NSW GOVERNMENT | Valuer General

Review of the Local Government Rating System

Submission to IPART's Draft Report

14 October 2016

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Introduction

The aim of this submission to the IPART *Review of the Local Government Rating System, Local Government - Draft Report* (August 2016) is to provide feedback and advice on areas that directly impact on the statutory obligations of the NSW Valuer General to provide valuations for rating and taxing. This submission is focussed on the recommendations in the Draft Report regarding the introduction of capital improved value (CIV) as a basis of assessment, the sourcing of valuation services by councils and the impact of implementing those recommendations.

Both CIV and land value (LV) represent market values. While LV is the market value of the land only, CIV includes capital improvements.[1]

It is widely accepted that there are advantages and disadvantages to using either CIV or LV as a basis for rating.[2] As in other jurisdictions around the world, the use of CIV once established, will provide a sound basis for rating with some added advantages, particularly for the equitable rating of strata properties and as an information resource.

However, the decision to transition from LV to CIV must be taken with the full knowledge of the impacts, costs and benefits. The transition costs and disruption to the current rating system should be appropriately considered.

There is currently limited data available that could be used to develop capital improved valuations in NSW. It is expected to take considerable time and resources to collect the data. There will also need to be a comprehensive education program to ensure public confidence is maintained during the transition period.

There will be a rebalancing of the rating structure which may lead to additional objections and appeals to the valuations produced. Although the CIV system has the advantage of being easier for the general public to understand, that advantage is mostly relevant for residential properties. Complexity will not be reduced for more intensive land uses and the provisions of these valuations is often more difficult to determine.

There are many benefits in centralising the provision of valuation services. The ability to oversee quality and consistency of valuations and manage customer service is complicated if the production and delivery of valuations is fragmented.

Approach to submission

This submission is focussed on the recommendations in the Draft Report that directly impact the operations of the Office of the Valuer General. Issues raised in the Draft Report that solely deal with matters of rating policy are considered to be beyond the scope of the Valuer General and therefore have not been addressed.

[1] Land value in the NSW context is defined in s6A, *Valuation of Land Act 1916* (NSW) No. 2.

[2] See for example, Australian Centre of Excellence for Local Government (ACELG), *In Our Hands: Strengthening Local Government Revenue for the 21st Century,* Working Paper (February 2013); and, John Comrie, *NSW Local Government Rating and Charging Systems and Practices* (April 2013). IPART also noted some of the advantages and disadvantages in the Issues Paper (April 2016, 18-19).

Due to the extent investigations are required to fully respond to the issues raised in the Draft Report, many of the recommendations within this response suggest that further study should be conducted to determine the likely outcomes, costs and best practice for delivery. This office believes that it is critical to the decision making process that these studies are conducted.

Background

Role of Valuer General

The Valuer General is an independent officer appointed by the Governor of NSW to oversee the valuation system. The Valuer General provides independent and impartial land values used by councils for rating and the state government for taxing. The operational aspects of the Valuer General's responsibilities are conducted under a service level agreement by Valuation Services within Property NSW, Department of Finance, Services and Innovation.

The Valuer General's responsibilities include:

- Setting standards and policies for the valuation system through the publication of Valuer General's policies. The policies assist landholders to better understand the valuation process and provide clear guidance to valuers on a range of valuation methods and practices.
- Monitoring the management of contract valuers by Valuation Services.
- Monitoring the quality of land values and services provided to the community by Valuation Services.
- Providing professional leadership and stewardship to the valuation industry.

Current valuation system

The valuation system covers all incorporated land in NSW. The *Valuation of Land Act*[3] requires the land value of all land to be determined each year.

NSW has a long established rating and taxing valuation system and is regarded as a leader in the field within Australia. NSW has been recognised as a benchmark for other states.[4]

Reviews into the NSW valuation system conducted over the past two decades found it to be generally sound, "extremely cost effective"[5] and efficient.[6] The overall average cost per valuation in NSW for 2013/14 was $17.08 as compared to the international average of $28 per valuation.[7] This rose to $17.53 in 2014/15. In the 2015/16 financial year, the average cost per valuation increased to $18.68. Factors impacting on this increase include an increase in the cost of objections and an increase in corporate overheads.

The *Valuation of Land Act* does not prescribe the valuation methodology to be used in determining the value of land. This encourages greater flexibility in the method of valuation, allowing for changes in technologies and adoption of best practice valuation techniques. It also allows the valuer to apply the most suitable method of valuation for the property or land

[3] 1916, No. 2 (NSW).
[4] A report commissioned by the Queensland Department of Environment and Resource Management stated that: "the NSW system…represents something of a benchmark for Queensland and indeed for other states," *Queensland Statutory Valuation Reform Review*, prepared by Price Waterhouse Coopers (2010) 16.
[5] Joint Standing Committee on the Office of the Valuer General, *Report on the Inquiry into the Land Valuation System and the Eight General Meeting with the Valuer General* (May 2013) ix.
[6] NSW Ombudsman, *Improving the Quality of Land Valuations Issued by the Valuer General: A special report to Parliament under ss31 and 26 of the Ombudsman Act 1974* (October 2005).
[7] International Property Tax Institute, *Australasian Council of Valuers-General 2015 Benchmarking Study* (23 October 2015).

use. Irrespective of the methodology used, the overriding requirement is that each land value must be capable of being individually tested and supported against the available market evidence. In NSW, mass valuation processes are used in conjunction with strong quality assurance measures and individual assessments.

Although the *Valuation of Land Act* provides for three bases of valuation, NSW currently utilises only land value.[8] The mass valuation methodology that underpins land values in NSW has been developed over a long period. It has been accepted by the NSW Ombudsman as a sound basis of valuation.[9] The value base was also considered by the NSW Inquiry into the Land Valuation System, which found that land value was "the appropriate basis of valuation for rating and taxing purposes".[10] The infrastructure to support an efficient and effective mass valuation system for land values exists in NSW. However, new policies, standards, methodologies and data will be required to support the implementation of CIVs in NSW.

Contribution to IPART's review on the Local Government Rating System

Consultation has occurred between IPART and the Valuer General throughout the review and in the development of the Draft Report. The Valuer General provided a submission to the Issues Paper, and has been a panel participant during public hearings.

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[8] s14A, *Valuation of Land Act 1916 (NSW).*
[9] NSW Ombudsman, above n 6, ii.
[10] Joint Standing Committee on the Office of the Valuer General, above n 5, 129.

Experience of other jurisdictions

When considering how best to implement a system of rating, other jurisdictions are often referred to as examples of what might be achieved. These jurisdictions all have differences that make direct comparison difficult. However, much could be learned from researching several jurisdictions in depth to understand the key requirements for successful implementation of CIV in NSW so as to ensure that the system produces fair and reasonable outcomes. This would be particularly helpful in understanding the necessary resources, policies, standards and methodologies as well as the data requirements that are the true drivers of valuation outcomes. For instance, instead of developing a complex set of improvement data for the valuation of residential properties, it may be possible to achieve the same results with a smaller set of critical elements such as the number of bedrooms, number of bathrooms, car parking and the size of the building.

It is understood that there are a number of jurisdictions around the world that have moved to CIV. Various methods have been used to establish the data required, but there is no authoritative advice on best practice.

Self-assessment

Self-assessment is often considered a cost effective means of raising a tax and is used quite broadly. To fully understand the possibility for self-assessment for rating valuations it is useful to consider other jurisdictions.

It is understood that no developed country with significant recurrent property tax liabilities have used self-assessment for both residential and non-residential properties. Some countries have trialled self-assessment to a limited extent, including Hungary, Tunisia, and parts of India, Taiwan, Columbia and the Philippines. However, in these countries, self-assessment usually takes the form of taxpayers measuring their own property and applying a prescribed rate per square metre to arrive at a value.[11] This approach does not meet the standards currently applied in jurisdictions in Australia and New Zealand where CIV valuations have been adopted.

Ireland

Local Property Tax (LPT)

The Draft Report cites Ireland as an example of a successful model for self-assessment.[12] However, there are a number of characteristics of the Irish experience that need to be understood:[13]

- The self-assessment only applies to residential properties with an area less than one acre.
- The valuations were self-assessed within bands of €50,000 (approximately $75,000 AUD) based on guidelines developed by the Office of the Revenue Commissioners.

[11] Paul Sanderson, 'Self-assessment and ratepayer-assisted valuation internal experience' (Paper presented at the Commonwealth Heads of Valuation Agencies Conference (CHOVA), Crieff Hydro Hotel, Scotland, 8 September 2016).
[12] Page 144.
[13] See Office of the Revenue Commissioners of Ireland *Local Property Tax*, <http://www.revenue.ie/en/tax/lpt/>.

The guide provided average indicative prices for different property types in different locations.

- The valuation guide provides no information on the size of a property or its condition, which are attributes commonly used in a CIV model. The data collected is limited to the following:
    - The type of property e.g. detached, semi-detached, apartment.
    - The age of the property e.g. built before the year 2000 or after.
    - The price band of the type of property for the general area.
- There is little evidence documented on the accuracy of the assessments. In 2015, the Minister of Finance noted that "resources were focused to a greater extent on the collection of outstanding Local Property Tax than on the verification of self-assessed property valuations".[14]
- Self-assessed property valuations were reviewed by the Office of the Revenue Commissioners and approximately 8,200 self-assessed valuations were adjusted upwards, most of them by up to three valuation bands.
- Close to 900,000 items of correspondence regarding Local Property Tax and the Household Charge were processed and 900,000 phone calls have been responded to.

Rating valuations for commercial and industrial properties

In 2002, Ireland also introduced a national program for progressively revaluing commercial and industrial properties based on rental values. There were an estimated 146,000 commercial and industrial properties in Ireland. Between 2005 and 2014, 48,600 properties were revalued, 33% of the total in nine years.

In a 2015 second reading speech introducing a new Bill to speed up the process, the member said:

> The revaluation programme needs to move at a faster pace to bring the benefits of a modern valuation base to the rates system. In 2001, when the previous piece of legislation was being introduced, the expectation was that the complete revaluation of all commercial property would take ten years to complete. This assumption has proved over time to be wide of the mark and hugely optimistic. The current target for the completion of the revaluation programme is 2018.[15]

This highlights the difficulty of implementing a new program for valuing complex property types such as commercial and industrial.

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[14] Don Thornhill, *Review of the Local Property Tax* (July 2015).
[15] Dail debates, Thursday, 12 February 2015 *Valuation (Amendment) (No2) Bill 2012* [Seanad] Second Stage.

Use of capital improved values as an alternative to land values to set rates

Comparison of CIV and LV

The *Valuation of Land Act* still includes the provision for determining the improved value of land as originally enacted in 1916,[16] even though improved values have not been undertaken since 1973.

A number of authors have written on the merits of different systems[17] and it is acknowledged that there are advantages in using a capital improved valuation base. However, the introduction of a new system and its advantages need to be measured against the effectiveness and efficiency of the current system.

In his report titled *NSW Local Government Rating and Charging Systems and Practices*,[18] John Comrie made the following observations:

> Each of the valuation bases has both advantages and disadvantages for local government rating purposes relative to the others and different impacts for individual ratepayers. For example residents of high-value apartments are likely to pay lower rates than those of an average free-standing house in many districts when applying LV but more when using CIV.
>
> The advantages, disadvantages and impacts of different valuation systems are discussed in more detail in the [Australian Centre of Excellence for Local Government] "In Our Hands" Working Paper.[19] The literature does not present a compelling argument in favour of one particular valuation method. Each has its relative advantages. The preferred method essentially depends on trade-off choices between the weighting of the tax design criteria 'capacity to pay' (which is best reflected by CIV as there is often reasonable correlation between property values and occupiers incomes) and 'benefits received' (which is best reflected by LV because it better correlates with the relative value of local government services enjoyed by a property). Arguably CIV might be more appropriate in some circumstances (for example where there are a large proportion of high value apartments in the council's area) and LV in others. Providing choice regarding valuation base could therefore enable a council to better address tax design criteria principles, but choice would potentially detract from the simplicity of the overall local government rating system.
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> It also needs to be borne in mind that property values, whether calculated based on CIV or LV, are not perfect indicators of either relative capacity to pay or relative municipal service-type benefits received. For these reasons regardless of whatever basis of valuation is applied it is important that councils consider utilising various other rating tools that result in the relative amount that any individual ratepayer pays not being determined solely by the relative assessed value of their property.

[16] s5(1). Section 5(2) was inserted into the *Valuation of Land Act* in 1951 by s3(c), *Valuation of Land (Amendment) Act 1951* (NSW) No. 41.
[17] See references throughout this submission.
[18] John Comrie, above n 2, 6.
[19] Australian Centre of Excellence for Local Government, above n 2.

The Australian Centre of Excellence for Local Government working paper stated:

> Arguably, neither USV [unimproved site values] nor CIV has particular advantages relative to the other valuation methods based on simplicity, sustainability or policy consistency grounds, although USV is easier and therefore cheaper to determine.[20]

The NSW system may have perceived limitations; however it works well in addressing the five design principles of effective taxation identified in the Henry Tax Review: equity, efficiency, simplicity, sustainability and policy consistency.[21]

i. Equity

IPART identified equity of rating outcomes for owners of residential houses compared to owners of strata units as the primary equity issue with the current system. This issue is well considered in the Draft Report. However, it is considered that this issue may be able to be resolved to a substantial extent through the implementation of a separate rating category for strata properties. This should be given very serious consideration to be satisfied that the benefits in terms of rating equity outweigh the substantial cost of implementing a new valuation system.

ii. Efficiency

The Draft Report states that it is not clear whether rates based on CIV or LV would better promote the efficiency principle.[22]

The Henry Tax Review considered LV to be more economically efficient than the use of CIV for rating and taxing purposes, stating that "the efficiency of council rates is likely to be reduced in councils that use improved values to assess the tax, as this discourages capital improvements.[23]

iii. Simplicity

NSW's valuation system is relatively simple to administer as it uses a consistent basis. There is less variability between land in a locality and land is less variable over time than improvements to property. This contributes to providing a more stable valuation base, which is simpler to administer. The NSW system has also been found to be cost effective to administer.[24]

However, as most property is traded as improved, the concept of capital improved is better understood by landholders. The CIV system is complex in many other areas, for instance the assessment of complex property types like factories, office towers and shopping centres is no less problematic than the assessment of the land value. It is a complex area of valuation that will require retraining of staff and the establishment of different resources and governance procedures. The current system is well established and well understood by most landowners. Supporting material, polices, quality and governance practices are in place and being improved on an ongoing basis.

[20] Australian Centre of Excellence for Local Government, above n 2, 32.
[21] Ken Henry et al, *Australia's Future Tax System*, Report to the Treasurer (December 2009), Box 2.1.
[22] Draft Report, 29-30.
[23] Ken Henry et al, above n 21, 258.
[24] Joint Standing Committee on the Office of the Valuer General, above n 5, ix.

iv. Sustainability

The current system is considered to deliver sustainable outcomes with a long history of value growth consistent with the growth in the real estate market.

v. Policy consistency

The current system has a long history supported by numerous common law decisions that provide a solid and supported valuation basis. The use of land value as a basis for valuation provides a consistent policy platform for both land tax and rating in NSW.

Implementation

The benefits of CIV as a valuation basis for rating purposes as described throughout the Draft Report are acknowledged, particularly as a means for more efficient and equitable rating in areas where there are a large number of apartments. As the Draft Report identified,[25] collecting improvement data may also have significant benefits for other public and private entities. However, the benefits need to be specifically identified and balanced against the cost of implementation.

While the Draft Report highlights some of the implementation costs, there are other complexities in implementing a change from LV to CIV that require further consideration. These factors may significantly increase the cost of implementation and may lead to inefficiencies in the process. A full financial appraisal based on clear implementation options is required to fully understand how the costs may be offset by the benefits to government, councils, industry and the community.

Collecting Information on CIV

The data required for the accurate assessment of CIVs is extensive. In order to maintain public confidence in the valuation system, it will be essential that initial CIV valuations are made with as consistent and as accurate a data record as possible. As well as capturing details of simple residential properties, a wide range of data need to be collected for more complex property types, such as shopping centres, factories and office buildings.

The data collection process for CIV will require significant investment of time and resources. While there are a number of private and public sources of improvement data which are likely to be available at a cost, currently there is no consistent and complete improvement dataset for NSW. Data is held in a range of formats (including hard copy) and there are no established standards for CIV data collection, storage or quality measurement across NSW. Therefore, it is considered likely that the most significant task in transitioning to a CIV basis will be the initial data collection.

An example of the complexity of the data requirements is the Australian Valuation Property Classification Code maintained by the Victorian Valuer General. The list includes over 600 different property categories from, for example, single residential, to entertainment, tourism, health, manufacturing, noxious industry, and retail.[26]

In addition to collection of factual data, there is a requirement for subjective assessment, often recorded as a score, which takes into account factors that a potential purchaser would consider in a market transaction, such as the style and condition of the improvements, views, and location.

[25] See Appendix F.
[26] Victorian Department of Environment, Land, Water and Planning, *Australian Valuation Property Classification Codes* (AVPCC), <http://www.dtpli.vic.gov.au/property-and-land-titles/valuation/council-valuations/revaluation-2016#VBP>.

IPART's proposed process for collecting improvement data

While it is agreed that the process for the collection of improvement data should be phased over a number of years, the complexities of the process for collecting the data need to be highlighted.

The Draft Report states that CIV information is already collected in determining the value of benchmark properties in the current process of determining the land value.[27] While benchmark properties are individually valued each year, data that is captured in this process does not align with the data required to complete capital improved valuations. Regardless, the suggestion that CIV could be implemented by a phased approach using the current benchmark valuation process is not feasible. There are a relatively small number of benchmark properties valued across the state[28] and in most years the same properties are used for each valuation cycle. The time taken to capture improvement data using this approach would prevent the achievement of the required outcomes.

Options for collecting improvement data

There are a number of approaches that may be taken in establishing improvement data including: the purchase of data; manual capture; remote sensing; use of aerial photography; self-assessment or self-reporting; and physical inspection of properties, or a combination of approaches. The most cost effective method would need to be considered following the finalisation of the recommended model for the local government rating system as a whole.

It is not clear whether the Valuer General or councils that opt in to CIV are responsible for collecting improvement data. Accountability should be established at the earliest possible opportunity to ensure effective implementation of CIV.

Adapting current processes

Current practices that could be adapted to supply improvement data include:

- **Sales analysis**

  Details of improvements are identified in the current sales analysis process. This may provide a reasonable way to capture some data. However, even if the sales analysed (around 60,000 in 2015/16) were used as a way to capture improvement data, there would be a significant cost component to requiring the additional capture of data and it would take many years to compile a complete database.

- **Verification**

  To ensure the property's baseline value is correct, a verification process was introduced following a review by the NSW Ombudsman.[29] The process requires consideration of a property's land value attributes and market considerations. It does not require the consideration or collection of data regarding the improvements.

[27] Draft Report, Box F.2.
[28] In 2014/15 around 21,000 benchmark properties were valued across NSW. This is less than one per cent of all properties in NSW.
[29] NSW Ombudsman above n 6.

It could be suggested that to implement CIV, contractors could collect improvement data while verifying the property's value. However, to do this would take at least six years under the current risk based framework to capture the majority of the state. Even with this timeframe, the verification requirements would require additional time and resources and costs would be expected to rise significantly.

Supplementary valuations

There are approximately 50,000 supplementary valuations completed each year across NSW when there are changes to the land, such as subdivisions or amalgamations. The frequency of supplementary valuations would increase significantly with CIV, as new valuations would be required whenever significant changes to a property's improvements are made. It is understood that around 60,000 development approvals are lodged each year in NSW,[30] and these would also trigger a supplementary valuation process.

Supplementary valuations currently require an inspection of the property and are substantially more resource intensive valuations than mass valuations. The volume and requirements for supplementary valuations in councils will be a significant burden for councils and increase the costs incurred maintaining the currency of valuations.

Quality assurance processes

There is potential that implementing CIV in NSW may have a positive impact on the efficiency of valuation quality assurance processes. A CIV basis of valuation may facilitate the introduction of automated models to assist in the quality assurance process, reducing the overall cost.

It should be noted however, that automated systems have yet to be proven to provide accurate valuation outcomes without the need for skilled valuers to oversee and contribute to the process, particularly given the diversity of properties in NSW.

Valuation expertise will still be required to ensure the quality of the valuations, with more resources dedicated during implementation of CIV to ensure the integrity of the baseline assessments.

Objections and appeals

Ensuring that valuations used for rating and taxing purposes are easy to understand is an important principle of land based taxation. CIV has the benefit that it is generally easier to understand than LV as it more closely aligns with the landholder's understanding of what their property could be sold for in the market.

While there is expected to be improved understanding by landholders of the valuations, the change in the valuation basis will ultimately change the way that rates are distributed, meaning that some landholders will be paying significantly more, and others will be paying

[30] Based on the number of Development Applications determined in 2012/13. Office of Local Government, *Comparative Information on NSW Local Government: Measuring Local Government Performance*, (June 2014), <https://www.olg.nsw.gov.au/sites/default/files/Comparatives_2012_13.pdf>.

less than what they currently do.[31] Past experience suggests that this is likely lead to an increase in the number of objections lodged.[32]

As the valuations will be considered as information in the market, landholders may have concerns that a low value for rating purpose will impact on the sale of their property. A discussion with the Valuer General of New Zealand revealed that the rate of objection is substantially higher in New Zealand than in NSW, with around half made on the basis that the valuation is too low.[33]

Implementation timeframe and cost

There are risks to the integrity of the valuation system if the implementation of significant changes is not managed appropriately. A key factor in this is the timeframe for implementation and communication of the impacts of CIV. Implementation of a change to valuation type would require sufficient lead-in time to:

- educate landholders on the change and impacts
- develop supporting documentation and information
- develop governance and regulatory controls
- develop systems and processes to accommodate data and information flows
- support for customer services activities including enquiries, objections and appeals.

It is not clear whether the recommendation that councils' income may increase outside the rate peg in line with growth in CIV means that CIV would need to be implemented across NSW, irrespective of whether councils used CIV for rating purposes. This has the effect of compressing the timeframe for implementation as all councils would need to have CIV to utilise this option. While increasing the cost of implementation, the quality of valuations may also be impacted. The benefits of this approach for councils who are not using CIV as the basis for valuations for levying rates should be considered in greater detail, given that given that making CIV would come at a cost to councils.

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[31] Australian Centre of Excellence for Local Government, above n 2, 36.
[32] See also Objections and Appeals under Delivery Structure on page 18.
[33] Discussion held between NSW Valuer General, Simon Gilkes, and New Zealand Valuer General, Neill Sullivan (October 2016) New Zealand.

Delivery structure

Council choice in the provision of valuation services

The valuation system in NSW was established in order to address concerns about a lack of consistency in valuations and processes. A centralised system was considered necessary to ensure fairness and integrity of the valuation process across NSW. The principles of fairness, consistency and accuracy still underpin the valuation system today.

In order to ensure this continues, robust processes should be established for councils that choose their own valuation provider.

Issues to be considered include:

- **Independence of the valuations**

  Ensuring the independence of valuations from the levying of rates where council sources the provision of valuations will be a challenge under the proposal. In its Report on the *Inquiry into the Land Valuation System*, the Joint Standing Committee on the Office of the Valuer General considered the importance of ensuring the independence of the Valuer General. The Committee stated that:

  > "the standard of independence required of the Valuer General is such that a fair-minded member of the public would not reasonably contemplate that their valuation was influenced by some government objective other than the accurate valuation of land."[34]

  This is a significant factor to be considered when implementing this proposal.

- **Procurement and contract management**

  Valuations in NSW are undertaken by private valuation firms following a tender for services. Contracts for rating and taxing valuation services are currently let across 41 contract areas in NSW. There is a limited supply of valuation firms that have the required knowledge, skills and experience to undertake rating and taxing valuation work, particularly in rural areas.

  Council areas are currently grouped by geographic area to form a contract area, which allows for consistency of valuations across local government boundaries, as well as cost and process efficiencies grouping similar council areas together in the one contract.

  The Valuer General has established economies of scale that allow efficient procurement, contract management, administration and regulation of the valuation system. It is difficult to see how the same efficiencies could be achieved with each council individually sourcing valuation services.

[34] Joint Standing Committee on the Office of the Valuer General, above n 5, 53.

- **Funding arrangements for valuation services**

  IPART currently sets the fees for valuation services provided by the Valuer General as it is a monopoly service. If contestability of valuation services is introduced into the rating and taxing valuation system, it is not clear what the role for IPART would be in setting prices for valuation services provided by the Valuer General.

  The current funding model equally distributes the total cost of providing valuation services between councils. Any new model will need to consider that the cost of providing valuation services in some council areas will be greater than in others. An efficient model for sharing the cost of providing services will need to be established.

- **Customer service and enquiries**

  Transparency and customer service are key to ensuring confidence in the valuation system. The Valuer General currently provides valuation related customer service resulting in around 30,000 calls each year. While the first level of enquiry is relatively simple and can be resolved through the preparation of customer service scripts and basic functionality, approximately 15 per cent of all enquiries are referred on to valuation or data technicians to resolve. This involves significant resources and needs to be considered in the provision of valuation services.

  To address concerns of procedural fairness in the valuation system, the Valuer General provides conferencing where matters cannot be resolved through standard customer service channels. Conferencing was introduced into the valuation process due to the contentious nature of rating and taxing valuations, and to ensure that customers are afforded additional opportunities to resolve issues and discuss their valuation with a qualified valuer without resorting to a costly court process. In 2015/16, around 60 conferences were held with landholders, with an average of eleven hours spent on each conference.

Maintaining a central database

A centralised database for rating and taxing valuations has the benefit of consistent data standards, streamlined data exchange processes and wider accessibility. A centralised database provides a trusted source for valuation and property information that can be readily analysed to better inform decision making.

While the proposed model requires the central register of valuations continue to be maintained by the Valuer General, it is not clear whether councils would be required to maintain their own databases that feed into the Valuer General’s central database.

Data that currently underpins the Register of Land Values is updated on a daily basis by Valuation Services. The data, including sales, changes to property details and ownership, is fed daily into the Valuer General’s systems. Properties are also updated where there are subdivisions or significant changes to the property are made, triggering supplementary or new valuations of a property. Consistency in the way the data is maintained is essential for ensuring the quality and accuracy of the data.

Valuation and property data held in the central database needs to be accessible to landholders to ensure the transparency of the valuation process. Details around how the central database will be maintained and information flows between the Valuer General and councils should be documented.

Objections and appeals

It is not clear how objections and appeals will be managed where a council sources its own valuation services. In Victoria, for example, objections are lodged with and managed by the relevant local council.[35]

Objection and appeals processes are an essential component to ensuring public confidence and fairness in the current valuation system. Although the Valuer General has ultimate accountability a key requirement of the NSW legislation is that the person who considers the objection must be independent of the person who made the original valuation.[36] This requirement of independence in the objection process was introduced following the Walton Review[37] with fairness and independence of the objection process a significant focus of subsequent reviews and inquiries.[38] Following these reviews into the valuation system, refinements have been made to the objection process to ensure that landholder concerns are dealt with in a more collaborative and procedurally fair manner. While an important feature of the NSW valuation system, the objection process is resource intensive both in time and cost.

Responsibility for management and funding of court matters would require careful consideration. While there are only a small number of appeals lodged with the Land and Environment Court each year, many of these matters are complex and costly, with some cases lasting several years. The Valuer General is currently a party to these matters; however it would need to be considered how a council that selected its own valuation provider would ensure appropriate assurance of valuations and objections to prevent unnecessary escalation of matters to the court.

Valuers certified by Valuer General

Recommendation 34 of the Draft Report gives councils the choice to directly buy valuation services from private valuers that have been certified by the Valuer General. It is unclear how this process will be implemented and funded.[39]

Valuers in NSW are required to be qualified[40] and the profession maintains standards through membership of professional associations such as the Australian Property Institute, Royal Institute of Chartered Surveyors and the Australian Valuers Institute.

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[35] s16 *Valuation of Land Act 1960* No. 6653 (Vic).
[36] s35B(2) *Valuation of Land Act 1916.*
[37] Julie Walton, *Inquiry into Operation of Valuation of Land Act* (June 2003).
[38] Ibid; NSW Ombudsman, above n 6 and Joint Standing Committee on the Office of the Valuer General, above n 5.
[39] See also Procurement and Contract Management on pages 16-17.
[40] As at 1 March 2016, valuers are no longer required to be registered in NSW. Instead, they are required to be "Qualified Valuers". This change was made following the repeal of the *Valuers Act 2003* No. 4 (NSW) by the *Regulatory Reform and Other Legislative Repeals Act 2015* No. 48 (NSW). A qualified valuer is defined as a person who has membership of the Australian Valuers Institute (other than associate or student membership), or as membership of the Australian Property Institute (other than student or provisional membership), acquired in

Valuers engaged for the NSW Valuer General are selected by an open market tender process, and are required to perform to agreed standards. Contractor performance is managed by Valuation Services on behalf of the Valuer General.

Certification by the Valuer General of valuers engaged directly by councils will incur additional costs. In Victoria, the Valuer General manages a pre-qualified panel of valuers to assure the valuation advice. The pre-qualified panel is periodically refreshed through an open tender process.[41]

Land values for land tax – dual system

Land tax is an important revenue source for the state, and requires fair, accurate and consistent land values to underpin the levying of that tax. Land Value is the basis for land taxation across Australia and also used in the calculation of Commonwealth grants.

New land values are determined annually across the state for land tax purposes. Councils, however, use a new valuation for rating purposes every three years. If valuations are sourced directly by councils, and then provided to the Valuer General for provision to the Office of State Revenue, there is a significant risk that the quality and integrity of valuations made for land tax purposes could be reduced over time.

The system will need to cater for valuations in non-rating years. This will either be an additional requirement for councils or the Valuer General, which introduces additional complexity and inefficiency into the model.

The proposed model raises concerns about the structure and processes that the Valuer General would be required to implement to ensure the integrity and consistency of the valuations across the state for land tax purposes.

Confidence in the valuation system

The Draft Report covers the fair distribution of rates, however does not sufficiently consider how the proposed recommendations would be perceived by landholders. Ensuring that there is actual and perceived independence and procedural fairness in the valuation process is an essential requirement in the efficient and effective levying of rates and taxes. A key benefit of the current system is the independence of the valuation process from the levying of rates. This is significantly reduced if councils are responsible for making valuations and levying rates, even if the values are quality assured by the Valuer General.

The Henry Tax Review identified that confidence in the system requires up to date, transparent and consistent valuations. It is essential that any changes to the valuation process ensure that valuations are maintained for currency, that valuations are of a high quality and are consistent throughout the state. It is also essential that sufficient emphasis is placed on ensuring customers understand how their valuation was made through the open provision of information.[42]

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connection with his or her occupation as a valuer, or has membership of the Royal Institution of Chartered Surveyors as a chartered valuer.

[41] See Victorian Valuer General webpage < http://www.dtpli.vic.gov.au/property-and-land-titles/valuation>.

[42] Ken Henry et al, above n 21.

Considerations for changes to the valuation framework

This submission has discussed several aspects of the proposed changes to the local government rating system that require further consideration to ensure the ongoing integrity, efficiency and equity of the valuation system.

It is proposed that a high level implementation plan be develop that clearly documents responsibilities, timeframes and dependencies. Once implementation has been fully considered, it is proposed that a detailed financial appraisal that considers costs, benefits as well as funding, be conducted following the development of the implementation plan to better inform decisions regarding the valuation basis and delivery framework.

The table below details considerations that should be had for changes to the valuation framework.

Issue	Description	Possible actions
Financial appraisal	The analysis to date does not provide a full assessment of the benefits and costs of the proposal to introduce CIV or to change the structure of the valuation system. LV "has advantages and given the costs of transition to CIV considerable further research would need to be undertaken before seriously contemplating a switch to CIV based rating".[43]	A detailed financial appraisal including the benefits and costs of the proposals for changes to the valuation system should be undertaken to inform decision making.
Development of the CIV model	A range of methodologies can be used to determine CIV. Different approaches are used in different jurisdictions across the world, depending on local circumstances. Application of different methodologies will have different system and data requirements. It is critical that the most beneficial approach is taken to the design and selection of processes and the data model, while still ensuring cost effectiveness.	Alternative approaches applied in other jurisdictions should be analysed to determine the best model for assessing CIVs in NSW. Once the model is determined, it will form the basis for implementation planning.

[43] John Comrie, above n 2, 22.

Issue	Description	Possible actions
Collection of data	A key determinant of the quality and consistency of CIVs is the quality of the improvement data on which they are based. There are a number of options for collection of the data. These include: • the purchase of data • manual capture • remote sensing • use of aerial photography • self-assessment or self-reporting • physical inspection of properties. Investigations undertaken by our office suggest that there is no complete, consistent and standards based record of improvement data across NSW. Current records of improvement data are held in a range of forms (including in hard copy) and by a range of public and private organisations.	A study should be conducted into options for the collection of complete improvement data in a consistent, standards based form Once the collection method is selected, planning for data collection should be incorporated into the implementation plan.
Timeframe for implementation of CIV	The timeframe for implementation of CIV should be sufficient to ensure the accuracy and quality of valuations and to ensure cost efficiency of the process.	The implementation plan should clearly document the timeframes for implementation of CIV, including any dependencies, such as the appropriate collection of improvement data.
Cost of collecting improvement data	The cost of collecting improvement data may prove to be prohibitive.	The financial appraisal should include the cost of collecting improvement data.
Responsibility for collecting improvement data	The requirement to collect improvement data for the implementation of CIV will be a resource and time intensive activity. Responsibility for the collection of improvement data is not clear in the Draft Report.	Responsibility for improvement data collection should be identified at the earliest opportunity and incorporated into the implementation plan.
Responsibility for objections and customer enquiries	Objections and customer enquiries are an important aspect to ensuring transparency and fairness in the valuation process. Responsibility for the management of the objection and appeals process if councils source their own valuations has not been sufficiently addressed in the Draft Report.	Responsibility for objections and customer enquiries should be identified and incorporated into the implementation plan.

Issue	Description	Possible actions
Value of improvement data	IPART has indicated that the benefits of CIV include that data required to make CIV valuations may generate additional revenue from public and private users, that could "greatly offset" the cost.[44] However, there are significant benefits in ensuring data that is used as the basis of making valuations remains open to the community. Transparency in the valuation process significantly increases public confidence in the system. "Transparency is essential in a democratic system of government. It is required to support accountability of government, fairness in the application of rules and certainty for individuals".[45] Ensuring improvement data is freely available to the community aligns with the NSW Government Open Data Principles, which requires that government data is "open by default", "well managed, trusted and authoritative" and "free, where appropriate."[46]	Clear direction should be provided early in the decision making process, to establish whether the improvement data collected will be made available openly and freely in accordance with the NSW Government's Open Data Policy. The financial appraisal should consider the potential value of the data that takes into account the significant benefits in providing the data openly.
Large volume of customer enquiries	A new rating system is expected to result in a large volume of customer enquiries. An example of this is the number of enquiries received when Ireland implemented the Land Property Tax.	The financial appraisal should consider that additional funding and resourcing is likely to be required to manage a higher level of customer enquiry.

[44] Draft Report, 142.
[45] Joint Standing Committee on the Office of the Valuer General, above n 5, 50
[46] Department of Finance, Services and Innovation, *NSW Government Open Data Policy* (2016), 4 <https://www.finance.nsw.gov.au/ict/sites/default/files/resources/NSW_Government_Open_Data_Policy_2016.pdf>.

Issue	Description	Possible actions
Large volumes of objections and appeals	A new rating base is likely to lead to a large number of rate payers paying higher rates. While this may be offset by reductions in rates for other rate payers, experience has demonstrated that significant changes to rating structures leads to increased volumes of objections and appeals, especially in the first year of the program. While a significant increase in objections is expected during implementation of a new system, the New Zealand experience demonstrates that there is also potential for ongoing increases in objection numbers where CIV is used as the basis of valuation. This can be partially attributed to a large number of objections (around half) lodged on the basis that the value is considered to be too low, as landholders are concerned the rating valuation will be used as an indicator of price in the market.	The financial appraisal should consider that additional funding and resourcing is likely to be required to manage the higher numbers of objections and appeals, particularly during the implementation phase. The implementation plan should consider how and when landholders should be notified of their CIV valuation in order to minimise objection volumes.
Increase in the number of supplementary valuations	Currently approximately 50,000 supplementary valuations are undertaken in NSW each year. The requirement to consider changes to the nature of the improvements under a CIV system will require a further estimated 60,000 supplementary valuations each year. [47]	The financial appraisal should consider that additional funding and resourcing is likely to be required to undertake a higher number of supplementary valuations.
Loss of public confidence	Although CIV is well established in many parts of the world, including Australia, there is a risk that that the changes brought about by the introduction of a new system will lead to a loss of public confidence. There may also be perceived inequity in changes to the way rates are distributed following the introduction of a new valuation basis. The proposal for councils to source and manage valuations may also lead to the perception that independence of the valuation system is being diminished.	The implementation plan should ensure sufficient time and resources are dedicated to the development of a broad and comprehensive education campaign to ensure the transition to a new system does not lead to a loss of public confidence.

[47] Based on the number of Development Applications determined in 2012/13. Office of Local Government, above n 33.

Issue	Description	Possible actions
Development of system support and communication documentation	Substantial efforts have been made over recent years to increase the understanding of valuation systems to maintain and improve public confidence in the current NSW valuation and rating systems. This has relied on the publication of a large amount of supporting material developed in plain English. A new system would require extensive development of substantial new communication and information resources.	The financial appraisal should consider that additional funding and resourcing is likely to be required for the development and publication of new communication resources.
Implementation of new policy and standards for CIV	Irrespective of where the responsibility for making valuations lies, if CIV were implemented the Valuer General would be required to develop new policies and procedures to ensure the appropriate standards are maintained. This approach aligns with other leading jurisdictions such as New Zealand and Victoria.	The implementation plan should detail the development of standards and policies for the introduction of CIV commencing as soon as possible. The improvement data collection for CIV should not commence until the standards are developed to ensure quality valuation outcomes.
Insufficient qualified valuers to undertake initial valuations and respond to objections	The pool of qualified valuers with experience in rating valuations is limited. The use of CIV valuations will lead to increased demand causing possible delays in service delivery and increased costs. The availability of valuers may be offset by the possible use of CIV valuations by lending institutions and in the payment of stamp duty.	The financial appraisal should consider the likelihood of other uses of CIV valuations and whether this may offset the additional demand for valuers.
Funding of valuation services	All valuations for rating purposes are currently carried out by the Valuer General as a statutory monopoly service. These valuations are funded on a fee for service basis based on maximum prices set by IPART. If councils have the option to source their own valuations then this may no longer be considered to be a monopoly service and so the current pricing mechanisms may need to be reconsidered.	The financial appraisal should include the development of an appropriate funding model that considers the non-monopoly service provision of valuations.

Issue	Description	Possible actions
Cross-subsidisation by councils of the cost of delivering valuations	The current efficient cost of the Valuer General's service is distributed between councils based on standardised prices per valuation across NSW. IPART acknowledged the "postage stamp" approach to pricing of valuation, and considered that it should continue.[48] While this is considered a reasonable approach, some valuations and therefore some local government areas are more costly to value than others. The current pricing model currently means that councils in areas that are less expensive to value cross-subsidise valuations for councils in areas that are more expensive to value. If councils have the option to source their own valuations then this may no longer be considered to be a monopoly service, indicating that the current pricing mechanisms may need to be reconsidered. This will potentially lead to some councils paying more for valuations than is currently required.	The financial appraisal should consider the impact of removing the regulation of monopoly service payments for valuations provided by the Valuer General.
Dual systems CIV and LV	Under the proposal in the Draft Report, councils may opt in or out of using CIV. Land values will continue to be required for land tax purposes, as is the case in other states. The cost of delivering two systems will increase the cost overall. Having dual systems would also lead to greater demands on the Valuer General's governance role with standards and quality assurance needed to address both approaches.	The financial appraisal should consider the overall costs of a CIV system combined with the requirement for continued delivery of LVs. The proposed development of a funding model should take into account the fact that the Valuer General would be required to regulate two systems.

[48] Independent Pricing and Regulatory Tribunal (IPART), *Price review of rating valuation services provided by the Valuer General to local government*, Other industries – final determination and final report (July 2008), 26.

Issue	Description	Possible actions
Councils make valuations for land tax purposes	Where councils source their own valuations, the Draft Report proposes that the Valuer General purchase land values from councils to be used for the assessment of land tax. While it is agreed that there should only be one valuation contractor determining both valuations as they are entwined, the Valuer General's role in regulating land values becomes more complex as councils will have no requirement for those valuations. This may impact the integrity of the land values used to levy land tax. There is also an issue that currently all land is valued annually for land tax. If that requirement continues it will mean that councils will be required to make valuations for land tax in years when they are not making valuations for council rates.	The proposed development of a funding model as part of the financial appraisal should take into account that the Valuer General would need sufficient resources to appropriately regulate land values supplied by councils for land tax purposes. The level of payment required for the purchase of land values by the Valuer General from the councils could be seen to be a monopoly service and consideration should be given to the fees being regulated by IPART.
Councils' ability to defend valuations through the courts	The current system provides oversight of all valuations by the Valuer General with direct oversight of objections and appeals. This process provides consistent outcomes and influence over procedural fairness and good customer service outcomes. The Crown Solicitor currently manages all appeals on behalf of the Valuer General. It is not clear how court process will be managed and funded under the proposal. There are concerns that if there was a fragmented approach to appeals management decisions may be made in the court that have broader implications to the valuation system.	The implementation plan should clearly articulate responsibility for the management of appeals. Consideration should be given to continuing to engage the Crown Solicitor in the management of rating valuation appeals. Funding for appeals should be appropriately considered in the financial appraisal.

Issue	Description	Possible actions
Valuer General's potential conflict of interest	Recommendation 34 in the Draft Report to allow councils to source their own valuations creates a potential conflict of interest in the Valuer General monitoring the quality of valuations provided by councils as well as providing a service to councils. The contestability of valuation service provision combined with an ongoing service standard setting and monitoring will place the Valuer General in the position of having to regulate councils while at the same time competing in the market for valuation delivery.	The design of any changes to the valuation system will need to carefully consider how contestability of valuation services and other potential conflicts of interest will be managed in the valuation system. These should be incorporated into the implementation plan to ensure visibility and management.
Benefits of a central register	There are a number benefits in the maintenance of a central register. It is assumed that the requirement of the register would be maintained; however, the funding for the activities would potentially be reduced or supported by fewer customers. There are also complex information and data flows in the current valuation systems that support the quality of valuations. There is insufficient detail in the Draft Report to determine how data flows and systems will be managed under the proposal.	The implementation plan should consider how systems and data will be managed. The financial appraisal should consider the funding model to ensure the ongoing maintenance of the Valuer General's Register of Land Values.

Conclusion

The NSW valuation system supports the raising of over $6 billion in revenue in land tax and council rates. The annual valuation of over 2.5 million properties across a broad range of property types throughout NSW is a complex procurement and administrative project. The annual valuation will increase to 3.3 million properties if CIV is adopted. The current system is recognised as world class, providing a transparent, reliable and cost effective taxation base through well-established regulation and quality control procedures supported by centralised customer service, data management and objection review programs.

The Draft Report detailed the advantages of moving to CIV and enabling contestability in the sourcing of valuations. It is agreed that these proposals could provide a robust and equitable base for levying land-based taxes. However, it is not clear that the costs, challenges and impacts associated with the changes have been fully considered. Both a comprehensive financial appraisal and a well-defined transition plan are required to inform decision making.

The issues raised in this submission are those that directly impact on the operation of the Valuer General. Their identification is intended to assist IPART in producing its final report and in planning for the next steps if proposals for changes to the valuation basis and framework are to proceed.

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