	2018-19
Allocation to councils ($,000)	283	290	297	305	312
% increase		2.5%	2.5%	2.5%	2.5%

6.3.3 Transactions for Titling and Image Searches

LPI is the official source of NSW land titling information and registered survey plans. This information is made available electronically on behalf of the Registrar General via LPI's Spatial Information Exchange as well as through a range of information brokers. Retail clients pay a price based on the wholesale price of the search or plan plus a delivery charge. The delivery charge is levied either by the information broker providing the service or directly by LPI for customers using LPI's delivery service. LPI's fees for these services are regulated by the Minister for Finance and Services.

Since the establishment of LPI the OVG, VSLPI and valuation contractors have been provided access to this information free of charge for use in the valuation process. However, this is effectively a cross-subsidisation of the valuation system by the Registrar General and fails to recognise the true cost of the Valuer General's services. This is essential information for the operation of the valuation system and so it is considered that it forms a reasonable part of the cost base of the Valuer General.

Title search and plan image costs have been charged to the Valuer General at the wholesale price applicable for 2013-14 with the quantities being based on actual transaction volumes during 2012-13, which is considered a normal year of operations. These costs have been escalated by CPI for the referral period. As a separate contribution has been allocated to the Valuer General's cost base for ICT services (which includes LPI's delivery systems), the normal delivery charge has been excluded.

6.3.4 Graphic Services

The 2012-13 cost has been sourced from the job costing system employed by the Graphic Services division. As it is expected that there are efficiencies to be gained through the electronic delivery of Notices of Valuation over the referral period, it is considered that the increase in properties on the Register of Land Values will not increase current printing volumes. Consequently costs have been escalated in line with CPI for the life of the price determination.

Table 0-9: Graphic services printing costs allocated to local councils (2014-15 to 2018-19)

	2014-15	2015-16	2016-17	2017-18	2018-19
Allocation to councils ($)	$1.50m	$1.54m	$1.58m	$1.62m	$1.66m
% increase	2.5%	2.5%	2.5%	2.5%	2.5%

6.4 Return on and return of capital

6.4.1 Cost of Capital

The return on capital is determined as the product of the benchmark cost of capital and the opening asset value each year. The Valuer General has estimated the cost of capital as a Real Vanilla Weighted Average Cost of Capital ("WACC"), which is defined as:

Where:

E represents the value of equity capital employed

D represents the value of debt capital employed

E/(D+E) represents the proportion of equity employed in the benchmark capital structure of VSLPI

D/(D+E) represents the proportion of debt capital employed in the benchmark capital structure of VSLPI, otherwise referred to as the gearing level

Re represents the real after-tax rate of return on equity

Rd represents the real pre-tax rate of return on debt

The Valuer General understands that this definition of WACC is consistent with the revenue requirement model applied by IPART.

At the last determination, IPART approved a pre-tax real WACC of 7% for VSLPI. In doing so, IPART did not conduct a bottom up build-up to estimate the appropriate WACC but instead, benchmarked the Valuer General's business against the business of Sydney Water, which at the time had been allowed a pre-tax real WACC of 7.5%. Specifically, IPART noted that:

"IPART considers that the Valuer General has considerably less revenue volatility, and no greater cost volatility than other regulated agencies such as Sydney Water Corporation. Variation in economic activity will affect the demand of the commercial and industrial sectors for water and wastewater services, and therefore Sydney Water's revenues. By contrast, the

demand for valuation services is driven by statutory requirements and is largely unaffected by economic activity."[50]

On this basis, IPART concluded that the appropriate real pre-tax WACC for VSLPI was 7%.

In its recent Issues Paper, IPART has stated that it will estimate a WACC from first principles. It will do so by applying the Capital Asset Pricing Model ("CAPM") for the return on equity which will in turn require the estimation of a number of specific input parameters (e.g. equity beta). An efficient gearing ratio will also need to be established. We note that IPART has suggested starting point values of:

- 0.6 to 0.8 for the equity beta; and
- 60% for gearing.

The Valuer General understands that these values were applied by IPART (along with other input values for the WACC) in determining an appropriate rate of return for Hunter Water Corporation.[51] Assuming similar values were adopted for VSLPI, the allowed (real vanilla) WACC would be 4.6%.

The Valuer General notes that the WACC established for Hunter Water translates to an equivalent pre-tax real WACC of approximately 5.6%,[52] and is substantially below the pre-tax real WACC approved for VSLPI at the 2008 determination. This is even after allowing for the decline in real interest rates between the 2008 Sydney Water and the 2013 Hunter Water determinations, which is around 1.1%.

The Valuer General considers that there is a case to re-consider the risk and gearing assumptions previously adopted by IPART in the 2008 determination. This is because unlike Sydney Water (and Hunter Water), VSLPI is not a capital intensive business. This is evident from the fact that OPEX made up over 90% of the Valuer General's revenue requirement in the previous determination. To this extent, some of VSLPI's attributes may be more akin to that of an electricity retail business.

Given the above, a more realistic position would be to:

- Adopt the assumptions underpinning the rate of return for Hunter Water as a lower bound scenario, but update the risk free rate, expected inflation, market risk premium and debt risk premium values to be consistent with the values shown in IPART's latest market update, which is contained in Appendix D of IPART's Final Report on its Review of WACC Methodology
- Adopt, as an upper bound scenario, the beta and gearing levels that IPART normally applies for electricity retail businesses, along with the values shown in the market update for the risk free rate, expected inflation, market risk premium and debt risk premium values. In IPART's market update, the equity beta range for electricity retail businesses was 0.90 to 1.0, with a gearing ratio of 20%.[53]

If these assumptions were to be applied, using the methodology and values currently shown in the latest market update, the resulting real nominal WACC for VSLPI would be 5.8%. Appendix D contains further information on the calculations shown in the table below.

[50] IPART, Price review of rating valuation services provided by the Valuer General to local government, Final Determination and Final Report, July 2008, page 17.
[51] IPART, Review of prices for Hunter Water Corporations' water, sewerage, stormwater drainage and other services from 1 July 2013 to 30 June 2017 – Final Report, June 2013, pp. 81-83.
[52] Adjusted for imputation, applying a value for imputation credits of 25%.
[53] IPART, Review of WACC Methodology, Final Report, December 2013.

Table 0-10: Proposed WACC

	Hunter Water updated midpoint of IPART assessed range	Electricity retail assumptions midpoint of current market data and long term average	Valuer General proposed midpoint
Nominal risk free rate (%)	4.6	4.6	4.6
Inflation forecast (%)	2.9	2.9	2.9
Market risk premium (%)	7.2	7.2	7.2
Debt margin (%)	2.1	2.1	2.1
Debt to total assets (gearing) (%)	60	20	40
Equity beta	0.7	0.9	0.8
Cost of equity (%)	9.5	11.0	10.3
WACC – vanilla nominal (%)	7.8	10.1	8.9
WACC – vanilla real (%)	4.8	6.9	5.8

6.4.2 Opening Asset base as at 1 July 2014

The opening value of the regulatory asset base ("RAB") for VSLPI as at 1 July 2014 has been established using the roll-forward methodology. We have based our roll forward of the asset values on the methodology applied in the IPART Cost Building Block Model Template published on IPART's website. This methodology essentially rolls forward the initial asset value approved by IPART at the last determination for actual capital expenditure, allowed depreciation and indexation using actual CPI.

Table 0-11: Roll forward RAB

	2009-10 $'000	2010-11 $'000	2011-12 $'000	2012-13 $'000	2013-14 $'000
Opening RAB	13,030	13,070	12,572	12,368	12,235
Plus Actual CAPEX	2,070	1,950	2,759	2,621	2,599
Less Allowed Depreciation	(2,466)	(2,925)	(3,131)	(3,083)	(2,977)
Add: CPI on Opening RAB (plus 50% CAPEX)	436	478	167	328	338
Closing RAB	**13,070**	**12,572**	**12,368**	**12,235**	**12,195**

6.4.3 Opening RAB 1 July 2009

We have adopted an initial opening asset value of $13.0 million as at 1 July 2009. In the 2008 determination, IPART set the opening RAB value as at 1 July 2008 at $12.5 million[54] based on an opening asset value (as at 1 July 2007) of $11.3 million and actual CAPEX of $2.4 million over 2007-08. We have rolled forward the 1 July 2007 value for actual CAPEX of $2.4m and $2.3 million incurred in 2007-08 and 2008-09 respectively, and allowed depreciation of $1.5 million in 2007-08 and $2.0 million in 2008-09.

[54] Refer footnote 33 of the 2008 determination.

Table 0-12: Opening RAB – 1 July 2009

	2007-08 $'000	2008-09 $'000
Opening RAB	11,255	12,549
Plus Actual CAPEX	2,412	2,270
Less Allowed Depreciation on Opening RAB	(1,215)	(1,176)
Less Allowed Depreciation on Allowed CAPEX	(263)	(790)
Add: CPI	360	178
Closing RAB	**12,549**	**13,030**

6.4.4 Allowed Depreciation 2007-08 and 2008-09

Allowed depreciation of $1.5 million in 2007-08 is based on depreciation on the depreciable asset component of the 1 July 2008 RAB value and the assessed remaining asset life of 7.90 years. This amounted to a value of $1,214,657 in 2007-08. Depreciation on 2007-08 CAPEX as assessed by IPART in the 2008 determination was $263,332.

Allowed depreciation in all years is based on the CAPEX proposed by VSLPI in the 2008 price review. We have made this assumption as IPART's 2008 determination did not determine the CAPEX allowance for each year post 2007-08.

In calculating allowed depreciation, we have rolled forward the remaining asset lives for the previous opening asset base as determined by IPART, separately from actual CAPEX incurred between 2009-10 and 2013-14. We have re-weighted the remaining asset lives each year using the methodology adopted by IPART at the last determination.[55]

6.4.5 Indexation

We have applied the following actual CPI figures in the roll forward:

- 2008-09 – 1.3%
- 2009-10 – 3.1%
- 2010-11 – 3.4%
- 2011-12 – 1.2%
- 2012-13 – 2.4%

The actual CPI figures are based on weighted average data published by the ABS for 8 capital cities and calculated on a June to June quarter basis.

We have applied a forecast CPI value of 2.5% for 2013-14, reflecting the midpoint of the RBA's long term inflation target.

[55] We note that the weights in the last determination were based on the ratio of the value of the relevant depreciable asset class to total value of depreciable assets, including working capital. We have maintained this methodology in the roll-forward but question the rationale for depreciating working capital.

6.4.6 RAB roll forward 2014-15 to 2018-19

We have rolled forward the RAB for the next regulatory determination period based on:

- an opening asset value of $12.2 million as at 1 July 2014
- forecast capital expenditure (in nominal dollars) as set out in the table below.

Table 0-13: RAB roll forward to 30 June 2019

	2014-15 ($'000)	2015-16 ($'000)	2016-17 ($'000)	2017-18 ($'000)	2018-19 ($'000)
Opening RAB	12,195	12,326	11,985	11,352	10,634
Plus Forecast CAPEX	1,927	1,741	1,739	1,972	2,049
Less Forecast Depreciation	2,125	2,412	2,694	2,997	3,329
Add: Indexation	329	330	321	308	291
Closing RAB	**12,326**	**11,985**	**11,352**	**10,634**	**9,647**

6.4.7 Forecast CAPEX

Forecast capital expenditure for VSLPI is based on an allocation of capital expenditure from LPI (based on LPI's capital program approved by NSW Treasury). Although LPI's CAPEX is forecast to grow from $21 million in 2013-14 to $22 million in 2018-19, the proportion of LPI capital projects that is expected to directly affect VSLPI is expected to decline to levels below those assumed in the 2009-10 to 2013-14 period. This is due to the changing capital program and because the VSLPI workforce, as a proportion of the total LPI workforce, has fallen.[56] The forecast CAPEX for VSLPI over the 2014-15 to 2018-19 period reflects this.

The table below provides a breakdown of the forecast CAPEX (in nominal dollars) derived using this approach. This approach involved reviewing the capital expenditure items that are forecast for LPI (based upon the LPI capital works program approved by NSW Treasury) and allocating a proportion to VSLPI based on the following:

- Land and buildings – occupancy rates of the relevant land and buildings by valuation staff
- Plant and equipment – identifying the proportion of the capital item utilised by VSLPI
- Intangibles – utilisation rate based on usage by VSLPI or an FTE proportion where relevant

Table 0-14: Forecast capital expenditure

	2014-15 $'000	2015-16 $'000	2016-17 $'000	2017-18 $'000	2018-19 $'000
Land and buildings	76	76	97	80	80
Plant & equipment	993	1,031	1,034	1,339	1,417
Intangibles	858	634	608	553	553
Total CAPEX	**1,927**	**1,741**	**1,739**	**1,971**	**2,049**

[56] Includes staff from the Office of the Valuer General

6.4.8 Forecast return of capital

Return of capital, or regulatory depreciation, used in the RAB roll forward, has been estimated using the methodology reflected in the IPART Cost Building Block Model template. Essentially, this involves depreciating the RAB by a weighted average asset life estimate.

We have estimated a weighted average remaining asset life of 6.2 years for assets as at 1 July 2014, and 8.0 years for forecast capital expenditure over 2014-15 to 2018-19.

Table 0-15: Forecast return of capital

	2014-15 $'000	2015-16 $'000	2016-17 $'000	2017-18 $'000	2018-19 $'000
Forecast return of capital – before allocation to councils	2,125	2,412	2,694	2,997	3,329

6.4.9 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 our proposed real vanilla WACC of 5.8%. The results are shown in the table below.

Table 0-16: Forecast return on capital

	2014-15 $'000	2015-16 $'000	2016-17 $'000	2017-18 $'000	2018-19 $'000
Opening Value of RAB	12,195	12,326	11,985	11,352	10,634
Forecast CAPEX	1,927	1,741	1,739	1,972	2,049
Forecast inflation	2.5%	2.5%	2.5%	2.5%	2.5%
RAB for Return on Capital Calculation	13,487	13,527	13,176	12,646	11,951
Real vanilla WACC	5.8%	5.8%	5.8%	5.8%	5.8%
Return on capital – Before allocation to councils	782	785	764	733	693

6.4.10 Cost of tax allowance

The cost of tax allowance has been estimating using the methodology reflected in the IPART Cost Building Block Model template. As VSLPI is essentially a business unit within LPI and does not pay tax or tax equivalents, our calculations are based on this option in the IPART Cost Building Block Model template.

Table 0-17: Estimated cost of tax allowance (nominal dollars)

	2014-15 $'000	2015-16 $'000	2016-17 $'000	2017-18 $'000	2018-19 $'000
Required revenue excluding tax liability	20,148	20,858	21,554	22,272	23,019
Total income tax for tax calculation	20,148	20,858	21,554	22,272	23,019
Less					
Operating expenditure	17,356	17,789	18,234	18,690	19,157
Tax depreciation	2,074	2,302	2,519	2,749	2,999
Interest deductible	329	326	313	295	272
Taxable income	389	441	487	539	591
Accumulated tax losses	-	-	-	-	-
Taxable income after tax losses	389	441	487	539	591
Tax liability (adjusted for gamma)	113	128	142	156	172
Tax allowance in required revenue – before allocation to councils	113	128	142	156	172
Tax allowance in required revenue – 40% allocation to councils	45	51	57	63	69

6.5 Return on and of capital for 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, on average, at mid-year. The forecast return on capital and return of capital figures calculated at Table 0-15 and Table 0-16 reflect nominal end-of-year values and therefore need to be discounted back to the corresponding mid-year value. The outcome of this adjustment is set out in the table below.

Table 0-18: Forecast return on capital and return of capital for revenue requirement calculations

	2014-15 $'000	2015-16 $'000	2016-17 $'000	2017-18 $'000	2018-19 $'000
Forecast return on capital (mid-year) – before allocation to local councils	751	753	734	704	666
Forecast return on capital (mid-year) – 40% allocation to councils	300	301	294	282	266
Forecast return of capital (mid-year)– before allocation to local councils	2,040	2,316	2,587	2,878	3,196
Forecast return of capital (mid-year) – 40% allocation to local councils	816	926	1,035	1,151	1,278

6.6 Key risks in forecasting assumptions

There are a number of risks that the Valuer General and VSLPI face over the forecast period which may result in the actual cost of service provision being significantly different from the estimates. These include:

- Potential for change in tax or local government rating legislation impacting on the number of objections – If there is a significant change in the administration of land taxes or rates, for example, a change in the tax thresholds, the introduction of a new property based tax, or a significant increase in the tax rates; then it is likely that the level of objections will increase, increasing the workload for the Valuer General
- Significant changes in the property market – experience indicates that volatility in the real estate market can lead to significant increases in objection volumes
- Macro-economic environment changing the number of supplementary valuations taking place – Sustained periods of economic growth may increase the numbers of subdivisions and new builds, increasing the number of supplementary valuations and the workload of VSLPI. The Valuer General is projecting a steady 1% increase per annum. On the other hand, a sustained lower level of activity will reduce the growth of the Valuer General's revenue and may lead to a shortfall in revenue compared to the efficient cost of the services
- Labour costs increasing faster than CPI – Labour costs are forecast to increase by CPI per annum consistent with Treasury expectations of public sector wage rises. If public sector wage negotiations result in increases significantly higher than CPI, the costs are likely to be underestimated
- Externally mandated increases in quality – for example, a decision by the Government to implement a range of recommendations by the JSCOVG could significantly change the cost base for valuation services
- Changes to the organisational structures for the delivery of valuation services - for example, a decision by the Government to implement a new Valuation Commission model as proposed by the JSCOVG could significantly change the cost base for valuation services
- Change in the method of valuation derived from external sources – for example, removing water from land values following rating legislation changes resulted in an increase in the workload of VSLPI
- Inflation risk – Over the five years prices may increase at rates higher or lower than forecast
- The expected increase in activity levels is 1% and it is evenly spread over council locations and the various property zones. If increased volumes are concentrated in more complex property types or in areas that are more expensive to service the overall balance of workloads may increase beyond the volume driven increase in revenue

The efficiency of the Valuer General's OPEX

7.1 Introduction

The JSCOVG found that the valuation system is currently extremely cost effective and that valuations correlate closely with the market.[57] 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 control period.

The Valuer General's costs can be demonstrated to be broadly efficient on the basis that:

- Approximately 90% of costs were either market tested or broadly in line, if not below, comparable benchmarks in 2008. These costs were accepted by IPART as efficient in 2008
- The bulk of these costs (42%) are still market tested
- The graphic services, IT, finance and HR services approximately 20% of costs, were benchmarked in 2008 and found to be efficient. Over the current determination period the Valuer General has reduced costs in all these areas,[58] and the Valuer General is proposing lower real costs in the referral period compared to those proposed in the previous price control period. This suggests that the cost of these services continue to be broadly efficient.[59]
- High-level benchmarking of labour costs (approximately 29%) suggests that these costs continue to be efficient
- 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).[60]

The remainder of this section provides a brief update on the performance of the Valuer General for the current price period in three ways:

- The Valuer General's main costs are assessed by analysing changes over time or performance against comparable benchmarks to highlight evidence of efficiency
- The Valuer General is compared to other land valuation service providers to compare outputs and efficiency
- The Valuer General's quality standards are assessed, based on improvements over time

7.2 Efficiency of the Valuer General's costs

Table 7-1 below outlines the costs for which further analysis has been undertaken. These costs represent approximately 90% of the forecast costs (approximately 52% of costs have been benchmarked and 42% of costs have been market tested).

[57] 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 as reported in IPART's issues paper.
[58] In comparison to the Valuer General's forecasts in the submission to the 2008 IPART price review
[59] LPI has accordingly not undertaken further benchmarking as it is costly and is not considered to be necessary
[60] IPTI, Benchmarking 2007 Summary Report, 2007

Table 0-1: Summary of costs analysed in this section

Cost	Cost to councils 2014-15 ($m)	% of total for councils	Benchmarked	Market tested
Direct costs				
Labour costs	5.3	29%	✓	
Mass valuation contracts	5.6	30%		✓
Other valuation contracts	1.6	9%		✓
Postage	0.4	2%		✓
Rent	0.2	1%		✓
Other direct costs	0.7	4%	-	-
Allocated costs				
Graphic Services	1.5	8%	✓	
Administration total of which:				
LPI and DFS Corporate Costs				
ICT Operational	0.9	5%	✓	
Other allocated costs	0.7	4%	✓	
Cost of capital	0.5	3%	-	-
Total	1.2	6%	✓[61]	**-**
	18.5	**100%**	**5**	**4**

7.2.1 Labour costs

Total labour costs attributable to councils ($5.3 million) accounts for 29% of the total required revenue. Total labour cost is a function of the price (wages) and quantity (FTEs) of labour.

Both the public and private sectors employ valuers. Workers are fairly free to move between the markets and therefore wages for valuers are governed by the labour market. Indeed VSLPI in the current market, with an aging workforce, has some difficulty in filling positions, which implies it is exposed to competitive market conditions.

Table 7-2 below shows the average wage for the OVG and VSLPI benchmarked against the NSW average public sector wage. As can be seen, the costs of labour (not including on-costs) for VSLPI are lower than the average costs for the wider NSW Government.

This comparison is based on an assumption that the staffing structure and levels of seniority within the OVG and VSLPI is broadly comparable with that of the NSW public sector. Although this assumption is difficult to estimate with any degree of precision, the comparisons to the benchmarks demonstrate that inefficient wage levels within the OVG and VSLPI are highly unlikely.

Table 0-2: OVG and VSLPI's average wages compared to benchmark (2011-12 to 2012-13)

	2011-12	2012-13
OVG and VSLPI average wage	$67,307	$70,267
Average public sector wage benchmark	$78,796	$75,509

Source: VSLPI and ABS (Full time, public sector, ordinary time earnings, NSW)

Staffing levels are assumed to be 125 FTE over the pricing review period. This figure is considered necessary to effectively perform the Valuer General's statutory obligation to supply land valuations for rating and taxing purposes. Importantly, this represents a decrease in the total staffing levels from the beginning of the previous pricing review period. In 2007-08, the OVG and VSLPI had 132 FTE.

[61] The approach to calculating the Weighted Average Cost of Capital (WACC) is based on comparable organisations.

7.2.2 Mass valuation contracts

The cost of the mass valuation contracts attributable to councils is $5.6 million, which is 30% of total costs charged to councils. Mass valuations are outsourced through a competitive tendering process which means this cost is market tested.

Mass valuations have been progressively outsourced since 1997 and all mass valuations have been outsourced for more than ten years. The Valuer General has delegated the contracting of these services to the General Manager LPI. Table 0-3 below shows there has been a general increase in the number of tenders received across a similar range of contract areas for renewal.

Table 0-3: Total number of contract areas, tenders and tendering firms for the mass valuation contract 2010-2013

	2010	2011	2012	2013
Contract areas for renewal	11	11	8	12[62]
Number of tenders received	29	21[63]	19	38[64]
Number of firms tendering	15	14	10	7[65]

LPI actively pursues initiatives including regularly reviewing contract areas, reviewing specifications, tender requirements, balance of cost and quality, contract and option terms, and inviting tenders for alternate valuation methodologies to encourage a competitive market.

Changes to the tender process for mass valuation contracts aimed at achieving more efficient outcomes introduced in 2013 were:

Splitting existing contract areas into smaller areas.

> The size of some contract areas was considered to be potentially cost-prohibitive for some contract valuers, restricting the level of competition in those areas. To remove this barrier to entry, larger contract areas have been split allowing a greater number of valuation firms to contest the market, putting downward pressure on mass valuation contract cost increases.

Packaging contract areas.

> Contract valuers have been able to bid for a group, or package, of contract areas. This package structure offers opportunities for economies of scale for contract valuers, resulting in relatively lower prices in comparison to prices put forward for individual contract areas.

Additional contract term.

> Contracts were previously offered to contract valuers for an initial term of three years, including two one-year renewal options granted at the discretion of LPI. For the 2013 tender process, LPI introduced an option to quote for a fixed term of four years and 11 months. The latter option has the effect of reducing the initial start-up costs associated with servicing these areas for contract valuers as these costs could be spread over a

[62] Due to the new tender strategy of splitting contract areas into smaller parcels which may be packaged together (see description on the next page), the 12 contract areas in the tenders offered to the market previously comprised six former contract areas. These 12 tender areas have been awarded as ten new contracts due to packaging.
[63] The 21 tenders received include one that was an alternative methodology tender.
[64] The higher number of tenders received reflects the single LGA contract areas tendered along with multiple LGA contract areas
[65] Although we have seen the number of firms tendering trending down over the years, this figure of seven is arguably disproportionately lower due to all 12 contract areas being included in the greater Metropolitan Area contracts in terms of Area Type (Country or Metropolitan in the Supplementary Valuation Services part of the Specification).

longer period. This would flow to LPI in the form of more stable increases in mass valuation contract costs.

As a result of these changes, the Valuer General expects mass valuation contract costs to be contained and only increase in line with CPI over the referral period after the initial increase of 5% in 2014-15.

The JSCOVG made a number of recommendations with regard to the timing of valuations and valuation methodologies.[66] The Government has supported these recommendations but changes to legislation have not been made at this stage. Consequently, it is not yet possible to quantify the impacts of these changes.

The Valuer General proposes that increases to costs as a result of implementing the Committee's recommendations be absorbed within the prices proposed for the referral period through a combination of efficiency improvements and the reallocation of existing resources in lieu of an efficiency dividend, if at all possible. However, if implementation of these changes leads to a significant impact on the cost base, the Valuer General proposes that IPART consider making a new price determination.

7.2.3 Other valuation contracts

The other valuation contracts relate to the cost of dealing with objections that arise from the valuation process. The cost of other valuation contracts attributable to councils is $1.6 million, which is approximately 9% of total costs to councils.

Other valuation contracts are outsourced through a competitive tendering process which means this cost is market tested.

The JSCOVG made a number of recommendations with regard to the valuation review process to improve access and procedural fairness.[67] The Government has acknowledged these recommendations but considers further work, including stakeholder consultation, is required before determining its final position on these recommendations. Consequently, it is not yet possible to quantify the impacts of these changes.

In the interim, the Valuer General has commenced work on a range of initiatives consistent with the JSCOVG recommendations that can be implemented administratively. The Valuer General proposes that minor increases to costs as a result of implementing the Committee's recommendations be absorbed within the prices proposed for the referral period through a combination of efficiency improvements and the reallocation of existing resources in lieu of an efficiency dividend. However, if once the Government's final position on the JSCOVG recommendations is decided there is a significant impact on the cost base, the Valuer General proposes that IPART consider making a new price determination.

7.2.4 Rent

The OVG and the head office of VSLPI are accommodated in LPI owned office space in Sydney. VSLPI is also situated in LPI owned accommodation in Bathurst.

Otherwise, VSLPI currently has 80 staff located in rental properties across NSW. Country offices offer the advantage of local knowledge, local presence and local participation and for this reason VSLPI continues to maintain the majority of these rented offices. Considering the

[66] 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.
[67] 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.

relatively small proportion of total costs attributed to councils that rent accounts for (1%), this cost is not considered to have a material impact on prices.

The analysis below shows VSLPI's rental cost compared to the average rent paid by the NSW Government.

Table 0-4: Comparison of VSLPI rental cost to NSW Government average

	2007-08	2012-13
Total VSLPI rent	$614,325	$657,010
Staff in rental property	102	80
VSLPI rent per staff in rental property	**$6,023**	**$8,212**
Rent paid by NSW government	$270,000,000	$355,000,000
Space occupied by NSW government	1,100,000m2	850,000m2
Rent paid per m^2	$245	$418
Approximate m^2 per staff	18.1	18.1
NSW Government rent per staff	**$4,443**	**$7,559**

Source: VSLPI and Government Property NSW, Annual Report, 2012-13

The high-level comparison above shows rental expenditure is approximately 8.6% higher than the NSW government average. The type of rental accommodation which is required by VSLPI staff, which includes larger sized rooms to accommodate the reading of maps, can largely explain this discrepancy.

It is also important to note that while the costs of rent per staff member have increased in the previous five years, the discrepancy between the rates paid by VSLPI and the remainder of the NSW Government has fallen significantly.

7.2.5 Previously benchmarked costs

The graphic services, IT, finance and HR services were benchmarked in 2008 and found to be efficient. Over the current determination period the Valuer General has reduced costs in all these areas, and is proposing lower real costs in the referral period compared to those proposed in the previous price control period. This suggests that the cost of these services continue to be efficient, and for this reason LPI has decided not to undertake costly benchmarking again.

Total LPI Corporate, DFS Corporate and ICT Operational costs for OVG and VSLPI are allocated on the basis of staffing numbers. The cost allocated to local councils is $1.5 million which is approximately 8% of total cost. This is consistent with the amounts benchmarked in the Valuer General's submission to the 2008 IPART price review, which IPART found to be efficient.

7.3 Efficiency of the approach to valuing properties

The best comparative information available at the time of writing is the IPTI benchmarking survey of international valuation providers in 2010.[68] The purpose of the survey is to study property assessment and taxation practices found in various jurisdictions around the world. The outcome of this study was to derive assessment "benchmarks" that would allow participating agencies to compare the performance of their assessment and taxation system against other jurisdictions. A total of 18 organisations worldwide were involved in the survey although the number of responses to each question varies.

The 2010 IPTI benchmark report makes some high level conclusions on the efficiency of different types and size of service providers. The following extracts from the report are useful

[68] International Property Tax Institute, Benchmarking 2010 Report, 8 December 2010

to assess the efficiency of the Valuer General compared to the IPTI benchmarks. The report found:

> *"Large agencies seem to enjoy a cost advantage over small and medium sized agencies"*
>
> *IPTI benchmarking report 2010, P.48*

A summary of the key results is shown in Table 0-5 below.

Table 0-5 : Summary of the results of the benchmarking survey

	Average response	Valuer General
Assessment cost per property valued*	$24.50	$19.20
Review or quality control of assessment	11.1%	15.0%
Quality control cost per property	$2.68	$3.07

*Source: IPTI Benchmarking Summary Report 2010 & VSLPI. *Each property valued is referred to as an 'account' by IPTI. Figures reported by IPTI are in US$ but have been converted to AUS$ using exchange rates as of 24 January 2014. All figures shown in the table above are AUS$.*

The results of the survey show:

- The findings from the IPTI benchmarking study indicates that the NSW Valuer General is able to provide its valuation services at a cost which is lower than the average and median service provider
- VSLPI undertakes quality control processes for 15%of its valuations compared to a survey average of approximately 11%.

In terms of the survey, the Valuer General (including VSLPI) is considered a 'large agency' and has benefited from economies of scale. This is evidenced in budget per account for the Valuer General ($19.20) being less than the average of respondents ($24.50). When these results are considered in light of the high level of compliance with statistical measures of accuracy and the relatively low rate of change to the Register of Land Values due to error correction as described in section 4.1.2 Other indicators of valuation quality, the NSW Valuer General can be seen to be and efficient and cost effective provider of valuation services.

The Australasian Valuer General's Benchmarking Taskforce, of which the NSW Valuer General is a member, is currently undertaking a comparison of valuation jurisdictions. However, the study is not expected to be complete until August 2014 and information to date does not provide a basis for comparison of the efficiency of the various jurisdictions.

Setting prices

This section outlines the prices that the Valuer General is proposing to charge councils.

The Valuer General proposes:

- Ensure full recovery of the Valuer General's full efficient economic costs of service provision to councils by the end of the price control period
- To increase prices by approximately 5.3% per annum over the pricing control period, in order to recover its efficient costs (and 40% of the Valuer General's costs) by 2018-19. As a result it is important to note that before 2018-19, the prices will recover less than 40% of the Valuer General's costs. The Valuer General has proposed this pricing arrangement to minimise the impact to councils
- The approach is based upon calculating the prices required for full cost recovery in 2018-19 and then increasing prices between 2013-14 and 2018-19 by a constant factor per annum
- Applying different prices for residential and non-residential properties, maintaining the current relativities between the two types of prices to reflect the differences in complexity established in the last price control

8.1 Proposed revenue requirement

The following table summarises the total revenue requirement of the Valuer General (after the 40% allocation to local councils) based on the information on forecast OPEX, forecast CAPEX, return on capital, return of capital and cost of tax allowance set out in section 0 of this submission.

Table 0-1: Revenue requirement from councils (Nominal dollars)

	2014-15 $'000	2015/-6 $'000	2016/-7 $'000	2017/-8 $'000	2018-19 $'000
Operating expenditure	17,356	17,789	18,234	18,690	19,157
Return of capital (mid-year)	816	926	1,035	1,151	1,278
Return on capital (mid-year)	300	301	294	282	266
Cost of tax	45	51	57	63	69
Total revenue requirement from councils	18,517	19,067	19,620	20,186	20,770

8.2 Proposed prices

The prices for the forecast period are presented in Table 0-2 below.

Table 0-2: Nominal price forecasts for 2013-14 to 2018-19

	Current Prices	Proposed prices in dollars of the day, ($ per property)				
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Residential	$5.37	$5.65	$5.95	$6.27	$6.60	$6.95
Non-residential	$11.81	$12.44	$13.10	$13.79	$14.52	$15.29
Residential (% change)		5.3%	5.3%	5.3%	5.3%	5.3%
Non-residential (% change)		5.3%	5.3%	5.3%	5.3%	5.3%
Total revenue ($m)	**$15.3**	**$16.2**	**$17.3**	**$18.4**	**$19.5**	**$20.8**

The prices outlined above cover the period 2014-15 to 2018-19. If a further review of prices has not been completed by the end of 2018-19 then VSLPI proposes an annual price increase of CPI from 2019-20 onwards. Therefore, prices stay relatively constant in real terms.

The Valuer General believes that given operating expenditure accounts for over 90% of the Valuer General's total efficient costs and these costs are reasonably predictable, a strong case could be made for setting prices using an indexation approach in the 2019-20 to 2024-25 regulatory period. However, there may be a more efficient method of pricing once all councils adopt the standard Local Environment Plan zoning table. This alignment is expected to be completed by the end of this determination period, and a price based on zone methodology may be put forward in the next submission.

Table 0-3 below shows the real price increases between 2013-14 and 2018-19. The move from nominal to real takes account of inflation at 2.5% per annum.

Table 0-3: Real price changes for 2013-14 to 2018-19

Proposed real price increases ($ per property)					
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Residential (% change)	2.8%	2.8%	2.8%	2.8%	2.8%
Non-residential (% change)	2.8%	2.8%	2.8%	2.8%	2.8%

8.3 Proposed price cap and forecasts

The Valuer General recommends a price cap for administrative simplicity, and because it does not envisage it creating any perverse incentives, given the fairly unresponsive nature of supply and demand. Therefore, there seems no reason to introduce the complexities of an error correction mechanism for a revenue cap. A consequence of a price cap is that the Valuer General bears the risk of quantity fluctuations, which indeed has resulted in less revenue in the current period.

The Valuer General proposes an overall price cap of $P_t = P_{t-1}(1+CPI+K-X)$, where:

- CPI is the NSW Treasury forecast of 2.5%
- K reflects the adjustment of 2.8% per annum above inflation (or 5.3% in nominal terms). This increase in prices each year allows a smooth increase in prices over the coming price control period to allow for full cost recovery by the last year. The increase in the revenue requirement from the final year of the current pricing period (2018-19) can be explained by the following:
    - There is a continuing trend towards 40% of the Valuer General costs being covered by councils (as IPART accepted the allocation of 40% as 'robust and reasonable'). However in 2013-14, only 36.9% of the efficient costs have been covered by councils. As a result, recovering 40% of the efficient cost by 2018-19, explains approximately 50% of the real increase required between 2013-14 and 2018-19
    - During the period of the current price control, subdivision activity during that period was diminished by the impact of the global financial crisis and a lack of residential development land available for release. As a result, the Register of Land Values only grew by an average of 0.55% per annum, compared to an expected 1% per annum. As such, the revenue requirement needs to spread over fewer properties in the Register of Land Values than expected in 2014-15. This explains approximately 10%-15% of the real increase required between 2013-14 and 2018-19
    - The last two years of the current price control period both experienced an increase in mass valuation contract costs beyond the projected 2.5% annual increase. This increase is a result of increasing stakeholder expectations and increasing professional indemnity insurance costs and has increased the cost of mass valuation contracts by 2.5% (in real terms) relative to what was expected for 2013-14 in the previous pricing determination. This explains approximately 10%-15% of the real increase required between 2013-14 and 2018-19
    - The introduction of allocated costs to the Valuer General for spatial services and title and image searches explains approximately 10%-15% of the real increase required between 2013-14 and 2018-19
    - The changes in the treatment of the return on and of capital explains approximately 10%-15% of the real increase required between 2013-14 and 2018-19
- X is a 0% efficiency dividend to allow VSLPI to accommodate the likely increase in costs associated with adoption of the recommendations of the JSCOVG, in addition to greater efficiencies through:
    - Increasing the number of electronic Notices of Valuation issued to landholders, reducing postage and printing expenses

- Streamlining the objection review process to keep other valuation contract costs constant in real terms
- Identifying opportunities to further consolidate office space requirements, reducing rental costs
- Further integration of Valnet and the Digital Plan Processing System (DPPS), which should improve the efficiency and accuracy in the creation of new property records within Valnet by automatically populating a range of plan data from the DPPS and Comprehensive Property Addressing System (CPAS) databases when they are fully operational. These are currently entered manually by VSLPI staff to create and update property records

There is also some additional efficiency gains embedded in the growth in quantity of 1% per annum resulting in a slight decrease in prices in real terms after the initial adjustment.

A Responses to IPART Questions

Table A-1 Information required from the Valuer General

Category	Question from IPART	Valuer General's response
Land valuation process	1. Has there been any material change to the land valuation process? How does this impact the cost of undertaking valuations (ie, contract costs)?	Yes. Following a review of valuation risk management effectiveness in 2012 a more targeted approach to valuation quality assurance was introduced (please see sections 3.4.2.1 DFS review and 4.2.2 Service quality enhancements during the current determination period). This has impacted contract prices in the last two years (please see section 5.1.2 Mass Valuation Contract Costs over 2009-10 to 2013-14 for further details). Otherwise land valuation processes undertaken by the Valuer General have not changed materially from the last referral period. However, the JSCOVG has made recommendations to improve the quality of the valuation process. The Government has already agreed to implement several of these recommendations, while others require further consultation with stakeholders. It is expected that some of the remaining recommendations will be adopted during the referral period. The Valuer General suggests that it is probably unnecessary to reopen this price determination for this quality change, rather, it is proposed to absorb these cost increases, in lieu of an efficiency dividend (or x factor, i.e. that the x factor be zero). If the cost implications are more significant than expected then the Valuer General further suggests that the determination should be revisited.
Land valuation process	2. Should IPART set one 5-year determination or undertake multiple periodic determinations over the 5-year referral period?	IPART should set a 5-year determination because: - The cost of preparing for and submitting a proposal to IPART is not insignificant for the Valuer General and stakeholders - The cost to the Valuer General and IPART of undertaking a determination on an annual basis is likely to outweigh the benefits of doing so - In the absence of a significant change to the operation of the valuation system costs are not likely to change significantly from year to year within the referral period - Councils benefit from increased certainty in pricing given that council rates are pegged - The timing and impact of any changes to the valuation system in response to the report of the JSCOVG are not clear at this stage - It is understood that there is potential to make a new price determination if there is a major change in costs

Category	Question from IPART	Valuer General's response
Land valuation process	3. In what circumstances should IPART consider making a new determination?	IPART should consider making a new determination if there is a material change to the assumptions used in this submission, for example: - A significant change in service level requirements or expectations - A significant change in labour cost assumptions - A significant change in mass valuation contract costs - A major change in the service delivery model Please refer to sections 3.4.2.2 LPI Strategic Review 2012-13 and 3.4.2.3 Joint Standing Committee on the Office of the Valuer General – Inquiry into the Land Valuation System, 2013. Alternatively IPART may consider some sort of cost pass through mechanism to address these issues should they arise. Please see section 6.6 Key risks in forecasting assumptions.
Land valuation process	4. What is the forecast number of valuations in each year? – split between OSR and the councils – residential and non-residential.	Please see section 3.4.3 Changes in Service Volume Notice of Valuation volume growth

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Notices of Valuation (expected)*	836,296	939,806	877,813	819,651	962,914	861,958
Notices of Valuation normalised forecasts**	850,000	858,500	867,085	875,756	884,513	893,359

* Based on Notice of Valuation distribution schedules, with 1% growth in volumes factored in.

** 2008-09 to 2012-13 average is approx. 850,000, which has been used as a base in 2013-14 and escalated by 1% for growth

Category	Question from IPART	Valuer General's response
Service levels	5. Have the land valuation services provided by the Valuer General changed since the 2009 Determination?	Yes. While the land valuation process undertaken by the Valuer General has not changed materially since the last price review there have been a number of service improvements implemented over the determination period and a number of other initiatives are currently planned for implementation. These are detailed in sections 4.2.2 Service quality enhancements during the current determination period and 4.2.3 Planned service quality enhancements during the referral period In addition, the JSCOVG has made recommendations to improve the quality of the valuation process. The Government has already agreed to implement several of these recommendations, while others require further consultation with stakeholders. It is expected that some of the remaining recommendations will be adopted during the referral period. The Valuer General suggests that it is probably unnecessary to reopen this price determination for this quality change, rather, it is proposed to absorb these cost increases, in lieu of an efficiency dividend (or x factor, i.e. that the x factor be zero). If the cost implications are more significant than expected then the Valuer General further suggests that the determination should be revisited.
Service levels	6. Is the quality of services provided by the Valuer General meeting customers' expectations?	Yes. The Valuer General has undertaken a range of stakeholder satisfaction surveys during the life of the current determination. These are detailed in section 4.2.1 Stakeholder satisfaction indicators. There have also been improvements to valuation quality over the life of the current determination. These are detailed in section 4.1 Valuation quality assurance. This is supported by the Local Government NSW Submission to the JSCOVG Inquiry which stated: "On the whole, administration of the present land valuation system appears to be working reasonably well for the purposes of Local Government Rating…LGNSW has also witnessed major improvements in contract management, objection processes and communication with key stakeholders and the broader community."[69]
Revenue requirement	7 What is the revenue requirement forecast for each year of the referral period (ie, next 5 years)? – revenue from primary and secondary users – revenue by valuation service.	Please see section 0 Building block forecasts. The Valuer General plans to maintain the current split of costs to primary customers of 40% to local councils and 60% to Office of State Revenue (OSR), noting that this has not been achieved in the determination period and instead 36.9% of the costs have been allocated to councils Pricing to minor customers generally reflects the cost of supply (Please see section C.2 Costs of providing services to minor customers).

[69] http://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/9b7f4eaabbf01025ca257b3a00135478/$FILE/Submission%2081%20-%20Local%20Government%20NSW.pdf
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Category	Question from IPART	Valuer General's response
Operating expenditure	8 What is the Valuer General's operating expenditure over the current determination period, by item and year?	Please see section 0 The Valuer General's financial performance over the 2009-10 to 2013-14 determination period.
Operating expenditure	9 What is the efficient operating expenditure incurred by the Valuer General in the provision of general valuation services over the referral period (ie, next 5 years)?	Please see section 0 Building block forecasts.
Operating expenditure	10 What are the main drivers or determinants of the Valuer General's efficient costs of providing valuation services to councils?	Please see sections 0 The Valuer General's financial performance over the 2009-10 to 2013-14 determination period and 0 Building block forecasts.
Operating expenditure	11 Does the tendering process for general valuations lead to efficient costs?	Yes. There is a competitive market for valuation services and the Valuer General pursues a range of initiatives to maximise competition and value for money. Please see section 7.2.2 Mass valuation contracts.
Operating expenditure	12 What is the scope for the Valuer General to achieve efficiency gains over the referral period (ie, next 5 years)?	The Valuer General is already recognised as an efficient provider of valuation services which limits potential for further major efficiency gains. However, a range of initiatives are currently planned over the life of the referral period to improve cost effectiveness. Please see sections4.2.3 Planned service quality enhancements during the referral period and 7.2 Efficiency of the Valuer General's costs. In addition, the JSCOVG has made recommendations to improve the quality of the valuation process. The Government has already agreed to implement several of these recommendations, while others require further consultation with stakeholders. It is expected that some of the remaining recommendations will be adopted during the referral period. The Valuer General suggests that it is probably unnecessary to reopen this price determination for this quality change, rather, it is proposed to absorb these cost increases, in lieu of an efficiency dividend (or x factor, i.e. that the x factor be zero). If the cost implications are more significant than expected then the Valuer General further suggests that the determination should be revisited.
Operating expenditure	13 How should costs be allocated from LPI to the Valuer General?	Please see section 6.3 Allocated costs

Category	Question from IPART	Valuer General's response
Capital expenditure	14 What is the Valuer General's capital expenditure over the current determination period, by item and year?	Please see section 5.3 Performance against Capital Expenditure (CAPEX) 2007-08 to 2012-13
Capital expenditure	15 What is the prudent and efficient level of capital expenditure of providing general valuation services over the referral period (ie, next 5 years)?	Forecast CAPEX over the 2014-15 to 2018-19 period amounts to $9.4 million (or around $1.9 million per annum on average). Please see section 6.4.7 Forecast CAPEX
Depreciation	16 What is the appropriate asset life for each class of capital expenditure?	There are essentially 3 asset classes - land & buildings, plant and equipment and intangibles. For depreciating new CAPEX, economic lives of 83 years, 5 years and 4 years have been maintained, for each asset class respectively, consistent with the figures used in IPART's 2008 determination. A weighted average asset life approach (consistent with the approach applied by IPART in the 2008 determination) has been maintained for the purposes of calculating economic depreciation. Please see section 6.4.8 Forecast return of capital
WACC	17 What is an appropriate rate of return for the Valuer General's assets?	The Valuer General has proposed to adopt a real vanilla WACC of 5.8%. Section 6.4.1 Cost of Capital provides a description of the assumptions underpinning this estimate and rationale for the approach. Please see section 6.4.1 Cost of Capital
WACC	18 What is the appropriate equity beta and gearing ratio on which to calculate the Valuer General's rate return?	Please see section 6.4.1 Cost of Capital
Tax allowance	19 What is an appropriate tax allowance for the Valuer General?	The Valuer General has determined the cost of tax allowance using the methodology in IPART Cost Building Block Model template. Please see section 6.4.10 Cost of tax allowance

Category	Question from IPART	Valuer General's response
Allocation to councils	20 Is there a case for changing the methodology for allocating costs to councils? If so, on what basis should costs be allocated?	The Valuer General considers that the current methodology for allocating costs to council's is reasonable as there has been no fundamental change in the cost or customer base in the last five years. The allocation of costs between OSR and councils that was applied in the 2008 price review has been reviewed and is still considered to be reasonable. On this basis the established 40% allocation of efficient costs to councils should remain. The Valuer General also believes that prices should allow for the full 40% recovery by the end of the referral period not 36.9% as prices currently recover.
Price structures	21 What are the Value-General's proposed prices to councils over the referral period?	Please see section 0 Setting prices
Price structures	22 Should the current price structure of residential and non-residential prices be retained, or is there a more appropriate pricing structure for land valuation services (eg, a single price)?	Yes. The current prices structure should be retained as it reflects differences in valuation complexity. It is therefore a reasonable proxy for differences in required effort and therefore the service cost between different classes of property. There may be a more efficient pricing structure once all councils adopt the standard Local Environment Plan zoning table. This alignment is expected to be completed during this determination period, and a price methodology based on zone may be put forward in the next submission. This method may offer a more refined measure of comparative valuation complexity and effort.
Price structures	23 What is the impact on customers (ie, councils) from the proposed change in price structures?	Not applicable. The Valuer General proposes that the current price structure be maintained and price relativities between land classes have been maintained.
Price structures	24 Is there new evidence that would warrant differential pricing for councils and a move away from a common charge across all councils?	No. A common charge for councils is administratively simple and allows predictable prices for councils.

Category	Question from IPART	Valuer General's response
Price path	25 Should an indexation approach be used to set the maximum prices for the Valuer General's land valuation services to councils?	As the costs and complexity differences between the residential and non-residential valuations have not changed significantly since 2008, the Valuer General recommends IPART formally consider using indexation of prices for future price periods after 2018-19. By this time the step increase will have been absorbed and the 40% distribution will have been realised. It will then be appropriate to index purely on CPI.
Price path	26 What level of efficiency savings should be achieved over the price path?	The Valuer General considers that specific efficiency savings should not be applied in this case because: - The current prices only recover 36.9% of the Valuer General's efficient costs determined in the 2008 price review rather than 40% which was recognised by IPART as a reasonable share of costs to be allocated to councils. - The price path proposed by the Valuer General does not reach recovery of the full 40% of efficient costs until Year 5 of the referral period. - The Valuer General has offered to absorb additional costs associated with implementing recommendations of the JSCOVG within the proposed price path if possible. Consequently it is considered that it would not be reasonable to apply further efficiency savings in these circumstances and to do so may be a risk to the quality of the valuation system.
Price path	27 How should the price path account for customer impacts	To minimise impacts and maximise predictability for customers the Valuer General proposes that the new prices be implemented through a smooth glide path to achieve full recovery of 40% of the efficient costs in Year 5 of the referral period. Please see section 8.2 Proposed prices for further details. The following table shows the percentage of the councils' share of efficient costs that will be recovered by the proposed prices over the term of the referral period.

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Total efficient costs to be recovered from councils ($m)	18.5	19.1	19.6	20.2	20.8
Total revenue from councils ($m)	16.2	17.3	18.4	19.5	20.8
% of efficient costs recovered from councils	**87.6**	**90.1**	**93.9**	**96.5**	**100**

B Valuer General Efficient Operating Expenditure (2014-15 to 2018-19)

The tables below show the Valuer General's efficient costs associated with providing rating and taxing valuation services for local councils and the Office of State Revenue. Compensation and special valuations are fee for service valuation services for specific customers. The costs for providing these services are excluded from the costs considered for local councils and OSR but have been represented as "other" in the table below. These costs are forecast to be $2.79 million in 2014-15.

Table B-1: Valuer General Efficient Operating Expenditure (2014-15 to 2016-17)

	2014-15				2015-16				2016-17			
Direct Costs	**LGA**	**OSR**	**Other**	**Total**	**LGA**	**OSR**	**Other**	**Total**	**LGA**	**OSR**	**Other**	**Total**
Labour (inc on-costs and superannuation)	5.32	7.97	1.16	14.44	5.45	8.17	1.18	14.81	5.58	8.38	1.21	15.18
Mass Valuation	5.57	12.99	0.00	18.56	5.71	13.32	0.00	19.03	5.85	13.65	0.00	19.50
Other Valuation Contracts	1.58	1.58	1.06	4.22	1.62	1.62	1.09	4.33	1.66	1.66	1.11	4.43
VS Postage	0.41	0.00	0.00	0.41	0.42	0.00	0.00	0.42	0.43	0.00	0.00	0.43
Rent	0.24	0.37	0.05	0.66	0.25	0.38	0.05	0.68	0.26	0.38	0.06	0.70
Others Direct	0.65	0.85	0.12	1.62	0.67	0.87	0.13	1.66	0.68	0.89	0.13	1.70
Total Direct	**13.77**	**23.76**	**2.39**	**39.92**	**14.12**	**24.35**	**2.45**	**40.92**	**14.47**	**24.96**	**2.51**	**41.94**
Allocated Costs												
Net LPI Corporate Support	0.72	1.09	0.16	1.97	0.74	1.11	0.16	2.02	0.76	1.14	0.17	2.07
DFS Corporate Support	0.16	0.24	0.03	0.44	0.16	0.25	0.04	0.45	0.17	0.25	0.04	0.46
ICT Operational	0.65	0.98	0.14	1.77	0.67	1.00	0.15	1.81	0.68	1.03	0.15	1.86
GS Printing	1.50	0.00	0.00	1.50	1.54	0.00	0.00	1.54	1.58	0.00	0.00	1.58
Total Allocated	**3.04**	**2.30**	**0.33**	**5.67**	**3.11**	**2.36**	**0.34**	**5.82**	**3.19**	**2.42**	**0.35**	**5.96**
Other Costs												
Allocated Spatial	0.28	0.42	0.06	0.77	0.29	0.44	0.06	0.79	0.30	0.45	0.06	0.81
Titles and Images	0.26	0.40	0.00	0.66	0.27	0.41	0.00	0.68	0.28	0.42	0.00	0.70
Total Others	**0.55**	**0.82**	**0.06**	**1.43**	**0.56**	**0.84**	**0.06**	**1.47**	**0.58**	**0.86**	**0.06**	**1.50**
Total OPEX	**17.36**	**26.88**	**2.79**	**47.03**	**17.79**	**27.56**	**2.85**	**48.20**	**18.23**	**28.25**	**2.93**	**49.41**

Table B-2: Valuer General Efficient Operating Expenditure (2017-18 to 2018-19)

	2017-18				2018-19			
Direct Costs	**LGA**	**OSR**	**Other**	**Total**	**LGA**	**OSR**	**Other**	**Total**
Labour (inc on-costs and superannuation)	5.72	8.59	1.24	15.56	5.87	8.80	1.28	15.94
Mass Valuation	6.00	13.99	0.00	19.99	6.15	14.34	0.00	20.49
Other Valuation Contracts	1.70	1.70	1.14	4.55	1.75	1.75	1.17	4.66
VS Postage	0.44	0.00	0.00	0.44	0.45	0.00	0.00	0.45
Rent	0.26	0.39	0.06	0.71	0.27	0.40	0.06	0.73
Others Direct	0.70	0.91	0.13	1.74	0.72	0.93	0.14	1.79
Total Direct	**14.83**	**25.59**	**2.57**	**42.99**	**15.20**	**26.23**	**2.64**	**44.07**
Allocated Costs								
Net LPI Corporate Support	0.78	1.17	0.17	2.12	0.80	1.20	0.17	2.17
DFS Corporate Support	0.17	0.26	0.04	0.47	0.18	0.27	0.04	0.48
ICT Operational	0.70	1.05	0.15	1.91	0.72	1.08	0.16	1.95
GS Printing	1.62	0.00	0.00	1.62	1.66	0.00	0.00	1.66
Total Allocated	**3.27**	**2.48**	**0.36**	**6.11**	**3.35**	**2.54**	**0.37**	**6.26**
Other Costs								
Allocated Spatial	0.30	0.46	0.07	0.83	0.31	0.47	0.07	0.85
Titles and Images	0.29	0.43	0.00	0.71	0.29	0.44	0.00	0.73
Total Others	**0.59**	**0.88**	**0.07**	**1.54**	**0.60**	**0.91**	**0.07**	**1.58**
Total OPEX	**18.69**	**28.95**	**3.00**	**50.64**	**19.16**	**29.68**	**3.07**	**51.91**

C Minor valuation data customers

C.1 The Valuer General's approach to allocating costs to services

Customers who use the data generated by Valuer General include:

- Councils
- OSR
- A number of other government departments including Crown Lands, the Commonwealth Grants Commission, Roads and Traffic Authority, NSW Fire Brigade, NSW Local Government Grants Commission, NSW Maritime and the Department of Housing
- Private property information brokers and resellers
- Members of the public who purchase land value data

The costs of servicing these groups of customers are considered in this appendix, and used to derive the costs to be attributed to servicing councils.

The major clients of the Valuer General are OSR and councils.

C.2 Costs of providing services to minor customers

Data on the Register of Land Values, created for rating and taxing purposes is also provided to other customers including government agencies, members of the public and private data brokers. Access to this data is consistent with the NSW Open Data Policy.[70]

As stated in the Valuer General's submission to the 2008 IPART review, this data is largely a by-product of servicing local councils and OSR. In some cases it is combined with data from other LPI systems.

The majority of valuation data is provided to minor users at the cost of supply including the cost of staff time where manual effort is required. Sales data is collected in LPI's titling branch as part of the title registration process and is on-sold at a standard commercial rate. As this data is collected in part for valuation purposes, it is provided to the Valuer General free of charge.

Direct access to Valnet via LPI's spatial information exchange is provided to councils and the OSR as part of the overall suite of valuation services. Limited access to this facility is also provided to a range of government users who are charged a monthly access fee to cover infrastructure and support costs.

The incremental costs associated with making this data and services available are incurred by another part of LPI, and therefore the costs and revenues of these activities are not reflected in the Valuer General's forecast revenue requirement.

Table C-1 shows the services provided to a sample of 'other' customer and the revenue generated from these services (for the purposes of this submission we refer to these customers as 'minor' customers).

[70] Department of Finance & Services, NSW Government Open Data Policy, September 2013 http://www.finance.nsw.gov.au/ict/sites/default/files/NSW%20Government%20Open%20Data%20Policy%201.0.pdf , Accessed 7 February 2014

Table C-1: Sample of other customers of LPI that use valuation data

Client	Service Received	Analysis Provided	Use of information
Government			
Australian Bureau of Statistics	Property sales information	No	Contribution to national statistics
Land and Housing Corporation	Property sales information	No	Internal use
Law Enforcement Agencies	Online access to database	No	Investigation into criminal activity
NSW Fire Brigade	Valuation data and analysis	Yes	Recovery of statutory contributions from the insurance industry and councils
NSW Local Government Grants Commission	Aggregated land value data	No	Assessment of revenue allowances to Local Government
Government sub-total			
Other			
Private brokers and resellers	Access to a range of LPI searches	No	Provide retail access
Other sub-total			
Total			

The revenue for the provision of valuation related data to system access by customer group is detailed in Table C-2 below.

Table C-2: Other customers of LPI that use valuation data – revenue 2012-13

Product	Commonwealth Government	NSW Government	Non-Government
Aggregated Land Values		$37,000	
Valnet on-line access		$68,000	
Sales Information	$15,000	$38,000	$890,000

D Detailed calculations on proposed rate of return

	Current market data		Long term averages		Midpoint of current market data and LT ave	Current market data		Long term averages		Midpoint of current market data and LT ave	VSLPI
Nominal risk free rate	4.0%	4.0%	5.1%	5.1%	4.6%	4.0%	4.0%	5.1%	5.1%	4.6%	4.6%
Inflation forecast	2.8%	2.8%	2.9%	2.9%	2.9%	2.8%	2.8%	2.9%	2.9%	2.9%	2.9%
Market risk premium	7.9%	7.9%	5.5%	6.5%	7.2%	7.9%	7.9%	5.5%	6.5%	7.2%	7.2%
Debt margin	1.8%	1.8%	2.4%	2.4%	2.1%	1.8%	1.8%	2.4%	2.4%	2.1%	2.1%
Debt to total assets (gearing)	60.0%	60.0%	60.0%	60.0%	60.0%	20.0%	20.0%	20.0%	20.0%	20.0%	40.0%
Equity beta	0.60	0.80	0.60	0.80	0.70	0.80	1.00	0.80	1.00	0.90	80.0%
Cost of equity (classical) - range	8.7%	10.3%	8.4%	10.3%	9.5%	10.3%	11.9%	9.5%	11.6%	11.0%	10.3%
Cost debt - range	5.8%	5.8%	7.5%	7.5%	6.7%	5.8%	5.8%	7.5%	7.5%	6.7%	6.7%
WACC range - vanilla nominal	7.0%	7.6%	7.9%	8.6%	7.8%	9.4%	10.7%	9.1%	10.8%	10.0%	8.8%
WACC range - vanilla real	4.1%	4.7%	4.8%	5.6%	4.8%	6.4%	7.7%	6.0%	7.6%	7.0%	5.8%
WACC midpoint - vanilla real	4.4%		5.2%		**4.8%**	**7.1%**		**6.8%**		**6.9%**	**5.8%**