



Valuer
General

VG18/256/9

Mr Geoff Provest MP
Chair
Joint Standing Committee on the Office of the Valuer General
Parliament of NSW
Macquarie Street
SYDNEY NSW 2000

Via email: valuergeneral@parliament.nsw.gov.au

Dear Mr Provest

Supplementary questions following the Twelfth General Meeting with the Valuer General

1. Complex land values

The Annual Report advises (p21) that following the decision in the matter of Perilya Broken Hill Ltd v Valuer-General, the Valuer General's 2007 land valuation still stands. However, the Deputy Valuer General wrote to the Committee on 20 June 2018 advising that new land values were being issued earlier in the Muswellbrook LGA following a change in the way land values for coal mines are determined.

- What was the reason for the change in the way land values in relation to Muswellbrook coal mines are determined?

Response

The valuation of coal mine land has been made for many years using a table developed in consultation with industry. The table was developed based on sales of coal mines prior to the NSW government buy back of coal rights in the early 1980's (*Coal Acquisition Act 1981*).

In July 2016 the high court refused Perilya's application to grant leave to appeal. This closed the long running court case. Prior hearings had provided direction on the valuation methodology to be used for the land value of a metalliferous mine.

In December 2016 advice was provided by the Crown Solicitor's Office that coal should be considered in the same way as metals, however 1 July 2016 land values for all properties including coal mines had already been made and provided to councils in a valuation list.

Reissuing 1 July 2016 land values for coal mines under the new methodology would have resulted in significantly higher land values. Such a significant increase in land values could undermine the NSW Government's rate pegging structure and possibly caused individual landholders to face very large rates increases.

The Valuer General took the decision to maintain the existing valuations for rating until 1 July 2019. On the 9 March 2018 the Valuer General wrote to all mining councils to advise them of the decision. Muswellbrook Shire Council raised concerns about not adopting the new methodology and lodged objections to the 1 July 2016 land value of several coal mines.

To meet Muswellbrook Shire Council's request for coal mine valuations made in accordance with the new methodology, and to provide a common base for rating across the whole local government area, the Valuer General provided new valuations for all properties in the Muswellbrook local government area as at 1 July 2017. The new land values are to be used for rating from 1 July 2018.

Muswellbrook Shire Council's Objections to the 1 July 2016 land values were rejected because they were out of date.

2. Verification of Land Values

The Annual Report gives details of the verification program (p26), providing for the individual review of all land values and supporting data. It commenced in 2012 and is due to be completed this year.

- Is the Valuer General confident that all land values in NSW will be verified by the due date?

Response

Yes, the Executive Director of Valuation Services has provided assurance that all land values in NSW are on track to be verified by the due date.

The table below details contractors' compliance with verification requirements in 2016-2017 and 2017-2018 reporting years.

Verification rate for 1 July 2016 and 1 July 2017	Actual 2016 (%)	Actual 2017 (%)	Planned (%)
Risk Rating 1 (high)	100	100	100
Risk Rating 2 (medium)	45	47.2	33.33
Risk Rating 3 (low)	25	29.6	16.67

The verification program remains ongoing beyond 2018 as a continual rolling program. For the new rating and taxing valuation contracts that commence for all contract areas in 2019, the annual rate of verification for high and moderate risk properties is unchanged, however, the annual rate for low

risk properties has been amended to 20%, with all low risk properties to be verified within five years.

3. Research Agreement with Western Sydney University

The Annual Report refers (p26) to the role played by Western Sydney University in providing independent oversight of the quality of valuations on the Register of Land Values. The Report notes that the research agreement with the University expired on 31 December 2016.

- What is the current mechanism for independent oversight of valuation quality?

Response

Since the research agreement ended Valuation Services has undertaken the monitoring previously provided by the Western Sydney University. However as part of the transition process to Valuation Services undertaking the state-wide monitoring of land value quality, the Western Sydney University were engaged by the Office of the Valuer General to undertake an independent review of the reports produced by Valuation Services. The University reviewed exception reports on data delivered by valuation contractors. The reports reviewed included:

- significant land value changes
- the consistency of land values to sales evidence
- compliance with statistical measures
- the application of mass valuation methodologies
- the consistency of objection outcomes.

Adjunct Professor John MacFarlane, Western Sydney University concluded in his report:

“Overall, I am very confident in all the computations incorporated into the many programs comprising the new suite of Valnet reports. There are no issues with the computations of summary statistics in any of the multitude of reports when the data used by VS and by the author are clearly the same. From this, I conclude that the computations are correct across the suite of programs.”

4. Technology

The Annual Report advises (p33) that two new systems were introduced during the period under review. These were the conference management system (from April 2017) and the improved contractor procurement process (from December 2016).

- What benefits have been delivered as a result of the new technology systems?

Response

A conference management system was implemented by Valuation Services in April 2017 to record all interactions between the Valuation Services, landowners, acquiring authorities and contract valuers. The system provides better management and visibility of conferences, capturing reasons customers request a conference, the resolution of those issues and provides record keeping of associated documents. In particular the system records the efforts undertaken by Valuation

Services' staff and contract valuers in the area of land owner engagement which drives improvements in accountability, transparency and procedural fairness.

An improved contractor procurement process was introduced in December 2016 for the team who determine compensation for land that has been compulsorily acquired. The contractor portal allows for greater efficiencies and transparency in contractor engagement and document exchange. The system allows for improved data capture in terms of number of contracts awarded and to which firm and contractor costs. The system allows for improved data capture in terms of the number of documents considered, the source of the document and the date the document was shared amongst the parties. This drives improvements in accountability, transparency, procedural fairness and underpins the Valuer General's policy of sharing all documents considered when making a determination.

5. Private valuations

The Annual Report refers (p35) to a private valuation which was undertaken by the Valuer General during the reporting period.

- Can you explain the significance of private valuations?
- How frequently do they occur, and who are the likely parties requiring private valuations?
- Does the risk of a conflict of interest arise in relation to private valuations?

Response

Private valuations occur where there is an arrangement between parties for a valuation to be made by the Valuer General. Such arrangements are typically formalised under a lease or Act and are for rental purposes.

The frequency varies, however over a typical one year period Valuation Services receive less than ten requests for private valuations. In most cases private valuations are undertaken by contract valuers and quality assured and issued by Valuation Services. Requests for private valuations are typically made by other Government authorities, for example NSW Ports, the Lord Howe Island Board, Place Management (part of Property NSW), Cemeteries and Crematoria NSW.

Conflicts of interest can arise in relation to private valuations. In the 2016-2017 reporting period one possible instance arose where Place Management, who are part of Property NSW requested a valuation. Real or potential conflicts of interest between Property NSW, as owners of property, and Valuation Services are managed through a Conflict of Interest Management Plan incorporated into the Service Level Agreement between the Office of the Valuer General and Valuation Services. The plan covers situations where Property NSW may be involved as:

- the landholder impacted by a rating and taxing valuation
- acting as or for an Acquiring Authority in a compulsory acquisition
- the lessor of a property subject to a rent review.

6. Financial Report

The Valuer General provides an activity based costing report for the 2016-17 year (p53).

- Can the Valuer General highlight the most significant changes compared to previous years?

Response

The most significant change in the 2016-2017 reporting period, compared to the previous reporting period, was an increase in costs associated with Mass Valuations activities (in nominal terms) by \$6.7m (\$37.1m to \$43.8m). Of the \$6.7m increase, \$4.5m was a direct result of work associated with the work required to be undertaken in preparation for the Fire and Emergency Services Levy (FESL) and an increase in the number of land value objections received and completed.

To prepare for the introduction of the FESL, the Valuer General issued all councils and landholders with land values as at 1 July 2016. The move to a common valuation cycle brought forward printing and mailing costs, customer enquiries and objections from future years into the 2016-2017 reporting year. Total valuation contracts were \$2.8m higher than the 2015-2016 reporting year largely due to an increase in objections contracts to respond to additional objections received due to the issue of all land values for rating in a single year.

7. Performance Measures

a) Since 2015-16, the table has included the percentage of objections that led to a change in a land value (p57).

- Can the Valuer General comment on the outcome for the current year in the light of the previous year?

b) The performance measures table provides a comprehensive snapshot of the challenges and achievements of the Valuer General for the year in review.

- Can the Valuer General highlight the most significant performance results and its implications for future work processes and targets?

Response

Part a)

The 2016-2017 reporting year showed an 8% decrease from the previous year, from 30% to 22%, in the number of all completed objections leading to a change in land value. The result is not statistically significant and does vary year to year, however there has been a general trend down over a number of years. The exact cause is difficult to determine, however, a focus on valuation quality and evidenced based objection decisions would have contributed.

Part b)

Despite an increase in the number of objections completed within the 2016-2017 reporting year (7,830) compared to the previous 2015-2016 reporting year (6,692) and the introduction of

preliminary reports in February 2017 the percentage of objections completed against 90 and 120 day targets improved.

A team of valuers dedicated to objection quality assurance was introduced during 2016-2017 to improve objection turnaround times. Existing objection quality assurance processes and systems are being reviewed with the goal of further reducing the time required to undertake quality assurance in time for objections being lodged following the issue of the 1 July 2019 land values in early 2020.

Yours sincerely



Michael Parker
Acting Valuer General
4 October 2018