

**Submission dated 12<sup>th</sup> May 2016 by Robertson & Robertson (Central Coast)  
Pty Ltd (RRCC) to the Independent Pricing and Regulatory Tribunal Review of  
the Local Government Rating System – Local Government – Issues Paper April  
2016**

1. This submission is made in response to the Invitation given by IPART for parties to lodge submissions and comments in relation to the paper mentioned above.
2. This submission is confined to the issues which are outlined at page 5, paragraph 1.5.
3. In particular, they are:-
  - a) Principles of Taxation
  - b) What valuation methods should be used as the basis for determining the ad valorem amounts in Council rates should Councils be given more choice in selecting a valuation method as occurs in other States or should a valuation method continue to be mandated?
  - c) Should Councils be required to use the Valuer-General's property valuation services or should they also be able to use a private valuation firm (as occurs in Victoria and Tasmania).
4. In considering this submission, it should be noted that Robertson & Robertson currently and has been for many years, a contractor to Land & Property Information New South Wales and its predecessor organisations for the Provision of Rating and Taxing Valuation Services across 3 Contract Areas comprising 8 Local Government Areas.
5. What follows is our response to each matter outlined in (3) above:
  - a. Principles of Taxation(3(a))

RRCC generally concurs with the Principles of Taxation outlined in the Issues Paper.

Nevertheless we believe it is reasonable to separate the notion that property value always correlates with both wealth and ability to pay.

RRCC considers that property value does, in most cases, equate to wealth however it should be noted that this is not always the case when high value properties are purchased with a high level of debt. In these cases the net wealth of the property owner may be low.

Conversely however to service a high level of debt in most cases the property owner has a high level of income and hence an ability to pay.

On the other hand the owner of a high value property may, in some cases, not have a high level of income and hence not have a correlated ability to pay. As an example, a pensioner living in a high value area of the Sydney Metropolitan Area may have purchased the property some decades ago and, due to a high level of property purchaser interest in the area, the property values may have become inflated to a high level whereas the owner may be on a limited income even as low as the old age pension.

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b. Valuation Methods Used to Assess Ad Valorem Amounts(3(b))

RRCC considers that a differential valuation method should only be adopted if it is clearly demonstrable that it addresses any real inequities such as outlined in Section 4.1.4 of the Issues Paper. We note the Issues Paper conclusion does not provide any empirical evidence that such inequities exist.

Notwithstanding that a differential valuation method may be appropriate RRCC considers that the use of the unimproved land value (UV) ensures the homogeneity of determined values, provided the valuation process also ensures homogeneity(See our submission 5 (c) below).

RRCC does not consider the use of the capital improved value (CIV) or the annual rental value (ARV) would be appropriate for the following reasons:

- i. As to the use of the CIV the distortions such a method may occasion could create inequities.

Our reasons for this statement are:

- When a capital value is struck it will be based on not only the land value but the value of the improvements thereon. It needs to be recognised that the value of the improvements on property differs not only depending on the type and nature of the improvements but also the attractiveness of the improvements to certain types of buyers at any one time. Similar properties will sell at different prices as a result with a premia paid in many cases. Movement to the CIV method will mean that the premia when paid by a purchaser will impact on all values in an area as CIV values will be based on sales analysis in the given area.

Under the current method UV is determined by the analysis of recent sales with the deduction of the value of the improvements based on property industry standards for the value of the improvements to arrive at the land value. This results in any premia included in the sales analysed being reflected in the land value not the improvements. This is considered to be more equitable and will result in any movement in values being applied on a lower base value.

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- An accurate assessment of the condition and size of all improvements on a specific parcel of land would be required to ensure accuracy of the CIV being determined. This could lead to additional costs being incurred in the valuation process over and above the current cost of determining an UV.
  - The use of the CIV is more commonly used in New Zealand than the UV method. This has led to a distortion in property values and hence prices in that country particular its large metropolitan area, Auckland. Other evidence suggested this has also occurs in the Melbourne and Adelaide markets.
- ii. As to the use of the ARV we consider the paucity of data which would be available eliminates this method as an equitable method of determining land values in New South Wales.

To summarise RRCC considers the use of the UV applied across all areas is more likely to produce the most equitable and homogenous outcome.

c. Who applies the valuation method?

The Issues Paper offers four options in respect of who should set the values.

Under the current system in New South Wales the Valuer General's values are mandated to be used and these are used not only for rating by Council's but also by the Office of State Revenue for the levying of land tax.

RRCC considers that should the current mandated approach be changed that the issue of what value should the OSR adopt for the purpose of levying land tax needs also to be examined.

The current system is administered on behalf of the Office of the Valuer General (OVG) by Land and Property Information NSW through its Valuation Services division (LPI). LPI appoints, via a rigorous open tender process, experienced valuers to make land value recommendations which after audit by LPI are usually adopted.

LPI also administers the process whereby land holders object to a determined land value. Accordingly LPI has ready access to all information used to apply the original determination to provide to the valuer appointed to review the objection.

It can reasonably be assumed that the ability of a land holder to object to a determined value shall remain. In that case, if the use of the OVG/LPI land value is abandoned,

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the access to information will over time may become increasingly fragmented and lead to a more costly land value objection process.

Similarly the current system ensures the high level of reasonable homogeneity of values as they are determined according to a rigorously mandated and audited process.

RRCC submits that, on that basis, the abandonment of the current system of mandating the use of the OVG values could not only result in the loss of a homogeneous approach but also to a more costly land value determination process when viewed holistically.

12 May 2016