Government of South Australia
Department of Planning, Transport and Infrastructure

Enquiries to Sue Forder
Telephone 08 8226 1881

Land Services Group

101 Grenfell Street
Adelaide SA 5000

GPO Box 1354
Adelaide SA 5001

DX 58195

Telephone: 08 8226 3855
Facsimile: 08 8226 1860

ABN 71 967 041 422

Dr Pat Walsh
Chairperson
Essential Services Commission of South Australia
GPO Box 2605
ADELAIDE SA 5001

Dear Dr Walsh

SA Water's Drinking Water and Sewerage Revenues 2013/14 - 2015/16

I refer to the publication of *SA Water's Drinking Water and Sewerage Revenues 2013/14 - 2015/16* released for comment on 13 February 2013.

I understand that the Essential Services Commission of SA (ESCOSA) is undertaking its first independent determination of the amount of revenue that can be recovered by SA Water from its drinking water and sewerage customers for the three years commencing 1 July 2013.

In making the determination, reference has been made to reducing the expense of buying property valuation data used for calculating ad valorem sewerage charges and commercial water pricing. At section 8.5.8.1 it is reported that a decision has been made to limit the purchase of the Valuation Roll to a three year cycle rather than annually as is currently the case.

The draft determination proposes to use existing property valuation data already purchased for the next two financial years with new data being purchased in 2015, forecasting a saving of $8.5 million over the regulatory period.

The current charge for valuations is 13.92 cents per $10,000 of Capital Values provided to SA Water, amounting to $4.3 million in 2012.

ESCOSA's position relating to the purchase of property valuation data has severe impacts on Land Services Group Budget and also raises significant concerns as to the impact on SA Water's billing capabilities.

The proposed reduction represents around a third of the fees received for Valuation Services. Although this decision has significant ramifications for the State Valuation Office (SVO), the Acting Valuer-General was not consulted on this proposal, nor officially informed of the release of the document for comment.

Besides South Australia, New South Wales is also on an annual valuation cycle and, following recent reform initiatives, rating and taxing valuations are undertaken annually in Queensland as well.

In addition to the significant impact that would be caused through reduction by almost one third of budgeted revenue to Land Services Group (part of the Department of Planning Transport and Infrastructure), there are several other concerns. It is believed that both the State Valuation Office and SA Water would experience adverse impacts as follows:

Impact 1: Reduction in State revenue by $4.3 million in 2013-14 and $4.4 million 2014-15

SA Water currently purchases valuation services every year for around $4.3 million contributing almost one third to the annual Land Services Group (LSG) revenue of $13.8 million for valuation services.

The move by SA Water to a three year valuation cycle would reduce LSG revenue by $8.5 million over the period 2013-2016 which would need to be foregone or collected from remaining clients to maintain full cost recovery requirements. This could mean a fifty per cent increase for the remaining clients, RevenueSA and the Local Government sector.

It is claimed that the Valuer-General's fees are a rising cost for SA Water and purchase of less costly services from the Valuer-General or from a third party valuation service could be considered. Almost 768,000 records are provided to SA Water each year, and the apportioned cost of the total average cost of $15.80 per valuation is around $5.54. This compared favourably with the cost in Western Australia where I am advised that valuations based on a three year cycle cost around $22.30 each with a 39% contribution (around $8.70 per valuation) by the Water Corporation of WA.

Impact 2: Loss of SVO Clients

There is a real risk that Councils could cease to utilise services provided by the Valuer-General if fees rose significantly, or a three year cycle was introduced for all clients. Seeking valuations in three year's time may turn out to be more costly than current forecasts if the SVO were forced to cut services drastically or close altogether.

A further key client is the Local Government Grants Commission. Annual valuation data obtained from SVO is used to distribute Federal Financial Assistance Grants.

Other taxing authorities that would be impacted by a change in fee distribution methodology or the frequency of the valuation cycle include the Emergency Services Commission and Natural Resource Management Boards, whose levies are based on capital values determined by the Valuer-General and collected by RevenueSA and Councils respectively.

Further impacts to be considered relate to the end users of the property database maintained by the Valuer-General which is provided to wholesalers such as RPD Data. Among other things, this data is used in economic modelling and mortgage lending and assists in a transparent market place that provides unquantifiable economic benefits to the State.

Impact 3: Detachment from the equity principle

By using less frequent valuations, there is a detachment from the equity principles supported by the Government (and this is acknowledged in the report). Current and proposed sewerage rate methodology is based on the property tax principle that capital values are a reasonable indicator of ability to pay (with concessional treatment providing moderation where this is not the case).

Although it can be said that valuations 'do not affect the total cost of providing sewerage services' and 'merely help allocate the recovery of those costs' (page 102), the distribution needs to be fairly apportioned and recognising value-adding developments achieves this. There is no indication that 'growth' reports (i.e. developments of new or existing properties) would be purchased, based on the expenditure savings claimed. Ignoring this element transfers the burden to other ratepayers. For example, when capital improvements and changes of use are not captured, stable lower valued properties are the losers, subsidising properties that are being improved and enhanced in the periods between valuations being purchased.

Impact 4: Loss of Billing Data

The determination by ESCOSA is limited to valuation data being purchased, however the service provided by SVO to SA Water is much broader.

For the fee paid, a Valuation Roll containing owner details, capital values, land use codes, tenancy apportionments and other property data is provided and used for calculating and billing water charges for commercial properties and sewerage charges. The fee also includes a daily file of updates including revised values, ownership changes, address changes, rezoning, land use reclassification, new improvements and land subdivisions. On average, around 10,500 new assessments are created each year.

The consequences of losing access to these supplementary reports is not raised in the Determination. There may be an assumption that these updates will continue to be available without any compensatory payment as these are not reflected in the costings.

If SA Water required only part of the Valuation Roll, extracts could be sought under section 32. However that would be an onerous exercise and would be vastly more expensive at $35 per entry. This cost would need to be taken into account if supplementary reports are required.

The current land information database also maintains assessment records created for the exclusive use of SA Water. These are referred to as *'supply'* and *'common supply'* records and do not have any values determined.

Supply records are used by SA Water to capture water meter details for properties that are exempt from general rating and pay a charge purely on usage. Examples are roundabouts or street verges where councils have watering systems and a meter connected.

Common Supply records are used to maintain details of water usage where one water meter services multiple properties contained in two or more valuation records. Typical examples are older strata complexes where only 1 water meter services all units.

The data requirements for these records are substantially different from other valuation records and these assessments, totally around 24,000, are catered for in the new land information database being developed.

SA Water also requires land use information for calculating the Save the River Murray levy that varies according to property types.

The consequences of losing access to vital billing information are severe. The cost and lead-time for SA Water to develop an in-house database for billing data would be anticipated to be significant and not a viable alternative.

Impact 5: Use of proprietary information without recompense

In making the decision to continue to use the 2012 valuation data file for future years without payment to SVO, the proprietary interest is being ignored. It is not clear whether ESCOSA has obtained legal advice on this aspect, however continued use without permission of capital values, land use information, property descriptions and even valuation numbers as identifiers for billing purposes may be open to challenge.

Impact 6: Carrying the risk of disputes

Rating and taxing authorities that adopt valuations made by the Valuer-General reduce the risk of litigation liability and dispute resolution arising from the valuations. Under the *Valuation of Land Act 1971*, the Valuer-General takes responsibility for objections and court appeals and carries the cost of these disputes. As there will be a fresh general valuation of the State for 2013-14, earlier Capital Values would not be afforded this protection as the ratepayers' rights to object to the valuation or appeal to the court lapses[1]. SA Water would possibly be required to take on the responsibility for objections, manage any court action and meet associated costs. Alternatively, SVO would need to provide this service which would be subject to cost recovery, making cost projections by ESCOSA potentially inaccurate.

The State Ombudsman may raise concerns should SA Water's customers lose legal rights as a result of this proposal.

---

[1] Section 24(1) Subject to this section, a person who is dissatisfied with a valuation of land in force under this Act may, by notice in writing served personally or by post on the Valuer-General, object to the valuation.

IN SUMMARY

ESCOSA believes that SA Water customers should only pay once in the three year cycle for valuation services however the decision has the potential to reduce Land Services Group revenue by up to $8.5 million over the period 2013-2016 which would need to either be foregone or collected from remaining clients to maintain full cost recovery requirements.

This reduction in expenditure for SA Water is claimed to represent individual savings of $11.19 per customer spread over three years – less than $1 per quarterly notice – which would need to be recouped from the same customer base, either by other rating and taxing authorities, or some other less efficient means.

The alternative of adopting a three year valuation cycle for all SVO clients has not been fully considered or discussed with those affected.

If you would like to discuss any of the matters outlined above please contact Ms Sue Forder, Strategic Business Change Advisor on 08 8226 1881 or email sue.forder@sa.gov.au.

Thank you for the opportunity to present our concerns.

Yours sincerely

Kevin O'Callaghan
EXECUTIVE DIRECTOR
Land Services Group

cc: Chief Executive, Department of Planning, Transport and Infrastructure
John Hanlon, Deputy Chief Executive, Department of Planning, Transport and Infrastructure

18th March 2013