

4. RATING VALUATION CONTRACT

RR 9474

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The purpose of this report is to seek Council approval for the proposed rating valuation service contract.

BACKGROUND

At present the rating valuations are carried out by Quotable Value New Zealand Limited (QVNZ), formerly Valuation New Zealand. What is proposed is that we continue with the QVNZ contract for the next 3¹/₄ years. In terms of previous advice we were to competitively tender our valuation service for the year beginning 1 July 2000. This would now be deferred for two years and would be reviewed for the year beginning 1 July 2002.

PROPOSAL

The terms of the contract can be summarised as follows:

- a contract which runs for 3¹/₄ years starting as from 1 April 1999 and going through to 30 June 2002;
- the inclusion of the Special Rating Area valuation fee in the contract sum (in the past this has been treated as outside the contract);
- a continuation of the valuation maintenance work which is currently offered; and
- completing the three yearly revaluation for 1 September 2001 and handling the objection process.

Linked with the proposed contract is the devolution of the property database. This is currently held by the Office of the Valuer General and by law must be devolved to the Council by 31 December 1999. At present the Council maintains its own property database. Maintaining just the one database will result in significant savings in valuation fees. The devolved database will be combined with the other Council databases to form a common database. The new common database will be used for rate assessments, property ownership, consents, licences and dog registration. The costs associated with transferring the valuation database across to the Council and integrating it into a common database have been taken account of in the contract.

DISADVANTAGES OF THE PROPOSAL

- **Lack of Contestability**

It could be argued that the proposal is contrary to the contestability principle on which the whole valuation reform process has been based. By accepting the QVNZ proposal we may be precluding another valuation service provider from offering a cheaper more efficient service. While QVNZ has significantly reduced its current fee over 3¹/₄ years, it may be possible to obtain a further reduction if the service were competitively tendered.

The price that QVNZ have put forward is, however, considered to be a competitive price which reflects these factors.

- **Private Sector Expectations**

There will be an expectation by private sector valuation service providers that the Christchurch City Council contract will be competitively tendered from 1 July 2000 onwards. The Council is likely to come in for criticism for not testing the market. Some of the larger valuation firms may feel that the Council has done a 'behind closed doors' deal with QVNZ. They may also point out that this is not in keeping with the spirit of the reforms.

ADVANTAGES OF THE PROPOSAL

There are also a number of advantages if the Council signed up to such a contract. The advantages are outlined below:

- **Risks**

Changing our valuation service provider and at the same time bringing the valuation database in-house is likely to expose the Council to unnecessary risk. By going with QVNZ for another three years, we will be helping to reduce this risk and at the same time get a single valuation database bedded down and functioning properly before we go out to tender.

- **Reliability of Service**

QVNZ is a crown owned company which is not a 'fly-by-night operator' only in the market for the short term gain. Given the Government initiative in terms of the reform process, it is unlikely that they would allow QVNZ to 'fall over'. The Council can therefore have confidence in QVNZ continuing to provide a reliable ongoing valuation service.

QVNZ has over 100 years' experience in the field of mass appraisals. Rates staff have developed an excellent working relationship with the local QVNZ office. QVNZ can be relied upon to provide the service for which they have contracted to supply.

- **Revaluation**

The next revaluation will take place in 2001. By signing up to a contract which goes through to 1 July 2002, we will ensure that QVNZ completes the next revaluation as well as processing the revaluation objections. There are normally between 2,000 and 3,000 objections lodged after each revaluation and to make a physical inspection, report on and reply to all the objectors involves a large number of staff and is very time consuming.

- **Local Presence**

Where the valuation service has been tendered out to private sector valuers as in the case of Invercargill City Council and Tararua District Council, the successful tenderer has been an Auckland based company with no local presence. While it is possible to set up an 0800 number, the lack of a local presence limits communication, particularly at the time of revaluations.

QVNZ's Christchurch office has a large team of valuers with a detailed knowledge of local conditions.

- **Cost Savings**

The financial details of the contract are reported in the public excluded section of this agenda. While the proposed QVNZ fee has not been tested in the market place, it does represent significant savings to the Council both this financial year and over the next three financial years.

QVNZ, since it lost Invercargill City Council and Tararua District Council in the 1998 tender round, has carried out an extensive review of its cost structures. The fee quoted in their proposal reflects the restructuring which the Christchurch office has currently worked through and which will result in greater efficiencies and overall effectiveness.

- **Contract Supervision**

QVNZ has a proven record in terms of service delivery which has meant that contract supervision is minimal. This would not apply to any new valuation service provider. In my opinion we would need to employ an additional resource to supervise the contract and ensure that the contract specifications are being met, particularly at revaluation time.

The need for supervision would also become an issue if the contract were split between private sector providers and QVNZ. As well as actively supervising the private sector providers, uniformity in terms of approach would also become an issue.

It is worth noting that Banks Peninsula District Council has recently signed up to a 3¹/₄ year contract and the other Canterbury local authorities are likely to sign up to similar contracts.

Although the disadvantages represent very good reasons for not signing up, in my opinion the sum of the advantages outweigh the disadvantages. By going with the QVNZ contract for the next 3¹/₄ years, we are not thumbing our noses at contestability but merely giving ourselves a breathing space in order to get the database changes firmly in place.

SECTION 247E OF THE LOCAL GOVERNMENT ACT 1974

The Legal Services Manager comments:

“Also of relevance to this contract is section 247E of the Local Government Act 1974 which provides:

- “(1) Where any local authority is contemplating entering into any contract for the supply of goods or services that is likely to involve the local authority in expenditure or financial commitment that the local authority considers significant, the local authority shall consider whether or not the matter shall be put to tender.*
- (2) Where any local authority decides not to put out to tender a contract to which subsection (1) of this section applies, the local authority shall ensure that the reasons for the decision are recorded in writing.*
- (3) In considering whether or not to put any matter to tender and whether or not to accept any tender, the local authority shall have regard to its objectives as stated in its annual report to the public under section 223D of this Act.”*

As noted above, under the Rating Valuations Act 1998 it is compulsory for the Council to contract with Quotable Value until 30 June 2000 and in respect of that period, section 247E is not relevant.

However, for the remaining 2 years (1 July 2000 – 30 June 2002) of this contract recommended in this report, section 247E is relevant and it is considered that the sum as set out in the public excluded section for that 2-year period is “significant” for the purpose of s.247E(1).

Section 247E(3) requires the Council to have regard to its objectives as stated in its annual report to the public under section 223D of the Local Government Act and those objectives are tabled.

As set out above, it is recommended that the Council not consider tendering out this contract until the year beginning 1 July 2002 and the reasons for that recommendation are those set out in the section headed Advantages of the Proposal.”

VALUATION AUDIT

Not included in the contract is any quality control of the valuation process. This is a statutory function which is now the responsibility of the Office of the Valuer General. Under section 4 of the Rating Valuations Act 1998 the Valuer General must carry out an audit to ensure that valuation standards are met. While the Valuer General has stated that central Government will fully fund his office for 1998/99 from 1999/2000 onwards local authorities will be levied a share of these costs. The Council’s levy for 1999/2000 has been estimated to be \$97,500.

- Recommendation:**
1. That the Council sign up for a 3¹/₄ year contract with Quotable Value New Zealand.
 2. That for the purpose of section 247E(2) of the Local Government Act 1974 the reasons for the Council’s decision not consider tendering out until the year beginning 1 July 2002 be those set out in the section headed Advantages of the Proposal.
 3. That the property database be brought in-house.
 4. That the Council review its provider arrangements during 2001/02.