

**Submission
No 124**

INQUIRY INTO LAND VALUATION SYSTEM

Organisation: NSW Farmers Association

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Joint Standing Committee on the Office of the Valuer General
Parliament House
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RE: Inquiry into the Land Valuation System in NSW

NSW Farmers' welcomes the opportunity to provide feedback to the inquiry into the land valuation system in NSW. As agricultural land makes up 72% of the total NSW land area, land valuation is a significant concern for our membership.

Please find below comments from the NSW Farmers Association.

Mass Valuation

To ensure stakeholder confidence and the accuracy of valuations, NSW Farmers believes there is a need for greater transparency and clarity surrounding the operation of the mass valuation method of property valuations. Although the mass valuation approach is practical for the valuation of a large number of properties across the state, there are inherent weaknesses with this method. One critical weakness is that valuation errors are perpetuated through the system if errors are initially made in valuing representative/benchmark properties within components. There is also a problem where movement in the market value of one property is extrapolated across others in a group of comparable properties, as this may not accurately reflect the actual market movements of the properties within that group.

Consequently, there is a need to ensure properties are grouped in the most appropriate component and that the valuation of representative properties is correct. For instance, due to the diversity of agricultural enterprises there are inherent difficulties in grouping them in homogenous components. Horticultural land and broad acre agricultural land should not be valued under the same component due to the different nature of these properties and their land improvements. According to the 2005 NSW Ombudsman Report into *Improving the Quality of the Land Valuation System*, some local government districts have as few as 8 components whereas a number have more than 150. It would be expected that under a mass valuation system there are a number components for agricultural land to accommodate the diversity of characteristics and land improvements.

For greater transparency and confidence in the process, landholders should be able to identify on their valuation notice which component their property has been valued under and the key characteristic of that component. This will allow for greater accuracy within the system, with landholders being able to immediately verify whether their property is appropriately classified in a particular component. An additional benefit of having this information on valuation notices would be landholders who are more informed about the processes which lead to their land valuation. This immediate access to information will help substantiate landholders objections, potentially reducing some of the costs surrounding irrelevant or uninformed objections.

Recommendation 1:

Smaller landholdings where the principal land use is residential purposes and not agricultural, should not be used to determine valuation of the larger properties where the primary use of the land is for agriculture.

Recommendation 2:

Pastoral and agricultural lands should not be valued in the same component as horticultural lands.

Assessment Process

It is imperative that the assessment process and valuation methodology captures the true value of land. Especially, if such land valuations are to be effectively used as an instrument of tax collection.

Under mass-valuation, the analysis of recent sales requires land values to be deduced from the sales price. As there is a scarce amount of vacant land sales, sales analysis is primarily based upon improved property sales. As such the NSW Ombudsman reported in 2005 that there has been an absence of a uniform methodology for valuing improvements which has led to inconsistencies across the valuation process. Additionally, the diversity of agricultural properties and the lack of comparative sales data have led to inaccurate comparisons of rural properties as well as the application of irrelevant and inconsistent sales data to these properties as identified in the Mid-Western Council 2011 Review. In situations where there is a lack of comparable sales data, greater analysis should be placed upon the individual properties in question to ensure the accuracy and relevance of valuations.

In valuing these rural properties, consideration of the actual use of the land should be given greater weight than the most valuable use of the land. This will allow for more accurate land values which give a true indication of the value of the property at that point in time rather than a theoretical potential higher use. Particularly in relation to farmland, the current productive capacity of the farm enterprise should be taken into account when formulating the overall land value.

There is concern with the interest of mining companies purchasing land as offsets that this is causing inflated values beyond what the normal market determine to be the value and beyond what might be reflective of the productive capacity of the land. It is understood that values of property purchased by mining companies is excluded when considering agricultural land however where that property continues as an agricultural enterprise despite being owned by a mining company concerns exist about the impact such purchases have on the value of agricultural land.

Frequency

The frequency of land valuations is a key component in dealing with market volatility and the variation of land prices. Although land values are determined annually in NSW to reflect property market conditions, these valuations are only provided to local councils for rating purposes every three to four years. There are enhanced benefits for predictability if land values were given to councils on a more frequent basis as opposed to every 3-4 years when there can be significant shifts in property values. The smaller variations associated with more frequent valuations will allow key stakeholders more confidence and predictability surrounding their tax liability and revenue levels.

In a report prepared for the Queensland Statutory Valuation Reform Review, it was revealed by the NSW Valuer-General that local authorities do not want more frequent valuations than three years due to market volatilities. This is linked to the fact that frequently changing valuations would have implications on council planning and budgeting. However, in other states such as Victoria, market volatilities and their impact upon valuations is the exact reason for more frequent valuations. The Department of Sustainability and Environment in Victoria noted that revaluing properties every two years make council valuation information accurate, relevant and useful. It also minimizes the large percentage shifts in the value of properties that can occur when there are longer periods between valuations. Consequently, increasing the frequency which land valuations are supplied to council for rating purposes will help manage some of the volatility within the market. More frequent valuations are also consistent with jurisdictions such as Victoria (2 years) and Queensland and South Australia which is done every year. Property valuations

which are more reflective of current market conditions will also have the potential to reduce the number of objections people have with their property values.

Quality Assurance

The accuracy, efficiency and equitability of the valuation system are underpinned by the quality assurance measures which operate alongside the system. Due to the nature of mass valuations and the contracting out of valuations, the quality assurance measures both within and outside NSW Land and Property Information (LPI) need to effectively capture errors before valuations are issued and rates or taxes are levied.

Recent experiences in the Mid-Western Council region of NSW suggest there are inherent weaknesses with the current quality assurance measures which have added to the volatility, inefficiency and inequity of the valuation system. The Review of Rural Land Values for 1 July 2011 in Mid-Western Regional Council was an exceptional quality assurance exercise conducted by NSW LPI. The review found that 91 out of 128 objections reviewed required amendment, that two benchmark properties required amendment and that 310 of the selected 672 properties required the amendment as their land values were outside the acceptable range of error.

The reasoning for such amendments was the existence of inconsistent sales analysis for rural properties, inconsistent application of sales analysis across the various rural components as well as insufficient consideration of all available sales evidence. In a system of mass valuation these initial errors are quite serious and lead to the 'domino effect' where such errors are perpetuated throughout the range of properties which base their valuations upon this. The fact that a one-off in-depth review revealed quite serious errors with valuations in this region undermines the credibility and accuracy of the system as a whole, highlighting the need for greater and more effective quality assurance measures.

In Queensland, valuations issued by the Valuer-General are externally reviewed by an independent peer review panel. The panel subsequently provides a transparent report that verifies the accuracy of valuations issued and that they reflect reality as closely as possible. The advantages of such a system are that valuation errors are able to be identified and addressed early and that this mechanism adds an element of objectivity that can be consistently applied to the existing process. The benefits to landholders are that they have greater confidence in the valuation process, that there is transparency and greater quality of information available on valuations as well as certainty in rating and taxing. Enhanced quality assurance before valuations are issued also reduces the costs and inconvenience surrounding objections.

Appeals Process

NSW Farmers have concerns surrounding the appeals process which places significant onus and information requirements upon those wishing to object. There are also concerns surrounding the independence of valuers reviewing objections. A clear message emerging from our membership is that the objections process needs to be simplified and understandable to the average person.

Currently, individual landholders wishing to object to their land valuation need to provide strong supportive evidence of the sale price of comparable properties. This assumes that the person objecting will have access to such information and that such information is actually available. The NSW LPI Review Guide states that the absence of sales directly comparable to your property on the valuation sales report is not a valid ground for objection. This is due to the fact that valuers make allowances for variations between properties. In making these allowances it would be expected that there is a greater margin of error in these valuations. Consequently, the absence of valid sales data should be a legitimate ground for objection and require greater individual analysis by valuers reviewing the objection to ensure accuracy and that the appropriate allowances and adjustments were made.

There needs to be a greater focus in the objection process on the actual value and characteristics of the property in question, in particular whether they are currently being assessed against appropriate comparable properties. To ensure equity of the objection mechanism, there needs to

be a greater onus in terms of information collection on the professional valuer rather than the individual landholder who is objecting.

The appeals process will continue to have severe redundancies if it does not offer any alternative valuation methods and comparisons other than what was initially applied. This is especially the case if the grounds for objection are limited only to those who have immediate access to comparable sales data, given the scarcity of such comparable data for rural land.

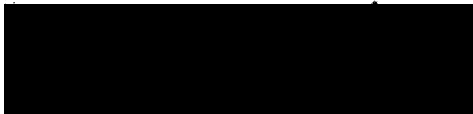
Recommendation 3:

The appeals mechanism must enable obvious inconsistencies in valuations within districts to be corrected where lands of similar classification which are adjoining or reasonably adjacent have a valuation difference of more than 10 per cent.

Recommendation 4:

The Valuer General must look at ways to streamline and simplify appeals for land valuations.

Yours Sincerely,

A large black rectangular redaction box covering the signature of Bill McDonnell.

Bill McDonnell,
Chair Business, Economics and Trade Committee